

LUKA RIJEKA d.d.

**Unconsolidated Financial Statements
for the year ended
31 December 2014**

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

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ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

CORPORATE GOVERNANCE

Luka Rijeka d.d. ('the Company') was registered as a joint-stock company at the Commercial Court in Rijeka on 25 January 1999 under the trade register number 040141664. The Company's PIN number is 92590920313. The principle activities of the Company comprise maritime transport service provision, port services, storage of goods and freight forwarding. The Company is headquartered in Riva I, Rijeka, Croatia.

Issued share capital of the Company amounts to HRK 598.047.500 and is distributed among 5.980.475 shares with a nominal value of HRK 100 each. The Company's shares are listed on the official market of the Zagreb Stock Exchange with the ticker LKRI-R-A. The shareholder structure is as follows:

	2014		2013	
	Number of shares	% of ownership	Number of shares	% of ownership
DUUDI - Republic of Croatia	4,257,326	71.19%	4,270,188	71.40%
HZZO	484,780	8.11%	484,780	8.11%
DUUDI - HZMO	214,196	3.58%	214,196	3.58%
Societe Generale – Splitska Banka d.d./Croatia osiguranje d.d. (custodial account)	146,080	2.44%	167,080	2.79%
CERP	12,995	0.22%	-	0.00%
Jadrolinija d.d.	36,920	0.62%	36,920	0.62%
Other shareholders	828,178	13.85%	807,311	13.50%
Total	5,980,475	100%	5,980,475	100%

DUUDI, HZZO, CERP and HZMO are agencies and institutions of the Republic of Croatia while Jadrolinija d.d. is a company owned by the Republic of Croatia. Through these institutions and companies and other smaller shareholders under control of the State, the Republic of Croatia holds a combined ownership interest in the Company amounting to approximately 84%.

The Company voluntarily applies the Corporate Governance Code jointly adopted by the Croatian Agency for Supervision of Financial Services and the Zagreb Stock Exchange, and regularly submits an annual Statement of corporate governance. Statement and Code of Corporate Governance are available on the Company's web site.

MANAGEMENT AND SUPERVISORY BODIES AND COMMITTEES

Audit committee

Members of the Audit committee during 2014 were as follows:

First name	Last name	Role
Loris	Rak	predsjednik
Katarina	Drakulić	član
Janja	Reljac	član

Supervisory Board

Members of the Supervisory Board during 2014 were as follows:

First name	Last name	Role	Appointed
Nikola	Mendrića	President	18.06.2012
Loris	Rak	Vice president	18.06.2012
Katarina	Drakulić	Member	18.06.2012
Darko	Peričić	Member	18.06.2012
Krešimir	Trtanj	Member	15.04.2011

Management Board

Members of the Management Board during 2014 were as follows:

First name	Last name	Role	Appointed
Vedran	Devčić	President	28.06.2012
Linda	Sciucca	Member	28.06.2012
Nenad	Janjić	Member	28.06.2012

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PERFORMANCE INDICATORS

Environment

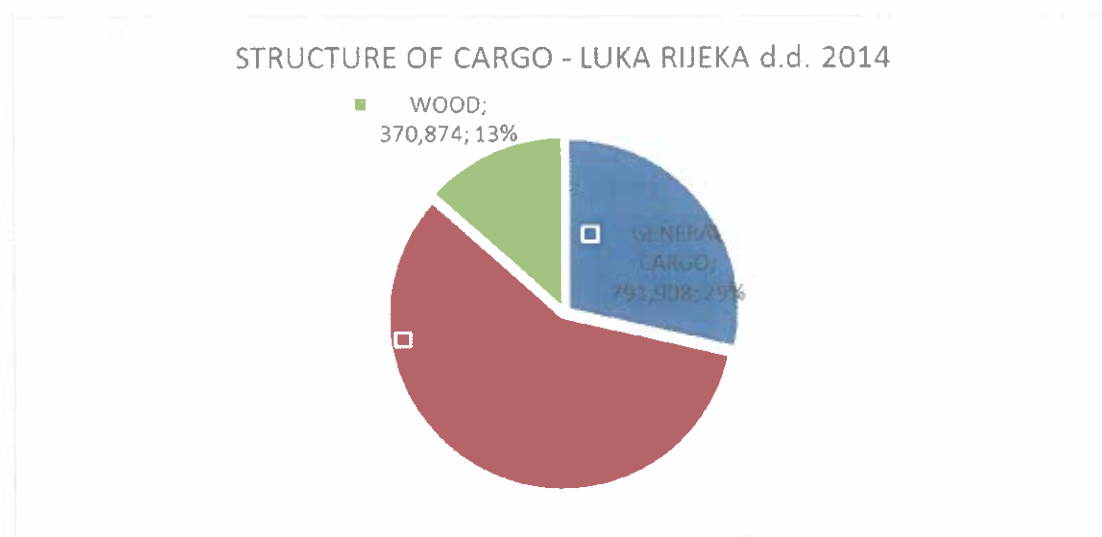
The port of Rijeka has a strategic position in the maritime transport of Central and Eastern European countries. It is an integral part of the northern Adriatic, and a significant contributor to the development of the Croatian economy. By Croatian accession to the European Union, the market position of the port of Rijeka and the Rijeka Gateway has become competitive with similar ports and routes. In addition, the global changes point to a growing reaffirmation of the Mediterranean and the Adriatic in terms of maritime traffic, which could further strengthen Groups market position, particularly in overseas exchanges between Europe and the Far East. The world economy, including Europe, still exhibits signs of recession. The recession is also present in the Republic of Croatia, including the region of Rijeka.

Total turnover

In 2014, total turnover of dry cargo in port of Rijeka (Luka Rijeka d.d. and Adriatic Gate Container Terminal) amounted to 4.140.081 tons in 2014, representing a 15% increase in comparison to the prior year when total turnover amounted to 3.602.220 tons.

Description	01.01.- 31.12.2013.	01.01.- 31.12.2014.	Index
Luka Rijeka d.d. (LR)	2,365,920	2,773,412	117
General cargo (t)	1.118.567	791.908	71
Bulk cargo (t)	948.057	1.610.630	170
Wood (t)	299.296	370.874	124
AGCT tons	1.236.300	1.366.669	111
TEUR	131.310	149.838	114
LR + AGCT	3,602,220	4,140,081	115

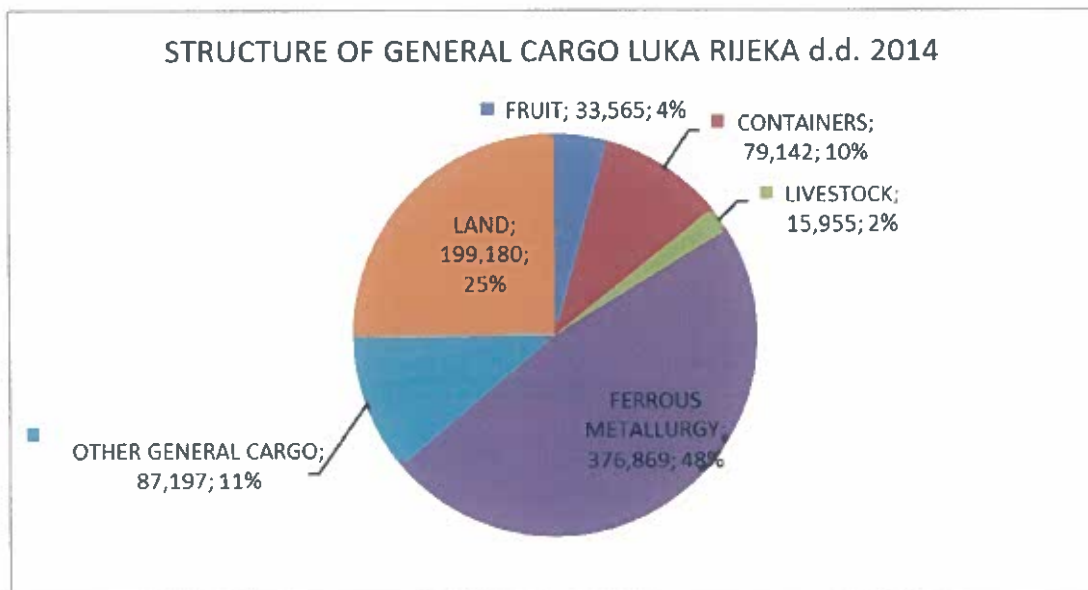
Luka Rijeka d.d. cargo turnover in 2014 amounted to 2.773.412 tons and represents a 17% increase in comparison to 2013.



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In 2014 the change in structure of cargo is noted, due to increase in bulk cargo (58% in the total cargo structure) in comparison to the prior year.

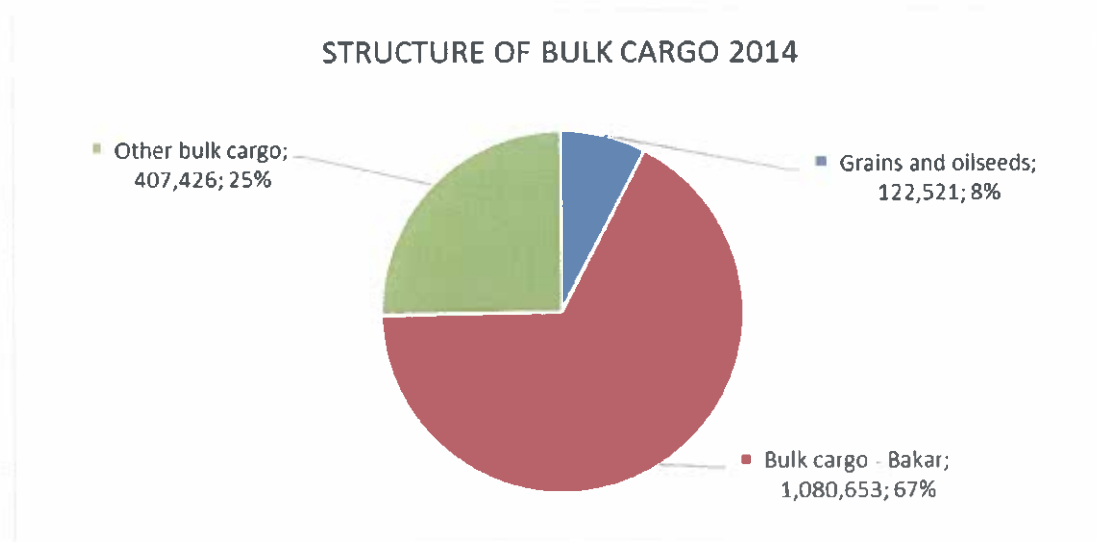
In 2014 Luka Rijeka d.d. achieved an operating turnover of 791.908 tons of general cargo, which represents a 29% decrease in comparison to 2013. An overview of general cargo by type of cargo:



Semi-ferrous metallurgy represents a 48% of general cargo turnover. The semi-ferrous metallurgy reloaded volumes are decreasing as a result of the situation in the overseas market and technical operations in steel mills.

At terminals in concession Luka Rijeka d.d. manipulated a total of 79.142 tons of containers, or 42.166 containers expressed in TEUR. These containers are used for loading / unloading of goods to / from the container terminal within the Luka Rijeka d.d. Part of the aforementioned manipulation are empty containers from all container ship-owners stored at the empty containers depot at the terminal Škrljevo.

Bulk cargo turnover amounts to 1.610.630 tons which is an increase of 70% or 662.573 tons in comparison to prior year. An overview of bulk by type of cargo:



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It is important to note is that the bulk cargo terminal in Bakar is experiencing an increase in the volume of the traffic. At the Bakar terminal a 1.116.043 tons of bulk cargo have been loaded, resulting in an 4.9 times increase in comparison to 2013, the highest traffic level in the last five years. Data on the structure of bulk cargo exhibits shift of coal traffic to the Hungarian market. Total turnover of coal amounted to 468.831 tons which presents an 11 times increase in comparison to prior years. Increase of iron ore in the amount of 602.429 tons for the new Austrian importer shows an increase in turnover by 3,6 times in comparison to the prior year. Demanding commercial negotiations due to intense competitive conditions resulted in reacquisition of new partner: after more than 20 years one of the greatest historical partners of port Rijeka returned - Voestalpine.

The total annual wood turnover of 370.874 tons shows the growth in turnover by 24% in comparison to the prior year, with a positive increase in hard wood and soft wood traffic.

The port of Rijeka is the main Croatian port for container traffic. The turnover of the Rijeka port amounted to 1.445.811 tons, or 192.004 TEU. In comparison to 2013, total container traffic in TEU has increased by 13%. The increase is a result of 149.838 TEU turnover, from concessionaire AGCT located at container terminal Brajdica and 42.166 TEU turnover achieved at terminals in concession of Luka Rijeka d.d.

KEY FINANCIAL INDICATORS

In preparation of implementation of the process of capital increase by issuing new equity shares in the capital market (IPO), in 2014 the external auditor conducted a financial and tax analysis of operations for the period 2012-2014. The aforementioned analysis is included in the audited financial statements.

Key financial performance indicators and their comparison (index) with the prior year is presented as follows:

(in millions of HRK)	01.01.- 31.12.2014.	Comparison with 01.01.- 31.12.2013. - restated
Operating income	182.518	102
-income received from abroad	128.750	139
Operating Expenses	(181.383)	103
EBIT	1.135	41
EBIT rate	0.62%	40
EBITDA	12.004	93
EBITDA rate	6.58%	91
Finance income	2.037	35
Finance costs	(8.550)	90
Loss before tax	(5.378)	
Loss for the period	(4.985)	
Comprehensive profit for the year	13.560	
Assets / liabilities	507.573	101
Long-term assets	448.769	104
Equity and reserves	316.083	106
Number of employees as at 31 December	686	97

* *EBITDA is calculated as profit before interest, taxes, amortisation, depreciation and impairment of receivables*

Revenues

Although total operating income increased by only 2%, due to an increase of natural indicators, the growth rate of sales increased by 14.8% in comparison to 2013. The share of foreign income continues to rise, amounting to 71% of total operating income. The other operating income contributed only to 9% of total operating income realized in 2014, in comparison to 2013 when they accounted to 19% of total operating income (mostly accounting revenues).

Financial income decreased due to decrease in interest on deposits given.

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Expenses

In the structure of operating expenses, material costs increased by 15.7%, as a consequence of increased turnover, personnel costs decreased by 2.8%, depreciation decreased by 4.9%, and other costs were more or less on the same level.

The increase in financial expenses, in addition to the planned interest expense, is a result of foreign exchange losses due to increase in foreign exchange rate of liabilities denominated in US dollar.

Financial Result

Operating revenues were sufficient to cover operating expenses, but due to substantial net financial expenses, the Company recorded loss before tax.

The realised comprehensive income of 13.560 was influenced by changes in revaluation reserves as a consequence of new valuations of market values of land.

RISK MANAGEMENT

Market risk

The port of Rijeka is part of the worldwide network of maritime trade traffic and the point of change of transport from maritime to land and vice versa. Complex supply chains are extremely dependent on the movement of the total world economy, as well as on the movement of the economy of certain regions of the world. Maritime trade market is cyclical and dependent on changes in the world economy.

Competition in the gravitational area of Luka Rijeka is extremely strong. Key competitors of Luka Rijeka are ports in the North Adriatic cluster (Koper, Trieste, Venice, Ravenna, Monfalcone and Chioggia). By Croatian accession to the European Union, Luka Rijeka is becoming competitive to other ports of North Adriatic cluster, supported by recuperation of customers and cargos who had (especially during war period) left Luka Rijeka. In addition, Luka Rijeka, in the latest European Union transportation strategy from January 2014 entered into a trans-European transport network. North Adriatic port cluster has a natural advantage of the shortest maritime route for cargos originating from the east and passing through the Suez Canal. This advantage is more than 2.000 Nm, which is approx. 6 days of sailing, significantly affecting the overall transport shipping costs.

