

APPENDIX 1

Reporting period:

01.01.2015.

to

31.12.2015.

ANNUAL FINANCIAL REPORT OF ENTREPRENEUR

Registration number (MB): 03330494

Identification number of subject (MBS): 040141664

Personal identification number (OIB): 92590920313

Issuer company: Port of Rijeka j.s.c.

Postal code and place: 51000

RIJEKA

Street and number: Riva 1

E-mail address: uprava@lukarijeka.hr

Internet adresa: www.lukarijeka.hr

Code and name of town: 373 Rijeka

Code and county name: 8 PRIMORSKO-GORANSKA

Number of employees (at the end of the year): 665

Consolidated statement: NO

NKD/NWC code: 5224

Subsidiaries subject to consolidation (according to IFRS):

Headquarters:

Registration number:

Subsidiaries subject to consolidation (according to IFRS):	Headquarters:	Registration number:

Book keeping service:

Contact person: Janja Reljac
authorised person for representation

Phone number: 051/496-533

Fascimile: 051/496-008

E-mail address: fin@lukarijeka.hr

Surname and name: Devčić Vedran
(authorised person for representation)

Disclosure documents:

1. Financial statements (balance sheet, profit and loss account, cash flow statement...)
2. Interim management Report
3. Statement of responsible persons for preparation of financial statements

M.P.

LUKA RIJEKA d.d.
Rijeka, Riva 1

 (signed by authorised person for representation)

BALANCE SHEET
as of 31.12.2015.

Port of Rijeka j.s.c.		In Kunas		
Position	AOP	Previous year (net)	Current year (net)	
1	2	3	4	
ASSETS				
A) RECEIVABLES FOR SUBSCRIBED BUT NOT PAID IN CAPITAL	001			
B) LONG-TERM ASSETS (003+010+020+029+033)	002	448.773.419	470.289.258	
I. INTANGIBLE ASSETS (004 to 009)	003	771.804	840.967	
1. Assets development	004	0	0	
2. Concessions, patents, licences fees, trade and service marks, software and other rights	005	771.804	840.967	
3. Goodwill	006	0	0	
4. Prepayments for purchase of intangible assets	007	0	0	
5. Intangible assets in preparation	008	0	0	
6. Other intangible assets	009	0	0	
II. TANGIBLE ASSETS (011 to 019)	010	418.316.414	431.382.509	
1. Land	011	228.973.255	229.075.870	
2. Buildings	012	109.753.187	109.732.216	
3. Plant and equipment	013	2.110.780	1.808.887	
4. Tools, facility inventory and transport assets	014	52.966.999	57.557.446	
5. Biological assets	015	0	0	
6. Prepayments for tangible assets	016	3.895	3.895	
7. Tangible assets in progress	017	17.034.734	25.862.591	
8. Other tangible assets	018	325.736	325.736	
9. Investments in buildings	019	7.147.828	7.015.868	
III. LONG-TERM FINANCIAL ASSETS (021 to 028)	020	14.025.935	12.018.267	
1. Investments (shares) with related parties	021	11.769.053	11.769.079	
2. Loans given to related parties	022	0	0	
3. Participating interest (shares)	023	40.000	40.000	
4. Loans to entrepreneurs in whom the entity holds participating interests	024	0	0	
5. Investments in securities	025	2.216.882	209.188	
6. Loans, deposits and similar assets	026	0	0	
7. Other long-term financial assets	027	0	0	
8. Investments accounted by equity method	028	0	0	
IV. RECEIVABLES (030 to 032)	029	8.379.109	7.244.268	
1. Receivables from related parties	030	0	0	
2. Receivables from based on trade loans	031	8.379.109	7.244.268	
3. Other receivables	032	0	0	
V. DEFERRED TAX ASSETS	033	7.280.157	18.803.247	
C) SHORT TERM ASSETS (035+043+050+058)	034	58.289.567	274.602.358	
I. INVENTORIES (036 to 042)	035	1.083.877	1.062.990	
1. Raw-material and supplies	036	1.083.877	1.062.990	
2. Work in progress	037	0	0	
3. Finished goods	038	0	0	
4. Merchandise	039	0	0	
5. Prepayments for inventories	040	0	0	
6. Long-term assets held for sales	041	0	0	
7. Biological assets	042	0	0	
II. RECEIVABLES (044 to 049)	043	37.302.900	28.834.553	
1. Receivables from related parties	044	313.233	358.151	
2. Accounts receivable	045	36.034.489	26.311.279	
3. Receivables from participating parties	046	0	0	
4. Receivables from employees and members of related parties	047	3.672	2.984	
5. Receivables from government and other institutions	048	798.060	1.100.669	
6. Other receivables	049	153.446	1.063.470	
III. SHORT TERM FINANCIAL ASSETS (051 to 057)	050	19.204.372	242.121.431	
1. Shares (stocks) in related parties	051	0	0	
2. Loans given to related parties	052	0	0	
3. Participating interest (shares)	053	0	0	
4. Loans to entrepreneurs in whom the entity holds participating interests	054	0	0	
5. Investments in securities	055	0	0	
6. Loans, deposits, etc	056	19.204.372	242.121.431	
7. Other financial assets	057	0	0	
IV. CASH AT BANK AND IN CASHIER	058	698.418	2.583.384	
D) PREPAID EXPENSES AND ACCRUED REVENUE	059	516.775	2.384.061	
E) TOTAL ASSETS (001+002+034+059)	060	507.579.761	747.275.677	
F) OFF-BALANCE RECORDS	061	804.016	804.016	

LIABILITIES AND CAPITAL			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	316.082.417	614.875.109
I. SUBSCRIBED CAPITAL	063	598.047.500	539.219.000
II. CAPITAL RESERVES	064	4.967.857	38.623.828
III. RESERVES FROM PROFIT(066+067-068+069+070)	065	0	0
1. Reserves prescribed by law	066	0	0
2. Reserves for treasury shares	067	0	0
3. Treasury stocks and shares (deduction)	068	0	0
4. Statutory reserves	069	0	0
5. Other reserves	070	0	0
IV. REVALUATION RESERVES	071	36.110.845	35.767.079
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	072	-318.058.554	0
1. Retained earnings	073	0	0
2. Accumulated loss	074	318.058.554	0
VI. PROFIT/LOSS FOR THE CURRENT YEAR (076-077)	075	-4.985.231	1.265.202
1. Profit for the current year	076	0	1.265.202
2. Loss for the current year	077	4.985.231	0
VII. MINORITY INTERESTS	078	0	0
B) PROVISIONS (080 to 082)	079	17.624.835	11.362.693
1. Provisions for pensions, severance pay and similar liabilities	080	4.751.555	3.999.055
2. Reserves for tax liabilities	081	0	0
3. Other reserves	082	13.073.280	7.363.638
C) LONG - TERM LIABILITIES (084 to 092)	083	73.113.859	65.832.305
1. Liabilities to related parties	084	0	0
2. Liabilities for loans, deposits etc.	085	14.818.613	9.086.548
3. Liabilities to banks and other financial institutions	086	33.515.897	33.040.847
4. Liabilities for received prepayments	087	0	0
5. Accounts payable	088	15.843.734	14.769.295
6. Liabilities arising from debt securities	089	0	0
7. Liabilities to entrepreneurs in whom the entity holds participating interests	090	0	0
8. Other long-term liabilities	091	0	0
9. Deferred tax liability	092	8.935.615	8.935.615
D) SHORT-TERM LIABILITIES (094 to 105)	093	100.111.487	54.810.933
1. Liabilities to related parties	094	1.291.361	263.432
2. Liabilities for loans, deposits etc.	095	11.743.309	10.592.206
3. Liabilities to banks and other financial institutions	096	39.712.362	7.745.927
4. Liabilities for received prepayments	097	0	0
5. Accounts payable	098	35.044.923	24.921.268
6. Liabilities arising from debt securities	099	0	0
7. Liabilities to entrepreneurs in whom the entity holds participating interests	100	0	0
8. Liabilities to employees	101	4.081.100	3.691.451
9. Liabilities for taxes, contributions and similar fees	102	4.148.053	3.773.826
10. Liabilities to share - holders	103	0	0
11. Liabilities for long - term assets held for sale	104	0	0
12. Other short - term liabilities	105	4.090.379	3.802.823
E) DEFERRED SETTLEMENTS OF CHARGES AND INCOME DEFERRED TO FUTURE PERIOD	106	447.163	394.637
F) TOTAL - CAPITAL AND LIABILITIES (062+079+083+093+106)	107	507.579.761	747.275.677
G) OFF - BALANCE RECORDS	108	804.016	804.016
APPENDIX to balance sheet(to be filled in by entrepreneur that prepares consolidated annual financial report)			
A) CAPITAL AND RESERVES			
1. Attributed to equity holders of parent company	109		
2. Attributed to minority interest	110		

APPENDIX to balance sheet(to be filled in by entrepreneur that prepares consolidated annual financial report)

PROFIT AND LOSS ACCOUNT
from 01.01.2015. until 31.12.2015.

Port of Rijeka j.s.c.	In Kunas			
	Position	AOP	Previous year	Current year
	1	2	3	4
I. OPERATING REVENUE (112+113)		111	182.510.322	177.670.213
1. Sales revenue		112	165.633.898	164.880.200
2. Other operating revenues		113	16.876.424	12.790.013
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)		114	181.382.927	180.073.219
1. Changes in value of work in progress and finished products		115	0	0
2. Material costs (117 to 119)		116	69.335.814	69.503.162
a) Raw material and material costs		117	21.806.271	21.183.808
b) Costs of goods sold		118	0	0
c) Other external costs		119	47.529.543	48.319.354
3. Staff costs (121 to 123)		120	75.256.869	72.436.583
a) Net salaries and wages		121	46.092.105	44.855.046
b) Cost for taxes and contributions from salaries		122	18.384.331	16.949.015
c) Contributions on gross salaries		123	10.780.433	10.632.522
4. Depreciation		124	9.661.370	10.415.429
5. Other costs		125	23.784.112	24.149.566
6. Impairment (127+128)		126	1.207.732	371.992
a) Impairment of long - term assets (financial assets excluded)		127	0	0
b) Impairment of short - term assets (financial assets excluded)		128	1.207.732	371.992
7. Provisions		129	0	0
8. Other operating costs		130	2.137.030	3.196.487
III. FINANCIAL INCOME (132 to 136)		131	2.039.088	3.785.908
1. Interest income,foreign exchange gains,dividends and similar income from related parties		132	0	0
2. Interest expenses,foreign exchange losses,dividends and similar expenses from non related parties		133	2.039.088	3.333.364
3. Share in income from affiliated entrepreneurs and participating interests		134	0	0
4. Unrealized losses (expenses) on financial assets		135	0	0
5. Other financial income		136	0	452.544
IV. FINANCIAL EXPENSES (138 to 141)		137	8.550.209	11.584.640
1. Interest expenses,foreign exchange losses,dividends and similar expenses from related parties		138	0	0
2. Interest expenses,foreign exchange losses,dividends and similar expenses from non related parties		139	8.550.209	10.225.979
3. Unrealized losses (expenses) on financial assets		140	0	0
4. Other financial expenses		141	0	1.358.661
V. INCOME FROM INVESTMENT - SHARE IN PROFIT OF ASSOCIATED ENTREPRENEURS		142	0	0
VI. LOSS FROM INVESTMENT - SHARE IN LOSS OF ASSOCIATED ENTREPRENEURS		143	0	0
VII. EXTRAORDINARY- OTHER INCOME		144	0	0
VIII.EXTRAORDINARY - OTHER EXPENSES		145	0	0
IX. TOTAL INCOME (111+131+142 + 144)		146	184.549.410	181.456.121
X. TOTAL EXPENSES (114+137+143 + 145)		147	189.933.136	191.657.859
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)		148	-5.383.726	-10.201.738
1. Profit before taxation (146-147)		149	0	0
2. Loss before taxation (147-146)		150	5.383.726	10.201.738
XII. PROFIT TAX		151	-398.495	-11.466.940
XIII. PROFIT OR LOSS FOR THE THE PERIOD (148-151)		152	-4.985.231	1.265.202
1. Profit for the period (149-151)		153	0	1.265.202
2. Loss for the period (151-148)		154	4.985.231	0

APPENDIX to P&I account (to be filled in by entrepreneur that prepares consolidated financial report)

XIV. PROFIT OR LOSS FOR THE PERIOD

1. Attributed to equity holders of parent company	155		
2. Attributed to minority interest	156		

STATEMENT OF OTHER COMPREHENSIVE INCOME (IFRS)

I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	-4.985.231	1.265.202
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (159 to 165)	158	23.240.791	-404.713
1. Exchange differences on translation of foreign operations	159	0	0
2. Movements in revaluation reserves of long - term tangible and intangible assets	160	22.818.686	0
3. Profit or loss from reevaluation of financial assets available for sale	161	422.105	-404.713
4. Gains or losses on efficient cash flow hedging	162	0	0
5. Gains or losses on efficient hedge of a net investment in foreign countries	163	0	0
6. Share in other comprehensive income/loss of associated companies	164	0	0
7. Actuarial gains /losses on defined benefit plans	165	0	0
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166	4.627.053	-60.707
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD(158-166)	167	18.613.738	-344.008
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	13.628.507	921.196

APPENDIX to Statement of other comprehensive income (to be filled in by entrepreneur that prepares consolidated financial report)

VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD

1. Attributed to equity holders of parent company	169		
2. Attributed to minority interest	170		

STATEMENT OF CASH FLOWS - Indirect method
from 01.01.2015.until 31.12.2015.

