

LUKA RIJEKA d.d.

Annual Report

for the year ended

31 December

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.

APPENDIX 1

Reporting period:

01.01.2016.

to

31.12.2016.

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: 645
(at the end of the year)

Consolidated statement: YES

NKD/NWC code: 5224

Subsidiaries subject to consolidation (according to IFRS):

Headquarters:

Registration number:

Subsidiaries subject to consolidation (according to IFRS):	Headquarters:	Registration number:
LUKA PRIJEVOZ d.o.o.	Škrljevo	01230000
STANOVI d.o.o.	Rijeka	01230077

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 31.12.2016.

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	549.617.447	592.745.233	
I. INTANGIBLE ASSETS (004 to 009)	003	840.967	743.068	
1. Assets development	004	0	0	
2. Concessions, patents, licences fees, trade and service marks, software and other rights	005	840.967	743.068	
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	432.914.397	473.593.129	
1. Land	011	229.075.870	229.075.870	
2. Buildings	012	109.732.216	108.742.540	
3. Plant end equipment	013	1.845.144	1.742.884	
4. Tools, facility inventory and transport assets	014	58.933.077	53.891.742	
5. Biological assets	015	0	0	
6. Prepayments for tangible assets	016	123.895	20.702.110	
7. Tangible assets in progress	017	25.862.591	52.529.875	
8. Other tangible assets	018	325.736	325.736	
9. Investments in buildings	019	7.015.868	6.582.372	
III. LONG-TERM FINANCIAL ASSETS (021 to 028)	020	89.777.280	94.772.746	
1. Investments (shares) with related parties	021	89.528.092	94.514.024	
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	209.188	218.722	
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	7.281.556	5.677.330	
1. Receivables from related parties	030	0	0	
2. Receivables from based on trade loans	031	7.244.268	5.640.419	
3. Other receivables	032	37.288	36.911	
V. DEFERRED TAX ASSETS	033	18.803.247	17.958.960	
C) SHORT TERM ASSETS (035+043+050+058)	034	277.485.318	230.119.734	
I. INVENTORIES (036 to 042)	035	1.062.990	901.345	
1. Raw-material and supplies	036	1.062.990	826.345	
2. Work in progress	037	0	0	
3. Finished goods	038	0	0	
4. Merchandise	039	0	0	
5. Prepayments for inventories	040	0	75.000	
6. Long-term assets held for sales	041	0	0	
7. Biological assets	042	0	0	
II. RECEIVABLES (044 to 049)	043	29.573.760	42.132.189	
1. Receivables from related parties	044	354.819	322.868	
2. Accounts receivable	045	26.927.779	25.234.836	
3. Receivables from participating parties	046	0	0	
4. Receivables from employees and members of related parties	047	4.014	2.891	
5. Receivables from government and other institutions	048	1.223.678	16.116.410	
6. Other receivables	049	1.063.470	455.184	
III. SHORT TERM FINANCIAL ASSETS (051 to 057)	050	242.304.431	182.215.955	
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	242.304.431	182.215.955	
7. Other financial assets	057	0	0	
IV. CASH AT BANK AND IN CASHIER	058	4.544.137	4.870.245	
D) PREPAID EXPENSES AND ACCRUED REVENUE	059	2.394.287	691.736	
E) TOTAL ASSETS (001+002+034+059)	060	829.497.052	823.556.703	
F) OFF-BALANCE RECORDS	061	804.016	804.016	

LIABILITIES AND CAPITAL			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	689.614.230	696.582.892
I. SUBSCRIBED CAPITAL	063	539.219.000	539.219.000
II. CAPITAL RESERVES	064	38.623.828	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	35.767.079	36.669.177
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	072	73.285.357	76.004.323
1. Retained earnings	073	73.285.357	76.004.323
2. Accumulated loss	074	0	0
VI. PROFIT/LOSS FOR THE CURRENT YEAR (076-077)	075	2.718.966	6.066.564
1. Profit for the current year	076	2.718.966	6.066.564
2. Loss for the current year	077	0	0
VII. MINORITY INTERESTS	078	0	0
B) PROVISIONS (080 to 082)	079	11.362.693	10.565.286
1. Provisions for pensions,severance pay,and similar liabilities	080	3.999.055	3.201.648
2. Reserves for tax liabilities	081	0	0
3. Other reserves	082	7.363.638	7.363.638
C) LONG - TERM LIABILITIES (084 to 092)	083	72.073.478	54.683.880
1. Liabilities to related parties	084	0	0
2. Liabilities for loans,deposits etc.	085	9.086.548	3.104.021
3. Liabilities to banks and other financial institutions	086	33.664.822	26.409.397
4. Liabilities for received prepayments	087	0	0
5. Accounts payable	088	14.769.295	12.073.361
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	14.552.813	13.097.101
D) SHORT-TERM LIABILITIES (094 to 105)	093	56.052.014	58.976.662
1. Liabilities to related parties	094	860	0
2. Liabilities for loans,deposits etc.	095	11.252.505	11.390.897
3. Liabilities to banks and other financial institutions	096	8.032.972	7.112.490
4. Liabilities for received prepayments	097	0	0
5. Accounts payable	098	25.269.269	26.225.099
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	3.791.958	3.688.052
9. Liabilities for taxes,contributions and similar fees	102	3.901.627	4.841.841
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	3.602.823	5.718.283
E) DEFERRED SETTLEMENTS OF CHARGES AND INCOME DEFERRED TO FUTURE PERIOD	106	394.637	2.747.983
F) TOTAL - CAPITAL AND LIABILITIES (062+079+083+093+106)	107	829.497.052	823.556.703
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	689.614.230	696.582.892
2. Attributed to minority interest	110	0	0

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

PROFIT AND LOSS ACCOUNT
from 01.01.2016. until 31.12.2016.

Port of Rijeka j.s.c.	In Kunas			
	Position	AOP	Previous year	Current year
	1	2	3	4
I. OPERATING REVENUE (112+113)		111	180.040.017	168.109.728
1. Sales revenue		112	166.515.906	144.762.836
2. Other operating revenues		113	13.524.111	23.346.892
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)		114	181.197.220	170.458.076
1. Changes in value of work in progress and finished products		115	0	0
2. Material costs (117 to 119)		116	67.576.714	59.979.516
a) Raw material and material costs		117	22.043.120	19.312.710
b) Costs of goods sold		118	0	0
c) Other external costs		119	45.533.594	40.666.808
3. Staff costs (121 to 123)		120	74.560.421	69.236.175
a) Net salaries and wages		121	46.179.628	42.909.811
b) Cost for taxes and contributions from salaries		122	17.382.278	16.112.482
c) Contributions on gross salaries		123	10.998.515	10.213.882
4. Depreciation		124	11.002.830	11.244.005
5. Other costs		125	24.482.485	25.812.454
6. Impairment (127+128)		126	371.992	2.170.090
a) Impairment of long - term assets (financial assets excluded)		127	0	0
b) Impairment of short - term assets (financial assets excluded)		128	371.992	2.170.090
7. Provisions		129	0	0
8. Other operating costs		130	3.202.778	2.015.836
III. FINANCIAL INCOME (132 to 136)		131	3.788.471	11.579.255
1. Interest income,foreing exchange gains,dividends and similar income from related parties		132	0	0
2. Interest expenses,foreing exchange losses,dividends and similar expenses from non related parties		133	3.335.927	11.579.255
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	452.544	0
IV. FINANCIAL EXPENSES (138 to 141)		137	11.622.406	7.792.557
1. Interest expenses,foreing exchange losses,dividends and similar expenses from related parties		138	0	0
2. Interest expenses,foreing exchange losses,dividends and similar expenses from non related parties		139	10.263.745	6.549.533
3. Unrealized losses (expenses) on financial assets		140	0	0
4. Other financial expenses		141	1.358.661	1.243.024
V. INCOME FROM INVESTMENT - SHARE IN PROFIT OF ASSOCIATED ENTREPRENEURS		142	363.802	4.987.841
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	184.192.290	184.676.824
X. TOTAL EXPENSES (114+137+143 + 145)		147	192.819.626	178.250.635
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)		148	-8.627.336	6.426.189
1. Profit before taxation (146-147)		149	0	6.426.189
2. Loss before taxation (147-146)		150	8.627.336	0
XII. PROFIT TAX		151	-11.346.302	359.625
XIII. PROFIT OR LOSS FOR THE THE PERIOD (148-151)		152	2.718.966	6.066.564
1. Profit for the period (149-151)		153	2.718.966	6.066.564
2. Loss for the period (151-148)		154	0	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	2 718 966	6 066 564
2. Attributed to minority interest	156	0	0

STATEMENT OF OTHER COMPREHENSIVE INCOME (IFRS)

I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	2 718 966	6 066 564
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (159 to 165)	158	-404 713	9 534
1. Exchange differences on translation of foreign operations	159	0	0
2. Movements in revaluation reserves of long - term tangible and intangible assets	160	0	0
3. Profit or loss from reevaluation of financial assets available for sale	161	-404 713	9 534
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	-60 707	-892 563
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD(158-166)	167	-344 006	902 097
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	2 374 960	6 968 661

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	2 374 960	6 968 661
2. Attributed to minority interest	170	0	0

STATEMENT OF CASH FLOWS - Indirect method
from 01.01.2016. until 31.12.2016.

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	-8.627.336	8.426.189
2. Depreciation	002	11.002.830	11.244.005
3. Increase in short term liabilities	003	0	3.816.752
4. Decrease in short term receivables	004	8.389.071	0
5. Decrease in inventories	005	20.887	161.645
6. Other increase in cash flow	006	3.746.619	0
I. Total increase in cash flow operating activities (001 to 006)	007	14.532.071	21.648.591
1. Decrease in short term liabilities	008	11.213.636	0
2. Increase in short term receivables	009	0	12.558.430
3. Increase in inventories	010	0	0
4. Other decrease in cash flow	011	1.825.708	16.186.157
II. Total decrease in cash flow from operating activities (008 to 011)	012	13.039.344	28.744.587
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	1.492.727	0
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES	014	0	7.095.996
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash inflows from sales of long - term tangible and intangible assets	015	52.980	774.701
2. Cash inflows from sales of equity and debt instruments	016	0	0
3. Interests receipts	017	1.763.589	3.829.437
4. Dividend receipts	018	0	8.396
5. Other cash inflows from investing activities	019	3.067.530	3.290.630
III. Total cash inflows from investing activities (015 to 019)	020	4.884.099	7.903.164
1. Cash outflow for purchase of long - term tangible and intangible assets	021	26.048.084	46.448.595
2. Cash outflow for acquisition of equity and debt financial instruments	022	0	0
3. Other cash outflow for investing activities	023	15.971.265	0
IV. Total cash outflow for investing activities (021 to 023)	024	42.019.349	46.448.595
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	0	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES(024-020)	026	37.135.250	38.545.431
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash inflow from issuing property and debt financial instruments	027	300.000.000	0
2. Proceeds from the credit principal, promissory notes, borrowings and other loans	028	15.552.601	0
3. Other proceeds from financial activities	029	32.176.425	61.071.032
V. Total cash inflows from financial activities (027 to 029)	030	347.729.026	61.071.032
1. Cash outflow for repayment of credit principal and bonds	031	55.785.117	13.208.691
2. Cash outflow for dividends paid	032	0	0
3. Cash outflow for financial lease	033	1.678.833	361.064
4. Cash outflow for purchase of treasury shares	034	0	0
5. Other cash outflow for financial activities	035	252.700.000	1.533.742
VI. Total cash outflow for financial activities (031 to 035)	036	310.163.950	15.103.497
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	037	37.565.076	45.967.535
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	038	0	0
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	1.922.553	326.108
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	0	0
Cash and cash equivalents at the beginning of the period	041	2.621.584	4.544.137
Increase of cash and cash equivalents	042	1.922.553	326.108
Decrease of cash and cash equivalents	043	0	0
Cash and cash equivalents at the end of the period	044	4.544.137	4.870.245

STATEMENT OF CHANGES IN EQUITY
for the period 1.1.2016 to 31.12.2016

Position	AOP	Previous year	Current year
1	2	3	4
1. Subscribed capital	001	539.219.000	539.219.000
2. Capital reserves	002	38.623.828	38.623.828
3. Reserves from profit	003	0	0
4. Retained earnings or accumulated loss	004	73.285.357	76.004.323
5. Profit or loss for the current year	005	2.718.966	6.066.564
6. Revaluation of long - term tangible assets	006	35.740.063	36.634.056
7. Revaluation of intangible assets	007	0	0
8. Revaluation of financial assets available for sale	008	27.016	35.121
9. Other revaluation	009	0	0
10. Total capital and reserves (AOP 001 to 009)	010	689.614.230	696.582.892
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	689.614.230	696.582.892
17 b. Attributed to minority interest	019	0	0

Items which decrease capital are given with the negative prefix.

