ULJANIK PLOVIDBA

GROUP ULJANIK PLOVIDBA

CONSOLIDATED AUDITED FINANCIAL STATEMENTS

FOR THE PERIOD

JANUARY - DECEMBER 2012

Pula, April 2013

CONTENT:

ULJANIK PLOVIDBA

GROUP ULJANIK PLOVIDBA
PULA

Audited annual consolidated financial statements for the year ended 31 December 2012

ULJANIK PLOVIDBA

CONTENTS

ULJANIK PLOVIDBA

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Management of the Parent Company is responsible for ensuring that the 2012 consolidated financial statements are prepared in accordance with the Croatian Accounting Law and International Financial Reporting Standards ('IFRS'), as published by the Financial Reporting Standards Board, which give a true and fair view of the financial position, results of operations, changes in equity and cash flows of the Group for that period.

After making enquiries, the Board of the parent company has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Management has adopted the going concern basis in preparing the consolidated financial statements of the Group.

In the course of preparing of these consolidated financial statements, the responsibilities of the Management include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- the consolidated financial statements are prepared on the going concern basis unless such assumption is not appropriate.

The Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position and results of operations of the Group and must also ensure that the consolidated financial statements comply with the Croatian Accounting Law and International Financial Reporting Standards as published by the Financial Reporting Standards Board. The Management is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Parent Company Management by:

Dragutin Pavletić, director

ULJANIK PLOVIDBA d.d.

Carrarina 6
52100 Pula

Pula, 19th April 2013

Revizija i konzalting d.o.o.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF GROUP ULJANIK PLOVIDBA PULA

We have audited the accompanying consolidated financial statements of the GROUP ULJANIK PLOVIDBA, Pula, for the year ended 31 December 2012, which comprise the consolidated balance sheet as at 31 December 2012 and the related consolidated income statement with comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (set out on pages 3 to 31).

Management's Responsibility for the Consolidated Financial Statements
The Parent Company's Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying of appropriate accounting policies; and making of accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion
In our opinion the consolidated financial statements present true and fair, in all material respects, the financial position of GROUP ULJANIK PLOVIDBA, Pula, as at 31 December 2012, the results of its operations, changes in its equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Revidas, revizija i konzalting, d.o.o.
Vukovarska 47
Pula

Pula, 19th April 2013

For and on behalf of Revidas d.o.o.:

REVIZIJA I KONZALTING REVIDAS d.o.o. PULA

Sonja Košara
procurator

Jasna Duić-Bilić
certified auditor

GROUP ULJANIK PLOVIDBA , PULA

CONSOLIDATED INCOME STATEMENT WITH COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(in HRK)	Notes	2012	2011
Sales	3	215,597,544	198,204,027
Other operating income	4	15,850,438	5,221,415
Operating income		**231,447,982**	**203,425,442**
Cost of raw material and supplies		*(190,034)*	*(176,494)*
Other external costs		*(40,283,360)*	*(40,613,572)*
Material costs	5	***(40,473,394)***	***(40,790,066)***
Staff costs	6	***(85,618,144)***	***(65,433,391)***
Depreciation	7	***(127,043,185)***	***(96,710,778)***
Provisions for risks and charges		-	***(55,850)***
Other expenses	8	***(19,745,382)***	***(16.483.901)***
Other operating expenses	9	*(7,176,713)*	-
Operating expenses		**(280,056,818)**	**(219.473.986)**
Financial income	10	**47,925,870**	**60,986,606**
Financial expenses	11	**(77,328,572)**	**(51,407,799)**
TOTAL INCOME		**279,373,852**	**264,412,048**
TOTAL EXPENSES		**357,385,390**	**270,881,785**
LOSS BEFORE TAXATION		**(78,011,538)**	**(6,469,737)**
Loss of the minority interest		**3,335,653**	**888,070**
Income tax expense	12	(174,933)	(1,345,603)
LOSS FOR THE YEAR		**(74,850,818)**	**(6,927,270)**
Exchange differences on translating foreign operations		**(6,150,460)**	**18,606,969**
Tax on net other comprehensive income		**(1,230,092)**	**(3,721,394)**
Net other comprehensive loss		**(4,920,368)**	**14,885,575**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(79,771,186)**	**7,958,308**

Signed on behalf of the Parent Company Management:

Dragutin Pavletić, director

Pula, 19 April 2013

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

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2012

(in HRK)	Notes	2012	2011
ASSETS			
Concessions, patents, licences, trade and service marks, software and other rights		18,083	61,810
Intangible assets	14	**18,083**	**61,810**
Land and biological assets		3,448,335	3,486,542
Buildings		3,086,978	3,137,626
Vessels		2,022,902,769	1,881,389,099
Other plant and equipment		214,827	369,142
Tangible assets	15	**2,029,652,909**	**1,888,382,409**
Long-term financial assets	16	**5,817,941**	**4,521,896**
Long-term receivables	17	**17,102,124**	**411,412**
LONG TERM ASSETS		**2,052,591,057**	**1,893,377,527**
Inventories	18	**3,229,618**	**6,687,111**
Trade receivables	19	72,090,649	632,258
Amounts due from the state and other institutions	20	886,672	40,376
Other receivables	21	3,700,311	3,624,522
Receivables		**76,677,632**	**4,297,156**
Short-term financial assets	22	**16,765,012**	**13,674,077**
Cash and cash equivalents	23	**32,706,009**	**29,256,768**
CURRENT ASSETS		**129,378,271**	**53,915,112**
Prepaid expenses and accrued income	24	**4,837**	**19,309**
TOTAL ASSETS		**2,181,974,165**	**1,947,311,948**

GROUP ULJANIK PLOVIDBA, PULA

CONSOLIDATED BALANCE SHEET - continued
AS OF 31 DECEMBER 2012

(in HRK)	Notes	2012	2011
EQUITY AND LIABILITIES			
Share capital	25	232,000,000	232,000,000
Capital reserves	26	(19,729,681)	(19,217,000)
Legal reserves	27	14,466,350	11,600,000
Reserves for Treasury shares	28	36,382,812	36,382,812
Treasury shares	29	(14,213,994)	(10,105,730)
Revaluation reserves	30	41,648,179	47,798,639
Retained profit	31	257,000,255	291,423,286
Loss of the year	32	(74,850,818)	(6,927,270)
Minority interest	33	129,891,023	80,875,917
CAPITAL AND RESERVES		**602,594,126**	**663,830,654**
Provisions for retirement costs, severance pays and similar liabilities	34	1,956,929	1,990,894
LONG-TERM PROVISIONS		**1,956,929**	**1,990,894**
Amounts due to banks and other financial institutions	35	1,164,183,526	925,517,571
LONG-TERM LIABILITIES		**1,164,183,526**	**925,517,571**
Amounts due to banks and other financial institutions	36	254,203,919	149,930,031
Commercial bills	37	-	70,000,000
Trade payables	38	21,892,994	17,859,794
Amounts due to employees		752,923	748,337
Taxes, contributions and other duties payable	39	-	809,587
Dividends payable	40	2,555,392	2,614,254
Other short-term liabilities	41	36,972,601	25,055,953
SHORT-TERM LIABILITIES		**316,377,829**	**267,017,956**
Accrued expenses and deferred income	42	**96,861,755**	**88,954,873**
TOTAL EQUITY AND LIABILITIES		**2,181,974,165**	**1,947,311,948**