Nevertheless, the North Adriatic cluster has strong competitors in other clusters: the most significant European cluster is Northern Sea port cluster (Rotterdam, Amsterdam, Antwerp, Ghent, Hamburg, Bremen, etc.) which is connected with the port Constanta from the Black Sea cluster with Rhine-Main-Danube Canal, which passes through the heart of the gravitational area of the Luka Rijeka. This area (especially the markets of Poland and the Czech Republic) are targeted by the competitive Baltic direction (Rostock, Gdansk, Gdynia, Szczecin, etc.).

The aforementioned port Constanta in Romania, due to its advantage of inland waterways, is a significant competitor for the eastern part of the gravitational area. The Bulgarian part of the Black Sea clusters (Varna and Burgas) does not present stronger competitive significance (except for the part of Serbia, which is not the primary zone of competing interests for Luka Rijeka).

Finally, the marginal clusters of the southern Adriatic and the Aegean Sea, which also target the southern part of the gravitational area of the Port of Rijeka should be mentioned. This is primarily Luka Ploče, which is oriented on Bosnia and Herzegovina, Luka Bar on Serbia and Montenegro, the port of Durres on Albania and Kosovo, and the Port of Thessaloniki and other Aegean ports which except Greece, target market of Macedonia and Serbia, but as above, represent the secondary zone of competing interests of Luka Rijeka.

Management of the Company is aware of the competition, and works on minimizing everyday risk through price adjustments - tariffs, continuous investments in technology, capacity increase and through increase in labour productivity.

We will also point out the risk of customers default on its contractual obligations - credit risk. The contract may be signed with unreliable client (in terms of dynamic of non-fulfilment of the contract, in terms of non-payment services, etc.) resulting in a variety of problems (warehouses filled with goods for which warehousing fee has not been paid, delays in agreed loading of cargo resulting in penalties, etc.). This risk is minimized by updating existing and potential customers' databases where all customers data collected during the year is accumulated, so that before any contract is signed customers assessment can be made.

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Currency risk

The share of foreign income in total operating income amounts to 71%. Port services are mainly denominated in EUR, with minority denominated in US dollars for all transit operations of foreign clients. Port services for domestic clients are denominated in kuna. Exposure to foreign currency risk in EUR is reflected in the majority of the prices being denominated in EUR, as well as a significant part of the liabilities or their indexation to EUR. Hence, serving as a way of minimizing currency risk. Furthermore, the indexation of kuna to EUR is stable. Exposure to currency risk in US dollars is due to minority of prices being denominated in USD, while liabilities denominated in US dollars further increase the risk due to volatility of US dollar as a global currency. Consequently due to increase of USD exchange rate in 2014, the Company recorded higher financial losses due to negative exchange rates.

Interest rate risk

The Company is exposed to interest rate risk as it borrows at both fixed and floating interest rates. In case of major changes of principal calculation base of the variable interest rate - Euribor, the Company will negotiate with banks in order to reduce / eliminate this risk.

Liquidity risk

Liquidity risk is managed through maintaining adequate maturity structure of assets and liabilities, and through weekly and monthly planning and management of inflows and outflows of cash funds, as well as with the provision of sufficient amounts of liquid assets to settle liabilities as they fall due. Granted short-term credit limits are used for maintaining liquidity of the business. The Company regularly monitors the relationship between current assets and current liabilities.

At the end of 2014, the current liabilities exceed its current assets. However, the Company is currently in the process of raising capital through a public offering of issue of shares expected to be finalized during 2015, which would provide funding for strategic investments, improve liquidity and result in improved future operating results.

Technological risk

Technological risk is reflected in the obsolescence of the existing port technology, which increases maintenance costs, reduces productivity of port manipulation, ie the profitability of the process and reduces the competitiveness due to unreliable and slow service. Technological risk is reduced by the Company's preventive quality maintenance, as well as by investing in technology, a necessity which enables speed, reliability and efficiency of loading and other port manipulation. In accordance with the plan, in 2013 a substantial investment was made in two portal mobile cranes in the amount of EUR 5 million and investments have continued in 2014 with the purchase of new port equipment (forklifts, loaders) in the amount of EUR 1 million.

Increase in the capacity will enable long-term increase in traffic and is the main reason Luka Rijeka is investing in further expansion of the terminal Škrljevo, as well as the reconstruction of other terminals.

One of the technological factors significant to Luka Rijeka is adequate road and rail infrastructure. In relation to Luka Rijeka, the road connectivity is satisfying while there is still place for improvement regarding rail infrastructure, in particular thorough liberalization of railway operators. This is the risk which is not under the Company's direct influence, but can be minimised through indirect communication with the relevant Ministry.

Technological processes that are based on technology and use of human resources, and are directed towards the fulfilment of commercial objectives of the Company are also subject to risks. The risk is minimized by continuous monitoring and adjustments of the working process which is determined by manipulation of certain goods and services and implementation of changes through written procedures.

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Human resource risk

Port industry is a labour intensive industry. In operational terms it is dominated by the so-called 'Blue collar workers' or dockers (operators of technical equipment and port transport workers), and their support services (maintenance, cargo insurance, mooring and departing). Their number, as well as organization into trade unions presents an important factor in the operation of Luka Rijeka.

In previous years, the Company significantly reduced the number of workers to the operational number necessary for achievement of company's long-term plans. Quality of the program, as well as constant consultation with the trade unions have made this process relatively painless. The measures in the restructuring plan are based on the implementation of new micro and macro organization of the Company (adopted in December 2014). Furthermore, in order to increase efficiency a planned reduction of 9% in the number of light-transport workers (LTR) was carried out through retirement, followed by the planned increase in the use of external services by engaging subcontractors (outsourcing).

Significant personnel risk is high average age of employees in Luka Rijeka. In order to rejuvenate the age structure of employees, which is an average of 52 years, in December 2014, the Company in accordance with the Professional training program offered training for 22 university educated people.

The risk remains due to lack of adequate workforce (in the leadership and managerial terms), which is a general problem in the Croatian market. Adequate workforce is necessary for the implementation of strategies planned by the Luka Rijeka, but also demand higher remunerations than those currently offered by the company. The risk can be reduced by employing experienced staff and offering them appropriate remuneration (for example by introducing a new system of motivation and remuneration for employees of the company).

Environmental risk

The main environmental risk for the Company is defined by the type and the way of handling the cargo. This primarily relates to bulk cargo, which while being manipulated can emit dust, or result in air, sea and soil pollution in the near proximity of manipulation site. This risk is reduced by installing technology that disables it. For example, at the terminal in Bakar in 2014 were placed special floating dams for reception of ships, which increase the safety of unloading of cargo and prevent the spreading of possible pollution.

For general cargo there are no specific risks. There is an increased risk in the use of ammoniac in cold storage within Frigo terminal, but it is eliminated with regular maintenance and alert procedures in case of possible damage.

There is also a risk associated with the maintenance of vehicles and other manipulation items of Luka Rijeka (waste oil, waste water from cleaning, old batteries, old tires, etc.), which is controlled by installation of oil separators in garages and workshops, as well as by standardized procedures and testing of collected liquid and solid wastes.

The system of internal control and risk control to which the Group is exposed, is done through:

- Control of business processes. The parent company has a certified quality management system ISO 9001-2008, which is constantly monitored, improved and controlled.
- Control of business/financial transactions and financial statements thorough the accounting system and the Controlling department of the Parent company
- Annual and long-term planning of the operations at the Group level and at the level of business units, as well as quarterly monitoring of the plan through Controlling department of the Parent company
- Finally, through the upgrade of the IT systems with the aim of system integration in all business segments

KEY BUSINESS EVENTS IN 2014

Project Terminal Škrljevo

Key events are related to the planned investment in the development and modernization of Škrljevo terminal comprising of: reconstruction of existing road and manipulation areas especially plateau for depot containers, reconstruction of existing and construction of new infrastructure, formation of new operational plateau, construction of new and reconstruction of existing storage capacity, construction of overhang for storage and handling of the goods, construction of administrative buildings and halls for service of mechanization and investment in the new machinery.

Estimated value of the investment is approximately EUR 50 million, and the financing is expected mainly from the upcoming increase in share capital.

- February 2014: location permit issued for Škrljevo terminal Project
- December 2014: issued building permits for all nine phases of the project

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Project of share capital increase by issuing of new shares

The share capital increase by issuing of new shares in the capital market planned for 2014, was moved to 2015.

In 2014 the Company carried out preliminary activities for implementation of share capital increase by issuing of new shares in the capital market (IPO). Legal, financial and tax due diligence was carried out and long-term business plans developed (2015 – 2030).

Other

- purchase of new port equipment (forklifts and loaders) in the amount of EUR 1 million;
- adoption of new macro and micro organization of the Company;
- in accordance with Law on employment incentives the Company together with the Croatian employment bureau initiated Professional training program and offered training to 22 university educated people

BUSINESS PERSPECTIVE

- In 2015 there is a planned increase in the natural turnover by 10%, operating income by 9.8%, and EBITDA realization rates in the amount of 12.2%. Profit before tax is planned at the rate of 5%.
- The plan assumes capital expenditures in 2015 up to HRK 159 million, of which the majority relates to the project Škrljevo, which should begin in the second half of the year.
- From the macro point of view, investment in railway infrastructure on the corridor Vb and necessary liberalization of the market of railway operators represent a large and important contribution to the increase of the competitiveness of Rijeka port system and Rijeka Gateway including Luka Rijeka as the largest concessionaire for shipping and reload of dry cargo
- In April 2015, the General assembly is planned with the following agenda: decrease of share capital in respect of losses carried forward and increase of share capital by issuing new shares
- In April/May approval of prospective issuance of shares by HANFA is expected, and in June 2015 the registration of increase in capital due to issuing of new shares
- Funds received by issuance of new shares are an investment in development and modernization of terminal Škrljevo, where in July 2015, concurrently with the completion of the increase in share capital process, construction works are expected to start
- The implementation of the new micro and macro organization of the Company, which was adopted in December 2014 and will start to be implemented from 1 March 2015 onwards.
- Port of Rijeka - logistics hub for exploration of hydrocarbons in the Adriatic" is a new project for which the Agency for hydrocarbons expressed full support. As a project leader the Company has brought together companies with whom it has been working together for many years and with whom in a partnership will offer wide range of services to platforms and investigative units in the Adriatic. Signing of a collaboration agreement with the Agency for hydrocarbons is expected soon, which will result in Luka Rijeka officially becoming a logistics hub for the exploration of hydrocarbons in the Adriatic.

The annual report was prepared and approved by the Management Board as signified below:

Vedran Devčić

President of the Management Board

Linda Sciucca

Member of the Management Board

Nenad Janjić

Member of the Management Board

2 March 2015

Luka Rijeka d.d.

Riva 1

Rijeka

Croatia

LUKA RIJEKA d.d.
Rijeka, Riva 1

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board is required to prepare the financial statements which give a true and fair view of the financial position of the Company and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

The Management Board is responsible for the submission to the Supervisory Board of the annual report and the financial statements, following which the Supervisory Board is required to approve the financial statements for submission to the General Assembly of Shareholders for adoption.

The consolidated financial statements of the Company are issued separately and simultaneously with the unconsolidated financial statements.

The unconsolidated financial statements were authorised by the Management Board on 2 March 2015 for issue to the Supervisory Board and are signed below to signify this.

Vedran Devčić
President of the Management Board

Nenad Janjić
Member of the Management Board

Linda Sciucca
Member of the Management Board

Luka Rijeka d.d.

LUKA RIJEKA d.d.
Rijeka, Riva 1

Riva 1
51 000 Rijeka
Republic of Croatia

Rijeka, 2 March 2015



Independent Auditors' Report to the shareholders of Luka Rijeka d.d.

We have audited the accompanying separate financial statements of Luka Rijeka d.d. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2014, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without qualifying our opinion, we note that the corresponding figures presented, excluding the adjustments described in note 7, are based on the separate financial statements as at and for the year ended 31 December 2013, which were audited by another auditor who expressed an unmodified opinion on those financial statements on 14 April 2014. As part of our audit of the separate financial statements we have also audited the adjustments described in note 7. In our opinion, these adjustments have been properly applied and presented.

Other legal and regulatory requirements

Pursuant to legal and regulatory requirements, management has prepared the annual report set out on pages 1 to 8. Management is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act of the Republic of Croatia. Our responsibility is to express an opinion on the consistency of the information in the annual report with the audited financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act of the Republic of Croatia. In our opinion, the information given in the accompanying annual report for the financial year for which the financial statements are prepared is consistent with those financial statements.


KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
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2 March 2015

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

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

<i>(in thousands of HRK)</i>	<i>Note</i>	2014	2013 restated *
Revenue from sales	8	165.638	144.224
Other income	9	16.880	33.930
		182,518	178,154
Materials, services and consumables used	10	(69.336)	(59.922)
Personnel expenses	11	(79.158)	(81.402)
Depreciation and amortisation	17,18,19	(9.661)	(10.154)
Other expenses	12	(23.228)	(23.883)
		(181,383)	(175,361)
Finance income	13	2.037	5.848
Finance costs	14	(8.550)	(9.501)
Net finance costs		(6,513)	(3,653)
Loss before tax		(5,378)	(860)
Income tax	15	393	233
Loss for the year		(4,985)	(627)
Revaluation of AFS financial assets (net of tax)		359	-
Revaluation of land (net of tax)		18.186	-
Other comprehensive income		18,545	-
Total comprehensive income/(loss)		13,560	(627)

* See Note 7.

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

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 31 DECEMBER 2014

<i>(in thousands of HRK)</i>	<i>Note</i>	31.12.2014	31.12.2013 restated *	31.12.2012 restated *
ASSETS				
Non-current assets				
Intangible assets	17	773	1.160	1.476
Property, plant and equipment	18	408.331	382.280	363.146
Investment property	19	9.982	10.699	8.724
Investments in subsidiaries and associates	20	11.767	11.827	14.739
Financial assets available for sale	21	2.217	2.542	2.876
Non-current financial assets	22	8.422	17.478	19.220
Deferred tax assets	16	7.277	6.947	6.345
Total non-current assets		448,769	432,933	416,526
Current assets				
Inventories		1.084	1.365	1.409
Trade and other receivables	24	37.359	34.514	36.963
Income tax receivable		458	109	109
Current financial assets	23	19.204	34.733	48.771
Cash and cash equivalents	25	699	1.004	733
Total current assets		58,804	71,725	87,985
Total assets		507,573	504,658	504,511
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	26	598.048	598.048	598.048
Capital and other reserves	27	4.968	-	-
Revaluation reserves	27	36.111	17.566	16.819
Accumulated losses		(323.044)	(318.059)	(318.455)
Total equity		316,083	297,555	296,412
Non-current liabilities				
Borrowings	28	67.966	73.384	74.620
Provisions	29	14.222	18.039	28.935
Deferred tax liability	16	8.936	4.383	4.383
Total non-current liabilities		91,124	95,806	107,938
Current liabilities				
Trade and other payables	30	43.820	44.676	48.877
Borrowings	28	52.942	49.538	31.056
Provisions	29	3.604	17.083	20.228
Total current liabilities		100,366	111,297	100,161
Total liabilities		191,490	207,103	208,099
Total liabilities and shareholders' equity		507,573	504,658	504,511

* See Note 7.

