This manual has been originally written in the Croatian language. In cases where any differences occur between the English version and the original Croatian version, the Croatian version shall prevail.
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1. INTRODUCTORY WORD BY THE PRESIDENT OF THE BOARD

VIKTOR LENAC is one of the largest shipyards in the Mediterranean, with more than 100 years of tradition. The shipyard main activities include shiprepair, conversions, newbuilding and the construction and repair of offshore platforms. The company became a joint-stock enterprise in 1992. In 1997 the company shares were included in quotation of public joint-stock companies on the Zagreb Stock Exchange.

In December 2003, the company filed for bankruptcy due to financial difficulties. Despite of it, the shipyard remained present in the market with a somewhat reduced capacity.

The Company closed the bankruptcy proceedings in April 2008 and obtained new ownership structure. The new Management Board, supported by the Supervisory Board, initiated the overall restructuring and development of the shipyard.

The Quality Management System, as part of the company management system, shall be implemented as an integral quality assurance system certified in accordance with ISO 9001:2008.

In this manual as well as in all other quality management documents, the terms “quality”, “quality system”, “quality management” or “quality manual” shall mean Quality Management System.

A unique paperless documentation system has been created where all documents are stored in the local area network and the latest versions are accessible to users at all times, thereby considerably simplifying the document management system.

The Manual describes the overall company management system aimed at meeting our customers needs by providing prompt, quality and competitive services in a healthy and safe work environment.

The Manual describes all the elements of the quality system, with particular emphasis to the shipyard's strategy and objectives, resources, processes, responsibilities, interaction, effectiveness and efficiency evaluation and improvement, and indicates the document relative to the subject matter.

The Manual points to responsibilities and authorizations, which apply to shipyard units that have a significant influence to the quality system. Individual responsibilities and authorizations are described in detail in procedures and work instructions.

The Quality Document Management System enables the company management to supervise the overall company system, control accomplishment of objectives and take prompt corrective
and preventive actions aimed at a continuous increase of effectiveness and efficiency of the implemented system.

All employees of the company shall be obliged to observe the provisions of this Manual as well as all other documents referred to herein.

Robert Škifić  
President of the Board
2. GENERAL

2.1. Terms

This chapter includes terms that shall facilitate understanding of the contents of the Manual. Precise and detailed definitions of terms are described in the procedures and work instructions.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality Management System (QMS)</td>
<td>Company management system, which includes a quality assurance system certified in accordance with ISO 9001:2008</td>
</tr>
<tr>
<td>Management Board</td>
<td>A body of appointed members who jointly oversee the activities of the company</td>
</tr>
<tr>
<td>Management</td>
<td>In this Manual and in other quality documentation, the term shall mean the Management Board</td>
</tr>
<tr>
<td>Production Board</td>
<td>A body that coordinates sales and production activities</td>
</tr>
<tr>
<td>Organizational unit</td>
<td>Part of organization where one or more related business functions are executed or where one or more executives perform expert tasks of same kind</td>
</tr>
<tr>
<td>Management Office</td>
<td>Organizational unit whose role is to support activities of the Management Board</td>
</tr>
<tr>
<td>Owner</td>
<td>Mostly used to refer to a customer, both ship owner or ship management company</td>
</tr>
<tr>
<td>Contract</td>
<td>A legally enforceable agreement between the shipyard and the customer or shipyard and the subcontractor</td>
</tr>
<tr>
<td>Subcontractor</td>
<td>A business that signs a contract to perform part or all of the obligations of the shipyard's contract within the shipyard’s premises</td>
</tr>
<tr>
<td>Supply chain</td>
<td>A business that provides service to the shipyard outside of the shipyard’s premises, primarily jobs where the shipyard lacks of its own capacity</td>
</tr>
<tr>
<td>Supplier</td>
<td>Subcontractor, mostly referring to supplier of material</td>
</tr>
<tr>
<td>Quality Management Representative</td>
<td>Member of the Board in charge of quality matters in accordance with the Management Manual</td>
</tr>
</tbody>
</table>
Quality Manager
A person that has authorizations in accordance with the ISO 9001 requirements and that performs quality management tasks