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LUKA RIJEKA GROUP

**MANAGEMENT REPORT FOR THE
YEAR ENDED 31 DECEMBER 2016**

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

Rijeka, April 2017

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. Kukuljanovo, 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 2016, 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.

The ownership interest of CERP, HZZO and HZMO – institutions of the Republic of Croatia, was at 30 December 2016 36.78%.

The biggest single private investor was polish company OT LOGISTIC S.A. with the share of 20.81% in ownership structure of company. The company is big European logistic operator in more than few polish shipping ports and investments in shares of Luka Rijeka d.d. is part of their business strategy which is orientated on creating integrated logistic transport chain in the Baltic-Adriatic Corridor on which Luka Rijeka is ingoing/outgoing port on Adriatic sea.

The overview of key shareholders and the ownership structure of the Company as at 30 December is as follows:

Shareholder	Number of shares	% of ownership
CERP/ Republic of Croatia	4,258,106	31.59%
OT LOGISTICS SPOLKA AKCYJNA	2,805,232	20.81%
Societe Generale-Splitska Banka d.d. /AZ OMF B category - (custodial account)	1,920,000	14.24%
Addiko Bank d.d. /PBZ CO OMF B category - (custodial account)	1,024,100	7.60%
Societe Generale- Splitska Banka d.d. /ERSTE PLAVI OMF B category - (custodial account)	1,017,260	7.55%
HZZO	484,780	3.60%
CERP/HZMO	214,196	1.59%
Zagrebačka Banka d.d. /Zagrebačka Banka/(custodial account)	140,467	1.04%
Societe Generale-Splitska Banka d.d. /ERSTE PLAVI EXPERT –Voluntary Pensions Fund - (custodial account)	136,370	1.01%
Societe Generale-Splitska Banka d.d. /AZ MANDATORY PENSIONS FUND A category - (custodial account)	115,000	0.85%
Other shareholders	1,364,964	10.12%
Ukupno	13,480,475	100.00%

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 2016 were as follows:

First name	Last name	Role
Piotr Wojciech	Ambrozowicz	President
Toni	Đikić	Member
Janja	Reljac	Member

Supervisory Board

Members of the Supervisory Board during 2016 were as follows:

First name	Last name	Role	Appointed	Resigned
Štefica	Salaj	President	9.11.2015.	
Piotr Wojciech	Ambrozowich	Vice president	9.11.2015.	
Toni	Đikić	Member	9.11.2015.	
Krešimir	Trtanj	Member	13.05.2015.	
Darko	Peričić	Member	18.06.2012.	18.06.2016.
Maja	Markovčić Kostelac	Member	26.09.2016.	18.11.2016.
Alen	Jugović	Member	20.01.2017.	

Management Board

Members of the Management Board during 2016 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

PROJECT ŠKRLJEVO – EXTENSION AND MODERNISATION OF THE HINTERLAND PORT TERMINAL

Investment and development project for the extension and modernisation of the Škrljevo 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 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.

In July 2016 agreements for on construction and supervision of construction for the project Škrljevo where made:

- 1) Agreement on construction of port hinterland warehouse Škrljevo with joint bidders GP Krk d.d. Krk, Viadukt d.d. Zagreb i GPP Mikić d.o.o. Omišalj, total price HRK 218,860,292.94 without VAT.
- 2) The contract for construction supervision of port hinterland warehouse with INVESTINŽENJERING d.o.o. Zagreb, total price HRK 1,849,000.00 without VAT

The financing of project Škrljevo is from Company own resources collected in recapitalization in July 2015.

Total capital investments from Company own funds in 2016 were HRK 51,333 thousand of which the bulk of amount of HRK 46,368 thousand refers to the project Škrljevo and the rest is made in port machinery and concessioned assets.

NOMINATION OF PROJECT ON 3. CALL CEF TRANSPORT

European fund *Connecting Europe Facility* (CEF) was founded for further investments in construction of new and development of current traffic, energetic and telecommunications infrastructure from which member States can finance projects on nine Corridors of Basic Transeuropean traffic infrastructure (TEN-T). In order to improve railway infrastructure on port area, as partner of Port Authority Rijeka, Luka Rijeka d.d., got involved in activities on preparing the submission of joint applications for third call that was announced on 13 October 2016 from agency INEA (*Innovation and Networks Executive Agency*) which operates in cooperation with European commission related to financing from fund CEF and on following projects:

1. Reconstruction of the railway infrastructure in the port of Rijeka - Rijeka pool

Due to non-compliance with the current technological processes, it is necessary to reconstruct the entire railway network in the area of the port of Rijeka - Rijeka pool. This involves changing the foundations, installation of railway tracks in the entire length as well as drainage and separation of rainwater.

Estimated value of the project amounts to EUR 33,839 thousand.

2. Reconstruction of the railway infrastructure in the port of Rijeka - Bakar pool

Due to non-compliance with current operational needs of the terminal, and for reasons of environmental protection measures in the area of the port of Rijeka - Bakar pool, it is necessary to reconstruct the foundations, installation of railway tracks in the entire length as well as drainage and separation and possibly accumulation of treated storm water.

Estimated value of the project amounts to EUR 6,095 thousand.

The maximum amount of co-financing from the Fund CEF is 85% of the previously determined eligible costs of the Projects and difference is participation of national component which is Luka Rijeka willing to finance.

Both projects have been successfully applied through a common application of Luka Rijeka d.d. and the Port Authority Rijeka within the deadline that was at February 7 2017. Decision on accepting the co-financing of projects will be known in July 2017.

NATURAL INDICATORS OF OPERATIONS

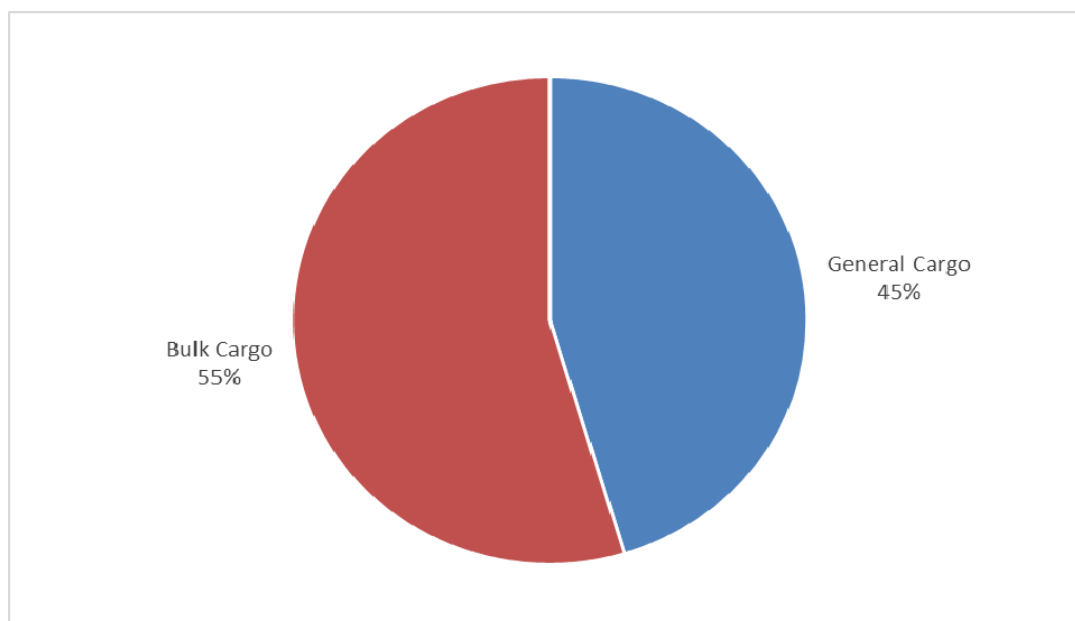
Total turnover

In 2016, total turnover of dry cargo in port of Rijeka that includes Luka Rijeka d.d. and associate company Adriatic Gate Container Terminal amounted to 3,833,988 tons. This is for 11% quantitatively less from realisation in 2015 when reloaded cargo was 4,304,884 tons.

TURNOVER	Realization 2015.	Realization 2016.	Indeks 2016/2015
Luka Rijeka d.d.	2,857,551	2,183,980	76
General cargo (tons)	1,085,048	989,384	93
Bulk cargo (tons)	1,772,503	1,194,596	66
Jadranska vrata d.d.			
Containers (tone)	1,447,333	1,650,008	114
<i>Containers (TEU)</i>	<i>161,883</i>	<i>177,401</i>	<i>110</i>
UKUPNO (tone)	4,304,884	3,833,988	89

The turnover of Luka Rijeka d.d. amounted to 2,183,980 tons of cargo and decrease by 24%.

Structure of turnover Luka Rijeka d.d.:



General cargo

Total turnover of **general cargo** totalled 989,384 tons, a decrease of 7%.

Metallurgy semi-products accounted for 33% of the total general cargo with 331,492 tons transhipped. Transhipped volumes decreased by 3%, due to developments in the markets of the European steel industry. Wood with 410,096 tons transhipped shows decrease in turnover by 15% due to unstable political and financial situation in North Africa, especially in Egypt, Libia and Middle East. Luka Rijeka handled a total of 69,760 tons of containers, or 36,947 TEU of containers, expressed in units on the terminals under concession. In other general cargo, good results in terms of transhipped quantities relate to high profitable cargo ie. livestock (export from Croatia and transit from Hungary) which is 56 % higher and unstandardized voluminous and bulky cargo so called Project cargo which shows increase of 31%.

Bulk cargo

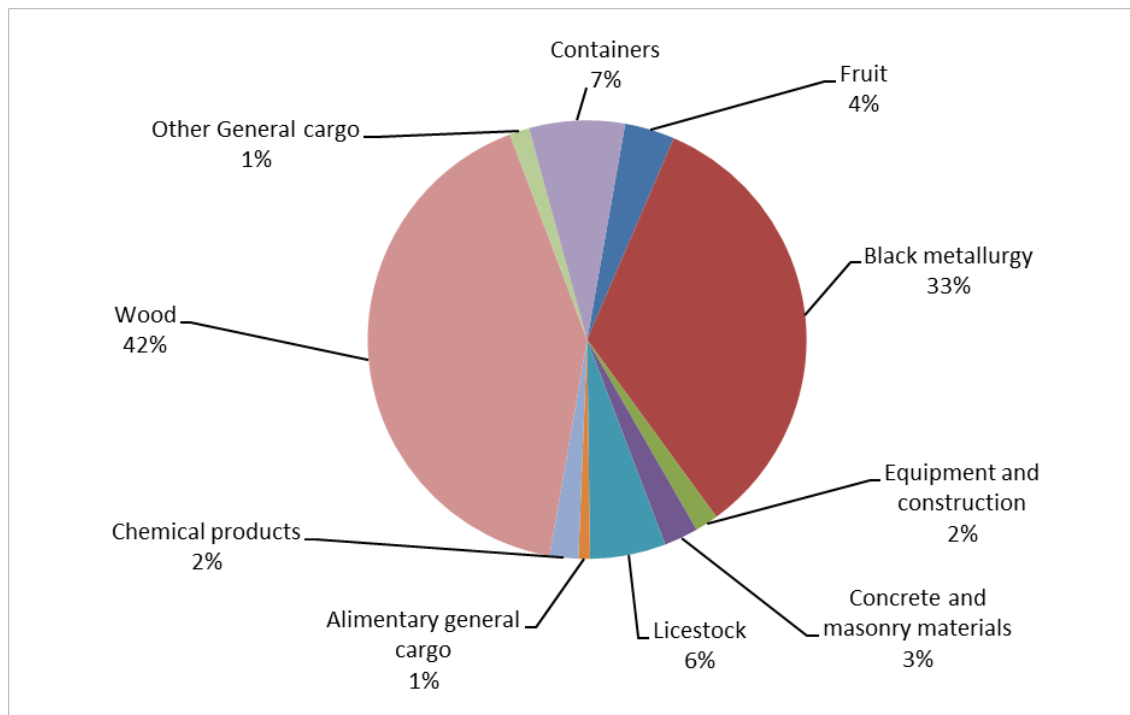
Total **bulk cargo** turnover amounted to 1,194,596 tons, an decrease of 34% due to a significant reduction in traffic of iron ore whose turnover of 249,367 tons is just 25% of last year turnover. During 2016 Hungarian company Dunaferr did not have the import of iron ore from overseas destinations which reflected on traffic of Luka Rijeka d.d. Unlike iron ore, coal turnover amounted to 347,095 tons which is increase of 219%. Turnover of crops and oilseed amounted to 125,966 tons, an decrease of 35%. The reason for this is primarily a competition of Russian and Ukrainian grain and high purchase prices of grain. Unlike grains, traffic of oilseeds (soybeans) increased by 40%. The total of other bulk cargo handled is an amount of 472,218 tons, an increase of 7%.