Signed on behalf of the Parent Company Management:

Dragutin Pavletić, director

Pula, 19 April 2013

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

CONSOLIDATED STATEMENT OF CHANGES IN SHARHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(in HRK)	Share capital	Capital reserves	Legal reserves	Reserves for treasury shares	Treasury shares	Revaluation reserves	Retained profit	Minority interest	Total
At 31 December 2010	**232,000,000**	**(5,132,712)**	**11,600,000**	**36,382,812**	**(35,386,082)**	**29,191,670**	**352,152,369**	-	**620,808,057**
Value adjustment of the investments	-	-	-	-	-	18,606,969	-	-	18,606,969
Purchase of treasury shares	-	-	-	-	(5,361,482)	-	-	-	(5,361,482)
Sale of treasury shares	-	-	-	-	30,641,834	-	-	-	30,641,834
Capital losses	-	(14,084,288)	-	-	-	-	-	-	(14,084,288)
Transfer of the retained profit from USSO	-	-	-	-	-	-	(32,841,435)	-	(32,841,435)
Allocation of profit for 2010	-	-	-	-	-	-	(34,725,630)	-	(34,725,630)
Adjustment to retained earnings under the equity method							3,240,226		3,240,226
Loss for 2011	-	-	-	-	-	-	(6,927,270)	-	(6,927,270)
Exchange differences	-	-	-	-	-	-	3,597,756	-	3,597,756
Minority interest	-	-	-	-	-	-	-	80,875,917	80,875,917
At 31 December 2011	**232,000,000**	**(19,217,000)**	**11,600,000**	**36,382,812**	**(10,105,730)**	**47,798,639**	**284,496,016**	**80,875,917**	**663.830.654**
Adjustment of share value	-	-	-	-		(6,150,460)	-	-	(6,150,460)
Purchase of treasury shares	-	-	-	-	(5,043,770)	-	-	-	(5,043,770)
Sale of treasury shares	-	-	-	-	935,506	-	-	-	935,506
Capital losses	-	(512,681)	-	-	-	-	-	-	(512,681)
Transfer of the retained profit from USSO	-	-	-	-	-	-	(22,494,320)	-	(22,494,320)
Allocation of profit for 2011	-	-	2,866,350	-	-	-	(2,866,350)	-	-
Adjustment to retained earnings under the equity method	-	-	-	-	-	-	2,833,069	-	2,833,069
Loss for 2012	-	-	-	-	-	-	(74,850,818)	-	(74,850,818)
Adjustment of retained earnings as per IFRS 2	-	-	-	-	-	-	(573,270)	-	(573,270)
Exchange differences	-	-	-	-	-	-	(4,394,890)	-	(4,394,890)
Minority interest	-	-	-	-	-	-	-	49,015,106	49,015,106
At 31 December 2012	**232,000,000**	**(19,729,681)**	**14,466,350**	**36,382,812**	**(14,213,994)**	**41,648,179**	**182,149,437**	**129,891,023**	**602,594,126**

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

GROUP ULJANIK PLOVIDBA, PULA

CONSOLIDATED CASH-FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

(in HRK)	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(78,011,538)**	**(6,469,737)**
Depreciation	127,043,185	96,710,778
Increase in current liabilities	15,085,984	21,035,448
Decrease in short-term receivables	-	8,480,356
Decrease in inventories	3,457,496	-
Other increases in cash	37,116,678	17,952,057
Total increase in cash from operating activities	**104,691,802**	**137,708,902**
Increase in inventories	(72,380,476)	(1,841,766)
Other decreases in cash	(782,169)	(59,514,531)
Total decrease in cash from operating activities	**(73,162,645)**	**(61,356,297)**
NET INCREASE IN CASH GENERATED FROM OPERATING ACTIVITIES	**31,529,157**	**75,945,448**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash receipts from sale of long-term intangible and tangible property	94,397,004	-
Cash receipts from sale of equity and debt instruments	-	11,196,064
Total cash receipts from investing activities	**94,397,004**	**11,196,064**
Cash paid for purchases of tangible and intangible assets	(394,430,611)	(398,060,696)
Purchase of debt or equity securities	(1,440,000)	-
Total cash expenses from investing activities	**(400,870,611)**	**(398,060,696)**
NET DECREASE IN CASH FROM INVESTING ACTIVITIES	**(306,473,607)**	**(386,864,632)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash receipts from issuance of equity and debt instruments	-	70,000,000
Cash receipts from the loan principal, debentures, advances and other loans	659,566,439	361,271,662
Other cash receipts from financial activities	52,350,759	82,005,861
Total cash receipts from financial activities	**711,917,198**	**513,277,523**
Cash expenses for the repayment of loan principal and bonds	(316,626,596)	(127,518,469)
Cash expenses for the payments of dividends	-	(34,725,630)
Cash expenses for the purchase of treasury shares	(4,620,945)	-
Other cash expenses from financial activities	(112,275,966)	(32,841,435)
Total cash expenses from financial activities	**(433,523,507)**	**(195,085,534)**
NET INCREASE IN CASH FROM FINANCING ACTIVITIES	**278,393,691**	**318,191,989**
Cash and cash equivalents at beginning of period	**29,256,768**	**21,983,963**
Increase in cash and cash equivalents	**3,449,241**	**7,272,805**
Decrease in cash and cash equivalents	**-**	**-**
Cash and cash equivalents at end of period	**32,706,009**	**29,256,768**

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

1. GENERAL

The Group Uljanik Plovidba, Pula and the related Group companies are as follows:

- Uljanik Plovidba d.d. Pula, registered for trade, travel agency operations, coastal and off-shore shipping services, international maritime transport etc.;
- United Shipping Services One Inc., Monrovia, Liberia, 100% owned by Uljanik Plovidba d.d. and the sole owner of the companies United Shipping Services Two Inc., United Shipping Services Three Inc., United Shipping Services Four Inc., United Shipping Services Five Inc., United Shipping Services Six Inc., United Shipping Services Seven Inc., United Shipping Services Eight Inc., United Shipping Services Nine Inc., United Shipping Services Ten Inc., United Shipping Services Eleven Inc., United Shipping Services Fourteen Inc., United Shipping Services Seventeen Inc., United Shipping Adriatic Inc., Uljanik Shipmanagement Inc. and Uljanik Tanker Management Inc., constitute the Group UNITED SHIPPING SERVICES ONE. The mentioned foreign companies' business activity is time-chartering of ships;
- Real d.o.o. Pula, registered for construction and agriculture, 100% owned by Uljanik Plovidba d.d.

The affiliated companies United Shipping Services Two Inc., United Shipping Services Five Inc., United Shipping Adriatic Inc. and United Shipping Services Seven Inc. are currently dormant.

