ULJANIK d.d., Pula

ANNUAL REPORT
31 DECEMBER 2016

Contents

Responsibility for the separate financial statements

Pursuant to the Accounting Act of the Republic of Croatia, 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 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:

Gianni Rossanda, President of the Board

Veljko Grbac, Member of the Board

Marinko Brgić, Member of the Board

ULJANIK d.d.
Flaciusova 1
Pula
Republic of Croatia
Zagreb, 20 April 2017

Independent auditor's report

To the shareholders and Management Board of Uljanik d.d.

Our qualified opinion

In our opinion, except for the possible effects of the matters described in the Basis for qualified opinion section of our report, the financial statements present fairly, in all material respects, the financial position of Uljanik d.d. (the "Company") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for qualified opinion

1. In the statement of financial position as at 31 December 2016 the Company recognized investments in subsidiaries in the total amount of HRK 284 million which face difficulties and have incurred losses in 2016 as well in the previous years (the most significant investment relates to investment in Uljanik Brodogradilište d.d. (Shipyard) in the amount of HRK 173 million). The Company's management assessed these investments as recoverable on the basis of overall impairment review. However, based on our audit procedures performed and due to existing uncertainties related to future projects and results (the performance of these subsidiaries is substantially below budgeted ones) we were unable to satisfy ourselves as to whether the investments are impaired, and therefore their carrying amounts as at the balance sheet date.

2. In the statement of financial position as at 31 December 2016 the Company recognized overdue receivables from related companies in the amount of HRK (Croatian kuna) 74 million which are older than 120 days at the balance sheet date (2015: HRK 35 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.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the financial Statements* section of our report.

We believe that the audit evidence, except for the matters 1. and 2. described above, we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: J. M. Gasparac, President; S. Dusic, Member; T. Macasovic, Member; Giro account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

Materiality	• Overall Company materiality: Croatian kuna ("HRK") 11 million, which represents 0.3% of total assets
Key audit matters	• Revenue recognition for ship buildings and provisions for expected losses • Valuation and impairment of loans granted to related companies

How we tailored our audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	HRK 11 million
How we determined it	0.3% of Total assets
Rationale for the materiality benchmark applied	We chose Total assets as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Company taking into consideration significant fluctuations in revenues, expenses and results due to new construction activities, and is a generally accepted benchmark. We selected 0.3% based on our professional judgement (taking into consideration new construction activities within the Company), noting that it is also within the range of acceptable quantitative materiality thresholds in auditing standards.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for qualified opinion section, we have determined the matters described below to key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition for ship buildings and provisions for expected losses *Refer to note 2.21 of the financial statements under heading "Ship construction contracts" (accounting policies), note 4 (Critical accounting estimates) and notes 5, 19, 25 and 27* We focused on recognition in revenue because there are large commercial contracts for building technically highly sophisticated and complex ships which are now a significant part of the business. We also focused on this area due to significant level of estimations made by the Company's management in assessing margins and possible contact losses. The Company started with the application of IAS 11 in 2015 due to direct contracting of ship buildings with major foreign investors instead of Shipyards as in previous periods. Two Shipyards owned by the Company are engaged as sub-contractors and provide work force and other services in construction. The Company is currently involved in 15 ship buildings for which the Management assessed that the outcome (margin) cannot be estimated reliably (due to highly sophisticated technical requirement) and therefore the contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Further, the Management assessed that for these buildings there are no indications that the contract costs will exceed contract revenues and therefore assessed that a provision for losses is not needed at the balance sheet date, except for one building where the loss recognized amounts to HRK 6.8 million as at 31 December 2016. The customer payment milestones set in the contracts usually do not follow revenue	We assessed the consistency of the application of the revenue recognition policy of the Company's revenues. Where effective and efficient, we tested the design and operating effectiveness of the controls over revenue systems to determine the extent of additional substantive testing required. We found no material misstatements nor control deficiencies from our testing. In addition we have performed detailed test of major new contracts which included testing the relevant supporting documentation (Shipbuilding contracts, approved estimations of total contract costs, actual costs summaries, sample of invoices and timecards, analytics and similar) in relation to significant projects in the current year. We checked that revenue had been recognised in accordance with the requirements of IAS 11 by testing a sample of transactions and comparing the timing of revenue recognition to stage of completion based on the proportion of contract costs incurred for work performed to date in estimated total contract costs. No exceptions were noted from our testing which would be reported. In relation to provision for expected losses, on the basis of provided documentation and explanation in course of our audit we found the management assessment acceptable. Our work also included testing a sample of manual journals which did not identify any items that could not be substantiated. We found disclosures in the financial statements in relation to the accounting for revenues, expected losses and amounts due/from customers for work performed appropriate.

recognition criteria in accordance with IAS 11 and involve significant amounts of advances.