Port of Rijeka j.s.c.		In Kunas		
Position	AOP	Previous year	Current year	
1	2	3	4	
CASH FLOW FROM OPERATING ACTIVITIES				
1. Profit before tax	001	-4.985.231	1.265.202	
2. Depreciation	002	9.661.370	10.415.429	
3. Increase in short term liabilities	003	15.737.833	0	
4. Decrease in short term receivables	004	0	8.458.752	
5. Decrease in inventories	005	280.651	20.887	
6. Other increase in cash flow	006	0	0	
I. Total increase in cash flow operating activities (001 to 006)	007	20.694.623	20.160.270	
1. Decrease in short term liabilities	008	0	12.163.016	
2. Increase in short term receivables	009	4.317.485	0	
3. Increase in inventories	010	0	0	
4. Other decrease in cash flow	011	15.076.087	7.364.221	
II. Total decrease in cash flow from operating activities (008 to 011)	012	19.393.572	19.547.237	
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	1.301.051	613.033	
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	014	0	0	
CASH FLOW FROM INVESTING ACTIVITIES				
1. Cash inflows from sales of long - term tangible and intangible assets	015	2.364.475	52.980	
2. Cash inflows from sales of equity and debt instruments	016	0	0	
3. Interests receipts	017	1.024.749	1.763.589	
4. Dividend receipts	018	95.537	0	
5. Other cash inflows from investing activities	019	3.331.312	3.067.530	
III. Total cash inflows from investing activities (015 to 019)	020	6.816.073	4.884.099	
1. Cash outflow for purchase of long - term tangible and intangible assets	021	4.975.088	26.048.084	
2. Cash outflow for acquisition of equity and debt financial instruments	022	0	0	
3. Other cash outflow for investing activities	023	0	15.971.265	
IV. Total cash outflow for investing activities (021 to 023)	024	4.975.088	42.019.349	
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	1.840.985	0	
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES(024-020)	026	0	37.135.250	
CASH FLOW FROM FINANCIAL ACTIVITIES				
1. Cash inflow from issuing property and debt financial instruments	027	0	300.000.000	
2. Proceeds from the credit principal, promissory notes, borrowings and other loans	028	29.200.000	15.552.601	
3. Other proceeds from financial activities	029	0	32.176.425	
V. Total cash inflows from financial activities (027 to 029)	030	29.200.000	347.729.026	
1. Cash outflow for repayment of credit principal and bonds	031	31.575.395	55.785.117	
2. Cash outflow for dividends paid	032	0	0	
3. Cash outflow for financial lease	033	1.070.733	836.726	
4. Cash outflow for purchase of treasury shares	034	0	0	
5. Other cash outflow for financial activities	035	0	252.700.000	
VI. Total cash outflow for financial activities (031 to 035)	036	32.646.128	309.321.843	
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	037	0	38.407.183	
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	038	3.446.128	0	
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	0	1.884.966	
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	304.092	0	
Cash and cash equivalents at the beginning of the period	041	1.002.510	698.418	
Increase of cash and cash equivalents	042	0	1.884.966	
Decrease of cash and cash equivalents	043	304.092	0	
Cash and cash equivalents at the end of the period	044	698.418	2.583.384	

STATEMENT OF CHANGES IN EQUITY
for the period 1.1.2015 to 31.12.2015

	Position	AOP	Previous year	Current year
	1	2	3	4
1. Subscribed capital		001	598.047.500	539.219.000
2. Capital reserves		002	4.967.857	38.623.828
3. Reserves from profit		003	0	0
4. Retained earnings or accumulated loss		004	-318.058.554	0
5. Profit or loss for the current year		005	-4.985.231	1.265.202
6. Revaluation of long - term tangible assets		006	35.752.056	35.740.063
7. Revaluation of intangible assets		007	0	0
8. Revaluation of financial assets available for sale		008	358.789	27.016
9. Other revaluation		009	0	0
10. Total capital and reserves (AOP 001 to 009)		010	316.082.417	614.875.109
11. Currency gains and losses arising from net investment in foreign operations		011	0	0
12. Current and deferred taxes (part)		012	0	0
13. Cash flow hedging		013	0	0
14. Changes in accounting policy		014	0	0
15. Correction of significant errors in prior period		015	0	0
16. Other changes of capital		016	0	0
17. Total increase or decrease in capital (AOP 011 to 016)		017	0	0
17 a. Attributed to equity holders of parent company		018	0	0
17 b. Attributed to minority interest		019	0	0

Items which decrease capital are given with the negative prefix.

LUKA RIJEKA d.d.

Annual Report and
Financial Statements

for the year ended

31 December 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.

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LUKA RIJEKA GROUP
ANNUAL REPORT FOR THE YEAR
ENDED 31 DECEMBER 2015

LUKA RIJEKA D.D.
Riva 1, HR-51 000 RIJEKA
OIB: 92590920313

Rijeka, 21 April 2016

STRUCTURE OF LUKA RIJEKA GROUP

The Group is comprised of the following companies:

LUKA RIJEKA d.d. Rijeka (the Company)

The Parent is the largest concessionaire for shipping and reload of dry cargo in the Rijeka port basin. The principle activities of the Company comprise provision of maritime transport services, port services, storage of goods and freight forwarding. The Company is headquartered at Riva 1, Rijeka.

LUKA - PRIJEVOZ d.o.o. Škrljevo, 100% owned by Luke Rijeka d.d., whose principal activity is providing transport services.

The company is headquartered at Kukuljanovo 460, Kukuljanovo.

STANOVI d.o.o. Rijeka, 100% owned by Luka Rijeka d.d., whose principal activity is management of investment property owned by the Company and management of real-estate.

The company is headquartered at Dubrovačka 4, Rijeka.

The Parent's share of consolidated total income amounts to 99%.

Luka Rijeka d.d. holds a 49% ownership share in Jadranska vrata d.d. Rijeka - Adriatic Gate Container Terminal (AGCT), whose principal activity is managing and operating container shipping, and is consolidated using the equity method of accounting recognising the Group's share in the profit or loss of the equity accounted investee AGCT.

As at 31 December 2015, the Company's share capital amounted to HRK 539,219 thousand, distributed among 13,480,475 shares with a nominal value of each share amounting to HRK 40. All issued shares are fully paid in and authorised.

On 6 May 2015, the General Assembly adopted a decision to reduce the share capital of the Company in order to cover accumulated losses. As a result, the Company reduced its share capital by HRK 358,829 thousand to HRK 239,219 thousand by reducing the nominal value of its ordinary shares by HRK 60 per share to HRK 40 per share by which accumulated losses in the amount of HRK 318,079 thousand were covered while the rest of the amount was used to create capital reserve in the amount of HRK 40,753 thousand.

On 6 May 2015, the General Assembly adopted a decision regarding the share capital increase and issue of ordinary shares by public offering in the Republic of Croatia. On 31 July 2015, based on the decision above, the Company issued 7,500,000 new ordinary shares with a nominal value of HRK 40.00 while the share price was set to at HRK 40.00 per share thereby increasing the share capital by HRK 300,000 thousand. Share issue was carried out at nominal value.

Annual report for the year ended 31 December 2015

The overview of key shareholders and the ownership structure of the Company as at 31 December 2015 and 31 December 2014 was as follows:

	31.12.2015.		31.12.2014.	
	Number of shares	% of ownership	Number of shares	% of ownership
DUUDI - Republic of Croatia	4,257,403	31.58%	4,257,326	71.19%
Raiffeisen Austria d.d. (custodial acc.) - OT Logistics	2,806,462	20.82%	-	0.00%
Societe Generale – Splitska Banka d.d./AZ d.d. (custodial account)	1,915,000	14.20%	-	0.00%
Hypo Alpe Adria/PBZ	1,024,100	7.60%	-	0.00%
Societe Generale/Erste Plavi. (custodial account)	1,011,381	7.50%	-	0.00%
HZZO	484,780	3.60%	484,780	8.11%
DUUDI - HZMO	214,196	1.59%	214,196	3.58%
Zagrebačka banka d.d (custodial account)	138,580	1.03%	146,080	2.44%
Societe Generale – Splitska Banka d.d./Erste Plavi Expert (custodial account)	136,370	1.01%	-	0.00%
Societe Generale – Splitska Banka d.d./Croatia osiguranje d.d. (custodial account)	115,000	0.85%	-	0.00%
Other shareholders	1,377,203	10.22%	878,093	14.68%
Total	13,480,475	100.00%	5,980,475	100.00%

With the aforementioned increase of share capital, the ownership interest of DUUDI, HZZO and HZMO – institutions of the Republic of Croatia, was decreased from 82.88% as at 31 December 2014 to 36.77% as at 31 December 2015.

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 2015 were as follows:

First name	Last name	Role
Loris	Rak	President
Katarina	Drakulić	Member
Janja	Reljac	Member

Supervisory Board

Members of the Supervisory Board during 2015 were as follows:

First name	Last name	Role	Appointed	Resigned
Nikola	Mendriła	President	18.06.2012	16.11.2015.
Štefica	Salaj	President	16.11.2015.	
Piotr	Wojciech Ambrozowicz	Vice president	16.11.2015.	
Toni	Đikić	Member	16.11.2015.	
Loris	Rak	Vice president	18.06.2012	16.11.2015.
Katarina	Drakulić	Member	18.06.2012	16.11.2015.
Darko	Peričić	Member	18.06.2012	
Krešimir	Trtanj	Member	15.04.2011.	

Management Board

Members of the Management Board during 2015 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.

KEY EVENTS

SECURING A STRATEGIC INVESTOR AND BUSINESS PARTNER THROUGH RE-CAPITALISATION

As the regular General Assembly in May, the shareholders reached a decision to increase the share capital of Luka Rijeka d.d. via a public offering of shares which was to be preceded by a simplified reduction of share capital in order to cover accumulated losses.

The process of increasing the Company's share capital was executed through a public issue of new shares on the stock market and was finalized by end of July 2015. A total of 7.5 million new ordinary shares were subscribed, paid and allocated in the process resulting an increase of share capital by HRK 300,000,000 to the current figure of HRK 539,219,000.

The re-capitalisation process resulted in the subscription of the maximum number of new shares offered on the stock market with participants in the process such as mandatory pension funds (55.4%), foreign investors (37.4%), domestic individuals (3.2%), voluntary pension funds (2.1%), investment funds (1.6%) and others (0.3%).

One of the largest individual investors with a shareholding of 20.81% in the ownership structure of the Company, is the Polish company OT LOGISTICS S.A. This company is a large European logistics provider and port operator in two Polish ports, which considers its investment in Luka Rijeka d.d. a part of its business strategy aimed at creating an integrated logistics transport route on the Baltic-Luka Rijeka corridor with Luka Rijeka as an import / export port in the Adriatic.

PROJECT ŠKRLJEVO – EXTENSION AND MODERNISATION OF THE HINTERLAND PORT TERMINAL

Investment and development project for the extension and modernisation of the Škreljvo terminal is aimed at converting the 400,000 m² area owned by the Company into a modern equipped hinterland port terminal. The project will secure new port capacities for various cargo types but with emphasis on the container transport through the port of Rijeka. The total estimated value of the investment is approximately EUR 50 million while the financing was in most part acquired from the recent capital increase. Apart from the increase in capacity for the Company, this investment will increase the capacity and competitiveness of the Rijeka transport route as a whole which makes this a project of wider reach and significance for the Republic of Croatia.

Preparatory works on the Škrljevo project have been completed: construction permits were obtained, the tender for pre-qualified contractors was issued, the project execution plan is done and in the first half of 2016 the Company expects to issue further tender documentation to pre-qualified contractors, select the contractor for the project and commence the work on the Škrljevo project.

OTHER KEY EVENTS

- Implementation of the micro and macro organisation of the Company.
- The European commission approved the financial grant for the North Adriatic Ports Association (NAPA) for the study on enhancing the integration between ports in the North Adriatic. The lead partner on the project is the port authority of Rijeka.
- New direct vessel services for parent companies were established on the container terminal of the equity accounted investee Jadranska vrata d.d. – AGCT (49% owned by Luka Rijeka d.d.)
- The project "Port of Rijeka - logistics hub for exploration of hydrocarbons in the Adriatic" was presented.

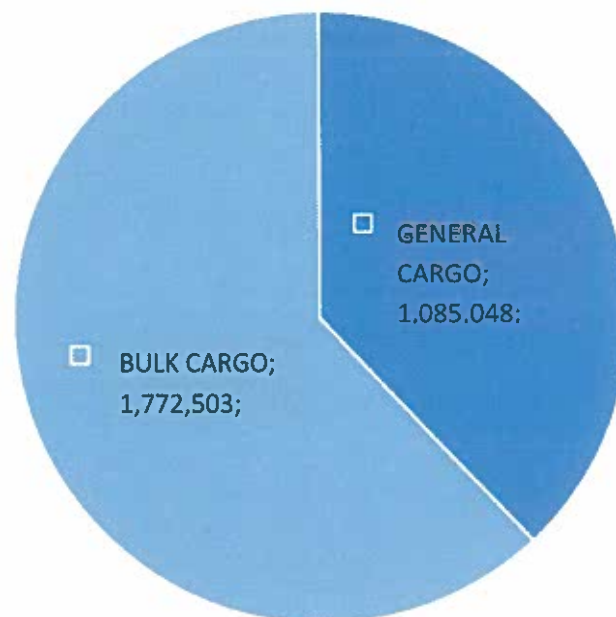
VOLUME TURNOVER INDICATORS

In 2015, total turnover of dry cargo in port of Rijeka (Luka Rijeka d.d. and Adriatic Gate Container Terminal) amounted to 4,304,884 tons, representing a 4% increase in comparison to the prior year when total turnover amounted to 4,140,081 tons of cargo.