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

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

<i>(in HRK thousands)</i>	Share capital	Capital and other reserves	Revaluation reserves	Accumulated losses	Total
As at 1 January 2013 (reported)	598,048	-	12,932	(154,964)	456,016
Restatements* (note 7)	-	-	3,887	(163,491)	(159,604)
As at 1 January 2013 (restated)	598,048	-	16,819	(318,455)	296,412
Loss for the year (restated)	-	-	-	(627)	(627)
Other comprehensive income (restated)	-	-	-	-	-
Total comprehensive income (restated)	-	-	-	(627)	(627)
Transfers	-	-	-	-	-
Effect of merger of subsidiary	-	-	747	1,023	1,770
As at 31 December 2013 (restated)	598,048	-	17,566	(318,059)	297,555
Loss for the year	-	-	-	(4,985)	(4,985)
<i>Increase in fair value of AFS financial assets</i>	-	-	422	-	422
<i>Deferred tax effect of increase in fair value of AFS financial assets</i>	-	-	(63)	-	(63)
<i>Revaluation of land</i>	-	-	22,739	-	22,739
<i>Deferred tax effect of land revaluation</i>	-	-	(4,553)	-	(4,553)
Other comprehensive income	-	-	18,545	-	18,545
Total comprehensive income	-	-	18,545	(4,985)	13,560
Transactions with owners	-	4,968	-	-	4,968
<i>Capital contribution from the state</i>	-	4,968	-	-	4,968
As at 31 December 2014	598,048	4,968	36,111	(323,044)	316,083

* See Note 7.

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

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

<i>(in thousands of HRK)</i>	<i>Note</i>	2014	2013 restated *
Loss before tax		(5,378)	(860)
Depreciation and amortization	<i>17, 18, 19</i>	9,661	10,154
Gain on disposal of property, plant and equipment, intangibles and investment property	<i>9</i>	(1,207)	(1,244)
Impairment losses/gains on trade receivables - net	<i>12</i>	1,208	56
Interest income	<i>13</i>	(790)	(2,048)
Interest expense	<i>14</i>	4,565	4,667
Gain on disposal of AFS financial assets	<i>13</i>	(26)	-
Impairment of insurance policies	<i>14</i>	-	2,188
Losses on AFS financial assets	<i>14</i>	158	334
Net increase/(reversal) of provisions	<i>9, 12</i>	(666)	(825)
Write-off of liabilities for sold State owned apartments	<i>9</i>	-	(9,663)
Foreign exchange differences - net		2,493	102
Changes in working capital:		10,018	2,861
Decrease/(increase) in inventories		281	44
Decrease/(increase) in trade and other receivables		(4,037)	2,750
Increase/(decrease) in trade and other payables		4,474	2,005
Increase/(decrease) in provisions	<i>29</i>	(16,630)	(13,216)
Cash generated from operations		(5,894)	(5,556)
Income tax paid		(381)	(533)
Interest paid		(3,721)	(3,459)
Net cash from operating activities		(9,996)	(9,548)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles		(13,700)	(26,012)
Net proceeds/(repayments) with respect to finance lease arrangements		(1,230)	(1,705)
Proceeds from disposal of property, plant and equipment, intangibles and investment property	<i>9, 17, 18, 19</i>	5,093	2,029
Net inflows/(outflows) related to sale of Company and State owned apartments	<i>22, 24, 30</i>	(997)	2,251
Interest received		790	2,048
Proceeds from sale of AFS financial assets	<i>13, 21</i>	615	-
Net inflows/(outflows) from insurance policies		7,710	(1,679)
Net inflows/(outflows) from bank deposits	<i>23</i>	15,529	14,038
Net inflows/(outflows) from other financial assets	<i>22</i>	29	-
Net cash from investing activities		13,839	(9,030)
Cash flows from financing activities			
Proceeds from borrowings		46,977	39,417
Repayment of borrowings		(51,125)	(20,568)
Net cash from financing activities		(4,148)	18,849
Net decrease of cash and cash equivalents		(305)	271
Cash and cash equivalents at beginning of year		1,004	733
Cash and cash equivalents at the end of year	<i>25</i>	699	1,004

* See Note 7.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1 – GENERAL INFORMATION

History and incorporation

Luka Rijeka d.d. ('the Company') was formed through conversion of the former company Luka d.d. Rijeka and registered as a joint-stock company at the Commercial Court in Rijeka on 25 January 1999 under the trade register number 040141664. The Company's PIN number is 92590920313. The principle activities of the Company comprise maritime transport service provision, port services, storage of goods and freight forwarding.

All subsidiaries are based in Rijeka, Croatia. Principal activities of subsidiaries are as follows: management of investment property (subsidiary Stanovi d.o.o.), wholesale and rental of office space (subsidiary OPI d.o.o.), carriage, warehousing and freight (subsidiary Luka prijevoz d.o.o.).

The Company is headquartered in Riva 1, Rijeka, Croatia.

Issued share capital of the Company amounts to HRK 598,047,500 and is distributed among 5,980,475 shares with a nominal value of HRK 100 each.

The Company's shares are listed on the official market of the Zagreb Stock Exchange with the ticker LKRI-R-A. The shareholder structure is shown in note 26.

Members of the Supervisory Board during the reporting period were as follows:

First name	Last name	Role	Appointed
Nikola	Mendrića	President	18.06.2012
Loris	Rak	Vice president	18.06.2012
Katarina	Drakulić	Member	18.06.2012
Darko	Peričić	Member	18.06.2012
Krešimir	Trtanj	Member	15.04.2011

Members of the Management Board during the reporting period were as follows:

First name	Last name	Role	Appointed
Vedran	Devčić	President	28.06.2012
Linda	Sciucca	Member	28.06.2012
Nenad	Janjić	Member	28.06.2012

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

The unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). Although these financial statements are the first set of financial statements the Company has prepared in accordance with International Financial Reporting Standards as adopted by the European Union, this is not considered a first time adoption of IFRS as the Company has prepared financial statements for previous periods in accordance with IFRS's not restricted to those adopted by the European Union.

These financial statements represent those of the Company only. The consolidated financial statements of the Company and its subsidiaries, which the Company is also required to prepare in accordance with IFRS and Croatian law, are published separately and issued simultaneously with these unconsolidated financial statements. These unconsolidated financial statements were authorised for issue by the Management Board on 2 March 2015.

(ii) Basis of measurement

These financial statements have been prepared on the historical cost basis, except for the following:

- Revaluation of land as stated in note 3.7 (ii)
- Financial assets available for sale as stated in note 3.15

Methods used for fair value measurement are explained in note 6.

(iii) Functional and presentation currency

These financial statements are prepared in the Croatian kuna ("HRK"), which is also the functional currency, rounded to the nearest thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied by the Company to all periods presented in these financial statements.

3.1 Investments in subsidiaries and associates

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment (accounting policy 3.15).

(ii) Associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment (accounting policy 3.15).

3.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, returns, volume rebates and trade discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

(i) Revenue from services

The Company provides port related services such as carriage, transshipment, freight, manipulation (on and off loading) and warehousing of various types of cargo.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided (for instance, number of tonnes off or on loaded compared to total shipment size; or number of storage days elapsed compared to the total number of storage days contracted).

(ii) Finance income

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the right to receive payment is established.

3.3 Leases

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Foreign currency transactions

(i) Transactions and balances in foreign currencies

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates ruling at the date of transaction.

3.5 Intangible assets

Where patents, licences, and similar rights are acquired by the Company from third parties the costs of acquisition are capitalised to the extent that future economic benefits are probable and will flow to the Company.

Licences are amortised over their estimated useful lives. Estimated useful lives are reviewed annually and impairment reviews are undertaken if events occur which call into question the carrying values of the assets.

Subsequent expenditure on capitalised intangible assets is capitalised only if it is probable that it increases the future economic benefits embodied in the specific asset to which it relates and those benefits will flow to the Company. All other expenditure is recognised in the profit or loss as an expense as incurred.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date on which they are available for use. The estimated useful lives of intangible assets are as follows:

Software	1 – 5 years
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3.6 Investment property

Investment property comprises properties held to earn rentals, for capital appreciation, or both. Inbuilt equipment is considered part of the investment property. Cost includes all expenditure directly related to the acquisition of the asset. Investment property under course of construction is classified as non-current tangible assets in the course of construction until it is ready for use. Investment property is carried at cost less accumulated depreciation and any impairment losses.

Subsequent expenditure for investment property is capitalised only if it is probable that it increases the future economic benefits embodied in the specific asset to which it relates and it can be reliably measured. Regular maintenance expenditure is recognised in income statement as an expense as incurred.

Depreciation is charged to income statement over the estimated useful economic life on a straight-line basis to all investment property except from those in the course of construction (in the case of further development of existing investment property), using the following depreciation rates reflecting their estimated useful lives:

Residential apartments	65 years
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Property, plant and equipment

(i) Buildings, plant and equipment

Buildings, plant and equipment are included in the consolidated statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Assets under construction are not depreciated. Depreciation of buildings, plant and equipment is calculated using the straight-line method to allocate their cost less any residual value over their estimated useful lives as follows:

Buildings	15 to 60 years
Equipment and fittings	2 to 8 years
Leasehold improvements	10 to 30 years

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3.8).

Gains and losses on disposals are determined as the difference between the income from the disposal and the carrying amounts of the asset disposed, and are recognised in profit or loss within other income/expenses.

(ii) Land

After initial recognition at cost, land is carried at a revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated impairment losses.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

When the carrying amount is increased as a result of revaluation, the increase is recognised in other comprehensive income and accumulated in equity as a revaluation reserve. Revaluation increase is recognized as income to the extent that it reverses a revaluation decrease of the same asset previously recognized as expense.

When the carrying amount is decreased as a result of revaluation, the decrease is recognized as an expense. Revaluation decrease is recorded to the revaluation reserve only to the extent that it does not exceed the amount held in the revaluation reserve for the same asset.

The revaluation is carried out with sufficient regularity in a way that the carrying amount does not differ materially from the amount which would be determined using fair values at the reporting date. Certain land is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Gains or losses arising from derecognition of land (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss when it is derecognised.

The relevant portion of the revaluation surplus realized in the previous revaluation is released to retained earnings on the disposal of the revalued asset.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Property, plant and equipment (continued)

(iii) Assets under the concession arrangement

The Company has a long-term service concession arrangement for the provision of port related services which generate the majority of its revenue. The concession arrangement in place involves the transfer of operating rights over the port of Rijeka for a limited period, under the control of the local port authority, using dedicated assets (port infrastructure) either built by the Company during the term of the concession arrangement or made available to it for a fee or nil consideration.

This arrangement defines "public service obligations" of the Company in return for remuneration. The remuneration is based on operating conditions, continuity of service, price rules and obligations with respect to the maintenance/replacement of port infrastructure. The contract determines the conditions for the transfer of port infrastructure to the local port authority or a successor at its expiry.

Maintenance expenditure

Maintenance of assets which are part of the concession arrangement is recognised as an expense when incurred within profit or loss and presented within cost of materials and services used.

Capital expenditure into the concession area

Capital expenditure into port infrastructure made in accordance with the terms of the concession arrangement is recognised as an asset within the appropriate class of property, plant and equipment and carried at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

In cases where these assets relate to items which are transferred to the local port authority ("Grantor") at the expiry of the concession arrangement, the depreciation of such assets is calculated using the straight-line method to allocate their cost less any residual value over the shorter of their estimated useful lives and the remaining term of the concession arrangement. In cases where these assets are not transferred to the Grantor, the depreciation of such assets is calculated in accordance with the depreciation policy applicable to the category property, plant and equipment to which the asset is classified in accordance with accounting policy 3.7 (i).

Assets transferred to the Company by the concession Grantor

As part of the concession arrangement, the local port authority (the Grantor) transferred the operational rights over a number of assets comprising the port infrastructure to the Company which is entitled to use these assets in the course of providing the services defined in the concession arrangement. Such assets are not recognised by the Company and are instead kept off balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (apart from inventory and deferred tax assets which are separately reviewed) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.9 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the FIFO method, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade goods are carried at the lower of purchase cost and net realisable value.

3.10 Trade receivables

Trade receivables are recognised initially at cost which is equal to the fair value at the moment of recognition and subsequently measured at amortised cost using the effective interest method (if deemed significant) or at cost, less an allowance for impairment.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

3.12 Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions associated with them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or loss already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Employee benefits

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

In the normal course of business through salary deductions, the Company makes payments to privately operated mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company is not obliged to provide any other post-employment benefits with respect to these pension schemes.

(ii) *Termination benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits as expenses when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) *Regular retirement benefits*

Retirement benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate which is determined as average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

(iv) *Long-term employee benefits*

The Company recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

(v) *Short-term employee benefits*

The Company recognises a liability for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

3.14 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

Provisions for restructuring costs are recognized when the Company has a detailed formal plan for the restructuring that has been communicated to parties concerned.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial assets

Financial assets are recognised and derecognised on the trade date and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified as 'available-for-sale financial assets' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Available-for-sale financial assets (AFS)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Unlisted shares and listed redeemable notes held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 6. Gains and loss arising from changes in fair value are recognised directly in other comprehensive income and presented in equity in the investments revaluation reserve with the exception of impairment loss, interest calculated using the effective interest method and foreign exchange gains and loss on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in statement of comprehensive income for the period.

Dividends on AFS equity instruments are recognised in statement of comprehensive income when the Company's right to receive the dividends is established.

The fair value of AFS financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and loss that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and loss are recognised in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables with fixed or determinable payments are measured at amortised cost using the effective interest method, less any cumulative impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, except for financial assets at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For securities classified as available for sale, significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial assets (continued)

Impairment of financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment loss previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Company has no financial liabilities designated as FVTPL.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

3.17 Borrowings and borrowing costs

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the statement of income in the period incurred.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Share capital

Share capital consists of ordinary shares. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of those transactions. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium. Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

3.19 Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

3.20 Segment reporting

Segment represents a separable part of the Company either as a part engaged in providing products or services (business segment) or as a part engaged in providing products or services within a particular economic environment (geographical segment) that is subject to risk and benefits that differ from those of other segments. The Company does not report segment information in terms of the requirement of IFRS 8 *Operating segments* as internal reporting is not based on segmental information other than revenues per type of cargo.

3.21 Taxation

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

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.

(ii) Deferred tax assets and liabilities

Deferred tax is recognised 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 not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries and jointly controlled companies when it is probable that their status will not change in the near future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(iv) Value added tax (VAT)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2014 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. It is not expected that these standards will have a significant effect on the financial statements of the Company.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements and estimates in applying accounting policies

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed below.

(i) Service Concession Arrangements

The European Union adopted IFRIC 12 "Service Concession Arrangements" effective for financial years starting on or after 1 April 2009. A significant part of the Company's registered activity is performed on an area under concession over maritime domain. According to the Maritime Domain and Seaports Act, the maritime domain is managed by the Port Authority of Rijeka, who is the concession Grantor. The concession agreement was originally signed on 19 September 2000 for a period of 12 years and renewed in 2011 thereby extending the concession period by a further 30 years ending in 2042. The concession agreement concerns the port operations in the established territory (Port of Rijeka area), at the risk and responsibility of the Operator and taking into account: the technical regulations applicable to the operation, modernization, rehabilitation and development of port services as specified in the Maritime Domain and Seaports Act; the terms and conditions of the licence for provision of port services; minimal service limits, and other requirements specified by the Port Authority of Rijeka. According to the concession arrangement, the Operator will have the right of use over the assets representing the infrastructure of the port ("relevant assets") owned by the Port Authority of Rijeka and located in the above-mentioned territory for the purpose of providing port services. Ownership right over the relevant assets are held by the Grantor and these assets are not accounted for in the books of the Company.

The Concession Agreement defines obligations for reconstruction, investments and maintenance of the area under concession. Under the Concession Agreement, Operator has the obligation to cover all costs associated with performing concession activities (energy, water, gas, postal and telephone services, garbage collection and similar related costs), as well as utilities, water charges, water protection fees, insurance costs and other miscellaneous fees arising from the use of area under concession.

In addition to the above costs, as a price for the concession, the Operator pays an annual concession fee composed of a fixed fee per square metre of area under concession and a variable fee per tonne of each type of cargo transhipped through the Port of Rijeka.