Container turnover

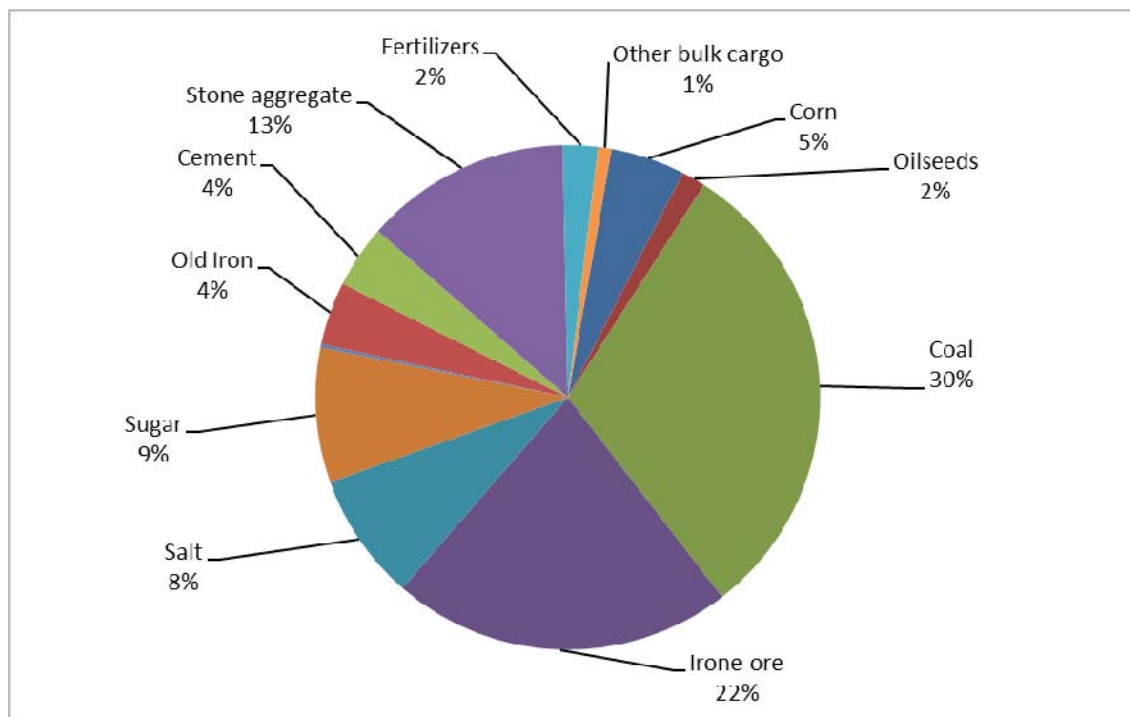
Total container turnover of the port of Rijeka in 2016 was 1,719,768 tons, or 214,348 TEUs and this is the best result since in the port of Rijeka started transhipping containers. Compared to 2015, total container turnover in TEUs has increased by 7%. It consists of a turnover of 177,401 TEUs, which is achieved by the concessionaire Adriatic Gate Container Terminal at the container terminal Brajdica and turnover of 36,947 TEUs recorded in other terminals under concession by Luka Rijeka d.d. (direction shore-to-shore).

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.

General cargo structure:



Bulk cargo structure:



FINANCIAL INDICATORS

Key financial indicators of the Group are as follows:

Financial indicators for the Group	Realization 2016.	Realization 2015.	Indeks 2016/2015
Income statement (in HRK thousands)			
Operating revenue	168,213	180,034	93
Revenue from services - domestic and foreign	144,855	166,494	87
Operating expenses	170,562	181,193	94
EBIT	(2,349)	(1,159)	(203)
EBITDA*	11,065	10,210	108
Total revenues	184,780	184,187	100
Total expenses	178,353	192,814	92
Profit/(loss) before tax	6,427	(8,627)	
Profit/(loss) for the year	6,065	2,719	223
Balance sheet (in HRK thousands)			
Assets/Equity and liabilities	823,561	829,498	99
Non-current assets	592,747	549,622	108
Shareholders' equity	696,581	689,614	101
Liquidity indicators			
Working capital (HRK'000)	161,306	216,027	75
Current liquidity	3.32	4.38	76
Indebtedness indicators			
Current liabilities/equity	10%	9%	111
Non-current liabilities/equity	8%	11%	73
Borrowings/equity	9%	12%	75
Total liabilities/equity	15%	17%	88
Profitability indicators			
EBITDA* margin	6.6%	5.7%	116
EBIT margin	-1.4%	-0.6%	233
NET margin	3.6%	1.5%	240
Productivity indicators			
Number of employees	645	665	97
Revenue per employee (in HRK thousands)	261	271	96

- 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 Company	Realization 2016.	Realization 2015.	Indeks 2016/2015
Income statement (in HRK thousands)			
Operating revenue	167,352	177,667	94
Revenue from services - domestic and foreign	144,046	164,858	87
Operating expenses	170,083	180,072	94
EBIT	(2,731)	(2,405)	113
EBITDA*	9,969	8,382	119
Total revenues	178,920	181,454	99
Total expenses	177,834	191,656	93
Profit/(loss) before tax	1,086	(10,202)	
Profit/(loss) for the year	242	1,265	19
Balance sheet (in HRK thousands)			
Assets/Equity and liabilities	737,013	747,277	99
Non-current assets	508,323	470,287	108
Shareholders' equity	616,019	614,875	100
Liquidity indicators			
Working capital (HRK'000)	159,768	214,093	75
Current liquidity	3.32	4.40	75
Indebtedness indicators			
Current liabilities/equity	11%	10%	110
Non-current liabilities/equity	8%	11%	73
Borrowings/equity	10%	13%	77
Total liabilities/equity	16%	18%	89
Profitability indicators			
EBITDA* margin	6.0%	4.7%	126
EBIT margin	-1.6%	-1.4%	114
NET margin	0.1%	0.7%	14
Productivity indicators			
Number of employees	630	650	97
Revenue per employee (in HRK thousands)	266	273	97

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

Since the share of Luka Rijeka d.d. - the parent Company's in consolidated total revenues is 99%, following is a more detailed view of the financial indicators of the Company.

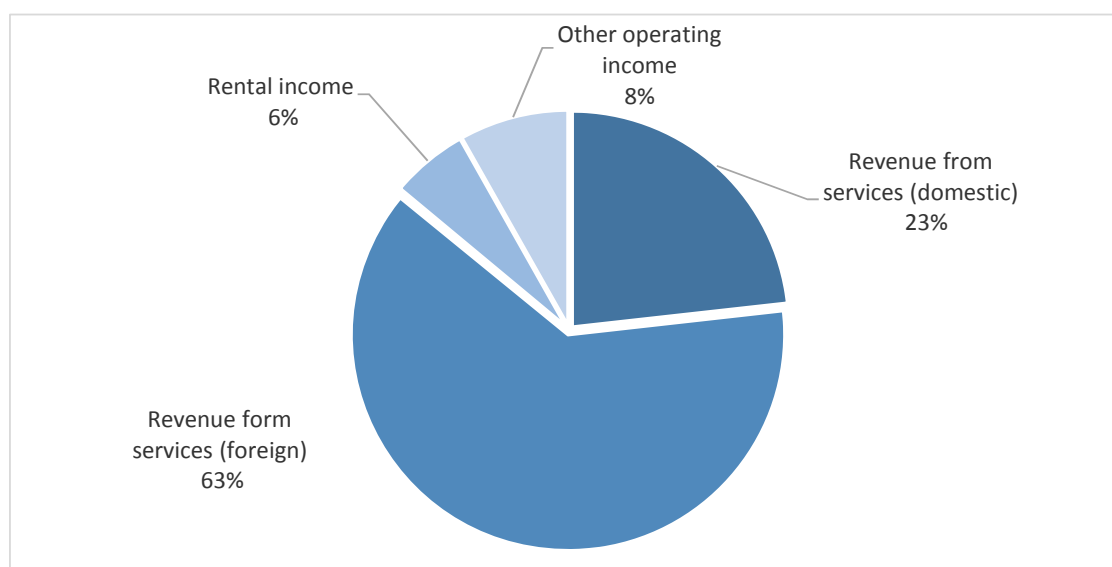
Income

Total revenues in 2016 amounted to HRK 178,920 thousand and are at the realization level of 2015.

Most of the revenue was generated from operations and reads in operating income in the amount of HRK 167,352 thousand, which is 6% less than the realization in 2015.

Natural traffic, which was reduced by 24% compared to 2015, generating critical business income from operations-income from services in the country and abroad. These revenues amounted to HRK 144,046 thousand and were below the level as in 2015 for 13% which is result of reduced transshipment of bulk cargo, specifically iron ore at terminal Bakar. The structure of operating income continues to be dominated by revenues from services to foreign customers which represent 63% of the total confirming the dependence of the Company and the Group on the global macroeconomic movements.

Operating income structure:



In June 2014, the Ministry of Finance - Tax Administration seized the Company's bank accounts for the amount of HRK 16,630 thousand arising from litigation from previous years, which resulted in a reduction in provisions. During 2016, based on administrative disputes, the Administrative Court issued a judgment according to which the specified execution constitutes unjust enrichment, and the case was returned to the relevant bodies of the tax administration with respect to all the arguments of the Company. As a consequence, on the basis of that judgment the Company now has a legal claim against the Ministry of Finance - Tax Administration that it intends to settle in cash or by offsetting existing and future tax liabilities. The Company is in accordance with, recognized income and claim in the amount of HRK 13,938 thousand which is based on the calculation of the tax court expert. Of this total, HRK 10,924 thousand represents the principal on this litigation is credited within other income and HRK 3,014 thousand is recorded as a financial income and relates to interest.

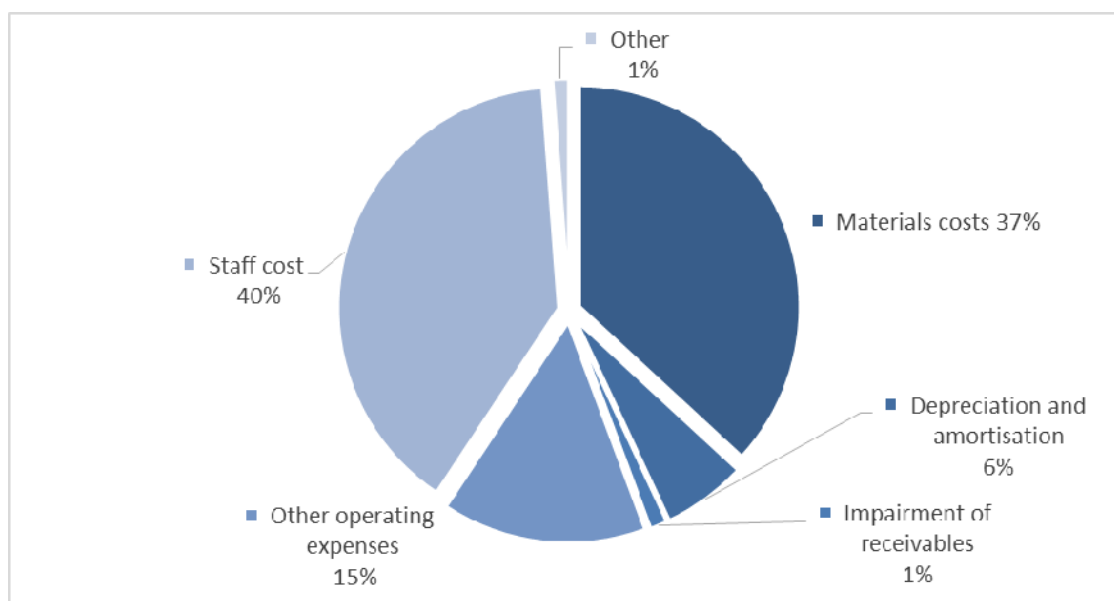
Expenses

In 2016, the total expenses of the Company amounted to HRK 177,834 thousand and are lower for 7% than realized in 2015, within which dominate operating expenses amounting to HRK 170,083 thousand, which decreased by 6%.