Turnover	2015	2014	Indeks 2015/2014
Luka Rijeka d.d. (LR)	2,857,551	2,773,412	97
General cargo (tons)	1,085,048	1,162,782	107
Bulk cargo (tons)	1,772,503	1,610,630	91
AGCT-container terminal			
AGCT-tons	1,447,333	1,366,669	94
AGCT-TEU	161,883	149,838	93
LR + AGCT (tons)	4,304,884	4,140,081	96

The turnover of Luka Rijeka d.d. amounted to 2,857,551 tons of cargo and increase by 3%.

STRUKTURA PROMETA LUKA RIJEKA d.d. 2015.g.



Total turnover of **general cargo** totalled 1,085,048 tons, a decrease of 7%.

Metallurgy semi-products accounted for 30% of the total general cargo with 326,638 tons transhipped. Transhipped volumes decreased by 13%, in line with the decline in turnover of a key client who did not accomplish their business plans. Wood shows increase in turnover, whereby hardwood has a positive trend. The total amount of wood transhipped amounts to 381,990 tons, and increased by 3%. Luka Rijeka handled a total of 71,371 tons of containers, or 38,219 TEU of containers, expressed in units on the terminals under concession. In other general cargo, good results in terms of transhipped quantities relate to fruit (+ 13%) and cattle (Croatian exports and transit from Hungary) which is 2.2 times higher.

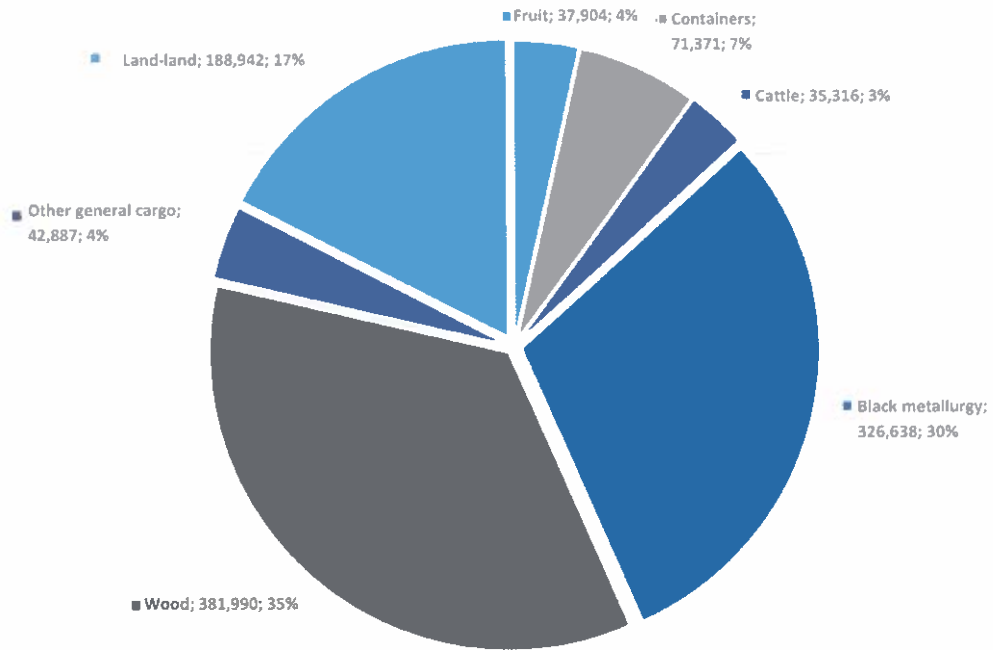
Total **bulk cargo** turnover amounted to 1,772,503 tons, an increase of 10%. In the structure of bulk cargo, the largest share with 66% recorded turnover relates to coal and iron ore with 1,161,940 tons transhipped through the Bakar terminal, an increase of 6%. Turnover of crops and oilseed amounted to 192,072 tons, an increase of 57%. Due to poor harvest and low purchase prices, the overseas export of wheat decreased, while the good results in terms of transhipped quantities relate to corn with 127,492 tons (+2.2 times) and soybeans with 50,761 tons (+ 5%). Total other bulk cargo was handled in the amount of 418,491 tons, an increase of 1%.

Total **container** turnover of the port of Rijeka in 2015 was 1,518,704 tons, or 200,102 TEUs and this is the best result since in the port of Rijeka started transhipping containers. Compared to 2014, total container turnover in TEUs has increased by 4%. It consists of a turnover of 161,883 TEUs, which is achieved by the concessionaire Adriatic Gate Container Terminal at the container terminal Brajdica and turnover of 38,219 TEUs recorded in other terminals under concession by Luka Rijeka d.d.

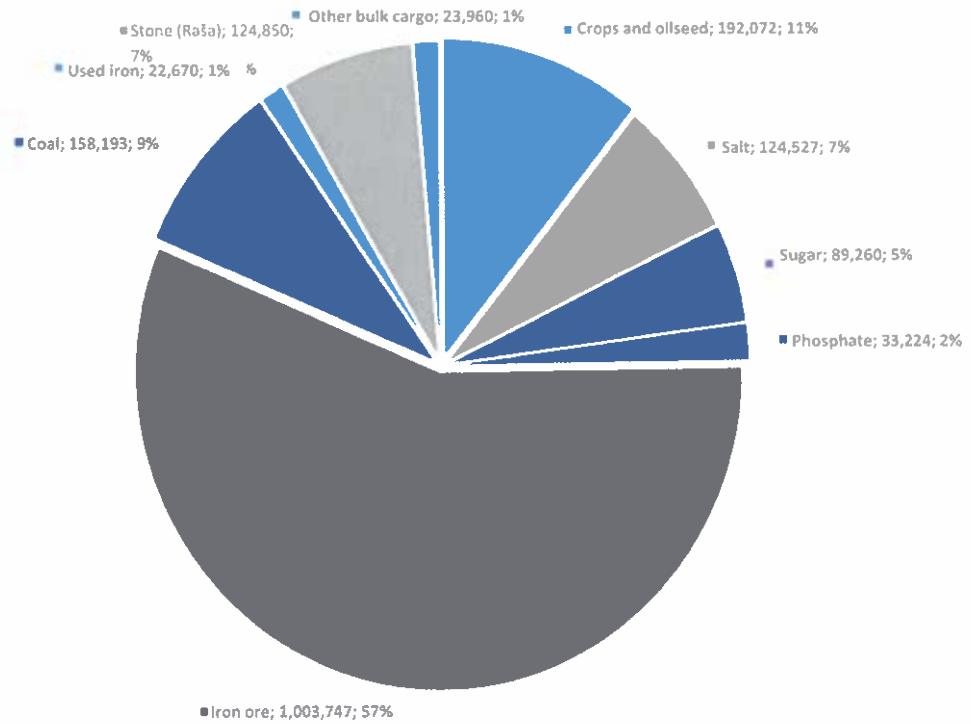
The reason for the growth of container turnover in the growing use of hinterland terminal Škrljevo, which is a valuable support for further strengthening of the container turnover due to its good transport connections and its function in intermodal transport.

2015 saw the arrival of two major shipping alliances with regular services on the container terminal Brajdica (AGCT). These are the 2M alliance comprised of Maersk and MSC and the O3 alliance comprised of CMA CGM, China Shipping (CSCL) and United Arab (UASC). The fact that they regularly dock their boats in Rijeka gives an optimistic outlook for the future.

STRUCTURE OF GENERAL CARGO OF LUKA RIJEKA d.d. FOR 2015



STRUCTURE OF BULK CARGO OF LUKA RIJEKA d.d. FOR 2015



FINANCIAL INDICATORS

Key financial indicators of the Group are as follows:

Financial indicators for the Group	Actual 2015	Actual 2014	Index 2015/2014
Income statement (in HRK thousands)			
Operating revenue	180,034	184,296	0,98
Revenue from services - domestic and foreign	166,494	167,351	0,99
Operating expenses	181,193	182,523	0,99
EBIT	(1,159)	1,773	(0,65)
EBITDA*	10,210	13,108	0,78
Total revenues	184,187	186,337	0,99
Total expenses	192,814	192,397	1,00
Profit/(loss) before tax	(8,627)	(6,060)	1,42
Profit/(loss) for the year	2,719	(5,788)	(0,47)
Balance sheet (in HRK thousands)			
Assets/Equity and liabilities	829,498	588,987	1,41
Non-current assets	549,620	527,560	1,04
Shareholders' equity	689,614	389,368	1,77
Liquidity indicators			
Current liquidity	4.70	0.62	7,57
Indebtedness indicators			
Current liabilities/equity	9%	25%	0.36
Non-current liabilities/equity	11%	26%	0.43
Borrowings/equity	12%	31%	0.39
Total liabilities/equity	17%	34%	0.50
Profitability indicators			
EBITDA* margin	5.7%	7.1%	0,80
EBIT margin	-0.6%	1.0%	
NET margin	1.5%	-3.1%	
Productivity indicators			
Number of employees	665	665	0,95
Revenue per employee (in HRK thousands)	271	277	1,04

*EBITDA equals EBIT increased by the amount of depreciation and amortisation expense and impairment of receivables

Key financial indicators of the Company are as follows:

Financial indicators for the Group	Actual 2015	Actual 2014	Index 2015/2014
Income statement (in HRK thousands)			
Operating revenue	177,667	182,518	0,97
Revenue from services - domestic and foreign	164,858	165,638	1,00
Operating expenses	180,072	181,383	0,99
EBIT	(2,405)	1,135	(2,12)
EBITDA*	8,382	12,004	0,70
Total revenues	181,454	184,555	0,98
Total expenses	191,656	189,933	1,01
Profit/(loss) before tax	(10,202)	(5,378)	1,90
Profit/(loss) for the year	1,265	(4,985)	(0,25)
Balance sheet (in HRK thousands)			
Assets/Equity and liabilities	747,277	507,573	1,47
Non-current assets	470,287	448,769	1,05
Shareholders' equity	614,875	316,083	1,95
Liquidity indicators			
Current liquidity	4.72	0.59	8,06
Indebtedness indicators			
Current liabilities/equity	10%	32%	0.32
Non-current liabilities/equity	11%	29%	0.39
Borrowings/equity	13%	38%	0.35
Total liabilities/equity	18%	38%	0.47
Profitability indicators			
EBITDA* margin	4.7%	6.6%	0,72
EBIT margin	-1.4%	0.6%	
NET margin	0.7%	-2.7%	
Productivity indicators			
Number of employees	665	665	0,95
Revenue per employee (in HRK thousands)	267	274	1,04

*EBITDA equals EBIT increased by the amount of depreciation and amortisation expense and impairment of receivables

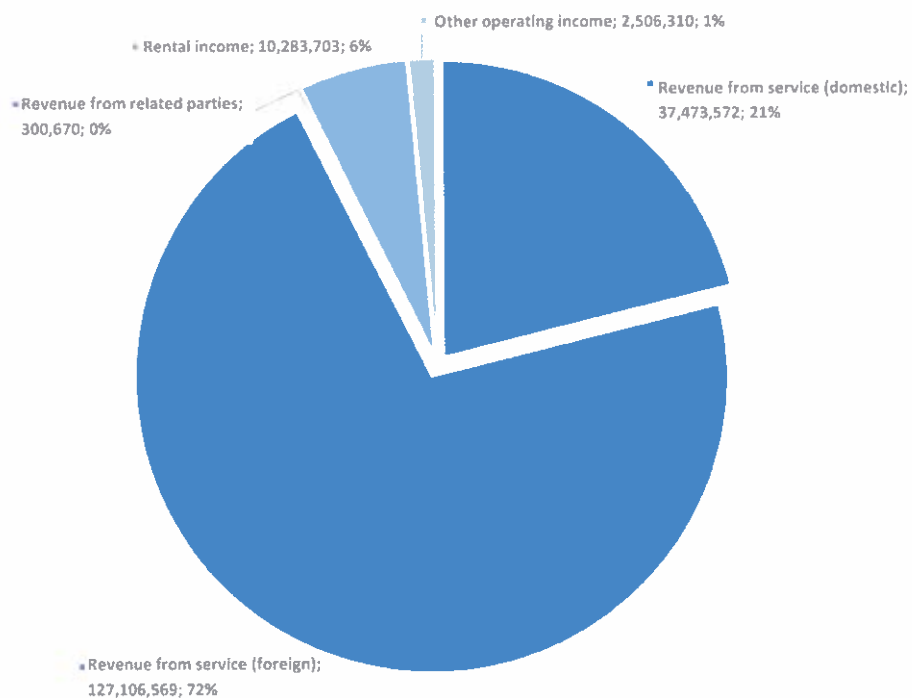
Operating income

Operating income of the Company for 2015 amounted to HRK 177,667 thousand representing a 3% decrease from prior year.

The volume of turnover in terms of quantity increased by 3% compare to 2014 and is the key generator of operating income resulting in revenues from services to domestic and foreign customers. These revenues amounted to HRK 164,858 thousand and were at the same level as in 2014 which is in line with the cargo structure (a decrease in the share of more profitable general cargo was noted).

The structure of operating income continues to be dominated by revenues from services to foreign customers which represent 72% of the total confirming the dependence of the Company and the Group on the global macroeconomic movements. The increase in the share of these revenues in the structure of operating income is a continuing trend while the share of revenue from services to domestic customers and other income has almost halved.

STRUCTURE OF OPERATING INCOME OF LUKA RIJEKA d.d. FOR 2015



Financial income

Financial income amounted to HRK 3.8 million and increased by 85% as a result of increase in interest income on deposits (relating to the re-capitalisation funds).