Manual chapter
A part of the Manual as indicated in the contents

2.2. Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>QM</td>
<td>Quality Manual</td>
</tr>
<tr>
<td>QMS</td>
<td>Quality Management System</td>
</tr>
<tr>
<td>EPS</td>
<td>Environmental Protection System</td>
</tr>
<tr>
<td>SS</td>
<td>Safety System</td>
</tr>
<tr>
<td>MGMT</td>
<td>Management Board</td>
</tr>
<tr>
<td>PRESMGMT</td>
<td>President of the Board</td>
</tr>
<tr>
<td>HR</td>
<td>Human Resources</td>
</tr>
<tr>
<td>QAQC</td>
<td>Quality Assurance and Quality Control</td>
</tr>
<tr>
<td>SEP</td>
<td>Safety and Environmental Protection</td>
</tr>
<tr>
<td>DI</td>
<td>Development and Improvement</td>
</tr>
<tr>
<td>OQAITC</td>
<td>Organization, Quality Assurance, IT and Communication</td>
</tr>
<tr>
<td>PURCHASE</td>
<td>Purchasing</td>
</tr>
<tr>
<td>S/C</td>
<td>Subcontracting</td>
</tr>
<tr>
<td>PM</td>
<td>Project Manager</td>
</tr>
<tr>
<td>PRO</td>
<td>Production</td>
</tr>
<tr>
<td>MS</td>
<td>Marketing and Sales</td>
</tr>
<tr>
<td>REPSAL</td>
<td>Repair Sales</td>
</tr>
<tr>
<td>PROJSAL</td>
<td>Project Sales</td>
</tr>
<tr>
<td>COSTEST</td>
<td>Cost Estimation</td>
</tr>
<tr>
<td>FA</td>
<td>Finance and Accounting</td>
</tr>
<tr>
<td>PD</td>
<td>Production Director</td>
</tr>
<tr>
<td>MSD</td>
<td>Marketing and Sales Director</td>
</tr>
<tr>
<td>QM</td>
<td>Quality Manager</td>
</tr>
<tr>
<td>FAD</td>
<td>Finance and Accounting Director</td>
</tr>
<tr>
<td>HRM</td>
<td>Human Resources Manager</td>
</tr>
<tr>
<td>SEPM</td>
<td>Safety and Environmental Protection Manager</td>
</tr>
<tr>
<td>ICTM</td>
<td>Organization, Quality Assurance, IT and Communication Manager</td>
</tr>
<tr>
<td>S/C/M</td>
<td>Subcontracting Manager</td>
</tr>
<tr>
<td>HPM</td>
<td>Head of Project Management</td>
</tr>
<tr>
<td>DCM</td>
<td>Design and Construction Manager</td>
</tr>
<tr>
<td>PURCHASEM</td>
<td>Purchasing Manager</td>
</tr>
<tr>
<td>DM</td>
<td>Department Manager</td>
</tr>
<tr>
<td>QAQCM</td>
<td>Quality Assurance and Quality Control Manager</td>
</tr>
<tr>
<td>PM</td>
<td>Production Manager</td>
</tr>
<tr>
<td>WM</td>
<td>Works Manager</td>
</tr>
<tr>
<td>HITD</td>
<td>Head of Internal Transport and Docks</td>
</tr>
<tr>
<td>TSM</td>
<td>Toolshop Manager</td>
</tr>
<tr>
<td>PSMM</td>
<td>Power Supply and Maintenance Manager</td>
</tr>
<tr>
<td>AM</td>
<td>Accounting Manager</td>
</tr>
<tr>
<td>FOM</td>
<td>Financial Operations Manager</td>
</tr>
</tbody>
</table>
3. INTRODUCTION

3.1. Scope

The Manual describes the impact of the quality system on the overall company organization, and responsibilities and authorizations assigned for achieving quality objectives.

Detailed responsibilities and duties are described in the procedures and work instructions.

The Manual describes the overall shipyard management system built in accordance with the ISO 9001:2008 requirements, and in accordance with state law and international conventions when relating to safety and environmental protection, using shipbuilding guidelines issued by the world classification societies.