The ownership structure as at 31 December 2012 is shown in Note 25.

The registered office of the Group is in Pula, Carrarina 6, Croatia.

As at 31 December 2012, the number of staff employed by the Group Uljanik Plovidba, Pula was 31 (2011: 31).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the principal accounting policies applied in the preparation of these consolidated financial statements. The accounting policies have been applied consistently to all the periods covered by the consolidated financial statements, except as stated otherwise.

2.1. Compliance Statement

The financial statements have been prepared in accordance with International Financial Reporting Standards that are accepted in the European Union.

2.2. Basis of preparation

The consolidated financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognized when they occur and they are reported in the financial statements of the period to which they relate and under the going concern assumption.

The consolidated financial statements of GROUP ULJANIK PLOVIDBA Pula have been prepared using the historical cost convention.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires from the management to make certain key accounting estimates and judgments in the applying of the accounting policies of the Company.

2.3. Principles and methods of consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group Uljanik Plovidba is entitled to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control commences and excluded from consolidation once the control terminates. Intra-group transactions between Group entities are eliminated at consolidation.

The consolidated financial statements of the Group consist of consolidated data from the year-end financial statements of Uljanik Plovidba d.d. Pula, Real d.o.o. Pula and the consolidated financial statements of the Group United Shipping Services One. The effects of all intra-group transactions have been eliminated at consolidation.

b) Transactions and minority interests

The Group is treating transactions with minority interests as transactions with the entities out of the Group. The results of sale to minority interests are gains/losses which are recognised in the Income statement.

2.4. Reporting currency

The consolidated financial statements of the Group have been prepared in Croatian kuna, which is the measurement i.e. reporting currency of the Group.

2.5. Revenue recognition

Revenue comprises the fair value of completed and billed services in the course of ordinary business. Revenue is stated at invoiced amounts net of value-added tax and any recognised discounts.

2.6. Recognition of expenses

Operating expenses are stated as at the date of received invoices or at the date of prepared calculations.
They include material costs, staff costs, depreciation, other expenses, impairment of current assets (receivables), provisions and other operating expenses.

2.7. Financial income and expenses

Financial income consists of accrued interest on loans which is determined by using the effective interest method, and foreign exchange gains. Dividend income is recognized in the income statement as of the date on which the dividend is received.

Financial expenses comprise interest on borrowings and credits received determined using the effective interest method, foreign exchange losses, as well as losses on impairment and disposal of financial assets.

2.8. Transactions in foreign currencies

Transactions in currencies other than Croatian kuna are initially recorded at mean exchange rates of the Croatian National Bank ('the CNB') prevailing on the dates of the transactions. Monetary assets, receivables and liabilities denominated in foreign currencies are retranslated at mean exchange rates of the CNB prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement for the year.

On 31 December 2012 the official exchange rate for the Croatian kuna was 7.55 HRK for 1 euro (on 31 December 2011 it was 7.53 HRK) and 5.73 HRK for 1 USD (on 31 December 2011 it was 5.82 HRK).

2.9. Income tax

Income tax is determined on the basis of income reported in accordance with Croatian laws and regulations.

Income tax represents current and deferred taxes and is reported in the income statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is based on the expected recovery and settlement of the carrying amounts of assets and liabilities, using the tax rates enacted or substantially enacted by the balance sheet date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available to allow the tax asset to be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2.10. Intangible assets

Licences for software are capitalized at cost and the costs are attributable to bringing of the software in the condition for its intended use. These costs are amortized over their useful lives in a period of 5 years.

2.11. Property, plant and equipment

Items of property, plant and equipment are carried at historical cost less accumulated depreciation. Historical cost includes costs directly attributable to bringing an asset in a condition for its intended use. Subsequent improvements are capitalized or, if required, recognized as a separate asset only if future economic benefits will flow to the Company and if the cost of such asset can be measured reliably. All other improvements and maintenance costs are recognized in the income statement in the period in which they arise.

Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalized i.e. added to the carrying amount of the asset.

Fittings and equipment are classified as non-current assets if their individual useful lives are over one year and individual cost exceeds HRK 3,500.

Property, plant and equipment include land, building, vessels, office equipment and furniture.

According to the broker's valuation, the values of the ships have been adjusted to their market value.

When the market values exceed the carrying values they either need to be adjusted with the market values or value in use has to be calculated by estimating of future cash flows and discounting them by the use of the appropriate discount rate.

Gains and losses on disposal of assets are determined by comparing of the income and the carrying amounts of assets and are captured under "Other net gains/(losses)" in the income statement.

Depreciation of property, vessels, plant and equipment commences when the assets are put in use. Depreciation is provided on a straight-line basis so as to allocate the cost of an asset over its estimated useful life. Depreciation is provided for each asset until it is written-off or until it reaches its residual value, if material.

The estimated useful lives are as follows:

Buildings	100 years
Ships	20 years
Machinery and equipment	10 – 28 years
Inventory and accessories	2 – 10 years

Land is not depreciated because it is considered to have unlimited useful life.

2.12. Investments

Investments in securities are stated at cost. Dividend income is recognised on receipt. Any permanent decrease in value of a certain investment is recognised as expense in the period in which it has been established.

2.13. Trade receivables

Trade and other receivables are initially carried at fair value and are subsequently measured at cost, less any impairment losses. Receivables are impaired and impairment losses are incurred only if there is objective evidence of impairment, as a result of one or more events that occurred after the initial recognition of an asset that have an impact on the estimated future cash flows of the asset that can be reliably estimated. At each balance sheet date the Branch Office assesses whether there is objective evidence that an account receivable is impaired. At each balance sheet date, receivables are subject to an individual review to determine whether there is objective evidence that a trade receivable account might be impaired. If any such evidence exists, the carrying amount of the account receivable is reduced directly or through a separate allowance account. The related impairment loss is charged in the income statement for the year.

2.14. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks, as well as other high liquid instruments with maturities of up to three months.

2.15. Government grants

Government grants related to assets of the subsidiaries (vessels) are recorded as deferred income and recognised as income over the periods necessary to match them with the related costs on a systematic basis.

2.16. Borrowings

All borrowings directly attributable to the acquisition or construction of fixed assets are initially carried at fair value of cash received. In future periods, they are carried at amortised cost. Arrangement and commitments fees are capitalized and amortized over the facility period as an interest expense.

2.17. Employee benefits

(a) Retirement benefits

In the normal course of business, the Parent Company makes contributions on behalf of its employees who are members of mandatory pension funds, in accordance with applicable law. The mandatory pension contributions to the funds are included in the salary cost when they are calculated. The Group has no obligation to provide any post-retirement benefits to its employees.

b) Other long-term employee benefits

Other long-term employee benefits include jubilee-awards and termination benefits which fall due later than 12 months after the balance sheet date.

2.18. Provisions

Provisions are recognised when the related Companies that constitute the Group have a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be measured reliably.

Provisions are determined at the present value of costs expected to be incurred to settle an obligation that reflects the current market assessment of the time value of money and risks specific to the obligation.