Furthermore, according to the concession agreement, the Operator is required to incur capital expenditure relating to the maintenance/replacement of port infrastructure assets in the concession area (including buildings, plant, machinery and equipment) in a total amount of EUR 146 million in accordance with a predefined schedule (for details see note 34 - Capital commitments). The Operator is obligated to return the "relevant assets" (including the investments into relevant assets as prescribed by the concession arrangement) back to the Grantor upon expiry of the concession arrangement and to demolish, at no cost and on the request of the Grantor, any assets in the concession area if the grantor so requires (currently the Operator does not expect any future demolition costs).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

(i) *Service Concession Arrangements (continued)*

As at the reporting date, the Company is controlled by the State. IFRIC 12 deals with public-to-private service concession arrangements. Since the Company is controlled by the State, the current concession arrangement is a form of public-to-public service arrangement and therefore does not fall under the provisions of IFRIC 12.

However, the Company is currently in the process of raising capital for the purpose of capital investment via an initial public offering (“IPO”) which is expected to be finalised in 2015 and as a result, management is re-analysing the accounting treatment used and applicability of IFRIC 12 having in mind a possible change in ownership structure and other provisions regarding applicability of IFRIC 12.

One of the main factors considered by management is the public-to-private characteristic of the concession relationship. Based on the current IPO strategy, the majority of the IPO shares on offer will be focused on institutional investors including the State. However, the Government of the Republic of Croatia currently does not have a formal and published strategy relating to its expectation on the continuation of shareholding in the Company and there are no formal plans on behalf of the Government to either sell its shares, retain its current shareholding or further increase its shareholding in the Company. As a result, on completion of the IPO and subject to its final outcome in terms of the final shareholder structure, the State may or may not end up with a non-controlling interest in Luka Rijeka d.d. Due to these uncertainties, the determination of control over the Company would be possible only after the review of the actual exercise of voting rights upon completion of the IPO. After this review, management will conclude whether the concession arrangement remains a form of public-to-public service arrangement and therefore not falling under the provisions of IFRIC 12 or it would become a public-to-private service arrangement. It is possible that in the future the Company will change its accounting policy regarding the accounting of service concession arrangements with respect to this.

In case the Company changes its accounting policy according to IFRIC 12, management expects the change to be applied retrospectively unless impracticable and the effect on the financial statements would be mainly as follows: reclassifications from property, plant and equipment to intangible assets of the amount related to leasehold improvements on the Grantor owned assets, recognition of intangible and/or financial assets relating to “relevant assets” which are currently kept off balance sheet, and recognition of construction revenue and construction costs in the statement of comprehensive income relating to the investment into infrastructure owned by the Grantor.

In the event of change in its accounting policy, the Company will develop a valuation and accounting model which will enable it to estimate the amount of IFRIC 12 related assets and their type (either intangible or financial asset or a combination of both) which will need to be recognised in its statement of financial position, and also the expected pattern and dynamics of IFRIC 12 related items which affect the future statements of comprehensive income of the Company. Management currently does not have a quantification of the possible effect of potential IFRIC 12 application by the Company.

(ii) *Deferred tax assets recognition*

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances. The Company also makes judgements with respect to the corporate income tax rates used to measure the deferred tax assets and liabilities as the Company is entitled to a tax incentive in the form of a reduced tax rate until 2016. Having this in mind, deferred tax balances, related to temporary differences which are expected to be realised in periods prior to 2016, are measured using the reduced tax rate applicable to the period in which they will be realised. Deferred tax balances related to temporary difference whose realisation is expected after 2016 are measured using the regular tax rate as the Company’s tax incentive will no longer be in place (see notes 3.21 and 15).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

(iii) Actuarial estimates used in determining obligations for employee benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases, staff turnover and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 3.13 and 29).

(iv) Consequences of certain legal actions

There are a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions and recognises provisions for liabilities arising from these actions on a consistent basis.

The Company recognises a provision in the total expected amount of outflows of economic benefits as a result of the court case, which is generally the claim amount plus the estimated related legal costs and penalty interest (if applicable), if it is more likely than not, based on the opinion of management after consultation with legal advisers, that the outcome of the court case will be unfavourable for the Company. The Company does not recognise provisions for court cases or the expected related legal costs and penalty interest (if applicable) in cases where management estimates that an unfavourable outcome of the court case is less likely than a favourable outcome for the Company.

Where indications exist of a possible settlement in relation to a particular court case, a provision is recognised, based on the best estimate of management made in consultation with its legal advisers, in the amount of the expected settlement less any existing amounts already provided for in relation to that particular court case.

Where the Company is a plaintiff in a particular court case, any economic benefits expected to flow to the Company as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits.

Provisions for the Company's obligations arising legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.14 and 29).

(v) Recoverability of trade and other receivables

The recoverable amount of trade and other receivables is estimated at present value of future cash flows discounted at the market interest rate at the measurement date. Short-term receivables with no stated interest rate are measured by the amount of original invoice if the effect of discounting is not significant.

The Company regularly reviews the ageing structure of trade receivables and monitors the average collection period. In cases where debtors with extended payment periods (generally above 120 days) are identified, the Company reduces the related credit limits and payment days for future transactions and, in cases where it deems it necessary, imposes restrictions on future transactions or delivery of cargo held in storage until the outstanding balance is repaid either entirely or in part. In cases where the Company identifies receivables toward debtors which have entered into pre-bankruptcy or bankruptcy proceedings, an impairment loss is immediately recognised in full.

In the process of regulating the collection of overdue debts, the Company actively negotiates with the respective debtors taking into account expectations of future business relations, significance of exposure to an individual debtor, possibilities of compensation, exercise of instruments of security (if any) or seizure of assets etc.

(vi) Revaluation of land

As the Company applies the revaluation model of accounting for land, management applies judgement with respect to the adequacy of the frequency of revaluations ensuring that they are performed on a basis regular enough to ensure that the carrying amount does not differ materially from the amount which would be determined using fair values at the reporting date.

Management also applies judgement in ensuring that the revaluations are performed based on valuation reports from independent, expert valuers and, where applicable, that the estimates and assumptions used by the valuers reflect the management's own understanding of the specifics attached to each particular land plot.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 6 – DETERMINING FAIR VALUES

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and finance department in relation to the monitoring of all significant fair value measurements, consultation with external experts and the responsibility to report, with respect to the above, to those charged with corporate governance.

Fair values are measured using information collected from third parties in which case the Board and the finance department assess whether the evidence collected from third parties support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified.

All significant issues related to fair values estimates are reported to the Supervisory Board and the Audit Committee. Fair values are categorised into different level in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

If one or more significant inputs are not based on observable market data, the fair value estimate is included in level 3.

In preparing these financial statements, the Company has made the following significant fair value estimates statements as further explained in detail in following notes:

- note 18: Property, plant and equipment (with respect to land)
- note 21: Financial assets available for sale

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 7 – COMPARATIVES AND RESTATEMENT OF OPENING BALANCES

Restatements of opening balances

During 2014, a number of errors have been identified in relation to the Company's financial statements for the year ended 31 December 2013 and earlier periods, which have not been withdrawn. In accordance with the requirements of International Accounting Standard ("IAS") 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, these errors have been retrospectively corrected in these financial statements.

(i) Prolonged useful life of non-current assets

In 2010, the Company re-assessed the useful lives for a number of property, plant and equipment items whereby the revised estimated useful lives did not adequately reflect the actual remaining useful lives of these assets which was not in accordance with IAS 16 *Property, plant and equipment*. The Company restated its opening balances as at 1 January 2013 and its financial statements for the year ended 31 December 2013 and aligned the depreciation rates of these assets with the appropriate remaining useful lives.

(ii) Impairment of available-for-sale financial assets

Up to 31 December 2014, the Company recognised losses on available-for-sale financial assets through other comprehensive income and presented them directly in equity as a negative revaluation reserve even though these losses represented objective evidence of impairment resulting from a significant and prolonged decline in value which is not in accordance with IAS 39 *Financial instruments: Recognition and measurement* which requires such impairments to be recognized through profit or loss. The Company restated its opening balances as at 1 January 2013 and its financial statements for the year ended 31 December 2013 by aligning the accounting treatment of losses on available-for-sale financial assets with the requirements of IAS 39.

(iii) Impairment of receivables from insurance policies

During 2014, the Company redeemed several life insurance policies (which represented a financial asset incorporating a savings element based on a yield payable to the Company on maturity) at a discount due to early redemption and recorded the discount in profit or loss for the year ended 31 December 2014 even though the terms of early repayment and the amount of discount or loss on expected disposal were known and existed at 31 December 2013. As a result, the estimated discount should have been recognised as at 31 December 2013 as an impairment loss in accordance with IAS 39 *Financial instruments: Recognition and measurement*. The Company restated its financial statements for the year ended 31 December 2013 to account for this impairment in accordance with IAS 39.

(iv) Impairment of other investments

As at 31 December 2013, the Company's investments included an investment into unrelated entities for which indicators of impairment (recoverability of the investment was not probable) existed prior to 1 January 2013 and which the Company should have impaired in accordance with IAS 39 *Financial instruments: Recognition and measurement*. The Company restated its opening balances as at 1 January 2013 and its financial statements for the year ended 31 December 2013 to account for this impairment in accordance with IAS 39.

(v) Impairment of land

During 2014, the Company revalued its land in accordance with the applied revaluation model of accounting for land as prescribed by IAS 16 *Property, plant and equipment*. The revaluation resulted in a significant impairment of one land plot following which the Company further investigated the reasons for such a discrepancy between amounts previously reported and those resulting from the revaluation made in 2014. The valuation report and the subsequent analysis performed by an independent valuation expert established that the impairment of this land plot stemmed from impairment indicators (significant decline in market values) which existed in previous years and which the Company should have objectively been aware of at that time. As a result of not taking into consideration the indicators of impairment which existed in previous years, the Company made a material error resulting in the overstatement of land. The Company restated its opening balances as at 1 January 2013 and its financial statements for the year ended 31 December 2013 to account for the impairment of land which should have been recorded in previous period in accordance with IAS 36 *Impairment of assets*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 7 – COMPARATIVES AND RESTATEMENT OF OPENING BALANCES (CONTINUED)

(vi) *Recognition of finance lease contract*

In 2005, the Company entered into a long-term finance lease agreement (maturing in 2018) with the Port Authority of Rijeka with respect to the financing of certain machinery. From the inception of the lease until 31 December 2014, the Company made no payments of neither principal nor interest with respect to the leased item as a result of informal agreements with the lessor on postponement of payment. Furthermore, in its financial statements for the year ended 31 December 2013 the Company previously recognized neither the assets nor the liabilities arising from this finance lease agreement, which is not in accordance with IAS 17 *Leases* which requires the recognition of finance lease liabilities and leased assets in the statement of financial position and the depreciation and interest charge through profit or loss for the duration of the lease. As a result, the Company restated its opening balances as at 1 January 2013 and its financial statements for the year ended 31 December 2013 to account for the lease agreement in accordance with IAS 17.

(vii) *Reclassification of advances for non-current assets from other receivables to assets under construction*

As at 31 December 2012, the Company recognized advances given to suppliers for the purchase of non-current assets as other receivables, instead of recognizing them as non-current assets under construction. The Company restated its balances as at 1 January 2013 and reclassified these advances from 'Other receivables' to 'Property, plant and equipment'.

(viii) *Reclassification of investment property from property, plant and equipment to investment property*

In 2013, upon merging the subsidiary OPI d.o.o. into the Company, the Company recognised the items classified prior to merger (by both the subsidiary and the Company) as investment property into property, plant and equipment even though these items fulfilled the criteria of being classified as investment property as defined by the Company's accounting policies which is not in accordance with IAS 40 *Investment property* and is inconsistent with the Company's reporting in previous periods. The Company restated its balances as at 31 December 2013 and reclassified the relevant items from 'Property, plant and equipment' to 'Investment property'.

(ix) *Reclassification of leasehold improvements from intangible to tangible assets*

As at 31 December 2013, the Company recognized leasehold improvements relating to tangible asset items as intangible assets, which is not in accordance with IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets*. Subsequently, the Company restated its balances as at 31 December 2013 and reclassified leasehold improvements from 'Intangible assets' to 'Property, plant and equipment'.

(x) *Deferral of recognition of restructuring costs*

In periods prior to 2013, the Company underwent a workforce restructuring process whereby the restructuring costs were financed by dedicated loan facilities. The Company recognised an accrued expense and accrued income relating to the restructuring and effectively deferred the recognition of these restructuring costs in order to match them to the respective loan repayments and future savings expected as a result of the restructuring process. This treatment is not in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which does not allow for the deferral of such restructuring costs and instead requires them to be recognised through profit or loss in the period when they arise. The Company restated its opening balances as at 1 January 2013 and its financial statements for the year ended 31 December 2013 and aligned the accounting treatment of restructuring costs with the requirements of IAS 37.

(xi) *Recognition of provisions for employee benefits*

In previous periods, the Company did not provide for employee benefits (jubilee awards and severance payments) arising from collective labour agreements and employment contracts as required by IAS 19 *Employee benefits*. The Company restated its opening balances as at 1 January 2013 and its financial statements for the year ended 31 December 2013 and recognised the provisions for relevant employee benefits to reflect the requirements of IAS 19.

(xii) *Recognition of provisions for court cases*

In previous periods, the Company did not provide for court cases for which the circumstances requiring the recognition of a provision (unfavourable court verdicts reached) existed in the prior periods. The Company restated its opening balances as at 1 January 2013 and its financial statements for the year ended 31 December 2013 and aligned the accounting treatment of provisions for court cases with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 7 – COMPARATIVES AND RESTATEMENT OF OPENING BALANCES (CONTINUED)

(xiii) *Measurement of deferred tax balances*

As a result of operating in a dedicated “free zone”, the Company is entitled to a tax incentive in the form of reduction of corporate income tax rates the amount of which was predetermined in advance from 2003 up to 2016 after which the Company is no longer eligible for this tax incentive. However, in previous periods the Company measured its deferred tax balances by applying the currently applicable tax rate for each period to the balance of temporary tax differences arising in that period regardless of the expected timing of their realisation and the tax rates at which they would eventually be realised which is not in accordance with IAS 12 *Income taxes*. The Company restated its opening balances as at 1 January 2013 and its financial statements for the year ended 31 December 2013 to account for the measurement of deferred tax balance at the expected tax rates in accordance with IAS 12.

(xiv) *Revaluation of investment in associate*

During 2011, subsequent to the disposal of a 51% ownership share in its subsidiary (Jadranska vrata d.d.), the Company revalued its investment in the former subsidiary which is not in accordance with IAS 27 *Consolidated and Separate Financial Statements* and the Company’s accounting policy which requires that investments in subsidiaries and associates are carried at cost less impairment losses (accounting policy 3.1). Subsequently, the Company restated its opening balances as at 1 January 2013 and its financial statements for the year ended 31 December 2013 and aligned the accounting treatment of investments in associates with the requirements of IAS 27 and accounting policy 3.1.

(xv) *Reclassification adjustments*

In the preparation of these consolidated financial statements, the Company made certain reclassifications between various classes of assets as well as between classes of liabilities, expenses and revenues relating to items which have not been consistently classified in previous periods but which did not constitute restatements due to errors or changes in accounting policies. Most significant reclassifications relate to offset of current liabilities and current assets in cases where the Company will realise the asset and settle the liability simultaneously or settle on a net basis. The Company has reclassified such items in these consolidated financial statements to achieve comparability and consistency of presentation.