The shipyard main activities are:
1) Repair, conversion and construction of ships
2) Offshore platforms construction, repair and conversion
3) Construction of steel structures

The Manual is intended for use in managing the company, introducing to customers and other interested parties.

Any modification, editing or distribution of the Manual shall be regulated by the procedure PR03 “Document Management”.
3.2. Organizational scheme

Leading and managing company’s business processes and systems

This is a general organizational chart. The authentic organizational chart is shown in the procedure PR01 “Rulebook on Internal Organization and Systematization of Job Positions”.

3.3. Project organizational structure
3.4. Processes

Aimed at increasing user satisfaction, various processes have been established, which have influence to the effectiveness and efficiency of the quality management system. In general, the processes are decomposed in sub-processes. The term sub-process is used to point out a hierarchical superiority or inferiority between the two processes. There is no essential difference between a sub-process and a process from the substance view point.

The processes are divided in three groups:
1. Management processes
2. Basic processes
3. Supporting processes

The interrelationship diagram below shows basic processes, which are defined in accordance with activities.
The table below lists shipyard processes:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description of process</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.UP</td>
<td>Management processes and sub-processes</td>
</tr>
<tr>
<td>P.UP.01</td>
<td>Business Management (concepts, strategy, plans, quality management)</td>
</tr>
<tr>
<td>P.UP.02</td>
<td>Planning and Reporting</td>
</tr>
<tr>
<td>P.UP.03</td>
<td>Development Planning and Coordination</td>
</tr>
<tr>
<td>P.UP.04</td>
<td>Marketing and Sales Management</td>
</tr>
<tr>
<td>P.UP.05</td>
<td>Production Management</td>
</tr>
<tr>
<td>P.UP.06</td>
<td>Human Resources Management</td>
</tr>
<tr>
<td>P.UP.07</td>
<td>Financial Management</td>
</tr>
<tr>
<td>P.UP.08</td>
<td>Safety and Environmental Protection Management</td>
</tr>
<tr>
<td>P.UP.09</td>
<td>Project Management</td>
</tr>
<tr>
<td>P.UP.10</td>
<td>Quality Management</td>
</tr>
<tr>
<td>P.OS</td>
<td>Basic processes and sub-processes</td>
</tr>
<tr>
<td>P.OS.01</td>
<td>Sales and Quotation, Contracting</td>
</tr>
<tr>
<td>P.OS.02</td>
<td>Cost Estimation</td>
</tr>
<tr>
<td>P.OS.03</td>
<td>Technical Documentation</td>
</tr>
<tr>
<td>P.OS.04</td>
<td>Technology</td>
</tr>
<tr>
<td>P.OS.05</td>
<td>Production Planning</td>
</tr>
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<td>P.OS.06</td>
<td>Purchasing</td>
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<td>P.OS.07</td>
<td>Subcontracting</td>
</tr>
<tr>
<td>P.OS.08</td>
<td>Production</td>
</tr>
<tr>
<td>P.OS.09</td>
<td>Realization and Redelivery</td>
</tr>
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<td>P.PO</td>
<td>Supporting processes</td>
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<td>Tools Maintenance and Calibration of Measuring Instruments</td>
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<tr>
<td>P.PO.02</td>
<td>Maintenance of Facilities and Equipment and Power Supply</td>
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<tr>
<td>P.PO.03</td>
<td>IT and Communication</td>
</tr>
<tr>
<td>P.PO.04</td>
<td>Accounting</td>
</tr>
<tr>
<td>P.PO.05</td>
<td>Financial Operations</td>
</tr>
<tr>
<td>P.PO.06</td>
<td>Legal Affairs and Administration</td>
</tr>
<tr>
<td>P.PO.07</td>
<td>Docks and Internal Transport</td>
</tr>
<tr>
<td>P.PO.08</td>
<td>Quality Control</td>
</tr>
</tbody>
</table>
4. ISO 9001:2008 QUALITY REQUIREMENTS

4.1. General requirements

The shipyard's Quality Management System has been established, documented, implemented, applied and continuously improved in accordance with ISO 9001:2008.

The system efficiency has been continuously improved through application of criteria as defined in this Manual.

The success of continuous improvement (Chapter 8.5.1) is measured through periodic Management’s Evaluation (Chapter 5.6) and continuous data analysis (Chapter 8.4).