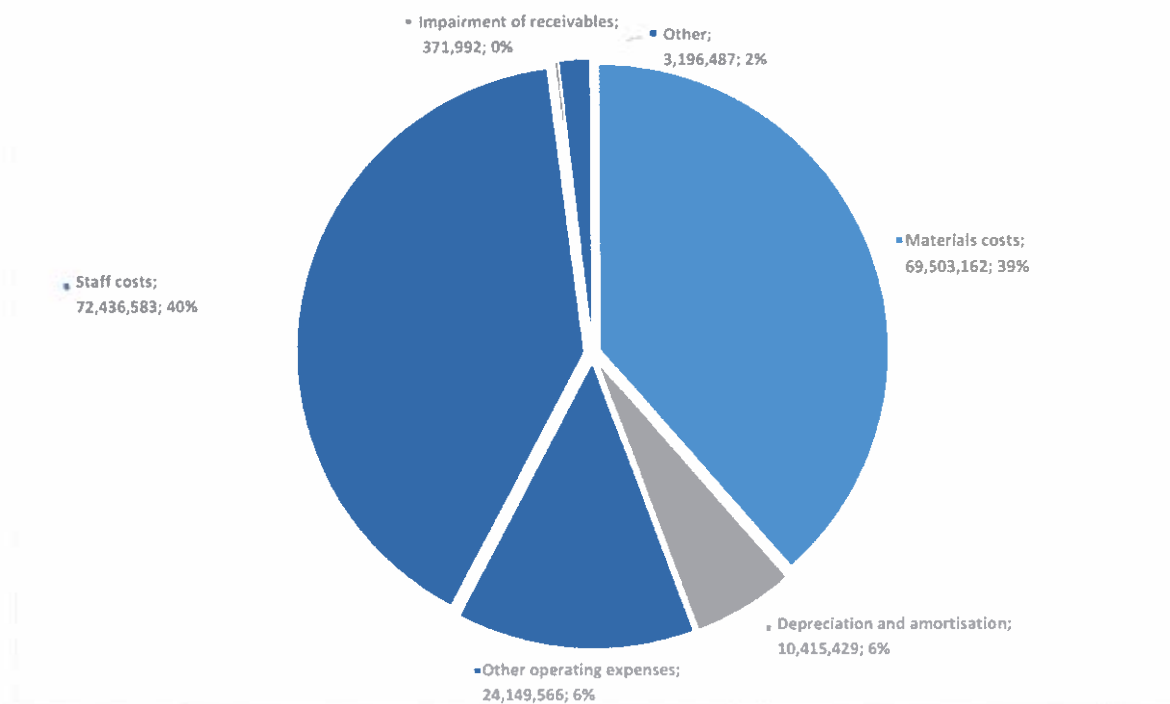
Operating expenses

In 2015, the operating expenses of the Company amounted to HRK 180,072 thousand which represents a 1% decrease compared to prior year.

Due to the labour intensiveness of the operations of the Company, the largest share in the structure of operating expenses relates to staff costs (salary expenses) making up 40% of the total and amounting to HRK 72.4 million and which have been reduced by 2% following a decrease in personnel from 686 to 651 (5%). By implementing the new organisation and systematisation scheme, the Company paid voluntary termination benefits to 16 employees which increase operating expenses. Total staff costs (salaries and contributions and other employee benefits) amounted to HRK 77.3 million representing 43% of total operating expenses which is at prior year level.

Depreciation expense has increase by 8% as a result of additions with respect to new port mechanisation.

STRUCTURE OF OPERATING EXPENSES OF LUKA RIJEKA d.d. FOR 2015



Financial expenses

Financial expenses amounted to HRK 11.6 million and increased by 35% due to increased negative foreign exchange differences relating to the US dollar. The Company generates revenues from foreign customers in euros while a part of its loans and finance leases are denominated in US dollars.

Result of operations

EBIT for 2015 amounted to a negative 2.4 million while EBITDA was positive at 10.2 million. Total expenses exceeded total revenues resulting in a loss before taxation.

The Company recognised a deferred tax asset and a deferred tax income in the amount of HRK 12.3 million with respect to unused tax losses of HRK 73.7 million as at 31 December 2015 as management estimated that sufficient taxable profits will be available against which the losses can be offset.

As a result of the recognised deferred tax income, the Company realised a profit after tax of HRK 1.3 million while the Group realised a profit after tax of HRK 2.7 million.

Balance sheet

Assets of the Company as at 31 December 2015 amounted to HRK 747.3 million representing a 47% increase compared to 2014 primarily as a result of the increase in share capital by issue of new ordinary shares. This has strengthened the balance sheet in terms of financial assets and capital, increase liquidity indicators and secured the long-term financial stability of the Company.

Non-current assets increased as a result of additions with respect to assets under construction mostly related to the Škrljevo project. A total of HRK 23.6 million of capital expenditure was incurred of which 73% was financed from the Company's own resources.

Non-current liabilities decreased as a result of regular and early repayment of loans while the decrease in customer collection days and creditor payment days resulted in a decrease in trade receivables and payables.

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.

The destination markets

Regarding the most important destination markets of the port of Rijeka, the situation is very different. Very important market of the Middle East and North Africa continues to be shaken by political crisis, which escalated into conflicts and extensive emigration of the local population (especially from Syria and Iraq). The situation in the area continues to complicate relations between Saudi Arabia and Iran (for which sanctions have since been suspended and which returns to the international market). The complexity of the situation on the market increased the tensions between Turkey and Russia, with consequences for their economic relations and the Turkish economy in general. Generally complex relationships in the Middle East are a generator of high risk in terms of the volume of overseas trade of these countries.

Libya, which has been an important market Luka Rijeka, practically no longer exists as a sovereign country, and it seems its crisis will not be resolved soon. Egypt is under military rule and manages to maintain stability, but there is still a danger of its destabilization.

A particularly important element for all the countries of this region and the global economy in general, is the constant drop in oil prices, which significantly affected them all (these are the world's largest producers). As much as the trend favoured the global economy, particularly the transportation and logistics sector of which ports are a part of, the long term effect is very destructive to the economy of these countries and thus their overseas trading.

Market competition

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.

Credit risk

Customers are classified into risk groupings based on the financial indicators and own trading records, and appropriate credit risk mitigation measures are taken for each risk class. The risk increases when contracting with new customers, where instances can occur that a service is contracted with an unreliable client (in terms of the non-fulfilment of the dynamics of the contract, payment etc.). This can cause a variety of problems (filling of warehouses with goods for which storage fees have not been paid and which occupy valuable space, delays with respect to the agreed schedules with liners and other shipping companies, or wagons and lorries, resulting in the penalties and other damages, etc.). This risk is minimized by updating the base of existing and potential clients of the Company where all of their data over the years is accumulated, so that before any contract is signed, an assessment of the acceptability of the customer is reached.

Currency risk

The share of foreign income in total operating income amounts to 72%. Port services are mainly denominated in EUR, with a 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 risk of fluctuation of the kuna towards the EUR is relatively moderated and will remain to be as long as the currency is pegged to the EUR which has proven to be a stabilizing factor thus far.

Exposure to currency risk in US dollars is due to minority of prices being denominated in USD, while liabilities denominated in US dollars (loan and finance lease agreement with the Port Authority of Rijeka subordinated from the World bank; concession fees) further increase the risk due to volatility of the US dollar as a global currency. Consequently, due to increase of USD exchange rate in 2015, the Company recorded increased financial losses due to negative exchange differences. The Company is currently assessing the need to hedge against the US dollar related currency risk for the financial year 2016 given its volatility.

Interest rate risk

The Company is exposed to interest rate risk as it borrows at both fixed and floating interest rates. The Company significantly reduced its indebtedness and exposure to variable interest rate loans and estimates that the possible increase in variable interest rates is not significant and does not warrant the use of specific hedging instruments with respect to interest rate risk. Nevertheless, in the event of significant movements in benchmark rates (EURIBOR, LIBOR), the Company will negotiate with creditors in order to minimize 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. The Company regularly monitors the relationship between current assets and current liabilities.

As a result of the successful process of increase in share capital of the Company in cash in the amount of HRK 300 million, the Company has high liquidity indicators, positive consolidated net current assets and has invested excess cash funds by dispersing them into short term deposits in banks and cash funds.

Technological risk

Technological risk is reflected in the obsolescence of the existing port technology, which increases maintenance costs, reduces productivity of port manipulation, i.e. the profitability of the process and reduces the competitiveness due to unreliable and slow service. Technological risks are 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 the period 2013-2015 a substantial investment was made into mobile mechanisation in the total amount of EUR 7 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.

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.

In March 2015, the Company implemented the new micro and macro organization and paid voluntary retirement benefits to 16 employees which decrease the total number of employees by 5%. Significant personnel risk is high average age of employees in Luka Rijeka. In order to rejuvenate the age structure of employees, in accordance with the Professional training program, in 2015 the Company admitted 22 university educated people into training. If they prove to be quality workers, the aim is to offer employment to the extent required by 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 (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.

In order to minimize or eliminate negative impacts on the environment, the Company gradually implements requirements of the ISO 140000 with the aim to become certified. Employees are gradually being educated so as to implement the required norms and enhance ecological awareness.

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
- 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
- Finally, through the upgrade of the IT systems with the aim of system integration in all business segments

BUSINESS EXPECTATIONS

CONTINUATION OF CAPITAL INVESTMENTS

The most significant capital investment of the Company is the aforementioned Škrljevo project, both financially and from an operational perspective. The start of project works, scheduled for the first half of 2016 will most certainly mark this year while its full impact is expected in 2017.

Other capital investments are generally related to the continued additions with respect to modern port mechanisation which enable improvements in efficiency and competitiveness.

LIBERALISATION OF THE RAIL FREIGHT TRANSPORT MARKET

Despite the formal liberalization of rail freight transport in Croatia since 1 July 2013, market competition on this important part of the transport route has not taken hold still because, except marginally, private operators are not competing, which significantly affects the competitiveness of the entire transport route, and consequently the competitiveness and business results of Luka Rijeka d.d.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of Luka Rijeka d.d. ("the Company") is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and the Group (the Company and its subsidiaries and associates form the Group) and of the results of their operations and their 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 the Group 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 unconsolidated and consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

After making enquiries, the Management Board has a reasonable expectation that the Company and the Group have 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 preparation of the annual report pursuant to legal and regulatory requirements specified in Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia) and for submission to the Supervisory Board of its annual report together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The annual report and the financial statements of the Company and the Group were authorised by the Management Board on 21 April 2016 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.

Riva 1
51 000 Rijeka
Republic of Croatia

LUKA RIJEKA d.d.
Rijeka, Riva 1

Rijeka, 21 April 2016



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

Report on the financial statements

We have audited the accompanying separate financial statements of Luka Rijeka d.d. ("the Company") and the accompanying consolidated financial statements of the Company and its subsidiaries (together referred to as "the Group") which comprise the statements of financial position as at 31 December 2015, the 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 Company's and the Group's internal controls. 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 financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Pursuant to legal and regulatory requirements as applicable for reporting periods ending 31 December 2015, the management has prepared the annual report set out on pages 1 to 17. The management is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). Our responsibility is to report 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 (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). The information given in the accompanying annual report is consistent with the financial statements set out on pages 20 to 69.


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Ivana Lučića 2a
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2

21 April 2016

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

<i>(in thousands of HRK)</i>	<i>Note</i>	2015 Group	2014 Group	2015 Company	2014 Company
Revenue from sales	7	166,494	167,351	164,858	165,638
Other income	8	13,540	16,945	12,809	16,880
		180,034	184,296	177,667	182,518
Materials, services and consumables used	9	(67,170)	(67,398)	(69,500)	(69,336)
Personnel expenses	10	(79,670)	(81,228)	(77,339)	(79,158)
Depreciation and amortisation	16,17,18	(10,997)	(10,127)	(10,415)	(9,661)
Other expenses	11	(23,356)	(23,770)	(22,818)	(23,228)
		(181,193)	(182,523)	(180,072)	(181,383)
Finance income	12	3,790	2,041	3,787	2,037
Finance costs	13	(11,621)	(8,593)	(11,584)	(8,550)
Net finance costs		(7,831)	(6,552)	(7,797)	(6,513)
Share of profit/(loss) of equity-accounted investees	19	363	(1,281)	-	-
Loss before tax		(8,627)	(6,060)	(10,202)	(5,378)
Income tax benefit	14	11,346	272	11,467	393
Profit/(loss) for the year		2,719	(5,788)	1,265	(4,985)
Revaluation of AFS financial assets (net of tax)		(344)	359	(344)	359
Revaluation of land (net of tax)		-	18,186	-	18,186
Other comprehensive income		(344)	18,545	(344)	18,545
Total comprehensive income		2,375	12,757	921	13,560
Earnings/(loss) per share (in HRK)					
- basic and diluted	15	0.30	(0.97)		

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

<i>(in thousands of HRK)</i>	<i>Note</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
ASSETS					
Non-current assets					
Intangible assets	16	839	771	841	773
Property, plant and equipment	17	423,269	409,410	421,730	408,331
Investment property	18	9,650	9,982	9,650	9,982
Investments in subsidiaries and equity accounted investees	19	89,526	89,163	11,767	11,767
Financial assets available for sale	20	210	2,217	210	2,217
Non-current financial assets	21	7,323	8,740	7,286	8,422
Deferred tax assets	14	18,803	7,277	18,803	7,277
Total non-current assets		549,620	527,560	470,287	448,769
Current assets					
Inventories		1,063	1,084	1,063	1,084
Trade and other receivables	23	31,869	38,042	31,125	37,359
Income tax receivable		96	467	96	458
Current financial assets	22	242,305	19,211	242,122	19,204
Cash and cash equivalents	24	4,545	2,623	2,584	699
Total current assets		279,878	61,427	276,990	58,804
Total assets		829,498	588,987	747,277	507,573
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	25	539,219	598,048	539,219	598,048
Capital and other reserves	26	38,624	4,968	38,624	4,968
Revaluation reserves	26	35,767	36,111	35,767	36,111
Retained earnings/(accumulated losses)		76,004	(249,759)	1,265	(323,044)
Total equity		689,614	389,368	614,875	316,083
Non-current liabilities					
Borrowings	27	57,803	68,921	56,892	67,966
Provisions	28	3,677	16,925	3,677	14,222
Deferred tax liability	14	14,553	14,724	8,936	8,936
Total non-current liabilities		76,033	100,570	69,505	91,124
Current liabilities					
Trade and other payables	29	30,713	45,018	29,782	43,820
Income tax liability		23	188	-	-
Borrowings	27	25,428	52,942	25,428	52,942
Provisions	28	7,687	901	7,687	3,604
Total current liabilities		63,851	99,049	62,897	100,366
Total liabilities		139,884	199,619	132,402	191,490
Total equity and liabilities		829,498	588,987	747,277	507,573