The effect of restatements on the statement of comprehensive income and financial position are presented on the following pages while the effect on the statement of cash flows is not presented as its preparation was not practicable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 7 – COMPARATIVES AND RESTATEMENT OF OPENING BALANCES (CONTINUED)

Retrospective overview of restatements in the statement of comprehensive income for the year ended 31 December 2013:

<i>(in thousands of HRK)</i>	2013	Restatements								2013
	Previously reported	(i)	(ii)	(iii)	(vi)	(x)	(xi)	(xii)	(xv)	Restated
Revenue from sales	144,224	-	-	-	-	-	-	-	-	144,224
Other income	35,470	-	-	-	-	-	-	(2,000)	460	33,930
Operating income	179,694	-	-	-	-	-	-	(2,000)	460	178,154
Materials and consumables used	(59,922)	-	-	-	-	-	-	-	-	(59,922)
Personnel expenses	(71,708)	-	-	-	-	(1,762)	766	-	(8,698)	(81,402)
Depreciation and amortisation	(8,429)	(239)	-	-	(1,486)	-	-	-	-	(10,154)
Provisions	-	-	-	-	-	-	-	-	-	-
Other expenses	(31,294)	-	-	-	-	-	-	(1,327)	8,738	(23,883)
	(171,353)	(239)	-	-	(1,486)	(1,762)	766	(1,327)	40	(175,361)
Finance income	5,364	-	-	-	958	-	-	-	(474)	5,848
Finance costs	(10,688)	-	(334)	(2,188)	(1,104)	(187)	-	5,000	-	(9,501)
Net finance costs	(5,324)	-	(334)	(2,188)	(146)	(187)	-	5,000	(474)	(3,653)
Profit/(loss) before tax	3,017	(239)	(334)	(2,188)	(1,632)	(1,949)	766	1,673	26	(860)
Income tax	(343)	-	428	328	-	-	(154)	-	(26)	233
Net profit/(loss) for the year	2,674	(239)	94	(1,860)	(1,632)	(1,949)	612	1,673	-	(627)
Other comprehensive income (before tax)	(334)	-	334	-	-	-	-	-	-	-
Income tax on OCI	34	-	(34)	-	-	-	-	-	-	-
Total comprehensive income/(loss)	2,374	(239)	394	(1,860)	(1,632)	(1,949)	612	1,673	-	(627)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 7 – COMPARATIVES AND RESTATEMENT OF OPENING BALANCES (CONTINUED)

Retrospective overview of restatements in the statement of financial position as at 31 December 2012:

	31.12.2012.		31.12.2012.												
	Previously reported		(i)	(ii)	(iv)	(v)	(vi)	(vii)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)	Restated
ASSETS															
Non-current assets															
Intangible assets	1,476	-	-	-	-	-	-	-	-	-	-	-	-	-	1,476
Property, plant and equipment	369,970	(1,773)	-	-	(20,774)	1,486	15,000	-	-	-	-	-	-	(763)	363,146
Investment property	8,724	-	-	-	-	-	-	-	-	-	-	-	-	-	8,724
Investment in subsidiaries and associates	62,926	-	-	-	-	-	-	-	-	-	-	(48,187)	-	-	14,739
Financial assets available for sale	2,876	-	-	-	-	-	-	-	-	-	-	-	-	-	2,876
Non-current financial assets	20,991	-	-	(1,771)	-	-	-	-	-	-	-	-	-	-	19,220
Deferred tax assets	752	-	-	354	4,002	-	-	-	1,237	-	-	-	-	-	6,345
Total non-current assets	467,715	(1,773)	-	(1,417)	(16,772)	1,486	15,000	-	1,237	-	(48,187)	-	(763)	-	416,526
Current assets															
Inventories	1,409	-	-	-	-	-	-	-	-	-	-	-	-	-	1,409
Trade and other receivables	99,174	-	-	-	-	(15,000)	(29,959)	-	-	-	-	-	-	(17,252)	36,963
Income tax receivables	109	-	-	-	-	-	-	-	-	-	-	-	-	109	
Current financial assets	52,035	-	-	-	-	-	-	-	-	-	-	-	-	(3,264)	48,771
Cash and cash equivalents	733	-	-	-	-	-	-	-	-	-	-	-	-	-	733
Total current assets	153,460	-	-	-	(15,000)	(29,959)	-	-	1,237	-	(48,187)	-	(20,516)	-	87,985
Total assets	621,175	(1,773)	-	(1,417)	(16,772)	1,486	-	(29,959)	1,237	-	(48,187)	-	(21,279)	-	504,511
EQUITY AND LIABILITIES															
Capital and reserves															
Share capital	(598,048)	-	-	-	-	-	-	-	-	-	-	-	-	-	(598,048)
Capital and other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation reserves	(12,932)	-	(6,842)	-	763	-	-	-	-	-	2,192	-	-	-	(16,819)
Accumulated losses	154,964	1,773	6,842	1,417	16,009	28,865	24,074	4,946	31,378	48,187	-	-	-	-	318,455
Total equity	(456,016)	1,773	-	1,417	16,772	28,865	24,074	4,946	31,378	2,192	48,187	-	-	-	(296,412)
Non-current liabilities															
Non-current loans and borrowings ^a	(62,022)	-	-	-	-	(13,573)	-	975	-	-	-	-	-	-	(74,620)
Provisions	(11,602)	-	-	-	-	-	-	(6,183)	(12,096)	-	-	-	-	946	(28,935)
Deferred tax liability	(2,191)	-	-	-	-	-	-	-	-	(2,192)	-	-	-	-	(4,383)
Total non-current liabilities	(75,815)	-	-	-	(13,573)	-	975	(6,183)	(12,096)	(2,192)	-	-	-	946	(107,938)
Current liabilities															
Trade and other payables	(64,720)	-	-	-	-	(7,886)	-	4,910	-	-	-	-	-	18,819	(48,877)
Income tax payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current loans and borrowings	(22,305)	-	-	-	-	(8,892)	-	-	-	-	-	-	-	141	(31,056)
Provisions	(2,319)	-	-	-	-	-	-	-	-	(19,282)	-	-	-	-	(20,228)
Total current liabilities	(89,344)	-	-	-	(16,778)	-	4,910	-	(19,282)	-	-	-	-	20,333	(100,161)
Total liabilities	(165,159)	-	-	(30,351)	(30,351)	5,885	5,885	(6,183)	(31,378)	(2,192)	-	-	-	21,279	(208,099)
Total equity and liabilities	(621,175)	1,773	-	1,417	16,772	(1,486)	-	29,959	(1,237)	-	48,187	-	21,279	-	(504,511)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 7 – COMPARATIVES AND RESTATEMENT OF OPENING BALANCES (CONTINUED)

Retrospective overview of restatements in the statement of financial position as at 31 December 2013:

31.12.2013.

<i>(in thousands of HRK)</i>	31.12.2013. Previously reported	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)	(xvi)	(xvii)	(xviii)	Restated
ASSETS																				
Non-current assets																				
Intangible assets	3,293	-	-	-	-	-	-	(2,133)	-	-	-	-	-	-	-	-	-	-	-	1,160
Property, plant and equipment	406,590	(2,017)	-	-	(20,774)	-	-	(2,894)	2,133	-	-	-	-	-	-	-	-	-	(758)	382,280
Investment property	7,805	-	-	-	-	-	2,894	-	-	-	-	-	-	-	-	-	-	-	-	10,699
Investment in subsidiaries and associates	60,014	-	-	-	-	-	-	-	-	-	-	-	-	(48,187)	-	-	-	-	-	11,827
Financial assets available for sale	2,542	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,542
Non-current financial assets	21,437	-	-	(2,188)	(1,771)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,478
Deferred tax assets	1,180	-	328	354	4,002	-	-	-	-	1,083	-	-	-	-	-	-	-	-	-	6,947
Total non-current assets	502,861	(2,017)	-	(1,860)	(1,417)	(16,772)	-	-	-	1,083	-	-	-	(48,187)	-	-	-	-	(758)	432,933
Current assets																				
Inventories	1,365	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,365
Trade and other receivables	59,220	-	-	-	-	(28,524)	-	-	-	-	-	-	-	-	-	-	-	-	3,818	34,514
Income tax receivables	109	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	109
Current financial assets	37,793	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,060)	-	-	-	-	34,733
Cash and cash equivalents	1,004	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,004
Total current assets	99,491	-	-	-	-	(28,524)	-	-	-	(28,524)	-	-	-	-	-	-	-	-	758	71,725
Total assets	602,352	(2,017)	-	(1,860)	(1,417)	(16,772)	-	-	-	1,083	-	-	-	(48,187)	-	-	-	-	(758)	504,658
EQUITY AND LIABILITIES																				
Capital and reserves																				
Share capital	(598,048)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(598,048)
Capital and other reserves	(11,916)	-	(7,430)	-	-	763	-	-	-	-	-	-	1,017	-	-	-	-	-	-	(17,566)
Revaluation reserves	150,580	2,017	7,430	1,860	1,417	16,009	30,497	-	-	26,023	4,334	29,705	-	-	-	-	-	-	-	318,059
Accumulated losses	(459,384)	2,017	-	1,860	1,417	16,772	30,497	-	-	26,023	4,334	29,705	1,017	-	-	-	-	-	-	(297,555)
Total equity	(63,304)	-	-	-	-	873	-	-	-	873	-	-	-	-	-	-	-	-	-	(73,384)
Non-current loans and borrowings [*]																				
Provisions																				
Deferred tax liability	(3,282)	-	-	-	-	-	-	-	-	(5,417)	(13,073)	-	-	-	451	-	-	-	-	(18,039)
Total non-current liabilities	(66,586)	-	-	-	-	-	-	-	-	(5,417)	(13,073)	-	-	-	(84)	-	-	-	-	(4,383)
Current liabilities																				
Trade and other payables	(36,097)	-	-	-	-	-	(8,729)	-	-	1,628	-	-	-	-	-	-	-	-	-	(44,676)
Income tax payable		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current loans and borrowings	(39,229)	-	-	-	-	-	(10,815)	-	-	-	-	-	-	-	-	-	-	-	-	(49,538)
Provisions	(1,056)	-	-	-	-	-	-	-	-	-	-	(16,632)	-	-	605	-	-	-	-	(17,083)
Total current liabilities	(76,382)	-	-	-	-	-	(19,544)	-	-	1,628	-	(16,632)	-	-	(367)	-	-	-	-	(111,297)
Total liabilities	(142,968)	-	-	-	-	-	(30,497)	-	-	2,501	(5,417)	(29,705)	(1,017)	-	-	-	-	-	-	(207,103)
Total equity and liabilities	(602,352)	2,017	-	1,860	1,417	16,772	-	-	-	28,524	(1,083)	-	-	48,187	-	-	-	-	(758)	(504,658)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 8 – REVENUE FROM SALES

(in thousands of HRK)

	2014	2013
Sales to domestic customers	36.888	51.677
Sales to foreign customers	128.750	92.547
	165,638	144,224

The Company's revenues increased in 2014 compared to 2013 as a result of acquisitions of new customers and the recovery of a key foreign customer which ceased operations for an extended period in 2013.

An overview of revenue per type of cargo is given below:

(in thousands of HRK)

	2014	2013
General cargo	60.493	60.493
Bulk cargo	31.854	31.854
Port services	73.291	51.877
Total	165,638	144,224

General and bulk cargo revenue relates to fees the Company charges based on tonne of transhipped cargo while port services relate to storage, warehousing manipulation and other services.

NOTE 9 – OTHER INCOME

(in thousands of HRK)

	2014	2013 restated
Gain on sale of non-current tangible and intangible assets	1.207	1.244
Donations and grants	-	1.419
Collection of bad debts	21	554
Insurance recoveries	762	1.945
Income from settlements	-	9.663
Rental income	12.382	13.383
Reversal of provisions	666	2.152
Other income	1.842	3.570
	16,880	33,930

Rental income relates to income from rental of parking lots and offices in the city of Rijeka.

During 2013, the Company reached a settlement with the Republic of Croatia with respect to unissued government bonds relating to the privatisation of State owned residential real estate. In periods to 2012, the Company acted as an agent for the State, in accordance with the relevant privatisation legislation, and sold a number of apartments whereby a portion of the proceeds for sale represented a liability to the State which the Company recorded in its financial statements. Further, as per the applicable legislation, the Company was entitled to receive government bonds carrying a yield of 5% with a maturity of 5 years but which the State never issued and which were never accounted for as assets by the Company. In 2013, the Company and the State settled out of court for an amount of HRK 9,663 thousand representing the yield the Company would have earned on the government bonds it was entitled to had the State issued them.

In 2013, the Company released provisions for court cases with suppliers based on the settlement with the supplier Hrvatske vode d.o.o.

In 2013, the Company received a non-refundable non-monetary grant from the State in the form of gravel and stone leftover from the construction of a nearby state road which was recognised in its entirety as income through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 10 – MATERIALS AND CONSUMABLES USED

<i>(in thousands of HRK)</i>	2014	2013
Energy	14,177	12,856
Utilities	3,247	2,821
Postage and telecommunications	823	920
Concession fees	5,980	5,073
Transport services	12,606	7,577
Quality control and disinfection	1,386	1,375
Freight manipulation services	11,882	9,540
Maintenance	9,507	9,006
Raw materials and consumables	7,628	8,175
Rent	894	1,737
Other materials expenses	1,206	842
	69,336	59,922

Variable part of the concession fee for 2014 amounted to HRK 2,054 thousand (2013: HRK 1,800 thousand).

NOTE 11 – PERSONNEL EXPENSES

<i>(in thousands of HRK)</i>	2014	2013 restated
Gross salaries and wages	64,476	62,234
Contributions on salaries	10,780	9,473
Other employee related costs	3,902	9,695
	79,158	81,402

As at 31 December 2014 the number of staff employed by the Company was 698 (2013: 704).

In 2014 termination benefits were accrued for 1 employee in the amount of HRK 160 thousand and recognised as an expense while in 2013 the Company recognised termination benefits based on a formal restructuring plan in the amount of HRK 6,275 thousand. The restructuring related to the termination of 32 employees.

NOTE 12 – OTHER EXPENSES

<i>(in thousands of HRK)</i>	2014	2013 restated
Bank charges	422	496
Intellectual services	2,429	1,466
Fines and penalties	2,014	1,221
Reimbursement of costs to employees	3,025	3,115
Non-income related taxes, contributions and fees	10,072	9,578
Insurance	3,019	5,192
Court fees and expenses	120	323
Impairment of receivables	1,208	56
Marketing and entertainment	359	363
Increase in provisions for court cases	-	1,327
Other expenses	560	746
	23,228	23,883

Non-income related taxes, contributions and fees relate to utility charges and fees for water regulation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 13 – FINANCE INCOME

<i>(in thousands of HRK)</i>	2014	2013 restated
Interest and similar income	790	2,048
Foreign exchange gains	1,125	3,636
Gain on disposal of AFS financial assets	26	-
Other financial income	96	164
	2,037	5,848

Interest income mostly consists of interest on bank deposits in the amount of HRK 745 thousand (2013: HRK 1,870 thousand).

NOTE 14 – FINANCE COSTS

<i>(in thousands of HRK)</i>	2014	2013 restated
Interest and similar expenses	4,565	4,667
Foreign exchange losses	3,827	2,312
Losses on other financial assets	-	2,188
Losses on equity financial instruments	158	334
	8,550	9,501

During 2014, the Company redeemed prior to maturity its collective life insurance policies classified as non-current financial assets. As the transaction resulted in a discount (loss) at redemption which was already negotiated previously during 2013, the Company recorded an impairment loss in the amount of the expected loss on redemption as at 31 December 2013.