Accordingly, the shipyard:

a) has identified and documented processes that are relevant for the quality system, describing the processes by procedures, which are clear, easily implemented, manageable and improvable;

b) has established the sequence and interaction of the processes, defining management, basic and supporting processes with associated references;

c) has described each process through a supporting procedure or work instruction, which contains or indicates criteria and methods for effective performance and process control;

d) has provided means and information necessary for implementation and supervision of the process, describing particular process in detail by procedures or work instructions, and describing the overall quality system by the Quality Manual;

e) supervises, measures and analyses processes through activities established by the procedures and work instructions, data analyses or internal audit;

f) takes necessary steps aimed at achieving planned results and constant improvement of the processes, through process monitoring and analyses, and partly Management’s Evaluation.

The processes that are important to the quality management system, their sequence and interaction, are listed in the Chapter 3.5 of the Manual.

On the basis of the results obtained, necessary corrective and preventive actions are planned as described in the Chapters 8.5.2 and 8.5.3 of the Manual.

4.2. Document management requirements

4.2.1 General requirements

The quality management system is well documented. The list of procedures, work instructions and records with the latest versions is stored in the shipyard local area network. All employees are well informed that only documents stored in the shipyard local area network are the valid ones.
The Viktor Lenac shipyard quality document management has been decomposed by the following levels:

- **Quality Policy and Objectives** – The Management Board defines the shipyard's strategy and establishes long-term and short-term objectives. Based on the strategy and objectives, the Management Board shapes the quality policy. The quality policy and objectives are described in the Chapter 5, specifically items 5.3 and 5.4.1 of the Manual.

- **Quality Manual** – The Quality Manual describes general provisions of the implemented quality system. Its structure and contents conform to the ISO 9001:2008 structure. The Manual includes processes that have impact to the quality system and gives references to the procedures and work instructions, which include process description, process interrelationship, process control and efficiency evaluation.

- **Procedures** – Procedure is a detailed description of a particular process, sub-process or activity or group of processes, sub-processes or activities, which have influence to the quality system, and include references to the work instructions.

- **Work Instructions** – Work instructions describe the steps of specific work operations and together make the know how of the shipyard. Some work instructions describe way of performing specific work between several processes or job positions and are similar to procedures in this context; they are, however, clearly marked as work instructions.

- **Records** – Documents that prove effectiveness, and conformance to the system requirements.

### 4.2.2 Quality Manual

The Quality Manual describes the quality policy and quality objectives, quality organizational structure and responsibilities, implementation of a quality management system in accordance with the requirements of ISO 9001:2008, document management methods and methods of effective supervision.

The Quality Manual is intended to:

- share objectively the quality policy at all levels, from the management to the employees, customers and suppliers;
- give a good company image to build trust with customers;
- assure suppliers of a need for an efficient quality management system;
- define the organizational structure and responsibilities of all organizational units involved in meeting established quality requirements;
- serve as a basis for implementation and application of the quality management system;
- serve as a basis for quality management system evaluation.

The Quality Manual defines the area of implementation and application of the Quality Management System:

- **4) Repair, conversion and construction of ships**
- **5) Offshore platforms construction, repair and conversion**
- **6) Construction of steel structures**
4.2.3 Document management

Document management is described in the procedure PR03 „Quality Document Management“.

4.2.4 Record management

Record management is described in the procedure PR14 „Quality Record Management“.

5. MANAGEMENT RESPONSIBILITIES

5.1. Management Obligations

The Management Board shall demonstrate their commitment to implement and continuously develop and improve the quality management system by:

- informing employees on the importance of meeting customers requirements and observing law regulations and provisions, and increasing employee awareness through implementation of the quality policy and objectives. The quality policy and objectives are described in the Chapters 5.3 and 5.4.1 of the Manual;
- educating employees as described in the procedure PR22 “Human Resources Management”;
- applying evaluation measures as described in the procedure PR17 “Evaluation of Quality Management System”;
- providing resources and means as described in the Chapter 6 of the Manual.

5.2. Customer Orientation

The quality policy emphasises the importance of understanding and meeting customers requirements. The Chapter 7.2 describes requirements relating to the product, while Chapter 8.2.1 describes customers satisfaction assessment methodology.