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

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2015

GROUP	Share capital	Capital and other reserves	Revaluation reserves	Retained earnings / (accumulated losses)	Total
<i>(in HRK thousands)</i>					
As at 1 January 2014	598,048	-	17,566	(243,971)	371,643
Loss for the year	-	-	-	(5,788)	(5,788)
<i>Increase in fair value of available for sale 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	(5,788)	12,757
Transactions with owners					
<i>Capital contribution from the state</i>	-	4,968	-	-	4,968
As at 31 December 2014	598,048	4,968	36,111	(249,759)	389,368
Profit for the year	-	-	-	2,719	2,719
<i>Increase in fair value of available for sale financial assets</i>	-	-	(574)	-	(574)
<i>Deferred tax effect</i>	-	-	230	-	230
Other comprehensive income	-	-	(344)	-	(344)
Total comprehensive income	-	-	(344)	2,719	2,375
Transactions with owners					
<i>Reduction of share capital to cover accumulated losses (note 25)</i>	(358,829)	35,785	-	323,044	-
<i>Increase of share capital via public issue of shares (note 25)</i>	300,000	(2,129)	-	-	297,871
Total transactions with owners	(58,829)	33,656	-	323,044	297,871
As at 31 December 2015	539,219	38,624	35,767	76,004	689,614

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

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2015

COMPANY	Share capital	Capital and other reserves	Revaluation reserves	Retained earnings / (accumulated losses)	Total
<i>(in HRK thousands)</i>					
As at 1 January 2014	598,048	-	17,566	(318,059)	297,555
Loss for the year	-	-	-	(4,985)	(4,985)
<i>Increase in fair value of available for sale 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
Profit for the year	-	-	-	1,265	1,265
<i>Increase in fair value of available for sale financial assets</i>	-	-	(403)	-	(403)
<i>Deferred tax effect</i>	-	-	59	-	59
Other comprehensive income	-	-	(344)	-	(344)
Total comprehensive income	-	-	(344)	1,265	921
Transactions with owners	-	-	-	-	-
<i>Reduction of share capital to cover accumulated losses (note 25)</i>	(358,829)	35,785	-	323,044	-
<i>Increase of share capital via public issue of shares (note 25)</i>	300,000	(2,129)	-	-	297,871
Total transactions with owners	(58,829)	33,656	-	323,044	297,871
As at 31 December 2015	539,219	38,624	35,767	1,265	614,875

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

<i>(in thousands of HRK)</i>	<i>Note</i>	2015 Group	2014 Group	2015 Company	2014 Company
Loss before tax		(8,627)	(6,060)	(10,202)	(5,378)
Share of net result of equity accounted investee	<i>19</i>	(363)	1,281	-	-
Depreciation and amortization	<i>16,17,18</i>	10,997	10,127	10,415	9,661
Gain on disposal of property, plant and equipment and intangibles	<i>8</i>	(24)	(1,207)	(24)	(1,207)
Impairment losses/gains on trade receivables - net	<i>11</i>	372	1,208	372	1,208
Interest income	<i>12</i>	(2,109)	(794)	(2,107)	(790)
Interest expense	<i>13</i>	5,889	4,608	5,871	4,565
Gain on disposal of AFS financial assets	<i>12</i>	(453)	(26)	(453)	(26)
Losses on equity instruments	<i>13</i>	7	158	7	158
Net increase/(reversal) of provisions	<i>8,11</i>	(1,673)	(666)	(1,673)	(666)
Foreign exchange differences - net		2,328	2,493	2,328	2,493
Changes in working capital:		6,344	11,122	4,534	10,018
Decrease/(increase) in inventories		21	281	21	281
Decrease/(increase) in trade and other receivables		5,502	(3,941)	5,563	(4,037)
Increase/(decrease) in trade and other payables		(9,711)	4,483	(9,444)	4,474
Increase/(decrease) in provisions		(4,789)	(16,630)	(4,789)	(16,630)
Cash from operations		(2,633)	(4,685)	(4,115)	(5,894)
Income tax paid		85	(381)	362	(381)
Interest paid		(6,119)	(3,764)	(6,101)	(3,721)
Net cash from operating activities		(8,667)	(8,830)	(9,854)	(9,996)
Cash flows from investing activities					
Purchase of property, plant, equipment and intangibles		(23,879)	(14,075)	(23,635)	(13,700)
Net proceeds/(repayments) with respect to finance lease arrangements		(5,777)	(1,412)	(4,935)	(1,230)
Proceeds from disposal of property, plant and equipment, intangibles and investment property		109	5,166	109	5,093
Net inflows/(outflows) related to sale of Group and State owned apartments		1,326	(997)	1,326	(997)
Interest received		2,109	794	2,107	790
Proceeds from sale of AFS financial assets		1,879	615	2,050	615
Net inflows/(outflows) from insurance policies		-	7,710	-	7,710
Net inflows/(outflows) from bank deposits		(223,094)	15,522	(222,918)	15,529
Net inflows/(outflows) from non-current financial assets		281	(136)	-	29
Net cash from investing activities		(247,046)	13,187	(245,896)	13,839
Cash flows from financing activities					
Proceeds from borrowings		15,553	46,977	15,553	46,977
Repayment of borrowings		(55,789)	(51,125)	(55,789)	(51,125)
Receipts from issue of ordinary shares	<i>25</i>	300,000	-	300,000	-
Transaction costs paid in relation to share issue	<i>25</i>	(2,129)	-	(2,129)	-
Net cash from financing activities		257,635	(4,148)	257,635	(4,148)
Net decrease of cash and cash equivalents		1,922	209	1,885	(305)
Cash and cash equivalents at beginning of year		2,623	2,414	699	1,004
Cash and cash equivalents at the end of year	<i>24</i>	4,545	2,623	2,584	699

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 2015

NOTE 1 – GENERAL INFORMATION

History and incorporation

Luka Rijeka d.d. ('the Company') was formed through conversion of the former social company 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. The Company is headquartered in Riva 1, Rijeka, Croatia. The Company and its subsidiaries and associates are together referred to as the Group.

Principal activities of subsidiaries and associates are as follows: management of investment property (subsidiary Stanovi d.o.o.), carriage, warehousing and freight (subsidiary Luka prijevoz d.o.o.) and container terminal management (associate Jadranska vrata d.d.). All subsidiaries and the associate are based in Rijeka, Croatia.

Issued share capital of the Company amounts to HRK 539,219,000 and is distributed among 13,480,475 shares with a nominal value of HRK 40 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 25.

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

First name	Last name	Role	Appointed	Resigned
Nikola	Mendriła	President	18.06.2012	16.11.2015.
Štefica	Salaj	President	16.11.2015.	-
Piotr	Wojciech Ambrozowicz	Vice president	16.11.2015.	-
Toni	Đikić	Član	16.11.2015.	-
Loris	Rak	Vice president	18.06.2012	16.11.2015.
Katarina	Drakulić	Member	18.06.2012	16.11.2015.
Darko	Peričić	Member	18.06.2012	-
Krešimir	Trtanj	Member	15.04.2011.	-

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2 – BASIS OF PREPARATION

(i) *Statement of compliance*

The unconsolidated and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”).

The unconsolidated financial statements are presented for the Company while the consolidated financial statements relate to the Company and its subsidiaries and equity accounted investees, i.e. the Group. The unconsolidated and consolidated financial statements are further together referred to as the “financial statements”.

These financial statements were authorised for issue by the Management Board on 21 April 2016.

(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 2015

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 and its subsidiaries to all periods presented in these financial statements and represent the accounting policies of the Group adopted in the preparation of these financial statements.

3.1 Basis of consolidation

(i) Business combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset transferred or liability assumed. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are generally measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of consideration transferred, the amount of any non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the statement of comprehensive income.

(ii) Subsidiaries

Subsidiaries are all entities (including special purpose entities) controlled by the Group. The Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Investments in subsidiaries are accounted for in the unconsolidated financial statements at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

(iii) Associates (equity accounted investees)

Associates are all entities over which the Group or the Company have significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group accounts for investments in associates using the equity method and the Company accounts for them at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are been changed where necessary to ensure consistency with the policies adopted by the Group.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Group's activities. Revenue is shown, net of value-added tax, returns, volume rebates and trade discounts.

The Group 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 Group's activities as described below.

(i) *Revenue from services*

The Group provides port related services such as carriage, transshipment, freight, handling (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 Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group 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 Group 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Intangible assets

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

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 Group. 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
----------	-------------

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
------------------------	----------

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 Group 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 Group 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Property, plant and equipment (continued)

(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 (i.e. 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.

(iii) Assets under the concession arrangement

The Group 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 Group 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 Group 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 Group 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 Group 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 Group and are instead kept off balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Impairment of non-financial assets

At each reporting date, the Group 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 Group 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, 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 Group 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 Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group 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 Group 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 2015

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 Group 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 Group 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 Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group 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 Group 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 Group 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 Group 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 Group 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 2015

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 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 Group 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 losses 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 Group'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 2015

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 Group'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 Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group 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 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Financial liabilities and equity instruments issued by the Group

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 Group 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 Group 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 Group derecognises financial liabilities when, and only when, the Group'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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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 Group 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 Group'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 Group'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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Segment reporting

Segment represents a separable part of the Group 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 Group 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 Group 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 Group 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 2015

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 2015 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. The effect of these standards on the financial statements of the Company and the Group have not been assessed.

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 Group'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 Company's accounts.

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 33 - 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 2015

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

(i) *Service Concession Arrangements (continued)*

At the reporting date, the Company is in majority ownership of shareholders from the private sector. IFRIC 12 deals with public-to-private service concession arrangements, and considering the current ownership structure, the aforementioned concession arrangement represents a form of public-to-private service concession arrangements, and as such should be subject to the requirements of IFRIC 12 if it contains the characteristics defined in this interpretation.

The characteristics of concession arrangements that fall under IFRIC 12, and as defined by this interpretation are as follows:

- the obligation taken over by the operator is in its nature a public service
- the party that grants the service arrangement (the grantor) is a public sector entity, including a governmental body, or a private sector entity to which the responsibility for the service has been devolved
- the operator is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor
- the contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the service arrangement
- the operator is obliged to hand over the infrastructure to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.

One of the main factors that management considers in terms of the applicability of IFRIC 12 is the mechanism which regulates and revises prices throughout the term of the service concession agreement. The Grantor, under the current agreement has the right to regulate the maximum level of price that the Company may charge for services prescribed by the agreement by prescribing maximum fee tariffs and adjusting it or approving requests for modification of fees or price lists as proposed by the Company. However, due to the specifics of the port, its location and the prices of the supporting transport infrastructure, in order to maintain competitiveness and a satisfactory level of turnover, fees charged by the Company to its customers are continuously significantly below the maximum fee tariff prescribed by the Port Authority of Rijeka. With respect to this, and taking into account all relevant provisions of IFRIC 12, the management applied judgment and assessed that the mechanism for regulating and revising prices that is currently in place does not represent a substantive price regulation. The Company's management regularly monitors differences between service fees charged to customers and maximum tariffs in order to determine if this assessments is still applicable and reasonable.

If during its monitoring of key elements of the current price regulation mechanism the management identifies a substantial change in circumstances, which would render the above mechanism relevant and in which case it would become a mechanism of substantive price regulation, and if such circumstances are considered long-term in nature, the management would again review and analyse the accounting treatment that is currently in place and the possible applicability of IFRIC 12.

In case the Company changes its accounting policy to align with 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

(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 Group also makes judgements with respect to the corporate income tax rates used to measure the deferred tax assets and liabilities as the Group 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 Group's tax incentive will no longer be in place. (see notes 3.21 and 14).

(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 Group 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 Group. The Group 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 Group.

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 Group is a plaintiff in a particular court case, any economic benefits expected to flow to the Group 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 Group's obligations arising legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.14 and 28).

(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 Group 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 Group 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 Group 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 Group 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

(vi) *Revaluation of land*

As the Group 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.

NOTE 6 – DETERMINING FAIR VALUES

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

The Group 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 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 (i.e. as prices) or indirectly (i.e. 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 Group has made the following significant fair value estimates statements as further explained in detail in following notes:

- note 17: Property, plant and equipment (with respect to land)
- note 19: Investments in equity accounted investees and other investments
- note 20: Financial assets available for sale

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 7 – REVENUE FROM SALES

<i>(in thousands of HRK)</i>	2015 Group	2014 Group	2015 Company	2014 Company
Sales to domestic customers	33,857	32,287	37,752	36,888
Sales to foreign customers	132,637	135,064	127,106	128,750
	166,494	167,351	164,858	165,638

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

<i>(in thousands of HRK)</i>	2015 Group	2014 Group	2015 Company	2014 Company
General cargo	89,970	90,499	89,970	90,499
Bulk cargo	48,653	49,205	48,653	49,205
Containers	6,284	6,339	6,284	6,339
Other port services	21,587	21,308	19,951	19,595
Total	166,494	167,351	164,858	165,638

General and bulk cargo revenue relates to services in relation to transshipment of those types of cargo for which the Group charges fees based on tonnes of transhipped cargo while other port services relate to storage, warehouse handling and other services related to transshipment of other types of cargo.