As a result in the financial statements the Company presents gross amounts due from/to customers for all active projects at the balance sheet date on the basis of stage of completion.

As disclosed in Note 19 gross amount due from customers (net) amounts to HRK 174 million at the balance sheet date.

Valuation and impairment of loans granted to related companies *Refer to note 2.9 of the financial statements under the heading "Financial assets" (accounting policies), note 4 (Critical accounting estimates) and notes 20 and 26* We focused on this area due to estimation uncertainty with respect to possible impairment losses on loans granted. Total carrying amount of loans granted to related companies amount to HRK 543 million at the balance sheet date. The Company provides funding (loans) to its subsidiaries mostly for the purpose of financing operating activities in cases when the subsidiaries have no sufficient funds available. In certain situations, the repayment of loans is extended in accordance with annexes signed. The Management assessed at the balance sheet date the carrying amount of loans as not impaired, since the subsidiaries are completely under control of the Company and there are various options available (sale of assets, restructuring and similar) for settling the outstanding amounts.	Our procedures included the assessment of controls over the approval, recording and monitoring of loans granted. We performed detailed test of transactions with related parties involving confirmation of the purpose, terms and conditions of the transaction with related parties; inspected significant contracts and reviewing accounting records. We also tested a sample of additions and repayments of loans with related bank statements. For each selected significant loan debtor, we challenged management's assessment of the recoverable amount, including the cash generating capacity and similar. Overall we assess the assumptions used by the management and related estimates as adequate and concur with the related disclosures in the financial statements.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Kristina Dimitrov.

PricewaterhouseCoopers d.o.o.	John M Gasparac
Zagreb, 20 April 2017	President of the Management Board
	Kristina Dimitrov
	Certified auditor

This version of our report is a translation of a portion of 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.

Statement of profit and loss and other comprehensive income

For the year ended 31 December 2016

(all amounts expressed in thousands of HRK)

	Note	**2016**	**2015**
Sales	5	1,212,294	232,371
Change in provisions for expected losses on new buildings and warranties		(6,799)	-
Other income		558	133
Change in value of work in progress		(4,408)	4,465
Cost of materials and services	6	(976,406)	(68,606)
Staff costs	7	(90,180)	(82,540)
Amortisation and depreciation	12, 13	(3,097)	(2,428)
Other operating expenses	8	(80,539)	(60,751)
Other (losses)/gains – net	9	(9,746)	1,489
Operating profit		**41,677**	**24,133**
Finance income		47,263	13,726
Finance costs		(75,164)	(21,304)
Finance costs – net	10	**(27,901)**	**(7,578)**
Profit before taxation		**13,776**	**16,555**
Income tax	11	(3,295)	(3,421)
Profit for the year		**10,481**	**13,134**
Other comprehensive income		-	-
Total comprehensive income		**10,481**	**13,134**
Earnings per share (in HRK) – basic and diluted	29	**3.22**	**4.04**

The accompanying notes form an integral part of these financial statements.

ULJANIK d.d.

Statement of financial position

As at 31 December 2016

(all amounts expressed in thousands of HRK)