5.3. Quality Policy

The Management Board shall be committed to develop and implement the quality management system and continuously improve its efficiency.

The Management Board, with the consent of the Supervisory Board, has developed the shipyard vision, mission and strategy, based on which the quality policy has been built.

The shipyard shall adapt promptly to how the market changes to be able to meet customers needs and requirements aimed at continuous increase of customers satisfaction, through a continuous increase of effectiveness and efficiency for the purpose of further development and growth for the benefit of shareholders, clients, employees, suppliers and the entire community.

The Management Board has, in accordance with their quality policy, set the quality strategies and objectives, which shall be shared to lower organizational levels aimed at motivating all employees to their achievement.
The employees shall be duly informed of the quality policy and objectives.

The company shall be committed to continuously develop and increase employee knowledge, skill and motivation, which is the most important resource. It is the obligation of every employee to observe the quality policy and accomplish quality objectives.

The Management Board shall at least annually reevaluate the quality policy and upgrade if required.

5.4. Planning

5.4.1 Quality objectives

The Management Board shall define the quality objectives. The quality objectives shall entail from the quality policy and shall be continuously developed and improved.

The quality objectives shall be divided in four categories based on the balanced scorecard method:

1) Financial objectives
   a) Return on investment
   b) Solvency
   c) Project profitability
   d) Reliability of business plans

2) Customer oriented objectives
   a) Identifying market trends
   b) Identifying potential products and services
   c) Identifying potential customers
   d) Individual customer approach
   e) Customer-shipyard relation

3) Internal processes
   a) Shaping customer requirement
   b) Expected product and service quality
   c) Safety and environmental protection
   d) Superior project management
   e) Continuous organizational improvements
   f) Developing technological capabilities

4) Learning and growth
   a) Organizational and technological innovation
   b) Permanent employee education
   c) Human resources (recruitment and selection, motivation, rewarding)

The quality objectives are measurable and can be defined separately for particular functions and levels within the organization.
The list and categories of the objectives per functions and levels is shown in the procedure PR17 “Evaluation of Quality Management System”.

5.4.2 Quality Management Planning

Planning of the quality system shall have the purpose of enabling accomplishment of quality objectives and quality requirements aimed at permanent integrity of the quality system.

At customer request, the shipyard shall make quality plan for a particular contract, which shall in form and content comply with the contract requirements and shipyard quality requirements.

5.5. Responsibility, Authorization and Communication

Responsibilities and authorizations are described in the quality management documentation that is accessible at all levels within the organization.

The Management Board of the company has responsibilities and authorizations to establish a documented quality management system, implement and apply the system, and continuously develop and improve the system to increase its efficiency in accordance with ISO 9001:2008. A member of the Board shall be appointed to assure conditions to enable undisturbed implementation and application of the quality management system.

The management activity shall be defined by the company Statute and Management Manual.

The Management Board shall define the shipyard strategy and set long-term and short-term objectives, based on which the quality policy shall be built.

The Management Board shall appoint the Quality Manager with responsibilities and authorizations required to implement and accomplish the quality policy as adopted.

In Viktor Lenac shipyard, the Quality Manager function has been delegated to the Manager of Organization, Quality Assurance and IT and Communication (ICT Manager).

The Quality Manager responsibilities and authorizations are:
- Building, implementing and applying a Quality Management System in accordance with ISO 9001:2008;
- Implementing a Quality Management System at all company levels and increasing awareness of customer requirements in a way easy to understand;
- Reporting to the Management on all facts relevant to the implementation of the quality system;
- Preparing Quality Manual;
- Planning and supervising the execution of internal audits;
- Planning and supervising the execution of supplier audits;
- Collecting and assessing quality records;
- Assessing the execution of corrective measures;
- Proposing preventive measures;
- Keeping in contact with certification bodies;
- Selecting and training internal auditors;
- Preparing report intended for a Management’s evaluation of the quality management system;
- Coordinating Safety and Environmental Protection Manager activities

The Quality Manager shall be authorized to suspend execution of any activity in the shipyard that he/she might judge to have a significant negative influence on the implemented quality system. In such a case, the Quality Manager shall be obliged to inform thereof the Management Board without delay and the Management Board shall decide on further actions.