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 67,160 thousand and which have been reduced by 7% following a decrease in personnel. In May 2016, the Company has consensual dispatched 35 employees by paying a negotiated severance pay in the amount of HRK 2,945 thousand, which is a one-time increased operating expense. Total staff costs (salaries and contributions and other employee benefits) amounted to HRK 75,894 thousand representing 45% of total operating expenses which is 5% decrease compared to prior year level.

Material costs, which account for 37% of operating expenses are down 10% from the realization in 2015, while other costs are at the same level of realization.

Operating expenses structure:



Result of operations

EBIT for 2016 amounted to a negative HRK 2,731 thousand while EBITDA was positive HRK at 9,969 thousand. Total revenues were sufficient to cover total expenses and the profit before tax was made.

Following the calculated tax expense, the Company realized a profit after tax in the amount of HRK 242 thousand, while the Group's profit after tax amounted to HRK 6,065 thousand on which affected consolidation (49%) of the profit of associates Adriatic Gate dd (AGCT).

Balance sheet

Total assets/liabilities of the Company on 31.12.2016. amounts to HRK 737,013 thousand. The index decreased by 1% compared to the initial state as at 01.01.2016. And nominally decreased for HRK 10,264 thousand.

Key changes in the structure of assets:

- Within the position of current assets, the share of financial assets (deposits with banks and investments in money market funds) reduced from 32% to 25% and that position is reduced in order to invest in the project Škrljevo and in other capital investments
- Increase was in position of tangible fixed assets from 63% to 69% of assets following the increase in prepayments for tangible assets and assets under construction - Project Škrljevo
- The position of current receivables was increased which was result by receivables from the State Ministry of Finance - Tax Administration according to the judgment of the Administrative Court in the amount of HRK 13,938 thousand

Key changes in the structure of liabilities:

- The share of long-term liabilities in the structure of liabilities decreased from 9% to 7% following repayment of the current portion of long-term loans.
- By reducing the number of employees there was decrease in long-term provisions for retirement benefits and jubilee awards.
- The share of short-term liabilities in the structure of liabilities increased from 8% to 9% at the position, other liabilities

Staff

As at 31.12.2016 Company has 630 employees which is a decrease of 3% compared to 31.12.2015. Taking into account the needs of business processes, the Company carried out an active policy of rejuvenation of staff, and is in accordance with the Law on the promotion of employment, in March 2016 temporary employed 18 highly educated employees that were on one-year professional training without the need of employment. Also, 13 new employees were employed on temporary time while 51 employee left the Company either through retirement or early retirement or negotiated severance payment.

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 interests and relations between great powers such as the US and Russia, as well as strong regional players such as Turkey, Iran, Israel and Saudi Arabia. The creation and long enough duration of so. Islamic state, is an additional factor of tension from this region passed on to Europe, Asia and Africa and represents a general threat to world security. Generally complex relationships in the Middle East generator are high risk in terms of the volume of overseas trade in 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, especially after the entrance of Islamic state on the Sinai Peninsula.

A particularly important element for all the countries of this region and the global economy in general, relatively low 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. 5-7 days of sailing, significantly affecting the overall transport shipping costs and therefore on the competitiveness of the goods on the market.

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 63%, at which 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 controls this risk in a way that in 2016 foreign exchange exposure of liabilities in USD are covered by forming deposits in the same currency.

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, 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.

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. Much more important is the connection with the rail network, which due to its characteristics requires significant investments around which, in addition to large investment projects which are already underway, there are discussions on the level of traffic strategies RH (lowland railway).

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.

Significant personnel risk is the high average age of employees. Management of the Company, taking into account the needs of business processes, implemented a proactive staff policy of rejuvenation of personnel using the lever at the same time: on the one hand with departure of elderly employees (pensions, negotiated severance pay), and on the other hand employment of young staff.

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 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.

System of risk control

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. Certificate of compliance with ISO 9001: 2008 is valid until 15.09.2018. , until when is required to documentation of the existing quality management system with the requirements of the new ISO 9001: 2015. In 2016, the Group has introduced energy efficiency management system according to ISO 50001, which aims to introduce the system and systematic control of energy consumption.
- 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 monthly, quarterly and yearly monitoring of the plan through Controlling department. Monitoring the implementation of the annual plan works internally on a monthly basis and covers the following main categories:
 - ✓ Monitoring of natural realization of the following categories and cargo terminals
 - ✓ Monitoring the financial implementation at the level of individual organizational units and the company as a whole in the format of the income statement
 - ✓ Ad hoc analysis of realization according to defined criteria using defined database that are complement monthly with realized quantities

A particular aspect of controlling is the prediction of the final result with combination of current realization and the rest of the planning period ("Forecasting")

- In 2016 more staff were placed in department of internal control in function of systematic risk control
- Finally, through the upgrade of the IT systems with the aim of system integration in all business segments

BUSINESS EXPECTATIONS

CONTINUATION OF CAPITAL INVESTMENTS

Operationally and financially the largest and most demanding capital investment of the Group / Company is described above (key event) Project Škrljevo. The project started in august 2016 and certainly marked the business year 2016, and by the end of 2017 is expected its full realization. This strategic project, which is a driver of implemented recapitalization in 2015, it was inevitable, primarily for reasons of too low storage capacity for dry cargo in the Rijeka basin

In July 2017 it is expected a decision on co-financing projects for improving the railway infrastructure in the port of Rijeka reported on fund CEF Transportation. Among other capital investment, greater investment is the construction of warehouses for soybeans in the area of the terminal Rijeka, while other investments related to the continuity of supply to the new modern port machinery which increases the efficiency and competitiveness of business.

LIBERALISATION OF THE RAIL FREIGHT TRANSPORT MARKET

Despite formal liberalization of rail freight transport in Croatia since 01.07.2013 to date in practice, private operators have not performed on the market with an ambitious and significant capacity, and therefore, never gained a greater market share. Therefore, the real competition in this important part of the route is still non - existent, and therefore there is no significant increase in the competitiveness of the entire transport route. This consequently has very significant impact on the competitiveness and operating results of the Luka Rijeka d.d.

Vedran Devčić
*President of the
Management Board*

Nenad Janjić
*Member of the
Management Board*

Linda Scuiicca
*Member of the
Management Board*

21 April 2017
Riva 1

Rijeka
Croatia

LUKA RIJEKA d.d.
Rijeka, Riva 1

STATEMENT OF IMPLEMENTATION OF THE CORPORATE GOVERNANCE CODE

General information

This Code has the force of recommendations that binds Company authorities and employees of the Company that in making all kinds of decisions, respect the principles laid down and elaborated by this Code. The aim of the Code is to establish high standards of corporate governance and business transparency of Luka Rijeka plc. and associated companies in majority ownership (hereinafter the Company). The Code defines the procedures of corporate governance based on recognizable international standards in order to ensure that by good and responsible management and control of business and management functions, Company protects its shareholders, employees, elected and appointed holders of responsible functions in the Company as well as all other stakeholders. The basic principles of this Code are: business transparency, clearly defined procedures for the operation of the Supervisory Board, Management Board and other bodies and structures making important decisions, avoiding conflicts of interest, efficient internal control and effective system of accountability.

Any interpretation of the directives provided by this Code should be guided primarily by adherence to the principles and achieving these goals

The Company is listed on the Official market of the Zagreb Stock Exchange, and has complied with the Zagreb Stock Exchange Governance Code. The Company respects and implements the prescribed corporate governance measures (as reported in detail in the prescribed annual questionnaire and published on the Zagreb Stock Exchange).

The major direct shareholders according to the Central Depository and Clearing Company data are listed in the table for structure of ownership in the Share Capital note to the financial statements. The Company is also obligated to its website and through the stock exchange to publish any acquisition or disposal of shares and other securities of the Society by each member of the Management Board and the Supervisory Board, and employees of the Company who have access to price sensitive / inside information of the Company and persons connected with them.

Jurisdiction, procedure of convening and quorum, as ways of making decisions of the General Assembly are regulated by the Articles of Association. When convening the General Assembly, the management board shall set a date by which will be established state in the register of shares that will be relevant for the exercise of voting rights at the General Assembly. This date should be before the General Assembly and may be up to 7 days before the general meeting.

The right to vote should include all shareholders of the Company in such a manner that the number of votes belonging to them in the General Assembly equals the number of shares they hold, regardless of class of shares. Should the company issue shares without voting rights or with restricted voting rights, shall publicly and timely announce all relevant information about the content of all rights resulting from such shares in order to enable the investors to make the right decision about buying these securities. The company shall act in the same manner and under the same conditions to all shareholders, regardless of the number of shares they hold, their country of origin and their other properties. This particularly applies to the duty of equal treatment of individual and institutional investors.

Election and appointment of the Supervisory Board are regulated by the Statute of the joint stock company Luka Rijeka plc. There are no restrictions based on gender, age, education, profession and so on. The Companies Act defines any amendments to the Articles of Association.

The basic medium for the publication of information is the Company's internet website: www.lukarijeka.hr

Corporate governance structure

In accordance with the Companies Act and the Company's Articles of Association, the bodies of the Company are the General Assembly, the Supervisory Board, and the Management Board. The mentioned acts also regulate their duties and responsibilities.

General Assembly of the Company

The General Assembly makes decisions that are of significant impact on the status of assets, financial position, operating results, ownership structure and management of the company. Decisions will be made exclusively at the General Assembly, stipulated by majority of votes. The management board shall, as soon as possible, publish the decision of the General Meeting and the data on possible action to challenge these decisions. In 2016, a regular Annual General Assembly Meeting was held on 25 August 2016.

STATEMENT OF IMPLEMENTATION OF THE CORPORATE GOVERNANCE CODE (continued)

Supervisory Board

The tasks and responsibilities of the Supervisory Board are regulated by the Statute of the joint stock company Luka Rijeka plc. The Supervisory Board members should perform their duties with the diligence of an orderly and conscientious businessman and keep business secrets of Company. The Supervisory Board is obligated to make an assessment of its work in the preceding period. Such an assessment includes in particular the assessment of the work of committees established by the Supervisory Board and achievements in relation to the target objectives of the company. The Supervisory Board consists of six members. Chairman of the Supervisory Board is responsible for determining the calendar of regular annual meetings and extraordinary meetings whenever the need arises. The frequency of the Supervisory Board shall be determined in accordance with the needs of the Company.

Members of the Supervisory Board as at the date of this annual report and during the reporting period are as follows:

Štefica Salaj	Chairman from 9 November 2015
Piotr Wojciech Ambrozowich	Vice Chairman from 9 November 2015
Toni Đikić	Member from 9 November 2015
Darko Peričić	Member from 18 June 2012 to 18 June 2016
Krešimir Trtanj	Member from 13 May 2015
Maja Mrakovčić Kostelac	Member from 26 September 2016 to 18 November 2016
Alen Jugović	Member from 20 January 2017

Audit Committee

Pursuant to its Articles of Association, the Supervisory Board of the Company has established the Audit Committee. The Audit Committee is the body that provides support to Management Board and The Supervisory Board in the effective execution of the obligations of corporate governance, financial reporting and control of the Company.