	Note	31/12/2016	31/12/2015
ASSETS			
Non-current assets			
Intangible assets	12	624	292
Property, plant and equipment	13	33,317	9,087
Investments in subsidiaries	15	436,536	401,536
Investments in associates	15	69,599	69,599
Deposits and loans receivable	20	429,788	306,792
Financial assets at fair value through profit or loss	16	627	638
Receivables	17	135,127	-
		1,105,618	**787,944**
Current assets			
Inventories	18	543,107	52,963
Trade and other receivables	19	1,431,240	623,001
Deposits and loans receivable	20	324,776	206,480
Cash and cash equivalents	21	63,631	97,269
		2,362,754	**979,713**
Total assets		**3,468,372**	**1,767,657**
EQUITY			
Share capital		100,688	100,688
Reserves		216,566	216,566
Treasury shares		(4,697)	(4,697)
Other reserves		28,176	15,042
Retained earnings		10,481	13,134
Total equity	22	**351,214**	**340,733**
LIABILITIES			
Non-current liabilities			
Borrowings	23	524,046	347,936
		524,046	**347,936**
Current liabilities			
Trade and other payables	24	366,601	154,286
Liabilities for advances received	25	1,348,007	690,506
Income tax liability		720	2,162
Borrowings	23	869,047	232,034
Provisions		8,737	-
		2,593,112	**1,078,988**
Total liabilities		**3,117,158**	**1,426,924**
Total equity and liabilities		**3,468,372**	**1,767,657**

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2016

(all amounts expressed in thousands of HRK)

	Share capital	Share premium	Reserves for treasury shares	Other reserves	Treasury shares	Retained earnings	Total equity
At 1 January 2015	**302,063**	**15,191**	**4,700**	**5**	**(4,697)**	**10,337**	**327,599**
Total comprehensive income for the year	-	-	-	-	-	13,134	13,134
Transactions with owners:							
Decrease in share capital (note 22)	(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**
Total comprehensive income for the year	-	-	-	-	-	10,481	10,481
Transfer to reserves	-	-	-	13,134	-	(13,134)	-
At 31 December 2016	**100,688**	**216,566**	**4,700**	**23,476**	**(4,697)**	**10,481**	**351,214**

The accompanying notes form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2016

(all amounts expressed in thousands of HRK)

	Note	2016	2015
Cash flow from operating activities			
Profit before taxation		13,776	16,555
Adjustments for:			
Amortisation, depreciation and impairment losses	12, 13	3,097	2,428
Movement in provisions		8,737	-
Fair value adjustments - shares	16	11	154
Dividend income	10	(4,373)	(3)
Interest income	10	(21,684)	(8,301)
Interest expense	10	49,284	11,354
Operating result before changes in working capital		*48,848*	*22,187*
Increase in trade and other receivables		(808,239)	(588,163)
Increase in inventories		(490,144)	(52,672)
Increase in advances received		657,501	690,506
Increase in trade and other payables		210,873	26,484
Cash generated from operations		*(381,161)*	*98,342*
Interest paid		(49,284)	(11,354)
Income tax paid		(3,295)	(3,421)
Net cash from operating activities		*(433,740)*	*83,567*
Cash flow from investing activities			
Purchase of property, plant and equipment	13	(27,226)	(87)
Purchase of intangible assets	12	(433)	(17)
Dividend received	10	4,373	3
Investments in subsidiaries	15	(35,000)	(10,000)
Placements of short-term deposits and loans		(784,792)	(683,270)
Collection of non-current receivables, deposits and loans		408,373	293,008
Interest received		21,684	8,301
Net cash used in investing activities		*(413,021)*	(392,062)
Cash flow from financing activities			
Repayment of borrowings		(114,355)	(247,757)
Proceeds from borrowings		927,478	653,066
Cash generated from financing activities		*813,123*	405,309
Net increase in cash and cash equivalents		**(33,638)**	**96,814**
Cash and cash equivalents at beginning of year		97,269	455
Cash and cash equivalents at end of year	21	**63,631**	**97,269**

The accompanying notes form an integral part of these financial statements.

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 in 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). In the consolidated financial statements, subsidiary undertakings (noted in Note 1) - 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 2016 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 2016 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 2016 which were endorsed by the European Union and which are relevant for the Company's financial statements:

- *Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38.*
- *Annual Improvements to IFRSs 2012-2014 Cycle comprising changes to four standards (IFRS 5, IFRS 7, IFRS 19, IAS 34).*

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 2016 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 IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

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.

The Management of the Company assessed the impact of the new standard IFRS 9 on its financial statements as follows:

- 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.
- While the Company has yet to undertake a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it would appear that they 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.
- There will also be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities.
- The new hedging rules align hedge accounting more closely with the Company's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.
- The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.
- The Company has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules.

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

- IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
- The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.
- Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At this stage, the Company is not able to estimate the impact of the new standard 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.

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.