Communication ways within the organization are described in the procedure PR29 “Planning and Reporting”.

5.6. Management’s Evaluation

The Management Board shall at least annually have a meeting with the Quality Manager and members of the Quality Board.

The structure and content of the meeting shall be regulated by the procedure PR17 “Evaluation of Quality Management System”.

The quality results achieved and their compliance with the quality objectives, as well as evaluation of effectiveness and adequacy of the quality system shall be assessed and analyzed on such a management meeting.

Based on analysis performed, the Management Board shall make decisions aimed at improving effectiveness of the quality management system and its processes in accordance with customer requirements, as well as on resources required. The Management Board shall, if required, amend the quality policy and give guidelines to the Quality Manager.

6. RESOURCE MANAGEMENT

6.1. Provision of Resources

The Management Board shall establish and provide resources required for the implementation and application of the quality management system.

The Management Board shall continuously develop and improve the effectiveness of the quality management system and seek to increase customer satisfaction by meeting customer needs and requirements through business plans, quality plans and objectives, permanent supervision over quality system functioning and communication with employees.

6.2. Human Resources
All company employees shall have appropriate skills and education as defined for each job position (Work Instruction RU0103) entailing from compulsory and extraordinary education, training and experience.

Human resource management is described in the procedure PR22 “Human Resource Management”.

6.3. Infrastructure

Infrastructure required for achieving established quality of company products is described in the following procedures:

- PR06 “Production Management”
- PR27 “IT and Communication Management”
- PR35 “Wireless Communication”

6.4. Work Environment

The shipyard shall ensure appropriate and safe work environment that shall enable achievement of required product quality and high employee motivation.

In accordance with the laws of the Republic of Croatia, safe work environment shall ensure occupational health and safety, fire protection and protection of property.

7. PRODUCT REALIZATION

7.1. Planning of Product Realization

Product realization is generally planned for a particular product or contract. By integrating individual plans, an overall plan is obtained.

Product planning and process management in described in the following procedures:
- PR02 “Quotation and Contracting”
- PR16 “Project Management”

7.2. Customer Related Processes

7.2.1 Establishing product related requirements

Product requirements shall be defined by contract, classification requirements and international standards and conventions to which the contract refers, as well as shipyard quality management system.

7.2.2 Assessment of product related requirements

Product requirements and shipyard capabilities to meet the requirements shall be assessed for each particular quotation as described in the procedure PR02 “Quotation and Contracting”.

7.2.3 Communication with customer
The procedure PR02 “Quotation and Contracting” describes communication with customer, except for customer claims, which are described in the procedure PR13 “Customer Claim Management”.

7.3. Design and Development

Product design and development shall be strictly controlled aimed at realizing a final product that shall meet all customer requirements and quality requirements in accordance with ISO 9001:2008.

In some cases, the shipyard may contract part or all design with a subcontractor, but product design and development shall be managed and controlled by the shipyard.

Design of a new product is described in the procedure PR36 “Design and Construction Management” with associated work instructions. Supervision over external source technical documentation is described in the procedure PR36 “Design and Construction Management”.

7.4. Purchasing

The shipyard procures material, products and services that are incorporated into final products. Purchasing procedures and supplier selection based on their capability to supply a product that is in accordance with the shipyard requirements is described in the following procedures:
- PR04 “Supplier Evaluation”
- PR05 “Material Purchasing”
- PR07 “Subcontracting”

7.5. Production and Service

7.5.1 Production and service management

All shipyard production processes which may have impact on the quality system are duly planned.

The manufacturing process management system shall assure that the processes are controlled through:
- availability of data describing product characteristics
- availability of work instructions and other technical and technological documentation
- usage of appropriate equipment
- availability and usage of monitoring and measuring devices
- performing of monitoring and measurement
- application of issue/delivery/redelivery/control procedures, when applicable
- compliance to standards, laws and regulations
- controlling of process scales and product characteristics, approval of process and equipment, when required
- appropriate equipment maintenance
Particular attention shall be given to processes whose results may be visible only upon exploitation of products or are of such nature that may jeopardize people and/or environment. Such processes shall be executed by specially trained persons under supervision.