2.19. Dividend distribution

Liabilities in respect of dividends payable to the shareholders are recognised in the financial statements in the period in which they are approved by the General Assembly of Shareholders.

2.20. Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2.21. Subsequent events

Post-year-end events that provide additional information about the position of the Group at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. REVENUES

(in HRK)	2012	2011
Domestic revenue	531,230	405,343
Foreign revenue /i/	215,066,314	197,798,684
	215,597,544	**198,204,027**

/i/ This amount represents the revenue of the foreign companies within the Group United Shipping Services One.

4. OTHER OPERATING REVENUES

(in HRK)	2012	2011
Transferred part of deferred income (Note 42)	15,751,284	5,171,053
Income from reversal of provisions (Note 34)	33,965	10,820
Other revenues	65,189	39,542
	15,850,438	**5,221,415**

5. COST OF MATERIAL AND SERVICES

(in HRK)	2012	2011
Raw materials and supplies	98,386	96,357
Energy	85,706	72,306
Spare parts and small inventory	5,942	7,831
Raw materials and supplies	**190,034**	**176,494**
Operating ship expenses and docking expenses	30,597,379	31,616,965
Transport, telephone, postage	410,744	387,521
Repairs and maintenance	9,234,029	8,559,421
Rental costs	-	12,263
Promotion costs	23,404	19,439
Other	17,804	17,963
Other external services	**40,283,360**	**40,613,572**
	40,473,394	**40,790,066**

6. STAFF COSTS

(in HRK)	2012	2011
Crew salaries based on contracts	76,155,745	56,412,296
Net salaries	4,972,095	4,602,998
Taxes and contributions *from* and *on* salary /i/	4,490,304	4,418,097
	85,618,144	**65,433,391**

/i/ Taxes and contributions *from* and *on* salaries are included in defined pension contributions to mandatory pension funds in Croatia. They are determined at a percentage of the gross salary.

7. DEPRECIATION AND AMORTISATION

(in HRK)	2012	2011
Amortisation (Note 14)	45,992	25,644
Depreciation (Note 15)	126,997,193	96,685,134
	127,043,185	**96,710,778**

8. OTHER EXPENSES

(in HRK)	2012	2011
Ship insurance	11,949,520	9,168,387
Fees for administration and management services abroad	4,538,410	4,545,751
Reimbursement of costs to employees /i/	469,172	409,877
Intellectual services	175,938	170,540
Entertainment	167,455	277,910
Impairment of financial assets	267,003	-
Supervisory board (gross fees)	174,872	176,922
Contributions and municipal levies	172,856	183,899
Bank charges	911,208	536,876
Depository services and broker commission	253,965	250,568
Insurance	256,935	271,265
Donations	4,000	220,734
Other expenses	404,048	271,172
	19,745,382	**16,483,901**

/i/ Reimbursement of costs to employees comprise: allowances, benefits of using private cars for official purposes, the cost of transportation to work, termination benefits, jubilee awards and supports.

9. OTHER OPERATING EXPENSES

(in HRK)	2012.	2011.
Loss on sale of the vessels sold (Note 15)	7,176,713	-
	7,176,713	**-**

10. FINANCIAL INCOME

(in HRK)	2012	2011
Interest income	991,783	1,122,050
Foreign exchange gains	24,377,232	26,611,145
Transfer of the retained profit from United Shipping Services One Inc. /i/	22,494,320	32,841,435
Dividend income	62,535	411,976
	47,925,870	**60,986,606**

/i/ Income from investments in subsidiaries is recognised in the period in which the profits are transferred, according to the accounting policy. The stated income in 2012 represents the transfer of the retained profit in the amount of USD 4,000,000 from United Shipping Services One Inc., based on the Supervisory Board Decisions dated on 19 April 2012.

11. FINANCIAL EXPENSE

(in HRK)	2012	2011
Interest expense	50,118,075	30,505,978
Foreign exchange losses	27,066,551	20,494,664
Expense from value adjustment of the investments	143,946	407,157
	77,328,572	**51,407,799**

12. CORPORATE INCOME TAX

The reconciliation between the accounting profit and taxable profit of the Parent company is provided in the table below:

(in HRK)	2012	2011
Profit of the parent company before tax	**18,845,062**	**36,109,764**
Effect of tax disallowable expenses	4,623,040	3,892,223
Effect of non-taxable profit	(22,593,435)	(33,273,973)
Taxable profit for the year	**874,667**	**6,728,014**
Tax rate	20.00%	20.00%
Tax liability for the year	**174,933**	**1,345,603**

13. LOSSES PER SHARE

Losses per share in the amount of HRK 136.56 (in 2011: HRK 12.23) have been determined on the basis of the Group's consolidated loss in the amount of HRK 74,850,818 (in 2011: HRK 6,927,270) and the weighted average of ordinary shares, reduced for treasury shares, that was 548,144 (2011: 566,421).

14. INTANGIBLE ASSETS

(in HRK)	Total
PURCHASE VALUE	
At 31 December 2010	**82,491**
Additions	87,454
At 31 December 2011	**169,945**
Additions	2,265
At 31 December 2012	**172,210**
ACCUMULATED AMORTISATION	
At 31 December 2010	**82,491**
Amortisation	25,644
At 31 December 2011	**108,135**
Amortisation	45,992
At 31 December 2012	**154,127**
NET BOOK VALUE	
At 31 December 2012	**18,083**
At 31 December 2011	**61,810**

Intangible assets consist of investments in software.

15. PROPERTY, PLANT AND EQUIPMENT

(in HRK)	Land and buildings	Plant and equipment	Vessels	Total
Cost				
At 31 December 2010	**8,642,675**	**1,592,784**	**1,767,204,762**	**1,777,440,221**
Additions	48,116	45,212	420,152,922	420,246,250
Retirements, disposals and other	-	(83,485)	-	(83.485)
Exchange differences	-	-	105,804,546	105,804,546
At 31 December 2011	**8,690,791**	**1,554,511**	**2,293,162,230**	**2,303,407,532**
Additions /i/	-	48,794	399,379,552	399,428,346
Retirements, disposals and other /ii/	-	(210,828)	(168,457,654)	(168,668,482)
Exchange differences	-	-	(38,806,701)	(38,806,701)
At 31 December 2012	**8,690,791**	**1,392,477**	**2,485,277,427**	**2,495,360,695**
Accumulated depreciation				
At 31 December 2010	**1,977,770**	**1,090,232**	**293,492,756**	**296,560,758**
Depreciation charge for the year	88,853	178,622	96,417,659	96,685,134
Value adjustment	-	-		
Retirements, disposals and other /i/	-	(83,485)	-	(83,485)
Exchange differences	-	-	21,862,716	21,862,716
At 31 December 2011	**2,066,623**	**1,185,369**	**411,773,131**	**415,025,123**
Depreciation charge for the year	88,855	144,583	126,763,755	126,997,193
Retirements, disposals and other /ii/	-	(152,302)	(66,883,937)	(67,036,239)
Exchange differences	-	-	(9,278,291)	(9,278,291)
At 31 December 2012	**2,155,478**	**1,177,650**	**462,374,658**	**465,707,786**
Net book value				
At 31 December 2012	**6,535,313**	**214,827**	**2,022,902,769**	**2,029,652,909**
At 31 December 2011	**6,624,168**	**369,142**	**1,881,389,099**	**1,888,382,409**

/i/ The bulk carrier "Stoja" was taken over from Uljanik Shipyard Pula on 15 February 2012, and on 1 August 2012 the tanker "Istria" was taken over from 3rd May Shipyard Rijeka. Their commercial exploitation began upon delivery.