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 2016, the exchange rate for USD 1 and EUR 1 was 7.17 HRK and 7.557 HRK, respectively (31 December 2015: HRK 6.992 and HRK 7.635 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2.6 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.

2.7 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Impairment of non-financial assets

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. Fer value is determined as described in note 15 a.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Current and deferred income tax (continued)

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.

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.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors (continued)

(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 2016, if the EURO had weakened/strengthened by 1% against the HRK (2015: 1%), with all other variables held constant, the profit for the reporting period would have been HRK 11,705 thousand (2015: HRK 3,603 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.

At 31 December 2016, 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 1,052 thousand (2015: HRK 6,637 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 2016, 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 9,198 thousand (2015: HRK 2,284 thousand) lower/higher, mainly as a result of higher/lower interest expense on variable-rate borrowings.

(iii) Price risk

The Company is exposed to the risk of changes in steel prices in the global market since as the holder of such operations is directly involved in the construction of ships. If the price of steel had increased/decreased by 5% (2015: 5%), the loss for the period would have been higher/lower by HRK 7,479 thousand (2015: HRK 894 thousand).

(all amounts expressed in thousands of HRK)

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors (continued)

(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.

(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 2016					
Borrowings	934,964	439,960	117,147	-	1,492,071
Trade and other payables	310,852	-	-	-	310,852
At 31 December 2015					
Borrowings	258,422	365,447	2,940	-	626,809
Trade and other payables	120,215	-	-	-	120,215

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.

(all amounts expressed in thousands of HRK)

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.2 Capital risk management

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 2016	31 December 2015
Borrowings	1,393,093	579,970
Less: cash and cash equivalents (deposits)	(63,631)	(97,269)
Net debt	**1,329,462**	**482,701**
Equity	351,214	340,733
Capital and net debt	1,680,676	823,434
Gearing ratio	**79.10%**	**58.6%**

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).

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 2016 and 2015:

	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2016				
Listed companies	627	-	-	627
Total	**627**	**-**	**-**	**627**
At 31 December 2015				
Listed companies	638	-	-	638
Total	**638**	**-**	**-**	**638**

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.

The Company's Management performed an analysis of investments in subsidiaries which face financial difficulties and have incurred losses in 2016 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 (2015: HRK 9.3 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.

Main assumptions of the business plans include revenue projections on the basis of contracted buildings in accordance with current Orderbook while the expenses are determined in accordance with the planned dynamics of physical production. Realisation of direct costs is based on material consumption dynamics, while the indirect costs are planned in accordance with previous periods.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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 ship 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 2016 the Company assessed the level of additional expected losses needed in the amount of HRK 6,799 thousand for outgoing ship buildings, started on not stated yet at the balance sheet date.

(all amounts expressed in thousands of HRK)

NOTE 5 – SALES

	2016	2015
Revenues from construction contracts	1,121,936	156,261
Fees and services to related parties	86,639	74,352
Sales abroad	525	604
Domestic sales	3,194	1,154
	1,212,294	**232,371**

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

Foreign sales	**2016**	**%**	**2016**	**%**
Luxembourg	673,509	60.00	62,939	40.12
Cayman islands	375,872	33.49	83,220	53.05
Singapore	22,669	2.02	4,322	2.76
Canada	27,183	2.42	5,929	3.78
Kuwait	16,723	1.49	443	0.28
Malta	6,074	0.54	12	0.01
Other	431	0.04	-	-
	1,122,461	**100.00**	**156,865**	**100.00**

NOTE 6 – COST OF MATERIALS AND SERVICES

	2016	2015
Raw materials and supplies		
Raw materials and supplies used	695,467	25,154
Energy and water used	345	340
	695,812	***25,494***
External services		
Subcontractors	212,067	5,596
Other production services	57,710	24,115
Licences	2,562	2,795
Intellectual services	2,407	3,442
Rentals	1,510	3,948
Royalties	-	2,289
Other	4,338	927
	280,594	***43,112***
	976,406	**68,606**

In 2016, audit fees amounted to HRK 139 thousand (2015: HRK 42 thousand).

(all amounts expressed in thousands of HRK)

NOTE 7 – STAFF COSTS

	2016	2015
Net salaries	48,905	44,477
Taxes and contributions from and on salaries	35,867	32,724
	84,772	***77,201***
Other employee benefits	5,408	5,339
	90,180	**82,540**
Number of employees	**493**	**466**

In 2016, pension fund contributions amounted to HRK 14,141 thousand (2015: HRK 12,768 thousand).