NOTE 8 – OTHER INCOME

<i>(in thousands of HRK)</i>	2015 Group	2014 Group	2015 Company	2014 Company
Gain on sale of non-current tangible and intangible assets	24	1,207	24	1,207
Donations and grants	38	27	-	-
Bad debts recovered	24	21	24	21
Insurance recoveries	200	762	200	762
Rental income	10,304	12,382	10,304	12,382
Reversal of provisions	1,673	666	1,673	666
Other income	1,277	1,880	584	1,842
	13,540	16,945	12,809	16,880

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 9 – MATERIALS, SERVICES AND CONSUMABLES USED

<i>(in thousands of HRK)</i>	2015	2014	2015	2014
	Group	Group	Company	Company
Energy	13,391	14,180	13,391	14,177
Utilities	3,483	3,258	3,456	3,247
Postage and telecommunications	840	844	820	823
Concession fees	6,823	5,980	6,823	5,980
Transport services	6,441	8,671	10,648	12,606
Quality control and disinfection	1,867	1,386	1,867	1,386
Freight handling services	12,969	11,882	12,969	11,882
Maintenance	10,502	9,386	10,590	9,507
Raw materials and consumables	8,649	8,441	7,791	7,628
Rent	414	851	375	894
Other materials expenses	1,791	2,519	770	1,206
	67,170	67,398	69,500	69,336

Variable part of the concession fee for 2015 amounted to HRK 2,002 thousand (2014: HRK 2,054 thousand).

NOTE 10 – PERSONNEL EXPENSES

<i>(in thousands of HRK)</i>	2015	2014	2015	2014
	Group	Group	Company	Company
Gross salaries and wages	63,584	66,052	61,803	64,476
Contributions on salaries	10,934	11,041	10,632	10,780
Other employee related costs	5,152	4,135	4,904	3,902
	79,670	81,228	77,339	79,158

As at 31 December 2015 the number of staff employed by the Group was 665 (2014: 701) while the Company employed 650 employees (2014: 698).

In 2015, termination benefits were accrued for 16 employees in the amount of HRK 1,440 thousand and recognised as an expense (2014: HRK 160 thousand for 1 employee).

NOTE 11 – OTHER EXPENSES

<i>(in thousands of HRK)</i>	2015	2014	2015	2014
	Group	Group	Company	Company
Bank charges	362	446	334	422
Intellectual services	1,969	2,492	1,837	2,429
Fines and penalties	2,913	2,014	2,913	2,014
Reimbursement of costs to employees	2,844	3,025	2,844	3,025
Non-income related taxes, contributions and fees	10,321	10,134	10,266	10,072
Insurance	2,843	3,121	2,726	3,019
Court fees and expenses	379	120	379	120
Impairment of receivables	372	1,208	372	1,208
Marketing and entertainment	396	374	373	359
Other expenses	957	836	774	560
	23,356	23,770	22,818	23,228

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 2015

NOTE 12 – FINANCE INCOME

<i>(in thousands of HRK)</i>	2015	2014	2015	2014
	Group	Group	Company	Company
Interest and similar income	2,109	794	2,107	790
Foreign exchange gains	1,228	1,125	1,227	1,125
Gain on disposal of AFS financial assets	453	26	453	26
Other financial income	-	96	-	96
	3,790	2,041	3,787	2,037

Interest income mostly consists of interest on bank deposits in the amount of HRK 2,011 thousand (2014: HRK 745 thousand).

NOTE 13 – FINANCE COSTS

<i>(in thousands of HRK)</i>	2015	2014	2015	2014
	Group	Group	Company	Company
Interest and similar expenses	5,889	4,608	5,871	4,565
Foreign exchange losses	5,585	3,827	5,566	3,827
Losses on equity financial instruments	7	158	7	158
Other financial expenses	140	-	140	-
	11,621	8,593	11,584	8,550

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

NOTE 14 – INCOME TAX

Tax income consists of:

<i>(in thousands of HRK)</i>	2015	2014	2015	2014
	Group	Group	Company	Company
Current income tax	121	121	-	-
Deferred tax	(11,467)	(393)	(11,467)	(393)
Income tax benefit	(11,346)	(272)	(11,467)	(393)

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

<i>(in thousands of HRK)</i>	2015	2014	2015	2014
	Group	Group	Company	Company
Loss before taxation	(8,627)	(6,060)	(10,202)	(5,378)
Tax calculated at 20%	(1,725)	(1,212)	(2,040)	(1,076)
Non-taxable income	(7)	(19)	(7)	(19)
Non-deductible expenses	108	613	108	572
Tax effect of share in result of equity accounted investee	(73)	256	-	-
Recognition of previously unrecognised temporary differences	828	-	828	-
Tax incentive - reduction of tax rate	386	90	507	130
Recognition of previously unrecognised deferred tax assets on tax losses	(10,863)	-	(10,863)	-
Tax expense/(benefit) recognised in the statement of comprehensive income	(11,346)	(272)	(11,467)	(393)
Effective tax rate	132%	4%	112%	7%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 14 – INCOME TAX (CONTINUED)

Tax incentive scheme

A significant part of the Group's registered activity is performed in an area which is in transition from being designated as a "free zone" and where the State has a tax incentive scheme in place entitling entities operating within this area to pay corporate income tax at a 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 Group will no longer be entitled to use this incentive and will have to pay taxes at a regular rate of 20%.

As at 31 December 2015, the Company and the Group has unused tax losses to carry forward of HRK 73,655 thousand (*31 December 2014: HRK 4,815 thousand*) 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. The increase in unused tax losses stems from losses from previous years which the Company and Group recognised retroactively through the restatement of prior period financial statements and which have been recognised for tax purposes during 2015.

Movement in deferred tax assets for the Company and the Group was as follows:

2014 - Company and Group	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
	<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

2015 - Company and Group	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
	<i>(in thousands of HRK)</i>			
Land	4,002	-	-	4,002
Other financial assets	354	-	-	354
Financial assets available for sale	1,008	59	(677)	390
Provision for employee entitlements	950	-	(151)	799
Tax losses	963	-	12,295	13,258
	7,277	59	11,467	18,803

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 14 – INCOME TAX (CONTINUED)

Movement in deferred tax assets for the Group was as follows:

2014 - Group	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
	<i>(in thousands of HRK)</i>			
Revaluation of land	4,554	4,553	-	9,107
Investments in equity accounted investees	5,617	-	-	5,617
	10,171	4,553	-	14,724

2015 - Group	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
	<i>(in thousands of HRK)</i>			
Revaluation of land	9,107	(171)	-	8,936
Investments in equity accounted investees	5,617	-	-	5,617
	14,724	(171)	-	14,553

Movement in deferred tax assets for the Company was as follows:

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

2015 - Company	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
	<i>(in thousands of HRK)</i>			
Land	8,936	-	-	8,936
	8,936	-	-	8,936

At Group level, the deferred tax liability relating to investments in equity accounted investees relates to the surplus from measurement of remaining interest in a former subsidiary Jadranska vrata d.d. as a result of loss of control subsequent to the Group disposing of 51% of its shareholding in the subsidiary in 2011.

Deferred tax liability with respect to land stems from the Company's and the Group's application of the revaluation model of accounting for land and the respective revaluations.

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 liabilities are considered long term and calculated by applying the regular tax rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 15 – EARNINGS/(LOSS) PER SHARE

	2015 Group	2014 Group	2015 Company	2014 Company
Profit/(loss) for the year (in HRK thousands)	2,719	(5,788)	1,265	(4,985)
Total and weighted number of issued shares	9,105,475	5,980,475	9,105,475	5,980,475
Earnings/(loss) per share (basic and diluted) in HRK	0.30	(0.97)	0.14	(0.83)

Basic earnings per share are determined by dividing the Group's net earnings or losses with the weighted average number of ordinary shares in issue during the year. The Group does not own any treasury shares. The Group has not issued any potentially dilutive instruments.

NOTE 16 – INTANGIBLE ASSETS

Movement in intangibles for the Group was as follows:

<i>(in thousands of HRK)</i>	Software	Intangibles in progress	Total
Cost			
At 1 January 2014	3,805	-	3,805
Additions	-	14	14
Transfers	14	(14)	-
Disposals and write-off's	-	-	-
At 31 December 2014	3,819	-	3,819
Additions	505	-	505
Transfers	-	-	-
Disposals and write-off's	(9)	-	(9)
At 31 December 2015	4,315	-	4,315
Accumulated amortisation			
At 1 January 2014	2,647	-	2,647
Charge for the year	401	-	401
Disposals and write-off's	-	-	-
At 31 December 2014	3,048	-	3,048
Charge for the year	437	-	437
Disposals and write-off's	(9)	-	(9)
At 31 December 2015	3,476	-	3,476
Carrying amount			
At 31 December 2014	771	-	771
At 31 December 2015	839	-	839

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 16 – INTANGIBLE ASSETS (CONTINUED)

Movement in intangibles for the Company was as follows:

<i>(in thousands of HRK)</i>	Software	Intangibles in progress	Total
Cost			
At 1 January 2014	3,806	-	3,806
Additions	-	14	14
Transfers	14	(14)	-
Disposals and write-off's	-	-	-
At 31 December 2014	3,820	-	3,820
Additions	505	-	505
Transfers	-	-	-
Disposals and write-off's	(9)	-	(9)
At 31 December 2015	4,316	-	4,316
Accumulated amortisation			
At 1 January 2014	2,646	-	2,646
Charge for the year	401	-	401
Disposals and write-off's	-	-	-
At 31 December 2014	3,047	-	3,047
Charge for the year	437	-	437
Disposals and write-off's	(9)	-	(9)
At 31 December 2015	3,475	-	3,475
Carrying amount			
At 31 December 2014	773	-	773
At 31 December 2015	841	-	841

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT

Movement in property, plant and equipment for the Group was as follows:

<i>(in thousands of HRK)</i>	Land	Buildings	Equipment and fittings	Leasehold improvements	Assets under construction	Total
Cost or revalued amount						
At 1 January 2014	205,392	140,138	195,120	2,151	6,592	549,393
Additions	-	-	-	-	16,116	16,116
Disposals and write-off's	-	-	(3,039)	(2,151)	-	(5,190)
Transfers	842	-	2,652	2,179	(5,673)	-
Revaluation	22,739	-	-	-	-	22,739
At 31 December 2014	228,973	140,138	194,733	2,179	17,035	583,058
Additions	103	-	5,223	2,799	16,047	24,172
Transfers	-	-	7,099	-	(7,099)	-
Disposals and write-off's	-	-	(1,638)	-	-	(1,638)
At 31 December 2015	229,076	140,138	205,417	4,978	25,983	605,592
Accumulated depreciation						
At 1 January 2014	-	32,729	133,123	18	-	165,870
Charge for the year	-	3,605	5,904	20	-	9,529
Disposals and write-off's	-	(955)	(778)	(18)	-	(1,751)
At 31 December 2014	-	35,379	138,249	20	-	173,648
Charge for the year	-	2,508	7,609	111	-	10,228
Disposals and write-off's	-	-	(1,553)	-	-	(1,553)
At 31 December 2015	-	37,887	144,305	131	-	182,323
Carrying amount						
At 31 December 2014	228,973	104,759	56,484	2,159	17,035	409,410
At 31 December 2015	229,076	102,251	61,112	4,847	25,983	423,269

Assets under construction relate mainly to investments in development of terminal Škrljevo which is owned by the Group and not part of the area under concession.

Land and buildings of the Group with a carrying amount of HRK 82,939 thousand (2014: HRK 80,897 thousand) are mortgaged against the Group's borrowings.

Leased equipment where the Group is the lessee under a finance lease arrangement has a carrying value in the amount of HRK 816 thousand (2014: HRK 3,438 thousand).

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
Cost of capitalised finance leases	26,362	31,820	26,362	31,373
Accumulated depreciation	(25,546)	(28,382)	(25,546)	(28,303)
Carrying value	816	3,438	816	3,070

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movement in property, plant and equipment for the Company was as follows:

<i>(in thousands of HRK)</i>	Land	Buildings	Equipment and fittings	Leasehold improvements	Assets under construction	Total
Cost or revalued amount						
At 1 January 2014	205,392	140,138	191,474	2,151	6,593	545,748
Additions	-	-	-	-	15,741	15,741
Disposals and write-off's	-	-	(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
Additions	103	-	4,301	2,799	15,927	23,130
Disposals and write-off's	-	-	7,099	-	(7,099)	-
Transfers	-	-	(1,638)	-	-	(1,638)
At 31 December 2015	229,076	140,138	200,475	4,978	25,863	600,530
Accumulated depreciation						
At 1 January 2014	-	32,729	130,721	18	-	163,468
Charge for the year	-	3,605	5,438	20	-	9,063
Disposals and write-off's	-	(955)	(851)	(18)	-	(1,824)
At 31 December 2014	-	35,379	135,308	20	-	170,707
Charge for the year	-	2,508	7,027	111	-	9,646
Disposals and write-off's	-	-	(1,553)	-	-	(1,553)
At 31 December 2015	-	37,887	140,782	131	-	178,800
Carrying amount						
At 31 December 2014	228,973	104,759	55,405	2,159	17,035	408,331
At 31 December 2015	229,076	102,251	59,693	4,847	25,863	421,730

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.