/ii/ On 19 October 2012 the vessel "Ebony" was "bareboat" chartered, with the obligation of purchase of the vessel within two years maximum, and the ship was written off from the records. The total cost shown in recording of the transaction consists of the loss on sale of the ship in the amount of USD 236,000 and accrued interest on the outstanding debt, which will be recognized in revenue upon the settlement of liabilities by the buyer in the amount of USD 990,000 (Note 9).

Pursuant to the Contract of sale of the vessel "Pula" signed on 15 October 2012 between the company United Shipping Services Eight Inc. and BM Product Tanker AS, Oslo, and the "bareboat" leaseback agreement for a period of five years with the aforementioned buyer, the purchase option was also agreed.

This financial transaction of ship refinancing represents a long-term loan with the vessel used as collateral. Obligations under the loan on 31 December amounted to USD 17,982,989 (Note 35). The principal and interest of the foregoing loan are covered by the repayment of instalments through "bareboat" hires. Simultaneously, the company recorded a long-term loan receivable arising from the loan granted to the buyer ("Sellers Credit") in the amount of USD 1,000,000 (Note 17).

If the seller exercises the purchase option (call option), the buyer will be paid an additional premium of 25% of the profit, arising from the difference between the agreed purchase price and the market-fair value of the ship at the time of exercising of the option. The seller can exercise the purchase option at any time after the expiration of the first year until the expiry of the charter term, while the "put option" can be exercised by the buyer only after the expiry of the five year charter period.

The Company has determined that the value of the ships, which was calculated by using the estimated future cash flows method and discounting them at the appropriate discount rate, is higher than their current values expressed in the books. Pursuant to the above, there was no need for impairment of ships at the balance sheet date.

16. LONG-TERM FINANCIAL ASSETS

(in HRK)	Holding in %	2012	2011
Investments in subsidiaries and shares			
- United Shipping Adriatic Inc. (100 USD)	0,0007%	573	582
- Istarska kreditna banka d.d. Umag		8,300	8,300
- Istarska autocesta d.o.o. Pula /i/	23,425%	4,369,058	4,513,004
- Uljanik d.d. Pula /ii/		1,440,000	-
- Other investments		10	10
		5,817,941	**4,521,896**

/i/ According to the provisions of IFRS, holding of 20% or more of the share capital is recorded by applying the equity method, meaning that the investments have been adjusted with the associate's equity, with parallel crediting of the income statement (Note 11).

/ii/ The purchase of 16,000 shares of Uljanik d.d. Pula at a price of 90.00 HRK per share was reported on the basis of the Conclusion to issue new shares dated 30 November 2012.

17. LONG-TERM RECEIVABLES

(in HRK)	2012	2011
Long-term receivables of the subsidiaries (Note 15)	5,788,036	-
Long-term receivables of the parent company	11,421,413	775,740
Total long-term receivables	**17,209,449**	**775,740**
Current portion of long-term receivables (Note 22)	(107,325)	(364,328)
Long-term portion of receivables	**17,102,124**	**411,412**

18. INVENTORIES

(in HRK)	2012	2011
Foodstuff, fuel and lubricant supplies on ships	3,229,618	6,687,111
	3,229,618	**6,687,111**

19. TRADE RECEIVABLES

(in HRK)	2012	2011
Domestic trade debtors	255,814	232,982
Foreign trade debtors	71,834,835	399,276
	72,090,649	**632,258**

/i/ In the stated receivables the amount of USD 12,262,000 represent receivables of United Shipping Services Six Inc. deriving from the "bareboat" charter (Note 15).

20. AMOUNTS DUE FROM THE STATE AND OTHER INSTITUTIONS

(in HRK)	2012	2011
Income tax refund	806,928	-
VAT refund	67,191	40,071
Refund of contributions which do not depend on the operational result	12,553	305
	886,672	**40,376**

21. OTHER CURRENT ASSETS

(in HRK)	2012	2011
Advances to vessels for the current costs	702,226	829,644
Receivables from the insurers and agents of foreign companies	186,192	21,249
Interest receivables	157,200	-
Other receivables /i/	2,654,653	2,773,629
	3,700,311	**3,624,522**

/i/ In the stated amount, the amount of HRK 2,612,337 represents cash deposited at Bayerische Hypo und Vereinsbank AG, for the vessel "Marlera" (in 2011: HRK 2,654,827).

22. SHORT-TERM FINANCIAL ASSETS

(in HRK)	2012	2011
Total short-term financial assets	**16,657,687**	**13,309,749**
Plus: Current portion of long-term receivables (Note 17)	107,325	364,328
	16,765,012	**13,674,077**

23. CASH AND CASH EQUIVALENTS

(in HRK)	2012	2011
Current account balance	32,675,497	29,185,978
Foreign account balance	7,567	51,451
Cash in hand	22,945	19,339
	32,706,009	**29,256,768**

24. PREPAID EXPENSES AND ACCRUED INCOME

(in HRK)	2012	2011
Prepaid expenses	4,837	19,309
	4,837	**19,309**

25. SHARE CAPITAL

At 31 December 2012, the share capital of the Parent Company amounted to HRK 232,000,000 and consisted of 548,144 ordinary shares, with a nominal value of HRK 400 per share, and of 31,856 treasury shares.

In the ownership structure as at 31 December 2012, small shareholders accounted for 94.51% and treasury shares accounted for 5.49%.

26. CONSOLIDATED CAPITAL RESERVES

(in HRK)	2012	2011
At 31 December of the prior year	(19,217,000)	(5,132,712)
Increase	(512,681)	(14,084,288)
At 31 December of the current year	**(19,729,681)**	**(19,217,000)**

27. CONSOLIDATED LEGAL RESERVES

(in HRK)	2012.	2011.
At 31 December of the prior year	11,600,000	11,600,000
Increase	2,866,350	-
At 31 December of the current year	**14,466,350**	**11,600,000**

/i/ Under Croatian law, a legal reserve is formed of 5% of the profits of the year until such time that the total reserve balance, together with capital gains, reaches 5% of the Company's share capital. The legal reserves represent non-distributable reserves.