NOTE 8 – OTHER OPERATING EXPENSES

	2016	2015
Services from related parties	9,660	3,499
Bank charges (commissions and fees)	51,739	42,428
Insurance	4,316	113
Entertainment expenses	353	454
Supervisory Board expenses	312	315
Concession expenses	7,702	3,009
Taxes non-dependable on results	1,163	8,796
Cost of materials sold	1,574	-
Provisions	1,938	-
Other	1,782	2,137
	80,539	**60,751**

NOTE 9 – OTHER (LOSSES)/GAINS – NET

	2016	2015
Losses on change in fair value of financial assets	(11)	(158)
Foreign exchange gains from operations	57.302	10,323
Foreign exchange losses from operations	(67.037)	(8,676)
	(9.746)	**1,489**

(all amounts expressed in thousands of HRK)

NOTE 10 – FINANCE COSTS AND INCOME

	2016	2015
Finance costs		
Interest from borrowings	(49.284)	(11,354)
Foreign exchange losses	(25.880)	(9,265)
Other	-	(685)
	(75.164)	(21,304)
Finance income		
Foreign exchange gains	21,205	5,418
Interest income	21,684	8,301
Dividend income	4,373	3
Other	1	4
	47,263	13,726
Finance costs - net	**(27,901)**	**(7,578)**

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:

	2016	2015
Profit before taxation	13,776	16,555
Income tax at 20%	2,755	3,311
Tax effects from:		
Income not subject to tax	(906)	(11)
Expenses not deductible for tax purposes	1,446	121
Income tax	**3,295**	**3,421**
Effective tax rate	23.92%	20.66%

The Croatian Income Tax Act is subject to varying interpretations and changes in respect of expenses which decrease the tax base. The Management Board's interpretation of such legislation as applied to the transactions and activities of the Company may be challenged by the relevant authorities. The Tax Administration may be taking a different position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Tax Administration may start performing an inspection within three years following the year in which the tax liability is reported for a specific financial period.

(all amounts expressed in thousands of HRK)

NOTE 12 – INTANGIBLE ASSETS

	Concessions, patents, licences, software and other rights	Assets under construction	Total
Cost			
At 1 January 2015	**630**		**630**
Additions	17		17
At 31 December 2015	**647**		**647**
Additions	-	433	**433**
Transfer	375	(375)	**-**
At 31 December 2016	**1,022**	**58**	**1.080**
Accumulated amortisation			
At 1 January 2015	**279**	**-**	**279**
Amortisation charge for the year	76	-	76
At 31 December 2015	**355**	**-**	**355**
Amortisation charge for the year	101	**-**	**101**
At 31 December 2016	**456**	**-**	**456**
Net book amount			
31 December 2015	292	-	292
31 December 2016	**566**	**58**	**624**

(all amounts expressed in thousands of HRK)

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	Buildings	**Tools, plant inventory and transport vehicles**	**Other**	**Assets under construction**	**Total**
Cost					
At 1 January 2015	**-**	**12,203**	**38**	**-**	**12,241**
Additions	-	87	-	-	87
At 31 December 2015	**-**	**12,290**	**38**	**-**	**12,328**
Additions	-	-	-	27,226	27,226
Transfer	2,551	3,735	-	(6,286)	-
Disposals	-	(48)	-	-	(48)
At 31 December 2016	**2,551**	**15,977**	**38**	**20,940**	**39,506**
Accumulated depreciation					
At 1 January 2015	**-**	**889**	**-**	**-**	**889**
Depreciation charge for the year	-	2,352	-	-	2,352
At 31 December 2015	**-**	**3,241**	**-**	**-**	**3,241**
Depreciation charge for the year	-	2,996	-	-	**2,996**
Disposals	-	(48)	-	-	(48)
At 31 December 2016	**-**	**6,189**	**-**	**-**	**6,189**
Net book amount					
31 December 2015	**-**	**9,049**	**38**	**-**	**9,087**
31 December 2016	**2,551**	**9,788**	**38**	**20,940**	**33,317**

(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:

	2016	**2015**
Assets at the reporting date		
Long-term receivables (note 17)	135,127	-
Trade and other receivables (note 19)	301,885	60,976
Deposits and loans receivable (note 20)	754,564	513,272
Financial assets at fair value through profit or loss (note 16)	627	638
Cash and cash equivalents (note 21)	63,631	97,269
	1,255,834	**672,155**

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.