Process management is part of all procedures, but is described in most detail in the following procedures:
- PR02 “Quotation and Contracting”
- PR06 “Production Management”
- PR28 “Maintenance”

7.5.2 Production and service approval

Welding is a process where output elements cannot be checked by subsequent supervision and measurement.

The shipyard has established adequate criteria for effective assessment of such processes, approval procedure, expertise of individuals required, methods and techniques, as well as recording and documenting mechanisms as described in the procedure PR32 “Welding”.

7.5.3 Marking and traceability

Each contracted product receives a special work order code as defined in the procedure PR31 “Work Order Data Traceability”.

Work order is broke down to activities or specification items and serves as a basis for cost planning and control.

Also, a work order can be created for own investment and maintenance.

Purchased material and services (products) are divided in three categories:
- **Specified-purpose material** – referring to a particular work order
- **Unallotted material** – not referring to a particular work order
- **Overhead material** – intended for own needs of organizational units

All material received into the warehouse is identified and controlled in accordance with the work instruction RU0803 “Ingoing Material Control”. Traceability system is ensured for specified-purpose material only. Specified-purpose material is traced based on work order (product). The material issued from the warehouse obtains work order number and specification item.

The traceability procedure during the production process is described in the procedure PR06 “Production Management”.

Subcontracted services provided are described in the “Report of the Services Provided” that includes all data on service (product) compliance with requirements as described in the procedure PR07 “Subcontracting”. At customer request, the shipyard shall ensure traceability for other material as explicitly requested.
7.5.4 Customer supplied product

Customer may request approval to supply their own material or service (product). Such supplies shall be stipulated by agreement regulating responsibility for quality of customer supplied product.

Customer shall be obliged to submit product documents containing product characteristics required for appropriate handling and storage of the product up to the moment of installation.

In case that such product is lost, damaged or non-conformed for use, the product shall be marked and documented and customer shall be duly informed thereof.

Product control performed by the shipyard shall not release the customer from responsibility to supply acceptable product.

Customer shall be informed of all safety and environmental protection requirements to which the product must comply.

Handling with customer supplied product is described in the procedure PR25 “Customer Supplied Product”.

A vessel arriving to the shipyard for repairs or conversion is a customer supplied product and shall be treated accordingly. The shipyard requirements referring to vessel during her stay in the shipyard are described in the work instruction RU0617 “Port Order Regulations”.

7.5.5 Product storage

The product and its integral parts shall be adequately marked. Handling, storage and protection instructions shall be established, when applicable.

Product storage procedure is described in the following procedures:

- PR12 “Receipt, Storage & Issuance of the Material in the Warehouse”
- PR06 “Production Management”

7.6 Monitoring and Measuring Device Management

All measuring, testing and control equipment that may impact the product quality, is marked with a unique identification mark.

Based on the identification mark, the device is traced in terms of calibration frequency, latest calibration data and other data required for device control aimed at ensuring compliance with state and/or international standards.

The shipyard appoints a responsible person in charge of handling and storage, control, recording and calibration of such device.

In general, monitoring and measuring devices are calibrated before every use. If the device does not fulfil all essential requirements, it shall be withdrawn from further use.
See procedure PR09 “Measuring, Testing and inspection Device Control”.

8. MEASUREMENT, ANALYSES AND IMPROVEMENTS

8.1. General

The shipyard shall plan and implement various monitoring and measurement processes, analyses and improvements aimed at demonstrating conformance of products, and ensuring compliance with the quality management system as well as continuous increase of its efficiency.

8.2. Monitoring and Measurement

8.2.1 Customer satisfaction

The shipyard shall regularly collect and evaluate data on customer satisfaction as described in the procedure PR33 “Customer Satisfaction Evaluation”.

8.2.2 Internal independent evaluation

Internal audits are carried out systematically to evaluate the effectiveness of the quality system and its observance. Internal audits are carried out periodically, at least annually, and are planned and supervised by the Quality Manager. The Quality Manager shall appoint trained auditors and provide the auditors with all necessary documents and instructions. See procedure PR15 “Internal Audits”.