28. CONSOLIDATED RESERVES FOR TREASURY SHARES

(in HRK)	2012.	2011.
At 31 December of the prior year	36,382,812	36,382,812
Increase / Decrease	-	-
At 31 December of the current year	**36,382,812**	**36,382,812**

29. TREASURY SHARES (DEDUCTIBLE ITEM)

(in HRK)	2012.	2011.
At 31 December of the prior year	(10,105,730)	(35,386,082)
Purchase of treasury shares	(5,043,770)	(5,361,482)
Sale of treasury shares	935,506	30,641,834
At 31 December of the current year	**(14,213,994)**	**(10,105,730)**

30. CONSOLIDATED REVALUATION RESERVES

(in HRK)	2012.	2011.
At 31 December of the prior year	**47,798,639**	**29,191,670**
Increase / Decrease	(6,150,460)	18,606,969
At 31 December of the current year	**41,648,179**	**47,798,639**

/i/ The decrease in revaluation reserves was a consequence of investment adjustments into foreign subsidiaries in 2012 in accordance with the mean exchange rate for the USD at the end of the accounting period.

31. CONSOLIDATED RETAINED PROFIT

(in HRK)	2012.	2011.
At 31 December of the prior year	291,423,286	352,152,369
Increase	2,833,069	6,837,982
Decrease /i/	(37,256,100)	(67,567,065)
At 31 December of the current year	**257,000,255**	**291,423,286**

/i/ Increase in retained earnings in 2012 was achieved by adjusting of the participating shares in accordance with IAS 28 (Note 17), while the decrease appeared by the transfer of loss from 2011, transfer of retained profit, correction of the opening balance based on IFRS 2, transfer of part of the profit into legal reserves and adjustment of the exchange rate differences.

32. CONSOLIDATED LOSS FOR THE CURRENT YEAR

In 2012, the Group generated a net consolidated loss in the amount of HRK 74,850,818 (2011: HRK 6,927,270).

33. MINORITY INTEREST

(in HRK)	2012.	2011.
Related Company: Uljanik Brodogradilište d.d. Pula		
% of minority interest /i/	45%	45%
Share capital USD 23,417,590	134,107,714	81,843,168
Exchange differences	(881,038)	(79,181)
Loss of the current year	(3,335,653)	(888,070)
Net-capital of minority interest	**129,891,023**	**80,875,917**

/i/ Pursuant to the Agreement on the purchase of shares, the Contract of investment dated 28 October 2011 and the Contract of investment dated 15 February 2012, Uljanik Brodogradilište d.d. Pula owns a 45% stake in the capital of the company United Shipping Services Twelve Inc. and a 45% stake in the capital of the company United Shipping Services Thirteen Inc.

34. LONG-TERM PROVISIONS

(in HRK)	2012	2011
Accrued commitments to employees /i/	1,956,929	1,990,894
	1,956,929	**1,990,894**

/i/ The accrued commitments arise from provisions of the IAS 19. In the stated amount, according to the Company's Internal Act, gross termination benefits amount to HRK 914,940 (2011: HRK 914,940) and gross jubilee-awards amount to HRK 1,041,989 (2011: HRK 1,075,954). Decrease in provisions was carried out with parallel recognizing in revenue of previous provisions in the amount of HRK 33,965 (Note 4).

35. LONG TERM LIABILITIES TO BANKS AND OTHER CREDITORS

(in HRK)	2012	2011
Credit Suisse – United Shipping Services Six Inc.	54,516,651	58,635,896
Credit Suisse – United Shipping Services Eight Inc. /i/	-	81,302,094
Raiffeisenbank Austria d.d. Zagreb	14,316,985	18,914,805
HBOR – Uljanik Plovidba d.d.	-	1,600,484
Bayerische Hypo und Vereinsbank AG – United Shipping Services Nine Inc.	119,767,306	134,007,028
Credit Suisse – United Shipping Services Three Inc.	95,064,780	107,086,896
Credit Suisse – United Shipping Services Four Inc.	95,207,950	107,232,395
Credit Suisse – United Shipping Services Ten Inc.	126,447,612	139,678,560
Credit Suisse – United Shipping Services Eleven Inc.	99,617,582	109,502,171
"3. Maj Shipyard" d.d. Rijeka	-	5,601,692
Raiffeisenbank Austria d.d. Zagreb	35,376,004	72,749,250
ABN AMRO Bank - United Shipping Services Fourteen Inc.	112,137,491	122,616,603
ABN AMRO Bank - United Shipping Services Twelve Inc.	90,646,902	99,229,977
Zagrebačka banka d.d. Zagreb - United Shipping Services Thirteen Inc. /ii/	118,308,406	-
Privredna banka Zagreb d.d., Zagreb - United Shipping Services Seventeen Inc.. /iii/	192,635,033	-
BM Product Tanker, Oslo - United Shipping Services Eight Inc. /iv/	102,984,873	-

(in HRK)	2012	2011
Hrvatska banka za obnovu i razvitak, Zagreb /v/	25,000,000	-
Raiffeisenbank Austria d.d. Zagreb /v/	25,406,504	-
Hrvatska banka za obnovu i razvitak, Zagreb /vi/	25,000,000	-
Raiffeisenbank Austria d.d. Zagreb /vi/	24,958,165	-
Total long-term borrowings including current portion	**1,357,392,244**	**1,058,157,851**
Capitalized borrowing costs	(9,406,378)	(9,123,094)
Current portion of long-term borrowings (Note 36)	(183,802,340)	(123,517,186)
Long-term borrowings	**1,164,183,526**	**925,517,571**

/i/ The loan was fully repaid in October 2012, after the sale of the vessel "Pula".

/ii/ On the basis of the Long term foreign currency loan entered into on 4 April 2012, the amount of USD 21.000.000 were remitted for the purpose of financing of the Newbuilding 489. The loan was granted for a period of ten years.

/iii/ On 28 July 2012 a Long term foreign currency loan was entered into for the purpose of financing of the purchase of the tanker "Istra" in the amount of USD 34.500.000. The loan was granted for a period of ten years.

/iv/ The expressed liability was recorded on the basis of the Contract of sale and leaseback of the vessel Pula for a period of five years (Note 15).

/v/ In accordance with the Program of economic development, a Loan Agreement was entered into on 21.09.2012 with the Croatian Bank for Reconstruction and Development, Zagreb and Raiffeisenbank Austria d.d., Zagreb, whereby CBRD finances 50% of the loan principal i.e. the amount of HRK 25 million while Raiffeisenbank Austria d.d., Zagreb finances 50% in the counter-value in HRK up to an amount of EUR 3.370.000, with maturity on 30 September 2015.

/vi/ In accordance with the Program of economic development, a Loan Agreement was entered into on 17.10.2012 with the Croatian Bank for Reconstruction and Development, Zagreb and Raiffeisenbank Austria d.d., Zagreb, whereby CBRD finances 50% of the loan principal i.e. the amount of HRK 25 million while Raiffeisenbank Austria d.d., Zagreb finances 50% in the counter-value in HRK up to an amount of EUR 3.370.000, with maturity on 30 September 2015.

Long-term borrowings are secured by pledging of shares of the subsidiaries, by first priority mortgages over the ships "Pula", "Levan", "Volme", "Marlera", "Kastav", "Verige", "Pomer", "Veruda", "Stoja" and "Istra". They are also secured by assignment of insurances and the pledging of earnings and retention accounts.