	2016	**2015**
Liabilities at the balance sheet date – *at amortised cost*		
Trade and other payables (note 24)	344,716	64,677
Borrowings (note 23)	1,393,093	579,970
	1,737,809	**644,647**

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

	2016	**2015**
Trade and other receivables		
Customers – related parties	144,186	9,106
Customers – unrelated parties	820	766
	145,006	**9,872**

(all amounts expressed in thousands of HRK)

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

	2016	2015
Deposits and loans receivable		
Customers – unrelated parties	211,739	187,428
Customers – related parties	533,288	325,844
	745,027	**513,272**

The Company deposits money within banks which have the following S&P agency' credit ratings:

	2016	2015
Cash at bank		
BBB+	66,928	4,558
BBB-	31,345	39,635
BB	25,698	22,702
Without credit rating	151,061	217,166
	275,032	**284,061**

NOTE 15 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	31/12/2016		31/12/2015	
	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%	55,075	84.39%	20,075
ULJANIK Strojogradnja d.d., Pula	-	-	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%	-
ULJANIK Strojogradnja Diesel d.d., Pula /ii/	100%	142,636	-	-
Impairment of investments		(495,531)		(495,531)
Total		**436,536**		**401,536**
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	100%	**69,599**		**69,599**

(all amounts expressed in thousands of HRK)

/i/ On General Assembly of the company 3. MAJ Brodogradilište d.d. held as of 30 June 2016 Decision on the increase of share capital was brought by ULJANIK d.d. in the amount of HRK 35,000,000 by payment in cash, and as of 27 December 2016 the amount was paid in by ULJANIK d.d.

/ii/ In November 2016, companies ULJANIK Strojogradnja d.d. and 3. MAJ MID d.d. were merged into new company ULJANIK Strojogradnja Diesel d.d.

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

	31 December	
	2016	**2015**
Listed shares (PBZ and Croatia osiguranje)	627	638
	627	**638**

NOTE 17 – LONG-TERM RECEIVABLES

Long-term receivable in the amount of 135,127 thousand relates to receivable from the subsidiary ULJANIK Brodogradilište d.d. on the basis of the Mutual Relationship Agreement arising from the Club Loan Agreement from 26 November 2016.

NOTE 18 – INVENTORIES

	2016	**2015**
Raw materials	521,253	48,207
Work in progress	348	4,756
Advances	21,506	-
	543,107	**52,963**

Cost of goods sold in 2016 amounted HRK 1,152,437 thousand (2015: HRK 168,234 thousand).

(all amounts expressed in thousands of HRK)

NOTE 19 – TRADE AND OTHER RECEIVABLES

	2016	**2015**
Amounts due from customers for construction work /i/	174,189	443
Domestic customers	884	1,414
Foreign customers	53	-
Receivables from related parties (Note 25)	126,781	59,141
Receivables from related parties for advances received (Note 25)	592,435	359,677
Provision for impairment of trade receivables	(22)	(22)
Trade receivables – net	720,131	420,210
VAT receivable	42,456	13,955
Advances	489,894	183,924
Other receivables	4,570	4,469
	536,920	202,348
	1,431,240	**623,001**

/i/ Amounts due from customers for construction work

	2016	**2015**
At beginning of year	**443**	**-**
Contract costs incurred during the year plus recognised gains, minus recognised losses for the year	1,128,065	156,261
Progress billings	(954,319)	(155,818)
Amounts due from customers for construction work	**174,189**	**443**

Advances received for construction contracts amount to HRK 1,348,007 million (2015: HRK 690,506 million) are presented in note 25.

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

	2016	**2015**
EUR	174,189	-
USD	-	443
	174,189	**443**

(all amounts expressed in thousands of HRK)

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 2016	820	52	-	-	20	23	**915**
31 December 2015	766	182	75	142	220	7	**1,392**

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 2016	601,494	6,256	6,571	6,711	10,491	87,693	**719,216**
31 December 2015	368,783	4,371	2,722	4,768	3,500	34,674	**418,818**

The receivables due for more than 120 days mostly relate to receivables from related company ULJANIK Brodogradilište d.d. whose production cycle lasts from one to two years and therefore the payments are realised in longer period depending on production cycle.