Interest and similar expenses relate mostly to interest on bank loans and finance leases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 15 – INCOME TAX

Tax income consists of:

<i>(in thousands of HRK)</i>	2014	2013 restated
Current income tax	-	369
Deferred tax	(393)	(602)
Income tax expense/(benefit)	(393)	(233)

Reconciliation of the effective tax rate

A reconciliation of tax expense recognised in the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

<i>(in thousands of HRK)</i>	2014	2013 restated
Loss before taxation	(5.378)	(860)
Tax calculated at 20%	(1.076)	(172)
Non-taxable income	(19)	(8)
Non-deductible expenses and Recognition of previously unrecognised temporary differences	572	878
Tax incentive - reduction of tax rate	-	(328)
Effect of changes in tax rate	130	(175)
	-	(428)
Income tax recognised in the statement of comprehensive income	(393)	(233)
Effective tax rate	7%	27%

As at 31 December 2014, the Company has unused tax losses to carry forward of HRK 4.815 thousand (*31 December 2013: nil*) for which a deferred tax asset was recognised as management believes that sufficient future taxable profits will be available against which the tax losses can be offset.

Tax incentive scheme

A significant part of the Company's registered activity is performed in an area designated as a "free zone" where the State has a tax incentive scheme in place entitling entities operating within the zone to pay corporate income tax at tax rate lower than regular tax rates. The tax incentive scheme has defined dynamic of the reduction of the regular tax rate and expires in 2016 after which the Company will no longer be entitled to use this incentive and will have to pay taxes at a regular rate of 20%.

In 2014 and 2013, the Company was entitled to a 25% decrease of the regular tax rate (resulting in a reduced tax rate of 15%) while in 2012 it was entitled to a 50% decrease of the regular tax rate (resulting in a reduced tax rate of 10%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 16 – DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax asset in the reported periods arose from the following:

	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
2013 (restated)				
	<i>(in thousands of HRK)</i>			
Land	4,002	-	-	4,002
Other financial assets	354	-	-	354
Receivables from insurance policies	-	-	328	328
Financial assets available for sale	752	-	428	1,180
Provision for employee entitlements	1,237	-	(154)	1,083
	6,345	-	602	6,947
2014				
	<i>(in thousands of HRK)</i>			
Land	4,002	-	-	4,002
Other financial assets	354	-	-	354
Receivables from insurance policies	328	-	(328)	-
Financial assets available for sale	1,180	(63)	(109)	1,008
Provision for employee entitlements	1,083	-	(133)	950
Tax losses	-	-	963	963
	6,947	(63)	393	7,277

Deferred tax assets with respect to provisions relate to temporary differences arising from provisions on employee entitlements (jubilee awards and retirement benefits) while the deferred tax asset with respect to land relates to the impairment of two land plots.

In accordance with the criteria for measurement of deferred taxes with respect to tax rates expected at the realisation of the temporary differences, deferred tax assets related to land impairment and long term provisions are calculated applying the regular tax rate while other deferred taxes assets are considered short term and calculated by applying the relevant reduced tax rate.

Deferred tax liability in the reported periods arose from the following:

	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
2013 (restated)				
	<i>(in thousands of HRK)</i>			
Land	4,383	-	-	4,383
	4,383	-	-	4,383
2014				
	<i>(in thousands of HRK)</i>			
Land	4,383	4,553	-	8,936
	4,383	4,553	-	8,936

Deferred tax liability with respect to land stems from the Company's application of the revaluation model of accounting for land and the respective revaluations and is considered long term and calculated by applying the regular tax rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 17 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Software	Investments in progress	Total
Cost			
At 1 January 2013	3,721	-	3,721
Additions (restated)	-	85	85
Transfers (restated)	85	(85)	-
Disposals	-	-	-
At 31 December 2013 (restated)	3,806	-	3,806
Additions	-	14	14
Transfers	14	(14)	-
Disposals	-	-	-
At 31 December 2014	3,820	-	3,820
Accumulated amortisation			
At 1 January 2013	2,245	-	2,245
Charge for the year	401	-	401
Disposals	-	-	-
At 31 December 2013	2,646	-	2,646
Charge for the year	401	-	401
Disposals	-	-	-
At 31 December 2014	3,047	-	3,047
Carrying amount			
As at 1 January 2013	1,476	-	1,476
As at 31 December 2013 (restated)	1,160	-	1,160
As at 31 December 2014	773	-	773

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land	Buildings	Equipment and fittings	Leasehold improvements	Assets under construction	Total
Cost						
As at 1 January 2013 (reported)	224,547	139,240	131,315	-	9,384	504,486
Restatements (note 7)	(20,774)	-	23,784	-	15,000	18,010
As at 1 January 2013 (restated)	203,773	139,240	155,099	-	24,384	522,496
Additions	-	889	1,306	-	25,069	27,264
Disposals	-	(465)	(5,036)	-	-	(5,501)
Effect of merger of subsidiary	1,489	-	-	-	-	1,489
Transfers	130	474	40,105	2,151	(42,860)	-
Transfer to investment property	-	-	-	-	-	-
At 31 December 2013	205,392	140,138	191,474	2,151	6,593	545,748
Additions	-	-	-	-	15,741	15,741
Disposals	-	-	(3,039)	(2,151)	-	(5,190)
Transfers	842	-	2,278	2,179	(5,299)	-
Revaluation	22,739	-	-	-	-	22,739
At 31 December 2014	228,973	140,138	190,713	2,179	17,035	579,038
Accumulated depreciation						
As at 1 January 2013 (reported)	-	29,927	104,592	-	-	134,519
Restatements (note 7)	-	713	24,118	-	-	24,831
As at 1 January 2013 (restated)	-	30,640	128,710	-	-	159,350
Charge for the year (restated)	-	2,551	7,037	18	-	9,606
Effect of merger of subsidiary	-	-	-	-	-	-
Disposals	-	(462)	(5,026)	-	-	(5,488)
At 31 December 2013 (restated)	-	32,729	130,721	18	-	163,468
Charge for the year	-	3,605	5,438	20	-	9,063
Disposals	-	(955)	(851)	(18)	-	(1,824)
At 31 December 2014	-	35,379	135,308	20	-	170,707
Carrying amount						
As at 1 January 2013 (restated)	203,773	108,600	26,389	-	24,384	363,146
As at 31 December 2013 (restated)	205,392	107,409	60,753	2,133	6,593	382,280
As at 31 December 2014	228,973	104,759	55,405	2,159	17,035	408,331

Assets under construction relate mainly to investments in development of terminal Škrljevo which is owned by the Company and not part of the area under concession. The Company is currently in the process of raising capital through an IPO aimed at funding the expansion of the Škrljevo terminal and its supporting facilities.

Land and buildings of the Company with a carrying amount of HRK 80.897 thousand (2013: HRK 39,895 thousand) are mortgaged against the Company's borrowings.

Leased equipment where the Company is the lessee under a finance lease arrangement has a carrying value in the amount of HRK 3.070 thousand (2013: HRK 3,703 thousand).

<i>(in thousands of HRK)</i>	2014	2013 restated
Cost of capitalised finance leases	31.373	31.328
Accumulated depreciation	(28.303)	(27.625)
Carrying value	3,070	3,703

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Revaluation of land

The carrying amount that would have been recognised had the land been carried under the cost model amounts to HRK 184,285 thousand. As at 31 December 2014, the revaluation surplus recognised in revaluation reserves amounts to HRK 35,752 thousand.

The Company revalued its land during 2014 based on fair value estimates made by an independent expert valuer resulting in a revaluation surplus of HRK 22,739 thousand. As a result of the revaluation exercise, the Company also restated opening balances of certain land items with respect to prior period impairments as explained in note 7 (v).

Measurement of fair values

Revaluation of land is performed on the basis of independent expert valuer reports. For most land plots, the method used for measuring the fair value of land by the valuer is the comparison of realised market selling prices for similar and comparable real estate taking into account geographical specifics, type of land plot, restrictions imposed by local building regulations and other factors.

The Company's land balance also includes a land plot which is currently used as a parking lot and has revalued this item using a discounted cash flow method based on an estimated yield of 6.14% over a 30 year period. The Company has not classified this land as investment property as the initial planned purpose was to build own premises for use in the principal activity, but is currently in the process of considering its purpose and conversion into investment property which would result in its reclassification.

NOTE 19 – INVESTMENT PROPERTY

<i>(in thousands of HRK)</i>	2014.	2013 restated
Cost		
At 1 January	13,653	10,355
Disposals	(635)	(888)
Merger of subsidiary	-	4,186
	13,018	13,653
Accumulated depreciation		
At 1 January	2,954	1,631
Charge for the year	197	147
Disposals	(115)	(116)
Merger of subsidiary	-	1,292
	3,036	2,954
As at 31 December	9,982	10,699

Investment property relates to 45 apartments owned by the Company and leased for an indefinite period to protected tenants.

Following the revision of the lease agreements with protected tenants in 2013, instead of paying a protected lease rental fee, the tenants agreed to pay for mandatory monthly maintenance fees and operational expenses stemming from the use of the apartments. As a result, the Company does not generate rental income from apartments but also does not incur direct operating expenses (including maintenance and repairs) as these are borne by lessees.

Overall business operations relating to investment property are performed by the subsidiary Stanovi d.o.o.

The Company regularly tests the investment property for impairment by analysis of comparable real estate prices. As at the reporting dates, current quoted market prices for similar properties and realised sales prices do not indicate impairment and the carrying amount is a reasonable approximation of fair value. Furthermore, in 2014, the Company sold 4 apartments and realised a gain on sale of HRK 693 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 20 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

<i>(in thousands of HRK)</i>	2014	2013 restated
Investment in subsidiaries	40	100
Investment in associate	11,727	11,727
	11,767	11,827

(i) Investment in subsidiaries

<i>(in thousands of HRK)</i>	2014		2013	
	% of ownership	Carrying value	% of ownership	Carrying value
OPI d.o.o.	-	-	-	-
Luka prijevoz d.o.o.	100%	20	100%	20
Stanovi d.o.o.	100%	20	100%	20
Privez-odvez d.o.o.	-	-	100%	60
		40		100

During 2013, the Company merged its subsidiary OPI d.o.o. Assets and liabilities of the subsidiary at the date of merger were as follows:

<i>(in thousand of HRK)</i>	Net assets merged
Land	1,489
Buildings	2,894
Non-current assets	4,383
Current assets	561
Total assets	4,944
Non-current liabilities	165
Current liabilities	92
Total liabilities	257
NET ASSETS	4,687

During 2014, the Company merged its subsidiary Privez-odvez d.o.o. which had no significant business operations or assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 20 – INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS (CONTINUED)

(ii) *Investment in equity accounted investees*

Investments in equity accounted investees are as follows:

<i>(in thousands of HRK)</i>	2014	2013 restated
Jadranska vrata d.d.	11,727	11,727
	11,727	11,727

Summary of information about the equity accounted investee Jadranska vrata d.d. is as follows:

<i>(in thousands of HRK)</i>	As at 31 Dec 2014	As at 31 Dec 2013
Assets	211.499	237.966
Liabilities	89.414	109.985
Revenue	67.663	61.329
Net profit/(loss)	(2.614)	3.903

Principal operations of the equity accounted investee are related to operating a container cargo terminal in port of Rijeka area and the provision of related port services.

The Group held an ownership interest in Jadranska vrata d.d. amounting to 49% in both reporting periods.

NOTE 21 – FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise following:

<i>(in thousands of HRK)</i>	2014	2013
Investment in quoted equity securities	2,217	2,542
	2,217	2,542

Movement in AFS financial assets was as follows:

<i>(in thousands of HRK)</i>	2014	2013 restated
As at 1 January	2,542	2,876
Impairment recognised through profit or loss (restated)	(158)	(334)
Revaluation recognised through equity	422	-
Disposals during the year	(589)	-
As at 31 December	2,217	2,542

Fair value measurement

The fair value of investments in shares of listed companies is based on stock market prices at the reporting date. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 1 (see note 6). Investments in equity instruments quoted on the stock exchange but where there is no active market are carried at cost and tested for impairment regularly. The majority of AFS financial assets (*HRK 2,033 thousand as at 31 December 2014*) relates to shares of companies listed on the Zagreb stock exchange which have an active market.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 22 – NON-CURRENT FINANCIAL ASSETS

<i>(in thousands of HRK)</i>	<u>2014</u>	<u>2013</u> <u>restated</u>
Non-current receivables for apartments sold	8,380	9,697
Receivables from insurance policies	-	7,710
Other financial assets	42	71
	<u>8,422</u>	<u>17,478</u>

(i) Receivables for apartments sold

Non-current receivables relate to receivables for apartments sold on credit to employees which are EUR denominated and do not bear interest. In 2014, 23 apartments were repaid in full (2013: 20 apartments). As at 31 December 2014 a total of 1,316 apartments were in repayment. Management considers that the fair value of non-current receivables approximates their carrying amount as the effect of discounting are estimated as immaterial due to low levels of current market interest rates for similar loans.

(ii) Receivables from insurance policies

Receivables from insurance policies relate to three collective life insurance policies with Croatia osiguranje d.d. which are used by the Company as a savings instrument and carry a predefined yield which accrues up to maturity. The policies cover employees who have indefinite term employment contracts with the Company as the beneficiary. Collective life insurance policies are valid until 1 October 2022, 2 February 2025 and 1 July 2026, respectively.

During 2013, the Company recognised an impairment loss relating to these insurance policies in the amount of HRK 2,188 thousand as it expected to redeem them at an agreed discount prior to maturity (for further details see note 7 (iii)). During 2014, these insurance policies were redeemed by the Company.

NOTE 23 – CURRENT FINANCIAL ASSETS

<i>(in thousands of HRK)</i>	<u>2014</u>	<u>2013</u>
Short-term deposits in banks	19,000	34,000
Other loans, deposits and similar items	204	733
	<u>19,204</u>	<u>34,733</u>

As at 31 December 2013, short-term bank deposits in the amount of HRK 34,000 thousand were pledged as collateral (but not restricted) for short term borrowings of the Company while as at 31 December 2014 short-term bank deposits were not collateralised. Interest rate on short-term deposits are variable, ranging from 1.8% to 3.5% per annum.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 24 – TRADE AND OTHER RECEIVABLES

<i>(in thousands of HRK)</i>	2014	2013 restated
Receivables from domestic customers	27.765	25.030
Receivables from foreign customers	5.507	3.262
Current receivables for apartments sold on credit	3.076	3.060
Receivables from State for taxes, contributions and fees	339	570
Advances given	4	-
Prepaid expenses	516	876
Other receivables	152	1.716
	37,359	34,514

Movements in the impairment allowance for trade receivables are as follows:

<i>(in thousands of HRK)</i>	2014	2013
At 1 January	12.367	13.604
Increase	1.208	56
Collected	(21)	(554)
Written-off	(2.406)	(739)
At 31 December	11,148	12,367

Impairment losses on trade receivables are included in note 'Other expenses'.

Aging analysis of trade receivables is as follows:

<i>(in thousands of HRK)</i>	2014	2013
Up to 90 days	29.830	24.980
91-180 days	1.162	868
181-360 days	1.127	841
Over 360 days	1.153	1.603
	33,272	28,292

Trade receivables are denominated in following currencies:

<i>(in thousands of HRK)</i>	2014	2013
Croatia (HRK)	27.765	25.030
European Union (EUR)	5.507	3.207
USA (USD)	-	55
	33,272	28,292

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 25 – CASH AND CASH EQUIVALENTS

<i>(in thousands of HRK)</i>	2014	2013
Cash with banks	684	989
Cash at hand	15	15
	699	1,004

Cash with banks relates to cash accounts with commercial banks carrying an average interest rate of 0.3% to 0.5% per annum.

NOTE 26 – SHARE CAPITAL

<i>(in thousands of HRK)</i>	2014	2013
Share capital	598,048	598,048
	598,048	598,048

As at 31 December 2014 and 2013, the Company's share capital amounted to HRK 598,048 thousand, distributed among 5,980,475 shares with a nominal value of each share amounting to HRK 100. All issued shares are fully paid in.