Repayment of long-term borrowings:

2013.	183,802,340
2014.	181,881,261
2015.	160,033,469
2016.	125,219,804
2017.-2020.	706,455,370
	1,357,392,244

36. SHORT TERM BORROWINGS, DEPOSITS, ETC.

Short-term borrowings are as follows:

(in HRK)	2012	2011
Borrowings of the Parent Company	31,702,769	26,412,845
Borrowings of the Group	38,698,810	-
	70,401,579	**26,412,845**
Current portion of long-term borrowings (Note 35)	183,802,340	123,517,186
	254,203,919	**149,930,031**

Return of short-term borrowings is secured by own blank bills of exchange and promissory notes.

37. COMMERCIAL BILLS

(in HRK)	2012.	2011.
Commercial bills /i/	-	70,000,000
	-	**70,000,000**

/i/ Liabilities for commercial bills were settled in full on 25 July 2012.

38. TRADE PAYABLES

(in HRK)	2012	2011
Domestic trade payables	182,744	423,174
Foreign trade payables	21,710,250	17,436,620
	21,892,994	**17,859,794**

39. TAXES, CONTRIBUTIONS AND OTHER DUTIES PAYABLE

(in HRK)	2012	2011
Income tax liability	-	802,518
Other	-	7,069
	-	**809,587**

40. DIVIDENDS PAYABLE

(in HRK)	2012	2011
Outstanding dividends payable	2,555,392	2,614,254
	2,555,392	**2,614,254**

41. OTHER SHORT-TERM LIABILITIES

(in HRK)	2012	2011
Due to brokers and ship lessees	10,585,373	10,394,627
Due to crew	10,466,198	5,446,315
Interest payable	9,296,630	4,542,816
Due to agents	4,163,336	1,584,694
Accruals and other liabilities	2,461,064	3,087,501
	36,972,601	**25,055,953**

42. DEFERRED INCOME

(in HRK)	2012	2011
Deferred income /i/	96,803,807	88,694,908
Other	57,948	259,965
	96,861,755	**88,954,873**

/i/ With respect to the previous year, an increase in deferred revenue in 2012 was recorded on the basis of the received subsidy for the vessel "Pomer" in the amount of HRK 23,860,183, while the decrease was recorded by registering of the remainder of the subsidy received for the sold vessel "Ebony" in the amount of HRK 10,725,457 and of a portion of the pertaining subsidy for the year 2012 in the amount of HRK 5,025,827, according to the plan of recognition of revenue (Note 4).

43. FINANCIAL RISK MANAGEMENT

43.1. Financial risk factors

The Group's activities expose it to a variety of financial risks, including the currency risk, the interest rate risk and the liquidity risk which are managed by the Financial Department and the Management Board of the parent company.

/i/ Currency risk and interest rate risk

Foreign revenues are realized mainly in US dollars. Domestic sales are realized in Croatian Kuna. Most of the long-term and short-term loans are with a currency clause, linked to USD and EUR. The changes in the exchange rates for USD and EUR affect the performance results of the Group. The Group is also exposed to the interest rate risk as most of the loans are at variable rates.

/ii/ Credit risk

Financial assets that potentially expose the Group to the credit risk consist of cash, trade receivables and other short-term receivables. The Group's cash is held with sound banks. Trade receivables are reduced by an allowance for uncollectible amounts. The credit risk concentration is limited due to the fact that most of the trade receivables, in accordance with the contracts, are collectible in advance.
In the opinion of the Group management, there is no additional credit risk that could affect the increase in the provisions for impairment of trade and other receivables.

/iii/ Liquidity risk

A prudent liquidity risk management implies maintaining sufficient levels of cash, ensuring availability of financial assets with an adequate amount by means of agreed credit lines and ability to settle all the obligations. The Finance Department monitors regularly the level of available sources of cash.

43.2. Fair value estimates

The carrying amounts of current assets (cash and trade receivables) and current liabilities (trade and other payables) approximate their fair value because of the short-term maturity of those assets and liabilities.

Fair values of fixed assets do not differ significantly from their book values as investments in foreign subsidiaries, which represent the major part of such values, are disclosed in the HRK equivalent using the US dollar exchange rate in effect on the balance sheet date.

The carrying value of vessels is in compliance with world market value of vessels or with the values obtained by using the estimated future cash flows and discounting them by applying the appropriate discount rate.

44. EVENTS AFTER THE BALANCE SHEET DATE

On 15 January 2013 the affiliated company United Shipping Services One Inc. concluded an agreement on the sale of 100.00% of the stake in United Shipping Services Fifteen Inc. to Uljanik Brodogradilište d.d. Pula.

45. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Significant accounting estimates and sources of estimates

Income tax
The income tax calculation has been prepared on the basis of the current interpretation of applicable laws and regulations. The calculations serving as the basis for the income tax are subject to tax audit reviews by tax authorities.

Impairment of receivables
Receivables are assessed for impairment at each balance sheet date and during the year and reduced by the estimated amount of doubtful receivables. Each debtor is reviewed by reference to its status, the overdue receivables and the stage of litigation if any.

b) Significant accounting judgments used in the application of accounting standards

In addition to the accrued commitments to employees as disclosed in Note 31 the management is of the opinion that no other significant judgments should be disclosed in the consolidated financial statements.

46. PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements set out on the preceding pages were prepared and authorized for issue by the management of the parent company on 19th April 2013.

47. AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year 2012 were audited by the audit firm REVIDAS d.o.o., Vukovarska 47, Pula.

For the **GROUP ULJANIK PLOVIDBA** Pula:

Dragutin Pavletić,
Director of Uljanik Plovidba d.d. Pula

Pula, 29.04.2013

MANAGEMENT REPORT
FOR THE PERIOD 01-12/2012

The business activity of ULJANIK PLOVIDBA (the Company) and its foreign subsidiaries in the year 2012 was regular, although strongly affected by the negative fluctuations in the shipping market in both dry cargo and tanker sectors, and extraordinary increased expenses related to taking delivery of m/v Stoja and m/t Istra as well as the dry docking of m/v Volme and also delivery of m/t Pula.
In this period the Company:

a) realized commercial loss as a result of operating losses of all vessels, increased by over 1.2 million USD due to writing off of the vessels
b) continued with the Program of fleet renewal:
    - took delivery of m/v STOJA – Supramax 52,000 DWT,
    - took delivery of m/v ISTRA in the 3.MAJ Shipyard,
    - continued with construction of two 52,000 DWT Bulk Carriers of 52,000 DWT in the ULJANIK Shipyard,
c) maintained constant employment of vessels with the continuation of the Company's fleet high efficiency trend – average of 359 days per vessel,
d) fulfilled all its loan payment obligations (over 46 mil USD in total) with the positive effects of lower interest rates,
e) decreased operating expenses of the vessels,
f) proceeded with full implementation of the safety and quality system on the vessels and in the office, with continuous increase in the quality and expertise of the employees and maintenance of a high level of professionalism,
g) maintained high efficiency of vessels' management,
h) full performance of Charterers with all vessels and with full collection of contracted freights,
i) maintained the personnel structure both at sea and on shore.