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

	2016	**2015**
USD	53	-
HRK	132,213	65,002
	132,266	**65,002**

Movements in the allowance for bad debts are as follows:

	2016	**2015**
At 1 January	22	22
At 31 December	**22**	**22**

	2016	**2015**
Neither past due nor impaired	9,879	9,872
Past due, but not impaired	117,817	50,661
Past due and impaired	22	22
	127,718	**60,555**

(all amounts expressed in thousands of HRK)

NOTE 20 – DEPOSITS AND LOANS RECEIVABLE

Long-term Deposits and loans receivable

	2016	2015
Loans granted to related parties	228,315	120,000
	228,315	**120,000**
Deposits	201,473	186,792
	201,473	**186,792**
Total long-term Deposits and loans receivable	**429,788**	**306,792**

Short-term Deposits and loans receivable

	2016	2015
Loans granted to unrelated parties	338	636
Loans granted to related parties	314,510	205,844
Total short-term Deposits and loans receivable	**314,848**	**206,480**
	9,928	-
	9,928	**-**
Total long-term Deposits and loans receivable	**324,776**	**206,480**

Related parties were granted loans in the amount of HRK 542,825 thousand (2015: HRK 325,844 thousand) at an interest rate prescribed for tax purposes on loans between related parties. Final maturity is in 2018 and the loans are 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:

	2016	2015
ULJANIK Brodogradilište d.d.	100,322	205,134
ULJANIK Financije d.o.o.	3,478	-
3. MAJ Brodogradilište d.d.	120,000	-
ULJANIK Brodograđevni projekti d.d.	90,000	-
ULJANIK Proizvodnja opreme d.d.	710	710
	314,510	**205,844**

(all amounts expressed in thousands of HRK)

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

	2016	**2015**
EUR	193,468	178,201
USD	17,933	8,591
HRK	543,163	326,480
	754,564	**513,272**

NOTE 21 – CASH AND CASH EQUIVALENTS

	31 December 2016	**2015**
Giro account and cash in hand	2,022	850
Foreign currency account	61,609	96,419
	63,631	**97,269**

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, Sberbank d.d., Zagreb, Addiko Bank d.d. Zagreb.

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

	2016	**2015**
HRK	2,022	850
EUR	32,753	43,541
USD	28,856	52,878
	63,631	**97,269**

NOTE 22 – EQUITY

The authorised and registered share capital consists of 3,356,250 shares (2015: 3,356,250 shares). The nominal value per share is HRK 30 (2015: HRK 30 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 2016 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 (2015: HRK 216,566 thousand) formed during the share capital decrease as described above (the reserves are un-distributable).

(all amounts expressed in thousands of HRK)

In previous periods, the Company purchased treasury shares and as of 31 December 2016 it owns 104,375 treasury shares or 3.1099% of the share capital.

Based on the decision of the General Assembly of 21 July 2016, the Company's profit earned in 2015 in the amount of HRK 13,134 thousand was allocated to other reserves.

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 from 2013 was allocated to other reserves.

The ownership structure as at 31 December was as follows:

Shareholder	**2016**	**2015**
	%	**%**
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
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	46.22	46.21
Foreign private individuals	0.10	0.10
Other shareholders	5.30	5.31
Treasury shares	3.11	3.11
Total	**100.00**	**100.00**

(all amounts expressed in thousands of HRK)

NOTE 23 – BORROWINGS

	2016	2015
Long-term		
Due to banks		
Bank borrowings – long-term	1,383,779	572,220
Liabilities for finance lease and issued bills of exchange		
Finance lease liabilities	4,314	5,750
Total long-term borrowings	**1,388,093**	**577,970**
Current portion of long-term borrowings	(864,047)	(230,034)
Non-current portion	**524,046**	**347,936**
Short-term		
Bank borrowings – short-term	5,000	2,000
Current portion of long-term borrowings	864,047	230,034
Total short-term borrowings and current portion of long-term borrowings	**869,047**	**232,034**
TOTAL BORROWINGS	**1,393,093**	**579,970**

The repayment of borrowings form banks is primarily secured by debentures and state guarantee amounting to 80% of loan amount, insurance policy from HBOR, pledge over the share in the company Maritime Transport Pula Four Inc., pledge over the ship in its ownership and the ships currently build in the Company, deposits in the amount of HRK 5 million and EUR 3 million. Bank borrowings are contracted at average interest rate of 5.36% (2015: 5.35%), and include significant number of covenants.