8.2.3 Measurement and supervision of process performance

All processes which make part of the quality system shall be measured and supervised as described in relative procedures, if applicable, and at least through internal audits. Evaluation of process performance is described in the procedure PR17 “Evaluation of Quality Management System”.

8.2.4 Measurement and supervision of product

The shipyard has established and implemented various documented procedures and plans for control and testing of products during the entire production process, from the receipt of material or service to the redelivery.

All products arriving to the shipyard shall pass ingoing control to check compliance with specified requirements. A product that for any reason does not pass the ingoing control, for example lack of supporting documentation, may be approved for production in emergency cases only, and shall obtain a special mark, which should allow withdrawal of such product in case of occurrence of non-conformance. On the other hand, products that do not meet specified requirements shall not be approved for production. Such products shall be stored in a special place and clearly marked.

If contract stipulates that product control is customer’s obligation, the customer shall be duly informed of product delivery and enabled to carry out control of such product.
Product control and testing shall also be carried during the production process based on the control plan made for a particular work order. The control plan is made based on the contract and specification of works by the responsible person from the QAQC at request of QAQC Manager.

The production process may continue only after all planned controls are carried out, except for emergency cases as described above.

Final control shall be carried out to check if all planned controls and testing have been well performed and if the results obtained comply with specified requirements. No product can be redelivered until it has passed the final control.

All data on performed control and testing shall be kept in the QAQC department under responsibility of the QAQC Manager.

Product control and testing is described in the procedure PR08 “Quality Control and Testing in the Production Process”.

8.3. Nonconformance Management

Nonconforming product shall mean:
- nonconforming purchased material
- nonconformance occurred during production process
- nonconformance arising from customer’s claim
- nonconformance arising from internal or external quality audits
- nonconformance occurred due to delay
- nonconformance occurred due to increased number of effective hours
- nonconformance occurred in the quality system (product, environmental protection, safety)

Any nonconformance shall be recorded in a nonconformance report.

Nonconforming purchased material shall be recorded in a nonconformance report when receiving the material into the warehouse. The material is marked and stored in a designated place and another acceptable material shall be requested from supplier, as described in the procedure PR12 “Receipt, Storage & Issuance of the Material in the Warehouse”.

Nonconforming product discovered during production process shall be marked and stored in a designated place.

Nonconformance arising from customer’s claim shall be recorded in a nonconformance report and processed as described in the procedure PR13 “Customer’s Claim Management”.

The QAQC Manager shall decide on further actions regarding nonconforming product:
- upgrading product to meet specified requirements
- accepting product without upgrading, with concession clause
- using product for another purpose
- refusing and disposing
Upgraded product shall be re-controlled. If it is agreed with the customer that the customer accepts the product with concession clause, a report shall be prepared containing exact product conditions.

Nonconformance occurred due to delay or increased number of effective hours is described in the procedure PR10 “Nonconformance Management”.

Nonconformance occurred in the quality system is described in the procedure PR15 “Internal Audits”.

Quality Manager or Quality Engineer shall be duly informed of any nonconformance via SWING Process Manager.

8.4. Data Analysis

Data on customer satisfaction, in conformance with customer requirements, suppliers, process and product trends, including preventive measures, shall be regularly recorded and analyzed through Management’s Evaluation.

8.5. Improvements

8.5.1 Permanent improvements

The shipyard shall be committed to permanently improve the efficiency of the quality management system based on the quality policy and objectives, independent audit results, data analysis, corrective and preventive measures and Management’s Evaluation.

8.5.2 Corrective measures

Corrective measures are taken based on established non-conformances and are intended to eliminate cause of non-conformance and avoid their reoccurrence. Corrective measures are described in the procedure PR11 „Corrective and preventive measures“.

8.5.3 Preventive measures

Preventive measures are intended to prevent the occurrence of non-conformance and cause of non-conformance. Preventive measures are described in the procedure PR11 „Corrective and preventive measures“.

9. List of changes

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<tr>
<th>Date</th>
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<tbody>
<tr>
<td>16.10.12</td>
<td>Changed Logo in header</td>
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<tr>
<td>16.10.12</td>
<td>Changed picture of VL shipyard on first page</td>
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