The Audit Committee, appointed in accordance with the law, consisted of 3 members during the previous year, 2 of whom were also members of the Supervisory Board. During 2016, one meeting of the Audit Committee were held.

The Supervisory Board, with the help of the Audit Committee, monitored the adequacy of the internal control system, which is achieved through three independent control functions (internal audit, risk control, compliance), and in order to establish such a system of internal controls that will enable early detection and monitoring of all risks to which the Company is exposed in its operations.

In 2016 the Audit Committee was composed of:

Piotr Wojciech Ambrozowicz	President of the Board
Jana Reljac	Member
Toni Đikić	Member

Management Board

Management Board runs Company's business in accordance with the Articles of Association and legal regulations. Whole Management board represents the Company, chairman with another member, or member of Management board with another member. Management Board followed that business and other ledgers and business records are in accordance with the law, put together by accounting documents, realistically assessing the assets and liabilities, compiles financial and other reports in accordance with applicable accounting regulations and standards.

Members of the Management Board as at the date of this annual report and during the reporting period are as follows:

Vedran Devčić	President from 28 June 2012
Linda Sciucca	Member from 28 June 2012
Nenad Janjić	Member from 28 June 2012

STATEMENT OF IMPLEMENTATION OF THE CORPORATE GOVERNANCE CODE
(continued)

Key elements of the systems of internal controls and risk management relating to financial reporting for the Company and the Group

The Company is obliged to prepare its financial statements in accordance with International Financial Reporting Standards, taking into account the contemporary international tendencies in financial reporting as well as the market demands, and publish them in the prescribed time limits defined by the Croatian legislation. Financial reports drawn up by the Management Board and audited by an independent external auditor, are to be published on the website of the Company.

Chairman of the Board is responsible for the creation of an internal control system that organizes and monitors the flow of accurate, specific and complete information on the organization of society as well as data on compliance with financial, business and legal obligations that may pose a significant risk to society. Internal Auditor should analyze and examine the effectiveness of such a system at least once a year.

The company shall have independent external auditors as an important instrument of corporate governance, so their main function is to ensure that the financial statements adequately reflect the real state of society as a whole. Independent external auditors shall be considered as the auditor who is related by ownership or interest with the company and does not provide, by itself or through other persons, any other services to the Company.

Independent auditors are required to report directly to the Management Board on the following issues:

- Discussion on the main accounting policy,
- major weaknesses and deficiencies of the internal control and the methods,
- alternative accounting procedures,
- disagreement with the management, risk assessment, and
- possible analyzes of fraud and / or abuse.

In its annual report and on its web pages the Company shall in the prescribed form (annual survey), lead whether it has complied with the recommendations set out in this Code. This Code and its recommendations are based on the principle of "comply or explain", ie. If the company departs from or not applies some of the recommendations of the Code, the annual survey must give an explanation of why there has been a non-implementation or deviations. The annual survey is an integral part of this Code.

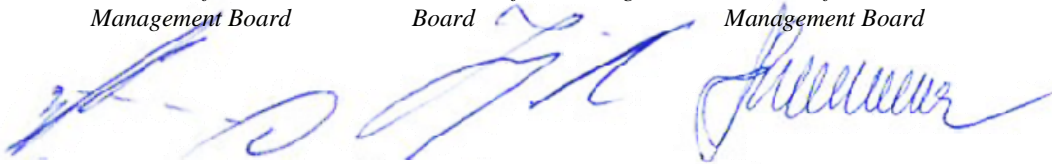
Vedran Devčić
*President of the
Management Board*

Nenad Janjić
*Member of the Management
Board*

Linda Sciucca
*Member of the
Management Board*

21 April 2017

Riva 1
Rijeka
Croatia



LUKA RIJEKA d.d.
Rijeka, Riva 1

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 separate and consolidated financial statements (together further referred to as "the 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 is also responsible for the preparation and content of the Management Report and the Statement on the implementation of corporate governance code, as required by the Croatian Accounting Act. The Management Report and the Statement of implementation of the corporate governance code, as well as the accompanying financial statements were authorised and signed by the Management Board on 21 April 2017 for issue to the Supervisory Board. The Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

Vedran Devčić
President of the Management Board

Nenad Janjić
Member of the Management Board

Linda Sciucca
Member of the Management Board

Luka Rijeka d.d.

LUKA RIJEKA d.d.
Rijeka, Riva 1

Riva 1
51 000 Rijeka
Republic of Croatia

Rijeka, 21 April 2017



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

Opinion

We have audited the separate financial statements of Luka Rijeka d.d. ("the Company") and the consolidated financial statements of Luka Rijeka d.d. and its subsidiaries ("the Group") (together "the financial statements"), which comprise the statements of financial position as at 31 December 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2016 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 ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Croatia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

The Group and the Company recognised revenues for the year ended 31 December 2016 in the amount of HRK 144,855 thousand and HRK 144,046 thousand, respectively.

Refer to accounting policy 3.2 and note 7 to the financial statements.

Key audit matter	How our audit addressed the matter
<p>The Group's core activities include transshipment of goods, cargo management and manipulation, and rendering other accompanying services, such as warehousing of goods and docking.</p> <p>Revenue from these core services is generally recognized by reference to their stage of completion on the reporting date.</p> <p>Transshipment services are frequently contracted by the Group within a single customer arrangement with other types of services.</p> <p>While a contract generally identifies separate services, reflecting its economic substance may require accounting for them as an integrated package and one performance obligation. Conversely, for those arrangements which comprise components with stand-alone value to the customer and reliably measurable fair value, the transaction consideration may need to be allocated to separately identifiable components with different patterns of revenue recognition.</p> <p>Based on the above, we considered this area to be a key audit matter.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none">• Testing of the design, implementation and operating effectiveness of controls over the revenue cycle. This included using our own IT specialists in evaluating the controls in the IT systems that support the recording of revenue;• Assessing the Group's policy for recognizing revenue, including considering whether the policy is in accordance with relevant financial reporting standards;• Based on our inspection of a sample of contracts with key customers:<ul style="list-style-type: none">- challenging the Group's identification of identifiable components within the revenue contracts;- critically assessing the Group's selection of revenue recognition patterns for identified revenue components by reference to the Group's accounting policies;- critically evaluating the Group's identification of the stage of completion of the services by inspecting of contracts and supporting documents, such as statements of facts and timesheets, for all the ships berthed in the Luka Rijeka harbour in the periods immediately before and after the reporting date;• Inspecting manual journal entries posted to revenue accounts focusing on unusual and irregular items, or entries modified subsequent to the reporting date.



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

Other Information

Management is responsible for the other information. The other information comprises the Management Report and the Statement of implementation of corporate governance code, included in the Annual Report but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this respect.

With respect to the Management Report and the Statement of implementation of corporate governance code, we have also performed the procedures required by the Article 20 of the Croatian Accounting Act. These procedures include considering whether the Management Report and the Statement of implementation of corporate governance code includes the disclosures required by Articles 21, 22, and 24 of the Croatian Accounting Act and obtaining evidence regarding specified information provided in the Statement of implementation of corporate governance code.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion:

- the information given in the Management Report and the relevant sections of the Statement of implementation of corporate governance code, containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Croatian Accounting Act and Article 24 paragraph 2 (furthermore, "extracts of Statement of implementation of corporate governance code) for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report and the extracts of the Statement of implementation of corporate governance have been prepared, in all material respects, in accordance with the applicable legal requirements of the Croatian Accounting Act; and
- the Statement on implementation of corporate governance code includes information required by Article 22 paragraph 1, items 2, 5, 6 and 7 of the Croatian Accounting Act.



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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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



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

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Igor Gošek.


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

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

21 April 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

<i>(in thousands of HRK)</i>	<i>Note</i>	2016 Group	2015 Group	2016 Company	2015 Company
Revenue from sales	7	144,855	166,494	144,046	164,858
Other income	8	23,358	13,540	23,306	12,809
		168,213	180,034	167,352	177,667
Materials, services and consumables used	9	(59,734)	(67,170)	(62,687)	(69,500)
Personnel expenses	10	(75,315)	(79,670)	(73,077)	(77,339)
Depreciation and amortisation	16,17,18	(11,244)	(10,997)	(10,530)	(10,415)
Other expenses	11	(24,269)	(23,356)	(23,789)	(22,818)
		(170,562)	(181,193)	(170,083)	(180,072)
Finance income	12	11,579	3,790	11,568	3,787
Finance costs	13	(7,791)	(11,621)	(7,751)	(11,584)
Net finance costs		3,788	(7,831)	3,817	(7,797)
Share of profit of equity-accounted investees	19	4,988	363	-	-
Profit / (loss) before tax		6,427	(8,627)	1,086	(10,202)
Income tax	14	(362)	11,346	(844)	11,467
Profit for the year		6,065	2,719	242	1,265
Revaluation of AFS financial assets (net of tax)		9	(344)	9	(344)
Revaluation of land (net of tax)		893	-	893	-
Other comprehensive income		902	(344)	902	(344)
Total comprehensive income		6,967	2,375	1,144	921
Earnings per share (in HRK)					
- basic and diluted	15	0.45	0.30		

Notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

<i>(in thousands of HRK)</i>	<i>Note</i>	31.12.2016 Group	31.12.2015 Group	31.12.2016 Company	31.12.2015 Company
ASSETS					
Non-current assets					
Intangible assets	16	743	841	743	841
Property, plant and equipment	17	464,470	423,269	462,830	421,730
Investment property	18	9,124	9,650	9,124	9,650
Investments in subsidiaries and equity accounted investees	19	94,514	89,526	11,767	11,767
Financial assets available for sale	20	219	210	219	210
Non-current financial assets	21	5,718	7,323	5,681	7,286
Deferred tax assets	14	17,959	18,803	17,959	18,803
Total non-current assets		592,747	549,622	508,323	470,287
Current assets					
Inventories		826	1,063	826	1,063
Trade and other receivables	23	42,850	31,867	42,248	31,125
Income tax receivable		52	96	7	96
Current financial assets	22	182,216	242,305	182,210	242,122
Cash and cash equivalents	24	4,870	4,545	3,399	2,584
Total current assets		230,814	279,876	228,690	276,990
Total assets		823,561	829,498	737,013	747,277
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	25	539,219	539,219	539,219	539,219
Capital and other reserves	26	38,624	38,624	38,624	38,624
Revaluation reserves	26	36,669	35,767	36,669	35,767
Retained earnings		82,069	76,004	1,507	1,265
Total equity		696,581	689,614	616,019	614,875
Non-current liabilities					
Borrowings	27	41,568	57,803	41,224	56,892
Provisions	28	2,814	3,677	2,814	3,677
Deferred tax liability	14	13,099	14,553	8,043	8,936
Total non-current liabilities		57,481	76,033	52,081	69,505
Current liabilities					
Trade and other payables	29	39,997	30,713	39,684	29,782
Income tax liability		-	23	-	-
Borrowings	27	21,749	25,428	21,476	25,428
Provisions	28	7,753	7,687	7,753	7,687
Total current liabilities		69,499	63,851	68,913	62,897
Total liabilities		126,980	139,884	120,994	132,402
Total equity and liabilities		823,561	829,498	737,013	747,277

Notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

GROUP

(in HRK thousands)

	Share capital	Capital and other reserves	Revaluation reserves	Retained earnings / (accumulated losses)	Total
As at 1 January 2015	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
Profit for the year	-	-	-	6,065	6,065
<i>Increase in fair value of available for sale financial assets</i>	-	-	9	-	9
<i>Deferred tax effect</i>	-	-	893	-	893
Other comprehensive income	-	-	902	-	902
Total comprehensive income	-	-	902	6,065	6,967
As at 31 December 2016	539,219	38,624	36,669	82,069	696,581

Notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

COMPANY

(in HRK thousands)

	Share capital	Capital and other reserves	Revaluation reserves	Retained earnings / (accumulated losses)	Total
As at 1 January 2015	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
Profit for the year	-	-	-	242	242
<i>Increase in fair value of available for sale financial assets</i>	-	-	9	-	9
<i>Deferred tax effect</i>	-	-	893	-	893
Other comprehensive income	-	-	902	-	902
Total comprehensive income	-	-	902	242	1,144
As at 31 December 2016	539,219	38,624	36,669	1,507	616,019

Notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

<i>(in thousands of HRK)</i>	<i>Note</i>	2016 Group	2015 Group	2016 Company	2015 Company
Profit / (loss) before tax		6,427	(8,627)	1,086	(10,202)
Share of net profit of equity accounted investee	<i>19</i>	(4,988)	(363)	-	-
Depreciation and amortization	<i>16,17,18</i>	11,244	10,997	10,530	10,415
Gain on disposal of property, plant and equipment and intangibles	<i>8</i>	(473)	(24)	(473)	(24)
Impairment losses/gains on trade receivables - net	<i>11</i>	2,170	372	2,170	372
Interest income	<i>12</i>	(6,988)	(2,109)	(6,985)	(2,107)
Interest expense	<i>13</i>	4,350	5,889	4,312	5,871
Gain on disposal of AFS financial assets	<i>12</i>	-	(453)	-	(453)
Losses on equity instruments	<i>13</i>	-	7	-	7
Net reversal of provisions	<i>8,11</i>	(797)	(1,673)	(797)	(1,673)
Foreign exchange differences - net		(586)	2,328	(586)	2,328
		10,359	6,344	9,257	4,534
Changes in working capital:					
Decrease/(increase) in inventories		237	21	237	21
Decrease/(increase) in trade and other receivables		(12,965)	5,502	(13,105)	5,563
Increase/(decrease) in trade and other payables		4,002	(9,711)	4,852	(9,444)
Decrease in provisions		-	(4,789)	-	(4,789)
Cash from operations		1,633	(2,633)	1,241	(4,115)
Income tax paid		(624)	85	89	362
Interest paid		(4,117)	(6,119)	(4,079)	(6,101)
Net cash from operating activities		(3,108)	(8,667)	(2,749)	(9,854)
Cash flows from investing activities					
Purchase of property, plant, equipment and intangibles		(51,333)	(23,879)	(51,315)	(23,635)
Net proceeds/(repayments) with respect to finance lease arrangements		(3,175)	(5,777)	(2,881)	(4,935)
Proceeds from disposal of property, plant and equipment, intangibles and investment property		783	109	782	109
Net inflows related to sale of Group and State owned apartments		3,287	1,326	3,287	1,326
Interest received		6,988	2,109	6,985	2,107
Proceeds from sale of AFS financial assets		-	1,879	-	2,050
Net inflows/(outflows) from bank deposits		60,089	(223,094)	59,912	(222,918)
Net inflows/(outflows) from non-current financial assets		2	281	2	-
Net cash from investing activities		16,641	(247,046)	16,772	(245,896)
Cash flows from financing activities					
Proceeds from borrowings		-	15,553	-	15,553
Repayment of borrowings		(13,208)	(55,789)	(13,208)	(55,789)
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		(13,208)	257,635	(13,208)	257,635
Net increase of cash and cash equivalents		325	1,922	815	1,885
Cash and cash equivalents at beginning of year		4,545	2,623	2,584	699
Cash and cash equivalents at the end of year	<i>24</i>	4,870	4,545	3,399	2,584

Notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 loading, unloading, transshipment and storage of goods as well as mooring and unmooring ships. 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 and to the date of this report were as follows:

First name	Last name	Role	Appointed	Resigned
Štefica	Salaj	President	9.11.2015	-
Piotr	Wojciech Ambrozowicz	Vice president	9.11.2015	-
Toni	Đikić	Član	9.11.2015	-
Darko	Peričić	Member	18.06.2012	18.06.2016
Krešimir	Trtanj	Member	13.05.2015	-
Maja	Markovčić Kostelac	Member	26.09.2016	18.11.2016
Alen	Jugović	Member	20.01.2017	

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 2016

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

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

The separate 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 separate 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 2017.

(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 2016

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 accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) *Subsidiaries*

Subsidiaries are 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 financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

In its separate financial statements, the Company accounts for its investments in subsidiaries at cost less any impairment.

(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 income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. 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 2016

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

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 2016

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
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3.6 Investment property

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

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

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

Residential apartments	65 years
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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 2016

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 2016

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 2016

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 2016

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 2016

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 2016

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 2016

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 which is disclosed within note 7 to the financial statements.

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 2016

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 2016 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. Overview:

- *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It is not expected that this standard will have a significant effect on the financial statements of the Group and the Company.

- *IFRS 9 Financial Instruments*

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018. This new standard is not expected to have a significant effect on the financial statements of the Group and the Company.

- *IFRS 16 Leases*

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. So far, the most significant impact identified is that the Group and the Company will recognise new assets and liabilities for its operating leases.

- *Disclosure Initiative (Amendments to IAS 7)*

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. This amendments are not expected to have a significant effect on the financial statements of the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016

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 2016

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 28).

(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 2016

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 subsidiaries and equity accounted investees
- note 20: Financial assets available for sale

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 7 – REVENUE FROM SALES

<i>(in thousands of HRK)</i>	2016 Group	2015 Group	2016 Company	2015 Company
Sales to domestic customers	35,369	33,857	39,122	37,752
Sales to foreign customers	109,486	132,637	104,924	127,106
	144,855	166,494	144,046	164,858

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

<i>(in thousands of HRK)</i>	2016 Group	2015 Group	2016 Company	2015 Company
General cargo	77,269	89,970	77,269	89,970
Bulk cargo	37,426	48,653	37,426	48,653
Containers	5,621	6,284	5,621	6,284
Other port services	24,539	21,587	23,730	19,951
	144,855	166,494	144,046	164,858

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>	2016 Group	2015 Group	2016 Company	2015 Company
Gain on sale of non-current tangible and intangible assets	473	24	473	24
Donations and grants	34	38	-	-
Bad debts recovered	19	24	19	24
Insurance recoveries	911	200	911	200
Rental income (i)	9,556	10,304	9,646	10,304
Reversal of provisions	797	1,673	797	1,673
Income from court cases (ii)	10,939	29	10,939	29
Other income	629	1,248	521	555
	23,358	13,540	23,306	12,809

- (i) Rental income relates to income from rental of parking lots and offices in the city of Rijeka.
- (ii) In June 2014, the tax authorities seized the Company's bank accounts for an amount of HRK 16,630 thousand based on a tax claim from previous years. During 2016, pursuant to the Company's appeal, the court reached a decision according to which the seizure of assets did not have legal merit, and the case was returned to the relevant bodies of the tax administration with acknowledgement of all the Company's arguments. As a consequence, on the basis of this court decision, the Company has a legal claim against the tax authorities that it intends to settle either in cash or by netting against existing and future tax liabilities. In accordance with the above the Company recognized income and a receivable from the tax authorities in the amount HRK 13,938 thousand, based on the calculation done by a court appointed expert for finance and taxation. Of this amount, HRK 10.9 million represents the principal recognized in other income, while HRK 3 million is recorded as financial income and relates to interest.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 9 – MATERIALS, SERVICES AND CONSUMABLES USED

<i>(in thousands of HRK)</i>	2016	2015	2016	2015
	Group	Group	Company	Company
Energy	12,114	13,391	12,114	13,391
Utilities	3,795	3,483	3,783	3,456
Postage and telecommunications	749	840	729	820
Concession fees	6,245	6,823	6,245	6,823
Transport services	5,496	6,441	9,171	10,648
Quality control and desinfection	3,275	1,867	3,275	1,867
Freight handling services	10,172	12,969	10,172	12,969
Maintenance	9,059	10,502	9,602	10,590
Raw materials and consumables	7,199	8,649	6,558	7,791
Rent	412	414	296	375
Other materials expenses	1,218	1,791	742	770
	59,734	67,170	62,687	69,500

Variable part of the concession fee for 2016 amounted to HRK 1,659 thousand (2015: HRK 2,002 thousand).

NOTE 10 – PERSONNEL EXPENSES

<i>(in thousands of HRK)</i>	2016	2015	2016	2015
	Group	Group	Company	Company
Gross salaries and wages	59,047	63,584	57,305	61,803
Contributions on salaries	10,151	10,934	9,855	10,632
Other employee related costs	6,117	5,152	5,917	4,904
	75,315	79,670	73,077	77,339

As at 31 December 2016 the number of staff employed by the Group was 645 (2015: 665) while the Company employed 630 employees (2015: 650).

In 2016, termination benefits were accrued for 35 employees in the amount of HRK 2,945 thousand and recognised as an expense (2015: HRK 1,440 thousand for 16 employees).

NOTE 11 – OTHER EXPENSES

<i>(in thousands of HRK)</i>	2016	2015	2016	2015
	Group	Group	Company	Company
Bank charges	292	362	267	334
Intellectual services	2,103	1,969	1,997	1,837
Fines and penalties	1,770	2,913	1,770	2,913
Reimbursement of costs to employees	2,817	2,844	2,817	2,844
Non-income related taxes, contributions and fees	10,059	10,321	10,009	10,266
Insurance	3,616	2,843	3,492	2,726
Court fees and expenses	275	379	275	379
Impairment of receivables	2,170	372	2,170	372
Marketing and entertainment	349	396	314	373
Other expenses	818	957	678	774
	24,269	23,356	23,789	22,818

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 2016

NOTE 12 – FINANCE INCOME

<i>(in thousands of HRK)</i>	2016	2015	2016	2015
	Group	Group	Company	Company
Interest and similar income	6,988	2,109	6,985	2,107
Foreign exchange gains	4,583	1,228	4,575	1,227
Gain on disposal of AFS financial assets	-	453	-	453
Other financial income	8	-	8	-
	11,579	3,790	11,568	3,787

- (i) Interest income mostly consists of interest on bank deposits in the amount of HRK 3,805 thousand (2015: HRK 2,011 thousand). HRK 3 million relate to interest from court cases as disclosed in the note 8.

NOTE 13 – FINANCE COSTS

<i>(in thousands of HRK)</i>	2016	2015	2016	2015
	Group	Group	Company	Company
Interest and similar expenses	4,350	5,889	4,312	5,871
Foreign exchange losses	3,441	5,585	3,439	5,566
Losses on equity financial instruments	-	7	-	7
Other financial expenses	-	140	-	140
	7,791	11,621	7,751	11,584

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>	2016	2015	2016	2015
	Group	Group	Company	Company
Current income tax	645	121	-	-
Deferred tax	(283)	(11,467)	844	(11,467)
Income tax expense / (benefit)	362	(11,346)	844	(11,467)

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>	2016	2015	2016	2015
	Group	Group	Company	Company
Profit / (loss) before taxation	6,427	(8,627)	1,086	(10,202)
Tax calculated at 20%	1,285	(1,725)	217	(2,040)
Non-taxable income	(8)	(7)	(8)	(7)
Non-deductible expenses	163	108	136	108
Tax effect of share in result of equity accounted investee	(998)	(73)	-	-
Recognition of previously unrecognised temporary differences	-	828	-	828
Tax incentive - reduction of tax rate	-	386	-	507
Recognition of previously unrecognised deferred tax assets on tax losses	-	(10,863)	-	(10,863)
Tax losses utilization	185	-	185	-
Effect of changes in tax rate	(265)	-	314	-
Tax expense/(benefit) recognised in the statement of comprehensive income	362	(11,346)	844	(11,467)
Effective tax rate	6%	132%	78%	112%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 expired in 2016 after which the Group will pay taxes at a regular rate.

As at 31 December 2016, the Company and the Group has unused tax losses to carry forward of HRK 72,729 thousand (*31 December 2015: HRK 73,655 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.