Finance lease liabilities are contracted bearing the average interest rate of 5.62% (2015: 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:

	2016	2015
Up to 1 year	869,047	232,034
1 - 2 years	406,899	345,018
2 - 5 years	117,147	2,918
	1,393,093	**579,970**

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

(all amounts expressed in thousands of HRK)

NOTE 23 – BORROWINGS (continued)

The carrying amounts of borrowings are denominated in the following currencies:

	2016	2015
EUR	1,252,966	577,970
USD	135,127	-
HRK	5,000	2,000
	1,393,093	**579,970**

NOTE 24 – TRADE AND OTHER PAYABLES

	2016	2015
Domestic trade payables	65,279	12,861
Foreign trade payables	159,973	4,599
Liabilities to related parties (Note 26)	63,635	46,224
Liabilities to related parties for advances received	11,743	55,713
Interest and fees payable	10,222	818
	310,852	120,215
Due to employees	4,711	4,446
Taxes and contributions payable	5,431	12,788
Other liabilities	2,094	510
Liabilities for un-invoiced material	43,513	-
Deferred revenue	-	16,327
	55,749	34,071
	366,601	**154,286**

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

	31 December 2016	2015
HRK	138,430	59,569
EUR	143,800	4,110
USD	16,832	819
GBP	24	4
NOK	23	-
	299,109	**64,502**

(all amounts expressed in thousands of HRK)

NOTE 25 – ADVANCES RECEIVED

	2016	2015
At 1 January	690,506	-
Advances received for new construction work during the year	1,611,820	846,324
Decrease in advances for performed construction contracts at year end	(954,319)	(155,818)
	1,348,007	**690,506**

NOTE 26 – 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	2016	2015
(i) Subsidiaries			
Operating income			
Sales	5	86,639	74,352
		86,639	**74,352**
Operating expenses			
Raw materials and supplies	6	58,002	2,574
External services costs	6, 8	219,980	10,020
		277,982	**12,594**
Finance income			
Interest income	10	21,405	8,273
		21,405	**8,273**
Finance costs			
Interest expense	10	246	1,316
		246	**1,316**
Loans, trade and other receivables			
Loans receivable	20	542,825	325,844
Trade receivables	19	126,781	59,141
		135,127	-
Other receivables	19	592,435	359,677
		1,397,168	**744,662**

(all amounts expressed in thousands of HRK)

NOTE 26 – RELATED PARTY TRANSACTIONS (continued)

	Note	2016	2015
Liabilities			
Trade payables	24	23,998	9,560
Advances received	24	11,743	55,713
Other liabilities	24	39,637	36,664
		75,378	**101,937**
(ii) Associates			
Receivables from advances given			
Adriadiesel d.d., Karlovac		17,163	3,506
		17,163	**3,506**

Key management compensation

During 2016, total gross salaries paid to the Company's Management Board as well as Supervisory Board compensation amounted to HRK 13,531 thousand (2015: HRK 10,038 thousand). Key personnel comprises 29 Company's employees (2015: 19 employees).

NOTE 27 – 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 2016, the Company had concluded contracts under which works have not yet started in the total value of HRK 7,4 billion (2015: HRK 6.6 billion).

NOTE 28 – EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period which could significantly influence annual financial statements of the Company for the year ended 31 December 2016, which should be disclosed.

NOTE 29 – 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.

	2016	**2015**
Profit for the year *(in thousands of HRK)*	10,481	13,134
Weighted average number of shares (basic)	3,251,875	3,251,875
Earnings per share (basic) *(in HRK)*	**3.22**	**4.04**

Diluted earnings per share

Diluted earnings per share for 2016 and 2015 is equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either 2015 or 2016.

NOTE 30 – 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 20 April 2017.

Signed on behalf of the Management Board:

Gianni Rossanda,
President of the Board

Veljko Grbac,
Member of the Board

Marinko Brgić,
Member of the Board