Land and buildings of the Company with a carrying amount of HRK 82,939 thousand (2014: HRK 80,897 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 816 thousand (2014: HRK 3,070 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 17 – 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 2015, the revaluation surplus recognised in revaluation reserves amounts to HRK 35,752 thousand.

The Group and the Company revalued their land during 2014 based on fair value estimates made by an independent expert valuer.

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 Group's land balance also includes a land plot valued at HRK 22 million 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 Group 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 18 – INVESTMENT PROPERTY

<i>(in thousands of HRK)</i>	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Group	Group	Company	Company
Cost				
At 1 January	13,018	13,653	13,018	13,653
Additions	-	-	-	-
Disposals and write-offs	-	(635)	-	(635)
	13,018	13,018	13,018	13,018
Accumulated depreciation				
At 1 January	3,036	2,954	3,036	2,954
Charge for the year	332	197	332	197
Disposals and write-offs	-	(115)	-	(115)
	3,368	3,036	3,368	3,036
As at 31 December	9,650	9,982	9,650	9,982

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

Following the revision of the lease agreements with protected tenants, 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 Group 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 Group 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 Group 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 2015

NOTE 19 – INVESTMENTS IN SUBSIDIARIES AND EQUITY ACCOUNTED INVESTEES

<i>(in thousands of HRK)</i>	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Group	Group	Company	Company
Investments in subsidiaries	-	-	40	40
Investment in equity accounted investees	89,526	89,163	11,727	11,727
	89,526	89,163	11,767	11,767

The investments in subsidiaries are as follows:

COMPANY	Ownership interest		Investment	
	31.12.2015.	31.12.2014.	31.12.2015.	31.12.2014.
Luka - prijevoz d.o.o.	100%	100%	20	20
Stanovi d.o.o.	100%	100%	20	20
			40	40

The investments in equity accounted investees relate to the following:

<i>(in thousands of HRK)</i>	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Group	Group	Company	Company
Jadranska vrata d.d.				
- at cost	-	-	11,727	11,727
- applying the equity method	89,526	89,163	-	-
	89,526	89,163	11,727	11,727

During 2011, the Group sold a 51% ownership interest in its former wholly owned subsidiary Jadranska vrata d.d. As a result, upon loss of control, the Group ceased consolidating the subsidiary and remeasured the remaining interest therein to fair value based on a valuation performed by an expert independent valuer and with the surplus from the remeasurement being recognised as financial income at the date of disposal. From the date of loss of control, the former subsidiary is accounted for as an associate by applying the equity method of accounting.

Movement in the investment in equity accounted investees is as follows:

<i>(in thousands of HRK)</i>	2015	2014
	Group	Group
As at 1 January	89,163	90,444
Share of profit/(loss) of associate	363	(1,281)
As at 31 December	89,526	89,163

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

Jadranska vrata d.d. <i>(in thousands of HRK)</i>	31.12.2015	31.12.2014
Assets	205,577	211,499
Liabilities	83,524	89,414
Revenue	76,973	67,663
Net profit/(loss)	740	(2,614)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 20 – FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise following:

<i>(in thousands of HRK)</i>	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Group	Group	Company	Company
Investment in quoted equity securities	210	2,217	210	2,217
	210	2,217	210	2,217

Movement in AFS financial assets was as follows:

<i>(in thousands of HRK)</i>	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Group	Group	Company	Company
As at 1 January	2,217	2,542	2,217	2,542
Impairment recognised in profit or loss	(7)	(158)	(7)	(158)
Revaluation recognised through equity	(574)	422	(403)	422
Disposals during the year	(1,426)	(589)	(1,597)	(589)
As at 31 December	210	2,217	210	2,217

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*) related to shares of companies listed on the Zagreb stock exchange which have an active market and which the Group disposed of during 2015.

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

<i>(in thousands of HRK)</i>	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Group	Group	Company	Company
Non-current receivables for apartments sold	7,244	8,380	7,244	8,380
Other financial assets	42	42	42	42
Other non-current receivables	37	318	-	-
	7,323	8,740	7,286	8,422

(i) Receivables for apartments sold

Non-current receivables relate to receivables for apartments sold on credit to employees which are EUR denominated and bear a below market interest rate. In 2015, 24 apartments were repaid in full (*2014: 23 apartments*). As at 31 December 2015 a total of 1,292 apartments were in repayment (*2014: 1,316 apartments*). Management considers that the fair value of non-current receivables approximates their carrying amount as the effect of discounting is estimated as immaterial due to low levels of current market interest rates for similar loans.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 22 – CURRENT FINANCIAL ASSETS

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
Short-term deposits in banks	241,813	19,000	241,813	19,000
Other loans, deposits and similar items	492	211	309	204
	242,305	19,211	242,122	19,204

Interest rate on short-term deposits are variable, ranging from 1.8% to 3.5% per annum.

NOTE 23 – TRADE AND OTHER RECEIVABLES

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
Receivables from domestic customers	20,386	28,365	19,775	27,765
Receivables from foreign customers	4,120	5,507	4,115	5,507
Current receivables for apartments sold on credit	2,777	3,076	2,777	3,076
Receivables from State for taxes, contributions and fees	1,005	339	1,004	339
Advances given	4	4	4	4
VAT receivable	121	72	-	-
Prepaid expenses	2,393	526	2,383	516
Other receivables	1,063	153	1,067	152
	31,869	38,042	31,125	37,359

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

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
At 1 January	11,148	12,385	11,148	12,385
Increase	829	1,208	829	1,208
Collected	(24)	(21)	(24)	(21)
Written-off	-	(2,424)	-	(2,424)
At 31 December	11,953	11,148	11,953	11,148

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

Ageing analysis of trade receivables is as follows:

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
Up to 90 days	22,512	30,430	21,896	29,830
91-180 days	687	1,162	687	1,162
181-360 days	386	1,127	386	1,127
Over 360 days	921	1,153	921	1,153
	24,506	33,872	23,890	33,272

Trade receivables are denominated in following currencies:

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
HRK	12,372	28,365	11,761	27,765
EUR	12,106	5,507	12,101	5,507
USD	28	-	28	-
	24,506	33,872	23,890	33,272

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 24 – CASH AND CASH EQUIVALENTS

<i>(in thousands of HRK)</i>	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Group	Group	Company	Company
Cash with banks	3,894	1,123	2,577	684
Cash at hand	651	1,500	7	15
	4,545	2,623	2,584	699

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

NOTE 25 – SHARE CAPITAL

<i>(in thousands of HRK)</i>	31.12.2015	31.12.2014
	Company	Company
Share capital	539,219	598,048
	539,219	598,048

As at 31 December 2015, the Company's share capital amounted to HRK 539,219 thousand, distributed among 13,480,475 shares with a nominal value of each share amounting to HRK 40. All issued shares are fully paid in and authorised.

On 6 May 2015, the General Assembly adopted a decision to reduce the share capital of the Company in order to cover accumulated losses. As a result, the Company reduced its share capital by HRK 358,829 thousand to HRK 239,219 thousand by reducing the nominal value of its ordinary shares by HRK 60 per share to HRK 40 per share by which accumulated losses in the amount of HRK 323,044 thousand were covered while the rest of the amount was used to create capital reserve in the amount of HRK 35,785 thousand.

On 6 May 2015, the General Assembly adopted a decision regarding the share capital increase and issue of ordinary shares by public offering in the Republic of Croatia. On 31 July 2015, based on the decision above, the Company issued 7,500,000 new ordinary shares with a nominal value of HRK 40 thereby increasing the share capital by HRK 300,000 thousand. The share issue was carried out at nominal value and transaction costs in the amount of HRK 2,129 thousand were recognised within capital reserves.

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

	2015		2014	
	Number of shares	% of ownership	Number of shares	% of ownership
DUUDI - Republic of Croatia	4,257,403	31.58%	4,257,326	71.19%
Raiffeisen Austria d.d. (custodial acc.) - OT Logistics	2,806,462	20.82%	-	0.00%
Societe Generale – Splitska Banka d.d./AZ d.d. (custodial account)	1,915,000	14.20%	-	0.00%
Hypo Alpe Adria/PBZ	1,024,100	7.60%	-	0.00%
Societe Generale/Erste Plavi. (custodial account)	1,011,381	7.50%	-	0.00%
HZZO	484,780	3.60%	484,780	8.11%
DUUDI - HZMO	214,196	1.59%	214,196	3.58%
Zagrebačka banka d.d (custodial account)	138,580	1.03%	146,080	2.44%
Societe Generale – Splitska Banka d.d./Erste Plavi Expert (custodial account)	136,370	1.01%	-	0.00%
Societe Generale – Splitska Banka d.d./Croatia osiguranje d.d. (custodial account)	115,000	0.85%	-	0.00%
Other shareholders	1,377,203	10.22%	878,093	14.68%
Total	13,480,475	100.00%	5,980,475	100.00%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 26 – RESERVES

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
Capital and other reserves	38,624	4,968	38,624	4,968
Revaluation reserves	35,767	36,111	35,767	36,111
	74,391	41,079	74,391	41,079

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.

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

NOTE 27 – BORROWINGS

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
Non-current borrowings				
Bank loans	42,123	47,107	42,123	47,107
Loans from other financial institutions	-	1,174	-	1,174
Finance lease liabilities	15,680	20,640	14,769	19,685
	57,803	68,921	56,892	67,966
Current borrowings				
Bank loans	13,804	43,847	13,804	43,847
Loans from other financial institutions	4,289	6,280	4,289	6,280
Finance lease liabilities	7,335	2,815	7,335	2,815
	25,428	52,942	25,428	52,942
Total borrowings	83,231	121,863	82,320	120,908

The maturity of bank loans and loans from other financial institutions at the reporting date is as follows:

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
6 months or less	8,875	29,388	8,875	29,388
6 – 12 months	9,218	20,739	9,218	20,739
1 - 2 years	21,130	13,343	21,130	13,343
2 – 5 years	9,412	21,170	9,412	21,170
Over 5 years	11,581	13,768	11,581	13,768
	60,216	98,408	60,216	98,408

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 27 – BORROWINGS (CONTINUED)

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

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
Up to 1 year	7,335	2,815	7,335	2,815
Between 1 and 2 years	2,068	2,470	1,907	2,356
Between 2 and 5 years	11,542	9,550	10,792	9,108
Over 5 years	2,070	8,620	2,070	8,221
	23,015	23,455	22,104	22,500

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

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
HRK	-	37,953	-	37,953
EUR	61,123	43,210	60,212	42,255
USD	22,108	40,700	22,108	40,700
	83,231	121,863	82,320	120,908

As at 31 December 2015, the Group has a borrowing facility for guarantees, overdraft or letters of credit with a commercial bank amounting to EUR 1 million which remains undrawn as at 31 December 2015.

Bank loans

Bank loans amounting to HRK 20,748 thousand have variable interest rates (2014: HRK 51,232 thousand). The variable interest rates for bank loans were in the range from 2.5% to 5.0% per annum (2014: from 2.5% to 5%;).

Bank loans amounting to HRK 39,468 thousand have fixed interest rates (2014: HRK 39,722 thousand). The fixed interest rates for bank loans included in the table above were in the range from 3.0% to 5.0% (2014: 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 22,104 thousand for the Group and HRK 23,015 thousand for the Company relate mostly to lease of equipment. Most of the balance relates to the interest free finance lease arrangement with the Port authority of Rijeka amounting to HRK 19,025 thousand at 31 December 2015. The lease has a term of seven years ending in 2021.

Security

Bank borrowings in the amount of HRK 36,006 thousand (2014: HRK 63,853 thousand) are secured by mortgages over the Company's and Group's land and buildings (note 17).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 27 – BORROWINGS (CONTINUED)

Debt covenants

The Group 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 15,137 thousand as at 31 December 2015 (*HRK 19,102 thousand as at 31 December 2014*) and bears a LIBOR based variable interest rate. The Republic of Croatia is the guarantor for the principal loan. The Group 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 with IBRD, the Group 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 Group was in breach of this covenant. However, the Group has repaid the loan thus far according to the scheduled repayment plans in addition to which IBRD regularly performs reviews of the Group’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 Group would remain committed to its currently defined schedule of repayments toward the Port Authority of Rijeka.

Furthermore, management believes that the ability of the Group to service the loan is not in question as the Group 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 2015

NOTE 28 – PROVISIONS

Group and Company - (in thousands of HRK)	Jubilee awards and retirement benefits	Legal cases	Total
As at 31 December 2015			
Non-current	3,677	-	3,677
Current	322	7,365	7,687
	3,999	7,365	11,364

Movement in provisions was as follows:

Group and Company - (in thousands of HRK)	Jubilee awards and retirement benefits	Legal cases	Total
As at 1 January 2014	5,417	29,705	35,122
Increase	-	-	-
Decrease	(666)	(16,630)	(17,296)
As at 31 December 2014	4,751	13,075	17,826
As at 1 January 2015	4,751	13,075	17,826
Increase	-	-	-
Decrease	(752)	(5,710)	(6,462)
As at 31 December 2015	3,999	7,365	11,364

(i) *Jubilee awards and regular retirement benefits*

According to the Collective Agreement the Group has an obligation to pay jubilee awards and regular retirement benefits. 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:

(in thousands of HRK)

	Estimate	
	2015	2014
Discount rate	4.02%	4.75%
Average rate of staff turnover	2.84%	0% - 1%
Average expected retirement age	61 - 65	61 - 65

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 28 – PROVISIONS (CONTINUED)

(ii) *Legal cases*

Legal provisions relate to a number of legal proceedings initiated against the Group 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'.

In June 2014, the tax authorities seized the Group's bank accounts for an amount of HRK 16,630 thousand based on a court dispute from previous years resulting in the decrease of provisions. The Group filed a complaint and will attempt to recover the funds through further court proceedings.