An overview of key shareholders and the shareholder structure is as follows:

	2014		2013	
	Number of shares	% of ownership	Number of shares	% of ownership
DUUDI - Republic of Croatia	4,257,326	71.19%	4,270,188	71.40%
HZZO	484,780	8.11%	484,780	8.11%
DUUDI - HZMO	214,196	3.58%	214,196	3.58%
Societe Generale – Splitska Banka d.d./Croatia osiguranje d.d. (custodial account)	146,080	2.44%	167,080	2.79%
CERP	12,995	0.22%	-	0.00%
Jadrolinija d.d.	36,920	0.62%	36,920	0.62%
Other shareholders	828,178	13.85%	807,311	13.50%
Total	5,980,475	100%	5,980,475	100%

DUUDI, HZZO, CERP and HZMO are agencies and institutions of the Republic of Croatia while Jadrolinija d.d. is a company owned by the Republic of Croatia. Through these institutions and companies and other smaller shareholders under control of the State, the Republic of Croatia holds a combined ownership interest in the Company amounting to approximately 84%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 27 – RESERVES

<i>(in thousands of HRK)</i>	2014	2013 restated
Capital and other reserves	4.968	-
Revaluation reserves	36.111	17.566
	41,079	17,566

The Company is required to create legal reserves under Croatian law amounting to a minimum of 5% of the profit for the year until the total legal reserves reach 5% of the share capital. The Company currently does not have any legal reserve due to outstanding accumulated losses which are yet to be covered.

The Company's capital and other reserves relate to unspecified reserves. During 2013, these reserves were transferred to cover accumulated loss of the Company during 2013. As at 31 December 2014, the Company made a settlement with the Port authority of Rijeka ("PAR") with respect to the finance lease arrangement for mobile cranes amounting to HRK 30.497 thousand as at 31 December 2013 of which HRK 21.768 thousand relates to the principal with the remaining part representing outstanding interest payable. As part of the settlement, the PAR forgave a portion of the outstanding liability for the lease and agreed with the Company the repayment of the remaining part as an interest free finance lease with a duration of 7 years. Accordingly, the settlement resulted in the Company recognizing a decrease in lease payables in the amount of HRK 4.968 thousand with the corresponding amount being credited to capital reserves as a capital contribution from the owner (due to the fact that PAR is a State controlled institution).

Revaluation reserve relates to the revaluation of land with a minor amount relating to financial assets available for sale.

NOTE 28 – BORROWINGS

<i>(in thousands of HRK)</i>	2014	2013 restated
Non-current borrowings		
Bank loans	47.107	58.044
Loans from other financial institutions	1.174	3.509
Finance lease liabilities	19.685	11.831
	67,966	73,384
Current borrowings		
Bank loans	43.847	22.379
Loans from other financial institutions	6.280	15.260
Finance lease liabilities	2.815	11.899
	52,942	49,538
Total borrowings	120,908	122,922

The maturity of loan liabilities at the reporting date is as follows:

<i>(in thousands of HRK)</i>	2014	2013
6 months or less	29.388	22.959
6 – 12 months	20.739	14.680
1 - 2 years	13.343	16.217
2 – 5 years	21.170	29.226
Over 5 years	13.768	16.110
	98,408	99,192

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 28 – BORROWINGS (CONTINUED)

The maturity of finance lease liabilities at the reporting date is as follows:

(in thousands of HRK)

	2014			2013		
	Principal	Interest	Total	Principal	Interest	Total
Up to 1 year	2.815	1.131	3,946	11.899	7.856	19,755
Between 1 and 2 years	2.356	973	3,329	2.942	415	3,357
Between 2 and 5 years	9.108	1.986	11,094	6.709	556	7,265
Over 5 years	8.221	468	8,689	2.180	-	2,180
	22.500	4.558	27,058	23.730	8.827	32,557

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

(in thousands of HRK)

	2014	2013
HRK	37.953	25,069
EUR	42.255	54,460
USD	40.700	43,393
	120,908	122,922

As at 31 December 2014, the Company has a borrowing facility for guarantees, overdraft or letters of credit with a commercial bank amounting to EUR 3 million out of which approximately EUR 0.6 million is undrawn at 31 December 2014.

Bank loans

Bank loans amounting to HRK 51.232 thousand have variable interest rates (2013: HRK 35,213 thousand). The variable interest rates for bank loans were in the range from 2.5% to 5.0% per annum (2013: from 2.7% to 3.2% per annum).

Bank loans amounting to HRK 39.722 thousand have fixed interest rates (2013: HRK 45,210 thousand). The fixed interest rates for bank loans included in the table above were in the range from 3.0% to 7.0% (2013: from 3.0% to 7.0%).

Loans from other financial institutions

Loans from other financial institutions relate to loans from Royal pension insurance fund which were used to finance the workforce restructuring process in previous period. The loans bear fixed interest rates in the range from 9.65% to 12%.

Finance leases

Finance leases in the amount of HRK 22.500 thousand relate mostly to lease of equipment. Most of the balance relates to the finance lease arrangement with the Port authority of Rijeka amounting to HRK 21.768 thousand at 31 December 2014. The terms of this finance lease arrangement have been modified as at 31 December 2014 with the lease becoming non-interest bearing as a result, which in turn resulted in an increase of capital reserves (refer to note 27) of the Company and a decrease of finance lease liabilities due to the discounting of the lease liability to its present value. The lease has a term of seven years ending in 2021.

Security

Bank borrowings in the amount of HRK 63.853 thousand (2013: HRK 35,503 thousand) are secured by mortgages over the Company's land and buildings (note 18). Additionally, as at 31 December 2013, short-term bank deposits in the amount of HRK 34.000 thousand were pledged as collateral for the borrowings of the Company while as at 31 December 2014 bank loans were not secured by short-term bank deposits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 28 – BORROWINGS (CONTINUED)

The Company has an outstanding US dollar denominated liability for a subordinated loan towards the Port Authority of Rijeka based on a principal loan agreement for financing of infrastructure projects concluded between the Port Authority of Rijeka and the International Bank for Reconstruction and Development (“IBRD”). The loan liability amounts to HRK 19.102 thousand as at 31 December 2014 (*HRK 21,625 thousand as at 31 December 2013*) and bears a LIBOR based variable interest rate. The Republic of Croatia is the guarantor for the principal loan. The Company classifies the loan within bank loans as the basis for the terms of the loan are derived from a bank loan.

According to the loan agreement, the Company is obligated to maintain a “Debt service cover ratio” (DSCR) at a minimum of 1.3. DSCR representing the ratio of net operating revenues (adjusted for depreciation, amortisation, debt charges, non-cash operating charges and restructuring expenditure) to the aggregate amount of repayment of principal and interest on all debt.

As at the reporting dates, the Company was in breach of this covenant. However, the Company has repaid the loan thus far according to the scheduled repayment plans in addition to which IBRD regularly performs reviews of the Company’s records and is adequately informed as to this long standing breach of covenants. Management actively communicates with the both IBRD and the Port Authority of Rijeka and has applied judgment in estimating that the loan will not fall due in the foreseeable future as a result of breach of covenant. Management’s estimates in this respect are based on the fact that the principal loan facility was restructured in 2014 to provide financing for additional infrastructure projects and also due to the fact that the loan is regularly serviced and if it should become callable, the risk would lie with the principal debtor while the Company would remain committed to its currently defined schedule of repayments toward the Port Authority of Rijeka.

Furthermore, management believes that the ability of the Company to service the loan is not in question as the Company would be able to secure additional financing through further collateralisation of its assets (this primarily relates to property, plant and equipment where approximately 80% of the assets are uncollateralised and also uncollateralised short term bank deposits), in case its operational cash flows should be insufficient to finance the repayment of the loan on the contracted repayment dates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 29 – PROVISIONS

<i>(in thousands of HRK)</i>	Jubilee awards and retirement benefits	Court cases	Total
As at 31 December 2013 (restated)			
Non-current	4.965	13.074	18.039
Current	452	16.631	17.083
	5,417	29,705	35,122
As at 31 December 2014			
Non-current	4.262	9.960	14.222
Current	490	3.114	3.604
	4,752	13,074	17,826

Movement in provisions was as follows:

<i>(in thousands of HRK)</i>	Jubilee awards and retirement benefits	Court cases	Total
As at 1 January 2013 (reported)	-	11.602	11.602
Restatements (note 7 (xi), (xii), (xv))	6.183	31.378	37.561
As at 1 January 2013 (restated)	6,183	42,980	49,163
Increase	150	1.327	1.477
Decrease	(916)	(14.602)	(15.518)
As at 31 December 2013 (restated)	5,417	29,705	35,122
As at 1 January 2014	5.417	29.705	35.122
Increase	-	-	-
Decrease	(666)	(16.631)	(17,297)
As at 31 December 2014	4,751	13,074	17,825

(i) *Jubilee awards and retirement benefits*

According to the Collective Agreement the Company has an obligation to pay jubilee awards and regular retirement benefits. In accordance with the respective agreement, the employees are entitled to a regular retirement benefit in the net amount of HRK 10 thousand, of which HRK 2 thousand are taxable. No other post-retirement benefits are provided.

Provisions for both jubilee awards and regular retirement benefits are calculated by an independent actuary, using estimates derived on the basis of the following key assumptions.

	Estimate	
	2014	2013
Discount rate	4.75%	4.75%
Average rate of staff turnover	0% - 1%	0% - 1%
Average expected retirement age (in years)	61 - 65	61 - 65

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 29 – PROVISIONS (CONTINUED)

(ii) Court cases

Legal provisions relate to a number of legal proceedings initiated against the Company which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the consolidated statement of comprehensive income within 'Other expenses'.

The structure of provisions as per type of court case as at the reporting dates was as follows:

<i>(in thousands of HRK)</i>	2013	
	2014	restated
Supplier related court cases	13.074	13.074
Tax authorities court case	-	16.631
	13,074	29,705

In 2013, the Company lost a court case with an insurer resulting in a decrease of provisions of HRK 5.000 thousand and settled a court case with the supplier Hrvatske vode d.o.o. resulting in a decrease of provisions of HRK 9.602 thousand of which HRK 2.152 was released to income and the remainder paid out.

In June 2014, the tax authorities seized the Company's bank accounts for an amount of HRK 16.631 thousand based on a court dispute from previous years resulting in the decrease of provisions. The Company filed a complaint and will attempt to recover the funds through further court proceedings.

During 2014, the Company carried out a detailed legal due diligence in order to assess the reasonableness of provisions raised. Based on the expert opinion of legal counsels, Management believes that the outcome of legal proceedings the Company is exposed to, will not give rise to any significant losses beyond the amounts provided.

NOTE 30 – TRADE AND OTHER PAYABLES

<i>(in thousands of HRK)</i>	2013	
	2014	restated
Trade payables - domestic	23.211	19.879
Trade payables - foreign	7.371	497
Liabilities toward employees	4.525	4.790
Liabilities for apartments sold	3.902	6.200
Interest payable	479	9.235
Liabilities for other taxes, contributions and fees	1.559	208
VAT liabilities	180	89
Salary taxes and contributions payable	2.586	2.303
Deferred income	3	11
Accrued expenses	-	1.453
Other payables	4	11
	43,820	44,676

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 31 – RISK MANAGEMENT

Capital risk management

Net debt to equity ratio (Gearing ratio)

The finance function of the Company reviews the capital structure on an annual basis. As part of this review, the Company considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the reporting date was as follows:

	2014	2013 restated
	<i>(in thousands of HRK)</i>	
Debt (long- and short-term borrowings)	120.908	122.922
Short term bank deposits	19.000	34.000
Cash and cash equivalents	(699)	(1.004)
Net debt	139.209	155.918
Equity	316.083	297.555
Net debt to equity ratio	44%	52%

Debt is defined as long-term and short-term borrowings and bonds. Equity includes all capital and reserves of the Company.

The Company manages its capital to ensure that it will be able to continue as a going concern.

Apart from the gearing ratio, the Company regularly monitors the relation between its current assets and liabilities in order to assess the reasonableness of the going concern assumption applied in the preparation of its financial statements and identify any requirements for additional financial via debt or equity.

As at 31 December 2014, the Company's current liabilities exceeded its current assets by HRK 41.563 thousand (2013: HRK 39,573 thousand). However, the Company is currently in the process of preparing for the issue of additional equity via an IPO expected to be finalized during 2015 which would secure funding for strategic investments, improve liquidity and result in improvement of operational results in the future. Furthermore, management believe that the ability of the Company to secure additional financing through collateralization of assets for the purpose of bridging of any short term liquidity deficits is not in question. As a result management believes that the use of the going concern assumption is appropriate in the preparation of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Financial risk management

The Company operates with international customers and finances its operations using foreign currency denominated borrowings to a significant extent. As a result, the Company is exposed to the effect of changes in market prices and of exchange differences and changes in interest rates. In addition, due to credit terms extended to its customers, the Company is exposed to a risk of default.

Categories of financial instruments are as follows:

	2014	2013 restated
	<i>(in thousands of HRK)</i>	
Financial assets available for sale	2,217	2,542
Total AFS financial assets	2,217	2,542
Non-current receivables	8,422	9,768
Receivables from insurance policies	-	7,710
Short-term financial assets	19,204	34,733
Trade receivables	36,500	33,068
Cash and cash equivalents	699	1,004
Total loans and receivables	64,825	86,283
Total financial assets	67,042	88,825
Finance lease liabilities	22,500	23,730
Loan liabilities	98,408	99,192
Trade payables	34,967	35,822
Total financial liabilities at amortised cost	155,875	158,744
Total financial liabilities	155,875	158,744

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less the portion repaid. Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation. The fair value of financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.

As at 31 December 2014, the carrying amounts of cash and cash equivalents, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates.

Management considers that the fair value of non-current receivables of the Company stemming from the sale of apartments to employees does not significantly differ from the carrying amount due to the currently low market interest rates for such receivables. Management regularly monitors relevant market interest rates on similar assets in order to assess the reasonableness of this assumption.

As at the reporting dates, the carrying amounts of borrowings arising from bank and other loans approximates their fair values as the majority of these borrowings bear variable interest rates or fixed interest rate approximating current market interest rates.

The carrying amount of finance lease liabilities relates mostly to a non-interest bearing finance lease agreement which has been discounted to its fair value by using the effective interest rate method at a discount rate on equal to market interest rates on similar leases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management board which manages the Company's short, medium and long-term funding and liquidity requirements. The Company manages liquidity risk by monitoring the net current asset position and addressing any expected current liquidity deficits.

Liquidity risk analysis

The following tables detail the Company's remaining contractual maturity for its financial liabilities and its financial assets presented in the consolidated statement of financial position at the each reporting period end. The tables have been drawn up based on the undiscounted cash flows until maturity and include cash flows from both interest and principal.