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

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

2016 - Company and Group	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
<i>(in thousands of HRK)</i>				
Land	4,002	-	(400)	3,602
Other financial assets	354	-	-	354
Financial assets available for sale	390	-	41	431
Provision for employee entitlements	799	-	(300)	499
Tax losses	13,258	-	(185)	13,073
	18,803	-	(844)	17,959

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 are calculated applying the regular tax rate.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 14 – INCOME TAX (*CONTINUED*)

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

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
	<i>(in thousands of HRK)</i>			
2016 - Group	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
	<i>(in thousands of HRK)</i>			
Revaluation of land	8,936	(893)	-	8,043
Investments in equity accounted investees	5,617	-	(561)	5,056
	14,553	(893)	(561)	13,099

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

2015 - Company	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
	<i>(in thousands of HRK)</i>			
Revaluation of land	8,936	-	-	8,936
	8,936	-	-	8,936
	<i>(in thousands of HRK)</i>			
2016 - Company	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
	<i>(in thousands of HRK)</i>			
Revaluation of land	8,936	(893)	-	8,043
	8,936	(893)	-	8,043

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 2016

NOTE 15 – EARNINGS PER SHARE

	2016	2015
	Group	Group
Profit for the year (<i>in thousands of HRK</i>)	6,065	2,719
Total and weighted number of issued shares	13,480,475	9,105,475
Earnings per share (basic and diluted) in HRK	0.45	0.30

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 and Company was as follows:

<i>(in thousands of HRK)</i>	Intangibles in		
	Software	progress	Total
Cost			
At 1 January 2015	3,820	-	3,820
Additions	505	-	505
Disposals and write-off's	(9)	-	(9)
At 31 December 2015	4,316	-	4,316
Additions	-	309	309
Transfers	309	(309)	-
Disposals and write-off's	(6)	-	(6)
At 31 December 2016	4,619	-	4,619
Accumulated amortisation			
At 1 January 2015	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
Charge for the year	407	-	407
Disposals and write-off's	(6)	-	(6)
At 31 December 2016	3,876	-	3,876
Carrying amount			
At 31 December 2015	841	-	841
At 31 December 2016	743	-	743

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 and advances	Total
Cost or revalued amount						
At 1 January 2015	228,973	140,138	194,733	2,179	17,035	583,058
Additions	103	-	5,223	2,799	16,047	24,172
Disposals and write-off's	-	-	7,099	-	(7,099)	-
Transfers	-	-	(1,638)	-	-	(1,638)
At 31 December 2015	229,076	140,138	205,417	4,978	25,983	605,592
Additions	-	-	8	-	51,814	51,822
Transfers	-	-	2,756	1,932	(4,688)	-
Disposals and write-off's	-	(283)	(2,307)	(9)	-	(2,599)
At 31 December 2016	229,076	139,855	205,874	6,901	73,109	654,815
Accumulated depreciation						
At 1 January 2015	-	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
Charge for the year	-	2,618	7,785	213	-	10,616
Disposals and write-off's	-	(283)	(2,309)	(2)	-	(2,594)
At 31 December 2016	-	40,222	149,781	342	-	190,345
Carrying amount						
At 31 December 2015	229,076	102,251	61,112	4,847	25,983	423,269
At 31 December 2016	229,076	99,633	56,093	6,559	73,109	464,470

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

Land and buildings of the Group with a carrying amount of HRK 80,807 thousand (2015: HRK 82,939 thousand) are mortgaged against the Group's borrowings.

The cost of leased equipment where the Group is the lessee under a finance lease arrangement amounts to HRK 23,782 (2015: HRK 26,362 thousand) thousand while its carrying value amounts to HRK 0 (2015: HRK 816 thousand).

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 and advances	Total
Cost or revalued amount						
At 1 January 2015	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
Additions	-	-	-	-	51,006	51,006
Disposals and write-off's	-	-	1,706	1,932	(3,638)	-
Transfers	-	(283)	(1,748)	-	-	(2,031)
At 31 December 2016	229,076	139,855	200,433	6,910	73,231	649,505
Accumulated depreciation						
At 1 January 2015	-	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
Charge for the year	-	2,618	7,071	213	-	9,902
Disposals and write-off's	-	(283)	(1,744)	-	-	(2,027)
At 31 December 2016	-	40,222	146,109	344	-	186,675
Carrying amount						
At 31 December 2015	229,076	102,251	59,693	4,847	25,863	421,730
At 31 December 2016	229,076	99,633	54,324	6,566	73,231	462,830

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 80,807 thousand (2015: HRK 82,939 thousand) are mortgaged against the Company's borrowings.

The cost of leased equipment where the Company is the lessee under a finance lease arrangement amounts to HRK 23,782 (2015: HRK 26,362 thousand) thousand while its carrying value amounts to HRK 0 (2015: HRK 816 thousand).

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016, the revaluation surplus recognised in revaluation reserves amounts to HRK 36,669 thousand.

The Group and the Company revalued their land during 2014 based on fair value estimates made by an independent expert valuer. Management considers that the fair values of land have not changed significantly since the date of the last valuation and that the carrying value of land as at the reporting date approximates its fair value.

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>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Cost				
At 1 January	13,018	13,018	13,018	13,018
Disposals and write-offs	(385)	-	(385)	-
	12,633	13,018	12,633	13,018
Accumulated depreciation				
At 1 January	3,368	3,036	3,368	3,036
Charge for the year	221	332	221	332
Disposals and write-offs	(80)	-	(80)	-
	3,509	3,368	3,509	3,368
As at 31 December	9,124	9,650	9,124	9,650

Investment property relates to 43 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 2016, the Group sold 3 apartments and realised a gain on sale of HRK 473 thousand

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 19 – INVESTMENTS IN SUBSIDIARIES AND EQUITY ACCOUNTED INVESTEEES

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Investments in subsidiaries	-	-	40	40
Investment in equity accounted investees	94,514	89,526	11,727	11,727
	94,514	89,526	11,767	11,767

The investments in subsidiaries are as follows:

INVESTMENT IN ASSOCIATES

COMPANY	Ownership interest		Investment	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Luka - prijevoz d.o.o.	100%	100%	20	20
Stanovi d.o.o.	100%	100%	20	20

The investments in equity accounted investees relate to the following:

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Jadranska vrata d.d.				
- at cost	-	-	11,727	11,727
- applying the equity method	94,514	89,526	-	-
	94,514	89,526	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>	2016	2015
	Group	Group
As at 1 January	89,526	89,163
Share of profit/(loss) of associate	4,988	363
As at 31 December	94,514	89,526

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>	31.12.2016	31.12.2015
Assets	205,144	205,577
Liabilities	71,665	83,524
Revenue	89,851	76,973

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. At the General Assembly of Jadranska Vrata d.d. held on 4 April 2017 adopted a decision that the entire net profit for the financial year 2016 and retained earnings of previous years would be allocated for dividend payment. The total dividend payment amounts to 13,339 thousand of which 6,536 thousand relates to the Company and will be recognized as financial income in 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 20 – FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise following:

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Investment in quoted equity securities	219	210	219	210
	219	210	219	210

Movement in AFS financial assets was as follows:

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
As at 1 January	210	2,217	210	2,217
Impairment recognised in profit or loss	-	(7)	-	(7)
Revaluation recognised through equity	9	(574)	9	(403)
Disposals during the year	-	(1,426)	-	(1,597)
As at 31 December	219	210	219	210

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.

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Non-current receivables for apartments sold	5,641	7,244	5,641	7,244
Other financial assets	40	42	40	42
Other non-current receivables	37	37	-	-
	5,718	7,323	5,681	7,286

(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 2016, 34 apartments were repaid in full (2015: 23 apartments). During 2016, 3 additional annexes were signed. As at 31 December 2016 a total of 1,239 apartments were in repayment (2015: 1,270 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 2016

NOTE 22 – CURRENT FINANCIAL ASSETS

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Short-term deposits in banks	182,036	241,813	182,036	241,813
Other loans, deposits and similar items	180	492	174	309
	182,216	242,305	182,210	242,122

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>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Receivables from domestic customers	16,951	20,386	16,404	19,775
Receivables from foreign customers	5,645	4,120	5,644	4,115
Current receivables for apartments sold on credit	2,965	2,777	2,965	2,777
Receivables from State for taxes, contributions and fees	16,020	1,005	16,017	1,004
Advances given	-	4	-	4
VAT receivable	42	121	-	-
Prepaid expenses	691	2,393	680	2,383
Other receivables	536	1,061	538	1,067
	42,850	31,867	42,248	31,125

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

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
At 1 January	11,953	11,148	11,953	11,148
Increase	2,170	829	2,170	829
Collected	(19)	(24)	(19)	(24)
At 31 December	14,104	11,953	14,104	11,953

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>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Up to 90 days	22,217	22,512	21,669	21,896
91-180 days	97	687	97	687
181-360 days	61	386	61	386
Over 360 days	221	921	221	921
	22,596	24,506	22,048	23,890

Trade receivables are denominated in following currencies:

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
HRK	8,884	12,372	8,336	11,761
EUR	13,683	12,106	13,683	12,101
USD	29	28	29	28
	22,596	24,506	22,048	23,890

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 24 – CASH AND CASH EQUIVALENTS

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Cash with banks	4,343	3,894	3,392	2,577
Cash at hand	527	651	7	7
	4,870	4,545	3,399	2,584

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>	31.12.2016	31.12.2015
	Company	Company
Share capital	539,219	539,219
	539,219	539,219

As at 31 December 2016, 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:

	2016		2015	
	Number of shares	% of ownership	Number of shares	% of ownership
CERP - Republic of Croatia	4,258,106	31.59%	4,257,403	31.58%
OT LOGISTICS SPOLKA AKCYJNA	2,805,232	20.81%	2,806,462	20.82%
Societe Generale – Splitska Banka d.d./AZ d.d. (custodial account)	1,920,000	14.24%	1,915,000	14.20%
Addiko Bank d.d. /PBZ CO OMF (custodial account)	1,024,100	7.60%	1,024,100	7.60%
Societe Generale/Erste Plavi OMF category B (custodial account)	1,017,260	7.55%	1,011,381	7.50%
HZZO	484,780	3.60%	484,780	3.60%
CERP - HZMO	214,196	1.59%	214,196	1.59%
Zagrebačka banka d.d. (custodial account)	140,467	1.04%	138,580	1.03%
Societe Generale – Splitska Banka d.d./Erste Plavi Expert (custodial account)	136,370	1.01%	136,370	1.01%
Societe Generale – Splitska Banka d.d./Croatia osiguranje d.d. (custodial account)	115,000	0.85%	115,000	0.85%
Other shareholders	1,364,964	10.12%	1,377,203	10.22%
Total	13,480,475	100.00%	13,480,475	100.00%

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 26 – RESERVES

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Capital and other reserves	38,624	38,624	38,624	38,624
Revaluation reserves	36,669	35,767	36,669	35,767
	75,293	74,391	75,293	74,391

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>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Non-current borrowings				
Bank loans	29,151	42,123	29,151	42,123
Finance lease liabilities	12,417	15,680	12,073	14,769
	41,568	57,803	41,224	56,892
Current borrowings				
Bank loans	12,867	13,804	12,867	13,804
Loans from other financial institutions	4,246	4,289	4,246	4,289
Finance lease liabilities	4,636	7,335	4,363	7,335
	21,749	25,428	21,476	25,428
Total borrowings	63,317	83,231	62,700	82,320

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

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
1 year or less	17,113	18,093	17,113	18,093
1 - 2 years	11,482	21,130	11,482	21,130
2 – 5 years	9,315	9,412	9,315	9,412
Over 5 years	8,354	11,581	8,354	11,581
	46,264	60,216	46,264	60,216

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 27 – BORROWINGS (*CONTINUED*)

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

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Up to 1 year	4,636	7,335	4,363	7,335
Between 1 and 2 years	2,549	2,068	2,357	1,907
Between 2 and 5 years	9,868	11,542	9,716	10,792
Over 5 years	-	2,070	-	2,070
	17,053	23,015	16,436	22,104

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

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
EUR	43,523	61,123	42,906	60,212
USD	19,794	22,108	19,794	22,108
	63,317	83,231	62,700	82,320

As at 31 December 2016, the Group has a borrowing facility for guarantees, overdrafts and letters of credit with a commercial bank amounting to EUR 1 million of which HRK 700 thousand is utilised at 31 December 2016 with respect to guarantees.

Bank loans

Bank loans amounting to HRK 12,084 thousand have variable interest rates (*2015: HRK 20,748 thousand*). The variable interest rates for bank loans were in the range from 1% to 4.25% per annum (*2015: from 2.5% to 5%*).

Bank loans amounting to HRK 29,934 thousand have fixed interest rates (*2015: HRK 35,179 thousand*). The fixed interest rates for bank loans included in the table above were in the range from 3.0% to 5.0% (*2015: from 3.0% to 5.0%*).

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 17,053 thousand for the Group and HRK 16,436 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 15,271 thousand at 31 December 2016. The lease has a term of seven years ending in 2021.