A review of the functions in the Company is given below:

1. COMMERCIAL ASPECT

The result for the period I-XII 2012 has been under the direct impact of extremely low freight rates in the shipping market and integration into commercial exploitation of the new vessels in such low shipping market. The results are higher than in comparative period of 2011, solely because of the increased number of vessels. In addition to increased initial expenses related to commencement of commissioning of the new vessels, operating expenses of the vessels in exploitation have been distinctively reduced in the same time.

2. PERSONNEL

As at 31.12.2012 the Company had 32 employees. The Company employs exclusively Croatian seafarers on all vessels in its fleet.

3. TECHNICAL ASPECT

In the period January-December 2012 m/v Volme underwent regular Dry Docking; furthermore there were no significant technical stoppages in this period. The company keeps maintaining high efficiency of vessel exploitation. The average duration of off-hire per vessel in the year 2012 related to technical stoppages/maintenance was 0.42 days.

4. ACQUISITION OF TREASURY SHARES

In the period I-XII 2012, the Company acquired treasury shares in accordance with art. 233, section 3, point 2 of the Companies Act. The company acquired treasury shares in the amount of 5,043.8 thousand HRK and disposed of treasury shares in the amount of 935.5 thousand HRK.

5. IMPORTANT EVENTS IN 2012

On 15th February 2012 in ULJANIK Shipyard in Pula the Company took delivery of Hull no. 489 – m/v STOJA, a bulk carrier of 52,000 DWT. The vessel's commercial exploitation began after delivery.

On 24th March 2012 the 52,000 DWT Bulk Carrier, Hull no. 489 – m/v PUNTA was launched in the ULJANIK Shipyard. The delivery of the vessel is scheduled for the mid of the year 2013.

On 1th August 2012 in the 3.MAJ Shipyard in Rijeka the Company took delivery of Hull no. 713 – m/t ISTRA, a product carrier for the transportation of petroleum products and chemicals of 52,000 DWT. The vessel's commercial exploitation began after delivery.

In accordance with the established Program for the issuing of commercial bills with the total value of 150 mil HRK, which enables the Company to issue several tranches as instruments of short-term financing, the second tranche of commercial bills was repaid on 26th January 2012 in the amount of 70,000,000.00 HRK. The third tranche in the amount of 35,000,000.00 HRK has been listed on the Official Market of the Zagreb Stock Exchange on 31th January 2012, with maturity of 180 days. The third tranche was repaid in full on 26th July and no new tranche of commercial bills was issued.

According to the Bareboat Charter Party signed on 19th October 2012, m/t Ebony was given to a bareboat charter with charterer's obligation to purchase the vessel on expiry of the bareboat charter, at the latest after two years.

On 25th October 2012 the delivery of m/t PULA of 47,300 DWT, built in 2006 in the 3.MAJ Shipyard in Rijeka, took place, pursuant to the agreement on the sale of the vessel. After delivery the vessel was taken into a long-term leaseback, with a purchase option.

6. COMPANY GROWTH

The Strategy of development of ULJANIK PLOVIDBA d.d. until the year 2015 envisages the continuation of the primary maritime activity in two sectors, transport of dry cargo and transport of petroleum products and chemicals. The Company intends to continue participating on the new and second hand vessel market with the purpose to optimise its fleet and fleet efficiency. Even though its principal business will continue to be operation and management of its own fleet, the development of the Company shall also be aimed at ship management for other ship owners.

7. COMPANY ACTIVITIES CONCERNING RESEARCH AND DEVELOPMENT

Within its ship management operations, the Company continuously engages in research which is primarily connected with the introduction of new technical solutions and technologies related to vessel exploitation.

8. BUSINESS RISKS

It is well known that the principal activities that the Company engages in, i.e. international maritime transport and ship management are among the most risky activities and that they are directly connected with significant business risks, of which the currently most risky are:

- global economic trends;
- the risk of interest rate increase
- the volatility of USD exchange rate relative to other currencies
- significant oscillations in the value of the vessels;
- the risk of strict conditions of business operation;
- long and uncertain period of return on capital;
- fluctuation in the basic costs of business operation;
- workforce fluctuation.

9. CORPORATE MANAGEMENT CODE

The Company fully complies with its Corporate Management Code.

Pula, 29th April 2013

Dragutin Pavletić, Director

STATEMENT OF THE PERSON RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Audited consolidated financial reports of GROUP ULJANIK PLOVIDBA for the period January – December 2012, to the best of my knowledge, have been prepared according to International Financial Reporting Standards and they contain an overall and true presentation of assets, liabilities, losses and profits, the financial position and activities of ULJANIK PLOVIDBA d.d. and the companies included in the consolidation.

Financial-accounting manager

B. Mihajlović

Bojana Mihajlović

Pula, 26th April, 2013

ULJANIK PLOVIDBA
Carrarina 6,52100 Pula
OIB 49693360447

At the meetings of ULJANIK PLOVIDBA's SUPERVISORY BOARD held on the 24th and 25th April 2013., the following

RESOLUTIONS

have been passed:

1. The director's Report on state and business of the Company for the year 2012 is accepted.

1.1. The Resolution proposal is referred to the General Assembly of the Company for passing of a separate resolution on acceptance of the director's Report on state and business of the company for the year 2012.

2. Approval is given to the Company's and Group's Yearly financial reports for the year 2012.

2.1. The Profit and loss statement for ULJANIK PLOVIDBA for the year 2012 is determined as follows:

	2011.	2012.
EARNINGS	101.910.402,30	94.771.866,65
EXPENSES	43.237.800,89	52.066.621,99
PROFIT	58.672.601,41	42.705.244,66
TAX	1.345.602,87	174.933,26
PROFIT	57.326.998,54	42.530.311,40

2.2. The consolidated Profit and loss statement for the ULJANIK PLOVIDBA Group is determined as follows:

	2011.	2012.
EARNINGS	264.412.048	279.373.852
EXPENSES	270.881.785	357.385.390
LOSS	-6.469.737	-78.011.538
TAX	1.345.603	174.933
LOSS OF MINORITY	888.070	3.335.653
LOSS	-6.927.270	-74.850.818

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2.3. Approval is given to the Company Auditor's report - REVIDAS revizija i konzalting d.o.o.

2.4. By the given approval to the Yearly financial reports submitted by the Board of the Company, the Yearly financial reports are deemed determined in accordance with Article 300.d of the Companies Act.

2.5. The Director's proposal on application of profit is accepted, and the profit of ULJANIK PLOVIDBA d.d. for the year 2012. in the amount of 42.530.311,40 kunas is allocated as follows:

- the amount of 2.126.515,57 kuns in statutory reserves,
- the amount of 40.403.795,83 kunas in unallocated profit.

2.6. The resolution proposal is referred to the General Assembly for passing of a separate resolution on allocation of profit for the business year 2012.

3. The director's Report on state and business of the Company for the period 01-03/2013 is accepted.

ULJANIK PLOVIDBA d.d.

Dragutin Pavletić, director