During 2015, two legal proceedings were finalized which resulted in the Group paying out a total of HRK 5,473 thousand of which HRK 5,710 thousand was already provided for.

NOTE 29 – TRADE AND OTHER PAYABLES

<i>(in thousands of HRK)</i>	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Group	Group	Company	Company
Trade payables - domestic	17,871	22,214	17,855	23,211
Trade payables - foreign	14	7,371	14	7,371
Liabilities toward employees	4,105	4,557	4,070	4,525
Liabilities for apartments sold	3,793	3,902	3,793	3,902
Interest payable	249	479	249	479
Other taxes, contributions and fees payable	1,643	1,695	1,505	1,559
VAT liabilities	32	196	-	180
Salary taxes and contributions payable	2,271	2,586	2,271	2,586
Deferred income	14	3	14	3
Other payables	721	2,015	11	4
	30,713	45,018	29,782	43,820

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 30 – RISK MANAGEMENT

Capital risk management

Net debt to equity ratio (Gearing ratio)

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

<i>(in thousands of HRK)</i>	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Group	Group	Company	Company
Debt (long- and short-term borrowings)	(83,231)	(121,863)	(82,320)	(120,908)
Short term bank deposits	241,813	19,000	241,813	19,000
Cash and cash equivalents	4,545	2,623	2,584	699
Net cash / (debt)	<u>163,127</u>	<u>(100,240)</u>	<u>162,077</u>	<u>(101,209)</u>
Equity	689,614	389,368	614,875	316,083
Net debt to equity ratio	24%	-26%	26%	-32%

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

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

Apart from the gearing ratio, the Group regularly monitors the relation between consolidated 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 30 – RISK MANAGEMENT (CONTINUED)

Financial risk management

The Group operates with international customers and finances its operations using foreign currency denominated borrowings to a significant extent. As a result, the Group 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 Group is exposed to a risk of default. Categories of financial instruments are as follows:

<i>(in thousands of HRK)</i>	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
Financial assets available for sale	210	2,217	210	2,217
Total AFS financial assets	210	2,217	210	2,217
Non-current receivables	7,323	8,740	7,286	8,422
Short-term financial assets	242,305	19,211	242,122	19,204
Trade receivables	28,467	37,173	27,734	36,500
Cash and cash equivalents	4,545	2,623	2,584	699
Total loans and receivables	282,640	67,747	279,726	64,825
Total financial assets	282,850	69,964	279,936	67,042
Finance lease liabilities	23,015	23,455	22,104	22,500
Loan liabilities	60,216	98,408	60,216	98,408
Trade payables	22,648	35,981	21,922	34,967
Total financial liabilities at amortised cost	105,879	157,844	104,242	155,875
Total financial liabilities	105,879	157,844	104,242	155,875

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 2015, 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 Group 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 approximate 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 2015

NOTE 30 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

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

Liquidity risk analysis

The following tables detail the Group'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 2015</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	19,025	23,015	7,335	1,907	10,792	2,981
Trade payables	22,648	22,648	22,648	-	-	-
	41,673	45,663	29,983	1,907	10,792	2,981
<i>Interest bearing:</i>						
Finance lease liabilities	3,990	4,337	1,135	516	2,277	409
Loan liabilities	60,216	62,322	18,531	21,843	9,836	12,112
	64,206	66,659	19,666	22,359	12,113	12,521
	105,879	112,322	49,649	24,266	22,905	15,502

<i>as at 31 December 2015</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	7,323	7,323	1,337	1,300	3,900	786
Trade receivables	28,467	28,467	28,467	-	-	-
Financial assets available for sale	210	210	210	-	-	-
	36,000	36,000	30,014	1,300	3,900	786
<i>Interest bearing:</i>						
Current financial assets	242,305	244,906	244,906	-	-	-
Cash and cash equivalents	4,545	4,590	4,590	-	-	-
	246,850	249,496	249,496	-	-	-
	282,850	285,496	279,510	1,300	3,900	786

The Group's analysis shows no deficit of short term contractual cash flows and a positive consolidated net current asset position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 30 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Interest rate risk management

The Group 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>	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Group	Group	Company	Company
EURIBOR based bank loans	5,611	9,630	5,611	9,630
ZIBOR based bank loans	-	22,500	-	22,500
LIBOR based bank loans	15,137	19,102	15,137	19,102
EURIBOR based finance leases	-	902	-	902
	20,748	52,134	20,748	52,134

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 Group's result before tax for the reporting periods is as follows:

<i>as at 31 December 2015</i>	Contractual	up to 6	from 6 to	from 1 to	from 2 to	over 5
	cash flows	months	12 months	2 years	5 years	years
	<i>(in thousands of HRK)</i>					
At currently applicable int. rates	54,178	16,051	17,850	8,787	11,490	-
At currently applicable int. rates + 50 basis points	54,518	16,162	17,920	8,863	11,573	-
Effect of increase of int. rates by 50 basis points	(340)	(111)	(70)	(76)	(83)	-

The Group 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 2015

NOTE 30 – RISK MANAGEMENT (CONTINUED)

Financial risk management

Currency risk management

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

<i>(in thousands of HRK)</i>	Liabilities		Liabilities	
	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
EUR	61,137	50,581	60,226	49,626
USD	22,108	40,700	22,108	40,700
	83,245	91,281	82,334	90,326

<i>(in thousands of HRK)</i>	Assets		Assets	
	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
EUR	22,127	16,963	22,122	16,963
USD	28	-	28	-
	22,155	16,963	22,150	16,963

Foreign currency sensitivity analysis

The Group 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 relevant foreign exchange rates for the Euro and the US dollar during the reporting period were as follows:

<i>(in thousands of HRK)</i>	Spot FX rate		Average FX rate	
	31.12.2015	31.12.2014	2015	2014
EUR	7.635047	7.661471	7.609601	7.630014
USD	6.991801	6.302107	6.862262	5.749322

The following table details the Group'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.

<i>(in thousands of HRK)</i>	EUR exposure		EUR exposure	
	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
Increase/(decrease) of net result	(390)	(336)	(381)	(327)

<i>(in thousands of HRK)</i>	USD exposure		USD exposure	
	31.12.2015 Group	31.12.2014 Group	31.12.2015 Company	31.12.2014 Company
Increase/(decrease) of net result	(2,208)	(4,070)	(2,208)	(4,070)

The Group 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 a concession fees which are determined in USD.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 30 – 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 Group.

Customers are classified into risk groupings 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 Group'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 Group has no significant credit exposures that would not be covered by collateral and which have not been assessed for impairment indicators as at the reporting date.

Operational risk management

Sales concentration risk management

The Group generates approximately 20% (2014: 19%) of its revenue from domestic customers, whereas around 80% (2014: 81%) of the sales are generated from international customers (based on geographical location of customer). The Group 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 Group's revenues are to a significant extent exposed to volatility due to high concentration of revenues from a smaller number of customers. In 2015, top 10 customers of the Group generated approximately 63% of operating revenues (2014: 54%) while the top five customer generated approximately 40% of operating revenues (2014: 36%). As a result of its exposure to a small number of customer, the Group 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 Group 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 Group 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 2015

NOTE 31 – RELATED PARTY TRANSACTIONS

The most significant individual shareholder of Luka Rijeka d.d. is the Republic of Croatia which holds 37.61% of share capital and voting rights of the Company through the Government Asset Management Agency (“GAMA” or “DUUDI”) and other State institutions.

The Group considers that it has an immediate related party relationship with its most significant 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 most significant shareholder is the State, the Group 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 Group with such entities relate to purchase of water and fuel used as a consumable in the business operations of the Group, 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 Group, 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:

(in thousands of HRK)

	2015	2014
<i>Petrokemija d.d.</i>		
Sales of services	543	1,592
Receivables as at 31 December	94	555
<i>Port Authority of Rijeka</i>		
Rent of premises and provision of regular services	1,129	1,173
Receivables as at 31 December	113	114
<i>Crosco d.o.o.</i>		
Sales of services	-	-
Receivables as at 31 December	-	-
<i>Customs office Rijeka</i>		
Sales of services	192	176
Receivables as at 31 December	24	18
<i>Commodity reserves directorate</i>		
Sales of services	5	-
Receivables as at 31 December	5	-
<i>Jadrolinija d.d.</i>		
Sales of services	97	225
Receivables as at 31 December	45	23
<i>Autotrolej d.o.o.</i>		
Sales of services	1,720	1,718
Receivables as at 31 December	4	6
<i>Rijeka promet d.d.</i>		
Sales of services	1,217	2,952
Receivables as at 31 December	-	-
<i>INA Group</i>		
Sales of services	67	186
Receivables as at 31 December	-	34
Total sales	4,970	8,022
Total receivables as at 31 December	285	750

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 31 – RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with State related parties (continued)

Payables and purchases with the State and related parties:

(in thousands of HRK)

	2015	2014
<i>HEP Group</i>		
Purchase of electricity	9,850	9,480
Liabilities as at 31 December	2,124	2,863
<i>HŽ Group</i>		
Purchase of transport services	80	116
Liabilities as at 31 December	-	-
<i>INA Group</i>		
Purchase of fuel	291	366
Liabilities as at 31 December	53	41
<i>Croatia insurance Group</i>		
Purchase of insurance policies	1,776	3,034
Liabilities as at 31 December	904	127
<i>Vodovod d.o.o. Labin</i>		
Purchase of water services	300	162
Liabilities as at 31 December	134	43
<i>Vodovod i kanalizacija d.o.o. Rijeka</i>		
Purchase of water services	776	698
Liabilities as at 31 December	122	173
<i>Energo d.o.o.</i>		
Purchase of gas	50	40
Liabilities as at 31 December	11	10
Total purchases	13,123	13,896
Total liabilities as at 31 December	3,348	3,257

Transactions with subsidiaries

During 2015, the Company purchased goods and services from subsidiaries in the amount of HRK 6,406 thousand (2014: HRK 7,336 thousand) and owed the subsidiaries HRK 283 thousand at 31 December 2015 (2014: HRK 1,291 thousand). During 2015, the Company sold goods and services to subsidiaries in the amount of HRK 97 thousand (2014: HRK 112 thousand) and had no outstanding balance receivable from the subsidiaries as at 31 December 2015 (2014: HRK 10 thousand).

Transactions with associates

The Group 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 2015 and 31 December 2014 and transactions in the statement of comprehensive income for the years then ended are as follows:

(in thousands of HRK)

	2015	2014
Trade receivables	31	12
Trade payables	-	-
Sales revenue and other income	262	124
Purchases	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 31 – RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with the Port Authority of Rijeka

(i) Concession fees

During 2015, the Group recognized expenditure related to concession fees toward the Port Authority of Rijeka in the amount of HRK 6,896 thousand (2014: HRK 5,980 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. As at 31 December 2015, the Group had not outstanding payables toward the Port Authority of Rijeka with respect concession and related expenses (2014: HRK 625 thousand).

(ii) Finance leases

As at 31 December 2015, the Group has a finance lease balance payable to the Port Authority of Rijeka with a carrying amount of HRK 19,025 thousand (2014: HRK 21,597 thousand) including related interest. The lease matures in 2021. During 2015, the Group repaid a total of HRK 6,287 thousand of principal and interest with respect to this finance lease (2014: -).

(iii) Subordinated loan based on the IBRD principal loan

The Group 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 15,137 thousand as at 31 December 2015 (HRK 19,102 thousand as at 31 December 2014) and bears a LIBOR based variable interest rate. The Republic of Croatia is the guarantor for the principal loan. During 2015, the Group repaid a total of HRK 5,913 thousand of principal and interest with respect to this loan (2014: HRK 5,216 thousand).

Remuneration to the Management Board members

Key management of the Group comprises the Management Board and consists of 3 persons (2014: 3 persons). During 2015, the Group paid out HRK 1,783 thousand to the Management Board (2014: HRK 1,841 thousand) with respect to gross salaries.

NOTE 32 – CONTINGENT LIABILITIES AND ASSETS

Exposure to court cases

As at 31 December 2015 there are number of legal proceeding against the Group which stem from regular commercial activities and court cases including former employees.

The Group’s exposure to court cases with suppliers as at 31 December 2015 amounts to approximately HRK 158 million (based on claim amounts relating to cases in progress) out of which the Group recognized provisions amounting to HRK 7,364 thousand as at 31 December 2015 (2014: HRK 13,074 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 Group out of which a majority relates to a court case with a domestic supplier in the amount of HRK 101 million where the Group considers, after consultation with legal advisers, that the basis of the court cases is unfounded and does not expect an unfavorable outcome.

The Group’s exposure to court cases with former employees stems mostly from work related injuries and amounts to approximately HRK 7.3 million based on the total amount of claims relating to cases in progress as at 31 December 2015. 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 Group.

Based on consultation with legal advisors, management applied its judgment as described in more detail in note 5 and estimated that the legal proceedings the Group is involved in should not give rise to significant losses above those already provided for as detailed in note 28.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 32 – 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 Group 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.

Currently, the Group 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 Group 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 2016 in which case the new business plans will be the basis for calculating any eventual penalties arising from minimal service level requirements.

NOTE 33 – CAPITAL COMMITMENTS

In accordance with the concession agreement currently in place, the extension of the concession period up to 2042 was granted based on a plan of capital expenditure to be made by the Group during the term of the concession in the total amount of EUR 146 million in relation to investments into new port suprastructure, infrastructure and port equipment (a total of EUR 86 million of planned expenditure) as well as in relation to capital maintenance of concession assets (a total of EUR 60 million of planned expenditure). By end of 2015, the Group invested approximately EUR 8 million into new port infrastructure and port equipment and a further EUR 7 million relating to capital maintenance of concession assets, equalling the average annual capital expenditure as required by the concession agreement.