Security

Bank borrowings in the amount of HRK 29,935 thousand (*2015: HRK 36,006 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 2016

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 9,312 thousand as at 31 December 2016 (*HRK 15,137 thousand as at 31 December 2015*) 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 2015 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 2016

NOTE 28 – PROVISIONS

Group and Company - (in thousands of HRK)	Jubilee awards and retirement benefits	Legal cases	Total
As at 31 December 2016			
Non-current	2,814	-	2,814
Current	388	7,365	7,753
	3,202	7,365	10,567

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 2016	3,999	7,365	11,364
Decrease	(797)	-	(797)
As at 31 December 2016	3,202	7,365	10,567

(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:

<i>(in thousands of HRK)</i>	Estimate	
	2016	2015
Discount rate	4.37%	4.02%
Average rate of staff turnover	5.93%	2.84%
Average expected retirement age	61 - 65	61 - 65

(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'.

During 2016, two court cases ended for which the Group had no financial outflows.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 29 – TRADE AND OTHER PAYABLES

<i>(in thousands of HRK)</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Trade payables - domestic	21,762	17,871	22,290	17,855
Trade payables - foreign	106	14	106	14
Liabilities toward employees	4,078	4,105	4,046	4,070
Liabilities for apartments sold	5,665	3,793	5,665	3,793
Interest payable	482	249	482	249
Other taxes, contributions and fees payable	1,850	1,643	1,710	1,505
VAT liabilities	960	32	944	-
Salary taxes and contributions payable	2,149	2,271	2,149	2,271
Deferred income	-	14	-	14
Accrued expenses	2,289	-	2,289	-
Other payables	656	721	3	11
	39,997	30,713	39,684	29,782

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>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Debt (long- and short-term borrowings)	(63,317)	(83,231)	(62,700)	(82,320)
Short term bank deposits	182,036	241,813	182,036	241,813
Cash and cash equivalents	4,870	4,545	3,399	2,584
Net cash / (debt)	123,589	163,127	122,735	162,077
Equity	696,581	689,614	616,019	614,875
Net debt to equity ratio	18%	24%	20%	26%

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 2016

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>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
Financial assets available for sale	219	210	219	210
Total AFS financial assets	219	210	219	210
Non-current financial assets	5,718	7,323	5,681	7,286
Short-term financial assets	182,216	242,305	182,210	242,122
Trade receivables	26,139	28,465	25,551	27,734
Cash and cash equivalents	4,870	4,545	3,399	2,584
Total loans and receivables	218,943	282,638	216,841	279,726
Total financial assets	219,162	282,848	217,060	279,936
Finance lease liabilities	17,053	23,015	16,436	22,104
Loan liabilities	46,264	60,216	46,264	60,216
Trade payables	28,671	22,648	28,546	21,922
Total financial liabilities at amortised cost	91,988	105,879	91,246	104,242
Total financial liabilities	91,988	105,879	91,246	104,242

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 2016, 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 approximates their fair values as the majority of these borrowings bear variable interest rates or fixed interest rate approximating current market interest rates.

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

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016</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	5,718	5,718	1,337	1,300	3,081	-
Trade receivables	26,139	26,139	26,139	-	-	-
Financial assets available for sale	219	219	219	-	-	-
	32,076	32,076	27,695	1,300	3,081	-

Interest bearing:

Current financial assets	182,216	182,396	182,396	-	-	-
Cash and cash equivalents	4,870	4,919	4,919	-	-	-
	187,086	187,315	187,315	-	-	-
	219,162	219,391	215,010	1,300	3,081	-

<i>as at 31 December 2016</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>				

Non-interest bearing:

Finance lease liabilities	16,436	20,544	4,363	4,363	10,907	911
Trade payables	28,671	28,671	28,671	-	-	-
	45,107	49,215	33,034	4,363	10,907	911

Interest bearing:

Finance lease liabilities	617	670	286	202	182	-
Loan liabilities	46,264	47,773	17,478	11,825	9,736	8,734
	46,881	48,443	17,764	12,027	9,918	8,734
	91,988	97,658	50,798	16,390	20,825	9,645

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 30 – RISK MANAGEMENT (*CONTINUED*)

Financial risk management (*continued*)

Liquidity risk management (*continued*)

<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	28,465	28,465	28,465	-	-	-
Financial assets available for sale	210	210	210	-	-	-
	35,998	35,998	30,012	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	-	-	-
	282,848	285,494	279,508	1,300	3,900	786
<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

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 2016

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>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Group	Group	Company	Company
EURIBOR based bank loans	2,772	5,611	2,772	5,611
LIBOR based bank loans	9,312	15,137	9,312	15,137
	12,084	20,748	12,084	20,748

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 2016</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	12,863	8,725	4,138	-	-	-
At currently applicable int. rates + 50 basis points	12,889	8,746	4,143	-	-	-
Effect of increase of int. rates by 50 basis points	(26)	(21)	(5)	-	-	-

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 2016

NOTE 30 – RISK MANAGEMENT (*CONTINUED*)

Financial risk management (*continued*)

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:

	Liabilities		Liabilities	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
(in thousands of HRK)	Group	Group	Company	Company
EUR	43,629	61,137	43,012	60,226
USD	19,794	22,108	19,794	22,108
	63,423	83,245	62,806	82,334

	Assets		Assets	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
(in thousands of HRK)	Group	Group	Company	Company
EUR	22,289	22,127	22,289	22,122
USD	26,911	28	26,911	28
	49,200	22,155	49,200	22,150

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:

	Spot FX rate		Average FX rate	
	31.12.2016.	31.12.2015.	2016.	2015.
(in thousands of HRK)				
EUR	7.557787	7.635047	7.529383	7.609601
USD	7.168536	6.991801	6.803718	6.862262

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.

	EUR exposure		EUR exposure	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
(in thousands of HRK)	Group	Group	Company	Company
Increase/(decrease) of net result	(213)	(390)	(207)	(381)

	USD exposure		USD exposure	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
(in thousands of HRK)	Group	Group	Company	Company
Increase/(decrease) of net result	712	(2,208)	712	(2,208)

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 2016

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 24% (2015: 20%) of its revenue from domestic customers, whereas around 76% (2015: 80%) 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 2016, top 10 customers of the Group generated approximately 44% of operating revenues (2015: 63%) while the top five customer generated approximately 28% of operating revenues (2015: 40%). 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 Group 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.

NOTE 31 – RELATED PARTY TRANSACTIONS

The most significant individual shareholder of Luka Rijeka d.d. is the Republic of Croatia which holds 36,78% of share capital and voting rights of the Company through the Restructuring and Sale Center ("CERP") 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. For the purposes of related party disclosures, the Group does not consider routine transactions (such as taxes, levies etc.) with various communal entities (directly or indirectly owned by the State) or with other State bodies to be related party transactions.

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.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 31 – RELATED PARTY TRANSACTIONS (*CONTINUED*)

Transactions with State related parties

Receivables and sales with the State and related parties:

(in thousands of HRK)

	<u>2016</u>	<u>2015</u>
<i>Petrokemija d.d.</i>		
Sales of services	772	543
Receivables as at 31 December	-	94
<i>Port Authority of Rijeka</i>		
Rent of premises and provision of regular services	1,858	1,129
Receivables as at 31 December	113	113
<i>Customs office Rijeka</i>		
Sales of services	-	192
Receivables as at 31 December	-	24
<i>Commodity reserves directorate</i>		
Sales of services	-	5
Receivables as at 31 December	-	5
<i>Jadrolinija d.d.</i>		
Sales of services	70	97
Receivables as at 31 December	7	45
<i>Autotrolej d.o.o.</i>		
Sales of services	1,720	1,720
Receivables as at 31 December	4	4
<i>Rijeka promet d.d.</i>		
Sales of services	3,885	1,217
Receivables as at 31 December	11	-
<i>Energo d.o.o.</i>		
Sales of services	54	-
Receivables as at 31 December	22	-
<i>Croatia insurance Group</i>		
Insurance claims	385	-
Receivables as at 31 December	50	-
<i>HEP Group</i>		
Sales of services	243	-
Receivables as at 31 December	27	-
<i>INA Group</i>		
Sales of services	-	67
Receivables as at 31 December	-	-
Total sales	8,987	4,970
Total receivables as at 31 December	234	285

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

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)

	2016	2015
<i>HEP Group</i>		
Purchase of electricity	7,724	9,850
Liabilities as at 31 December	1,738	2,124
<i>HŽ Group</i>		
Purchase of transport services	6	80
Liabilities as at 31 December	-	-
<i>INA Group</i>		
Purchase of fuel	36	291
Liabilities as at 31 December	137	53
<i>Croatia insurance Group</i>		
Purchase of insurance policies	1,982	1,776
Liabilities as at 31 December	231	904
<i>Vodovod d.o.o. Labin</i>		
Purchase of water services	629	300
Liabilities as at 31 December	74	134
<i>Vodovod i kanalizacija d.o.o. Rijeka</i>		
Purchase of water services	948	776
Liabilities as at 31 December	102	122
<i>Rijeka Promet d.d.</i>		
Purchase of services	13	-
Liabilities as at 31 December	1	-
<i>Energo d.o.o.</i>		
Purchase of gas	47	50
Liabilities as at 31 December	8	11
Total purchases	11,385	13,123
Total liabilities as at 31 December	2,291	3,348

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 31 – RELATED PARTY TRANSACTIONS (*CONTINUED*)

Transactions with subsidiaries

During 2016, the Company purchased goods and services from subsidiaries in the amount of HRK 5,791 thousand (2015: HRK 6,406 thousand) and owed the subsidiaries HRK 633 thousand at 31 December 2016 (2015: HRK 283 thousand). During 2016, the Company sold goods and services to subsidiaries in the amount of HRK 88 thousand (2015: HRK 97 thousand) and had outstanding balance receivable from the subsidiaries as at 31 December 2016 of HRK 2 thousand (2015: HRK -).

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 2016 and 31 December 2015 and transactions in the statement of comprehensive income for the years then ended are as follows:

<i>(in thousands of HRK)</i>	2016	2015
Trade receivables	322	31
Sales revenue and other income	1,836	262

Transactions with the Port Authority of Rijeka

(i) Concession fees

During 2016, the Group recognized expenditure related to concession fees toward the Port Authority of Rijeka in the amount of HRK 7,175 thousand (2015: HRK 6,896 thousand). The concession fees relates to the service concession arrangements for the provision of port services in the port of Rijeka, Bakar and Bršica. As at 31 December 2016, the Group had outstanding payables toward the Port Authority of Rijeka with respect concession and related expenses of HRK 513 thousand (2015:-).

(ii) Finance leases

As at 31 December 2016, the Group has a finance lease balance payable to the Port Authority of Rijeka with a carrying amount of HRK 15,271 thousand (2015: HRK 19,025 thousand) including related interest. The lease matures in 2021. During 2016, the Group repaid a total of HRK 4,131 thousand of principal and interest with respect to this finance lease (2015: HRK 6,287 thousand).

(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 9,312 thousand as at 31 December 2016 (HRK 15,137 thousand as at 31 December 2015) and bears a LIBOR based variable interest rate. The Republic of Croatia is the guarantor for the principal loan. During 2016, the Group repaid a total of HRK 5,878 thousand of principal and interest with respect to this loan (2015: HRK 5,913 thousand).

Remuneration to the Management Board members

Key management of the Group comprises the Management Board and consists of 3 persons (2015: 3 persons). During 2016, the Group paid out HRK 1,771 thousand to the Management Board (2015: HRK 1,783 thousand) with respect to gross salaries.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 32 – CONTINGENT LIABILITIES AND ASSETS

Exposure to court cases

As at 31 December 2016 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 2016 amounts to approximately HRK 169 million (based on claim amounts relating to cases in progress) out of which the Group recognized provisions amounting to HRK 7,365 thousand as at 31 December 2016 (*2015: HRK 7,365 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 9.7 million based on the total amount of claims relating to cases in progress as at 31 December 2016. 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.

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 2017 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 2016, the Group invested approximately EUR 11 million into new port infrastructure and port equipment and a further EUR 8 million relating to capital maintenance of concession assets, equalling the average annual capital expenditure as required by the concession agreement.