<i>as at 31 December 2014</i>	Carrying amount	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing:</i>						
Finance lease liabilities	21,598	21,598	1,966	2,303	9,108	8,221
Loan liabilities	-	-	-	-	-	-
Trade payables	34,967	34,967	34,967	-	-	-
	56,565	56,565	36,933	2,303	9,108	8,221

Interest bearing:

Finance lease liabilities	902	927	873	54	-	-
Loan liabilities	98,408	102,794	52,327	14,591	21,901	13,975
	99,310	103,721	53,200	14,645	21,901	13,975
	155,875	160,286	90,133	16,948	31,009	22,196

<i>as at 31 December 2013</i>	Carrying amount	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing:</i>						
Finance lease liabilities	-	-	-	-	-	-
Loan liabilities	-	-	-	-	-	-
Trade payables	35,822	35,822	35,822	-	-	-
	35,822	35,822	35,822	-	-	-

Interest bearing:

Finance lease liabilities	23,730	25,469	12,788	3,460	6,986	2,235
Loan liabilities	99,192	104,370	40,050	17,820	30,148	16,352
	122,922	129,839	52,838	21,280	37,134	18,587
	158,744	165,661	88,660	21,280	37,134	18,587

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

<i>as at 31 December 2014</i>	Carrying amount	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing:</i>						
Non-current receivables	8,422	8,422	1,200	1,200	3,600	2,422
Trade receivables	36,500	36,500	36,500	-	-	-
Financial assets available for sale	2,217	2,217	2,217	-	-	-
	47,139	47,139	39,917	1,200	3,600	2,422
<i>Interest bearing:</i>						
Receivables from insurance policies	-	-	-	-	-	-
Long-term deposits	-	-	-	-	-	-
Current financial assets	19,204	19,876	19,876	-	-	-
Cash and cash equivalents	699	706	706	-	-	-
	19,903	20,582	20,582	-	-	-
	67,042	67,721	60,499	1,200	3,600	2,422
<i>as at 31 December 2013</i>	Carrying amount	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing:</i>						
Non-current receivables	9,768	9,768	1,200	1,200	3,600	3,768
Trade receivables	33,068	33,068	33,068	-	-	-
Financial assets available for sale	2,542	2,542	2,542	-	-	-
	45,378	45,378	36,810	1,200	3,600	3,768
<i>Interest bearing:</i>						
Receivables from insurance policies	7,710	7,941	7,941	-	-	-
Long-term deposits	-	-	-	-	-	-
Current financial assets	34,733	35,949	35,949	-	-	-
Cash and cash equivalents	1,004	1,014	1,014	-	-	-
	43,447	44,904	44,904	-	-	-
	88,825	90,282	81,714	1,200	3,600	3,768

The Company's analysis shows a deficit of short term contractual cash flows from financial instruments in 2013 and 2014 which is to a large extent attributable to cash outflows from court cases during 2014 and 2013, and corrections of prior period errors resulting in the recognition of additional financial liabilities.

The Company plans to bridge the liquidity gap by securing additional financing for working capital requirements through collateralisation of assets. Additionally, as a result of the upcoming IPO, the Company expect to further strengthen its liquidity position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The variable interest rates currently applicable on the carrying values of floating rate debt as at the reporting dates are based on the following:

<i>(in thousands of HRK)</i>	<u>2014 restated</u>	<u>2013 restated</u>
EURIBOR based bank loans	9.630	13.588
ZIBOR based bank loans	22.500	-
LIBOR based bank loans	19.102	21.625
EURIBOR based finance leases	902	1.962
	<u>52,134</u>	<u>37,175</u>

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date. For floating rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on floating rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. A 50 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates.

The estimated effect of the reasonably possible change in variable interest rates on the Company's result before tax for the reporting periods is as follows:

<i>as at 31 December 2014</i>	Contractual cash flows	up to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
	<i>(in thousands of HRK)</i>					
At currently applicable interest rates	54,178	16.051	17.850	8.787	11.490	-
At currently applicable interest rates + 50 basis points	54,518	16.162	17.920	8.863	11.573	-
Effect of increase of interest rate by 50 basis points	(340)	(111)	(70)	(76)	(83)	-

<i>as at 31 December 2013</i>	Contractual cash flows	up to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
	<i>(in thousands of HRK)</i>					
At currently applicable interest rates	39,661	5.479	5.393	10.222	18.567	-
At currently applicable interest rates + 50 basis points	40,066	5.565	5.467	10.334	18.700	-
Effect of increase of interest rate by 50 basis points	(405)	(86)	(74)	(112)	(133)	-

The Company does not hedge interest rate risk as the estimate of possible effect of interest rate changes on the result of operations is not deemed significant

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities	
	2014	2013
	restated	
	<i>(in thousands of HRK)</i>	
European Union (EUR)	49.626	54.957
USA (USD)	40.700	52.122
	90.326	107.079

	Assets	
	2014	2013
	restated	
	<i>(in thousands of HRK)</i>	
European Union (EUR)	16.963	15.964
USA (USD)	-	55
	16.963	16.019

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuations in the exchange rate of Croatian kuna to Euro and US dollar, since the most of the transactions with international customers is in Euro and US dollar.

The following table details the Company's sensitivity to a 1% increase in Croatian kuna against the EUR and a 10% increase against the USD as the estimated reasonably possible change in the exchange rate of the respective currencies. The sensitivity analysis includes outstanding balances in foreign currencies which are recalculated at the reporting date applying a percentage change in foreign exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR exposure	
	2014	2013
	restated	
	<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	(327)	(390)

	USD exposure	
	2014	2013
	restated	
	<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	(4.070)	(5.207)

The Company does not currently hedge currency risk with respect to the EUR as the local currency is pegged against the EUR but is assessing the need for hedging against the USD given the recent volatility of this currency and the exposure to it arising from USD denominated loan and lease balances as well as concession fees which are determined in USD.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

Customers are classified into risk categories based on the financial indicators and own trading records, and appropriate credit risk mitigation measures are taken for each risk class. Customers are classified mainly on the basis of official financial statements of customers, and credit ratings supplied by independent rating agencies, and the history of trading with each customer.

The Company's exposure and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least annually.

The Company has no significant credit exposures that would not be covered by collateral and which have not been assessed for impairment indicators as at 31 December 2014.

Operational risk management

Sales concentration risk management

The Company generates approximately 22% (2013: 36%) of its revenue from domestic customers, whereas around 78% (2013: 64%) of the sales are generated from international customers (based on geographical location of customer). The Company determines the selling prices in accordance with the macroeconomic conditions prevailing in each of the markets where the customers are located having in mind the maximum approved tariffs for services defined in the concession agreement.

The Company's revenues are to a significant extent exposed to volatility due to high concentration of revenues from a smaller number of customers. In 2014, top 10 customers of the Company generated approximately 54% of operating revenues (2013: 45%) while the top five customers generated approximately 36% of operating revenues (2013: 31%). The most significant individual exposure is to a key foreign customer which made up for 12% of total operating revenue of the Company in 2014 (2013: 4%) and accounted for most of the decline in revenues in 2013.

As a result of its exposure to a small number of customer, the Company manages this risk through active and frequent communication with key customers, acquisitions of new customers, and through monitoring of relevant competitors and market conditions both locally and internationally.

The continuation of the economic crisis during the reporting period had a negative impact on sales growth opportunities and consequently increased the risk of collectability of receivables. The Company also expects increased risks associated with maintaining market position (both in terms of international and domestic customers) due to the strengthening of competitors. To lessen this effect, the Company aims to further increase its competitiveness by increasing productivity and capacity and modernising its technology, which it expects to achieve to a large extent through the realisation of the Škrljevo project coupled with the expected refurbishment of local railways

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 32 – RELATED PARTY TRANSACTIONS

The majority owner of Luka Rijeka d.d. is the Republic of Croatia which holds 84% of share capital and voting rights of the Company through the Government Asset Management Agency (“GAMA” or “DUUDI”) and other State institutions.

The Company considers that it has an immediate related party relationship with its key shareholder (the Republic of Croatia) and entities under its control or influence: key management personnel (see below); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 *Related Party Disclosures* (“IAS 24”).

Transactions with State related parties

Given that its majority owner is the State, the Company is also in a related party relationship with State institutions and other companies in which the State is a majority owner or has significant influence. Significant transactions of the Company with such entities relate to purchase of water and fuel used as a consumable in the business operations of the Company, freight rail transport services and supply of electricity. Transactions with the Port Authority of Rijeka which is the Grantor of the concession for the primary activity of the Company, other those with respect to rent of premises and regular services as presented below, are disclosed in more detail separately further in this note.

Receivables and sales with the State and related parties:

<i>(in thousands of HRK)</i>	2014	2013
<i>Petrokemija d.d.</i>		
Sales of services	1.592	3.167
Receivables as at 31 December	555	361
<i>Port Authority of Rijeka</i>		
Rent of premises and provision of regular services	1.173	494
Receivables as at 31 December	114	198
<i>Crosco d.o.o.</i>		
Sales of services	-	1.023
Receivables as at 31 December	-	47
<i>Customs office Rijeka</i>		
Sales of services	176	209
Receivables as at 31 December	18	21
<i>Commodity reserves directorate</i>		
Sales of services	-	243
Receivables as at 31 December	-	17
<i>Jadrolinija d.d.</i>		
Sales of services	225	422
Receivables as at 31 December	23	15
<i>Autotrolej d.o.o.</i>		
Sales of services	1.718	2.155
Receivables as at 31 December	6	4
<i>Rijeka promet d.d.</i>		
Sales of services	2.952	3.738
Receivables as at 31 December	-	(2)
<i>INA Group</i>		
Sales of services	186	500
Receivables as at 31 December	34	-
Total sales	8,022	11,951
Total receivables as at 31 December	750	661

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 32 – RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with State related parties (continued)

Payables and purchases with the State and related parties:

(in thousands of HRK)

	2014	2013
<i>HEP Group</i>		
Purchase of electricity	9,480	9,899
Liabilities as at 31 December	2,863	1,728
<i>HŽ Group</i>		
Purchase of transport services	116	131
Liabilities as at 31 December	-	46
<i>INA Group</i>		
Purchase of fuel	366	562
Liabilities as at 31 December	41	(74)
<i>Croatia insurance Group</i>		
Purchase of insurance policies	3,034	5,251
Liabilities as at 31 December	127	383
<i>Vodovod d.o.o. Labin</i>		
Purchase of water services	162	88
Liabilities as at 31 December	43	8
<i>Vodovod i kanalizacija d.o.o. Rijeka</i>		
Purchase of water services	698	915
Liabilities as at 31 December	173	239
<i>Energo d.o.o.</i>		
Purchase of gas	40	61
Liabilities as at 31 December	10	11
Total purchases	13,896	16,907
Total liabilities as at 31 December	3,257	2,341

In 2013, the Company received a non-refundable non-monetary grant from the State in the form of gravel and stone leftover from the construction of a nearby state road which was recognised in its entirety as income of HRK 1.149 thousand through profit or loss.

Transactions with subsidiaries

During 2014, the Company purchased goods and services from subsidiaries in the amount of HRK 7.336 thousand (2013: HRK 4,613 thousand) and owed the subsidiaries HRK 1.291 thousand at 31 December 2014 (2013: HRK 1,496 thousand). During 2014, the Company sold goods and services to subsidiaries in the amount of HRK 112 thousand (2013: HRK 104 thousand) whereby the subsidiaries owed the Company HRK 10 thousand at 31 December 2014 (2013: HRK 1 thousand).

Transactions with associates

The Company enters into transactions with the associate company Jadranska vrata d.d. where Luka Rijeka d.d. has a 49% ownership interest. Transactions with the associate relating to balances in the statement of financial position as at 31 December 2014, 2013 and transactions in the statement of comprehensive income for the years then ended are as follows:

(in thousands of HRK)

	2014	2013
Trade receivables	12	412
Trade payables	-	-
Sales revenue and other income	124	1,595
Purchases	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 32 – RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with the Port Authority of Rijeka

(i) Concession fees

During 2014, the Company recognized expenditure related to concession fees toward the Port Authority of Rijeka in the amount of HRK 5,980 thousand (2013: HRK 5,073 thousand). The concession fees relates to the service concession arrangements for the provision of port services in the port of Rijeka area and on the Škrljevo terminal.

(ii) Finance leases

As at 31 December 2014, the Company has a finance lease balance payable to the Port Authority of Rijeka with a carrying amount of HRK 21,597 thousand (2013: HRK 30,497 thousand) including related interest. The terms of the lease were modified as at 31 December 2014 and the lease was converted to a non-interest bearing finance lease which resulted in the Company recognizing a capital contribution due to the fact that the lease is contracted at below market interest rate. The lease matures in 2021. No payments of either principal or interest were made during the reporting periods.

(iii) Subordinated loan based on the IBRD principal loan

The Company has an outstanding US dollar denominated liability for a subordinated loan toward the Port Authority of Rijeka based on a principal loan agreement for financing of infrastructure projects concluded between the Port Authority of Rijeka and the International Bank for Reconstruction and Development ("IBRD"). The loan liability amounts to HRK 19,102 thousand as at 31 December 2014 (HRK 21,625 thousand as at 31 December 2013) and bears a LIBOR based variable interest rate. The Republic of Croatia is the guarantor for the principal loan. During 2014, the Company repaid a total of HRK 5,216 thousand of principal and interest with respect to this loan (2013: HRK 4,866 thousand).

Remuneration to the Management Board members

Key management of the Company comprises the Management Board and consists of 3 persons (2013: 3 persons). During 2014, the Company paid out HRK 1,841 thousand to the Management Board (2013: HRK 1,793 thousand) with respect to gross salaries and bonuses.

NOTE 33 – CONTINGENT LIABILITIES AND ASSETS

Exposure to court cases

As at 31 December 2014 there are number of legal proceeding against the Company which stem from regular commercial activities and court cases including former employees.

The Company's exposure to court cases with suppliers as at 31 December 2014 amounts to approximately HRK 146 million (based on claim amounts relating to cases in progress) out of which the Company recognized provisions amounting to HRK 13,074 thousand as at 31 December 2014 (2013: HRK 29,705 thousand) in relation to court cases where it expects an unfavorable outcome. The remaining exposure relates to court cases with suppliers which management believes will not result in losses for the Company out of which a majority relates to a court case with a domestic supplier in the amount of HRK 101 million where the Company considers, after consultation with legal advisers, that the basis of the court case is unfounded and does not expect an unfavorable outcome.

The Company's exposure to court cases with former employees stems mostly from work related injuries and amounts to approximately HRK 5.8 million based on the total amount of claims relating to cases in progress as at 31 December 2014. As a large number of these cases are expected to be long-term processes which are only in the starting phase and are in part covered with insurance policies of the insurer who is the co-defendant, management currently believes, after consultations with legal advisers, that these cases will not result in significant losses for the Company.

Based on consultation with legal advisers, management applied its judgment as described in more detail in note 5 and estimated that the legal proceedings the Company is involved in should not give rise to significant losses above those already provided for as detailed in note 29.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 33 – CONTINGENT LIABILITIES AND ASSETS (CONTINUED)

Potential penalties arising from minimal service limits defined in the concession arrangement

According to the concession agreement in place, from 2016 onward the Company is obligated to maintain minimal service levels defined in quantities of transshipped cargo and based on the initial business plans submitted to the Port Authority of Rijeka at the inception of the agreement. Should the minimal service levels not be met, the Port Authority of Rijeka would be entitled to charge concession penalties based on the variance of actual versus initially planned service levels.

Current service levels are significantly lower than those envisaged in the initial business plans. Had these provisions been applicable in 2014, the Company would have incurred approximately HRK 8.7 million in penalties.

Currently, the Company is in the process of finalizing an updated business plan and is actively negotiating with the Port Authority of Rijeka with respect to the replacement of the initial business plan with the updated business plan. The Company expects that the amendments to the provisions of the concession arrangement relating to the updating of business plans will be adopted by the Grantor during 2015 in which case the new business plans will be the basis for calculating any eventual penalties arising from minimal service level requirements

NOTE 34 – CAPITAL COMMITMENTS

The Company has capital commitments stemming from the concession agreement whereby it is obligated to invest into port infrastructure in a total amount of EUR 146 million out of which approximately EUR 60 million relates to estimated maintenance of port infrastructure for the duration of the concession while EUR 86 million relates to planned capital investments into port infrastructure and coastal and mobile mechanisation. These capital investments have the following timeline of realisation:

<i>as at 31 December 2014</i>	Up to 1 year	1 - 2 years	2 - 5 years	Over 5 years	Total
	<i>(in thousands of HRK)</i>				
Coastal mechanisation and cranes	-	-	24,320	70,604	94,924
Mobile mechanisation	-	4,644	23,226	45,714	73,584
Buildings	6,814	15,022	105,298	-	127,134
Cargo terminals	-	-	-	363,245	363,245
Estimated costs of maintenance of concession assets	-	-	-	459,688	459,688
	6,814	19,666	152,844	939,251	1,118,575