

LUKA PLOČE d.d.
Trg kralja Tomislava 21
20 340 Ploče
OIB: 51228874907

**AUDITED ANNUAL CONSOLIDATED REPORT
WITH CONSOLIDATED AND NON
CONSOLIDATED FINANCIAL REPORT OF
LUKA PLOČE COMPANY FOR YEAR 2016.**

Ploče, April 2017.

**ANNUAL REPORT OF THE LUKA PLOČE COMPANY AND LUKA
PLOČE GROUP FOR YEAR 2016.**

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MANAGEMENT REPORT FOR THE YEAR 2016

Ploče, March 2017.

Financial results of the Luka Ploče d.d. in 2016:

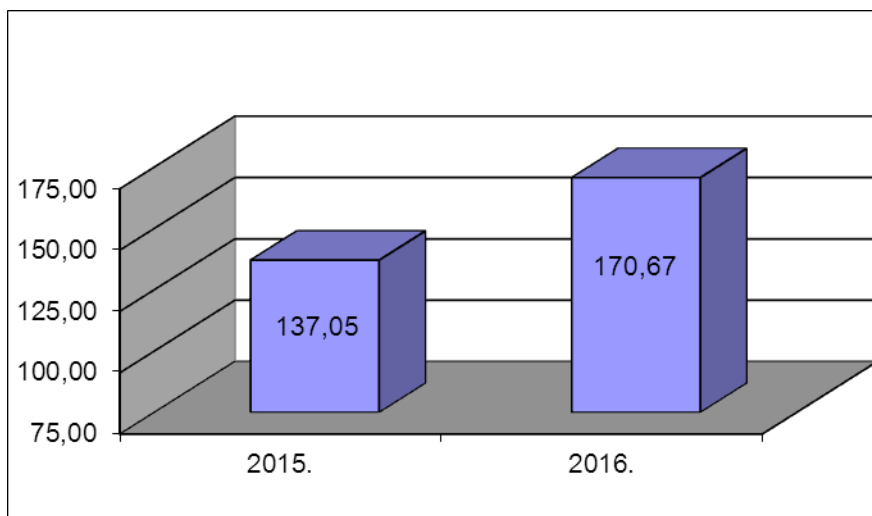
- Cargo traffic volume through Ploče port: 2,71 million tones of cargoes representing 4,25% decrease in comparison with the same period of the previous year.
- Operating revenues: 170,67 million kuna representing the increase of 24,53 % in comparison with the same period of the previous year.
- Operating expenses: 168,70 million kuna representing 33,76 % increase in comparison with the same period of the previous year.
- EBITDA: 9,66 million kuna
- EBITDA margin: 5,66%
- EBIT: 1,97 million kuna
- EBIT margin: 1,15%
- Net PROFIT: 6,26 million kuna

Luka ploče d.d. Revenues

Operating revenues in year 2016. amounted to 170,67 million kuna which is 24,53% increase over the previous year.

Sales revenues amounted to 166,12 million kuna which is an 29,31% increase over the previous year.

Structure of the Luka Ploče d.d. operating revenue (in mil kuna)



Within the structure of total revenues, operating revenues represent 97,46 % of the total revenue. Sales revenues represent 97,86%, other revenues represent 2,59 %, and financial income represent 2,55% of the total revenues .

Operating expenses

Operating expenses amounted to 168,71 million kuna which is the increase of 33,76 % in comparison to the same period of the previous year.

Most significant increase was the increase of costs of materials and energy.

EBITDA (Earnings before interest, taxes and depreciation) Luka Ploče d.d.

EBITDA* amounted to 9,66 million kuna for the year 2016., representing a 8,91 million kuna decrease in comparison to the previous year.

EBIT Luka Ploče d.d.

EBIT amounted to 1,97 million kuna representing the decrease of 8,93 million kuna in comparison to the previous year.

**EBITDA includes interest income from the short term deposits being treated by the Group and Company as the operating revenues.*

Net profit of the Luka Ploče Group

Luka Ploče Group has recorded a net profit of 6,26 million kuna. Gross profit margin is 3,72%. In the area of financial activities: income has been generated from foreign exchange gains in amount of 4,29 million kuna.

Currency exchange data – medium rate of Croatian National Bank

	Kuna to EUR		Kuna to USD	
		At the end of period		At the end of period
31.12.2015.		7,63		6,99
31.12.2016.		7,56		7,17

Financial position

Long-term assets recoded an increase of 7.13% in 2016. in comparison to year 2015. due to the increased item of investments: investment towards plant and equipment of the Bulk cargo Terminal

Short-term assets decreased by 4.6% but this reduction does not jeopardize the stable and successful business.

The largest decrease has been recorded at the short-term deposit in a percentage of 17.6.

The decrease occurred due to the financing of the investment for Bulk cargo Terminal.

Capital and reserves recorded steady growth since retained earnings have not been increased and have thereby incurred the increase in this balance item.

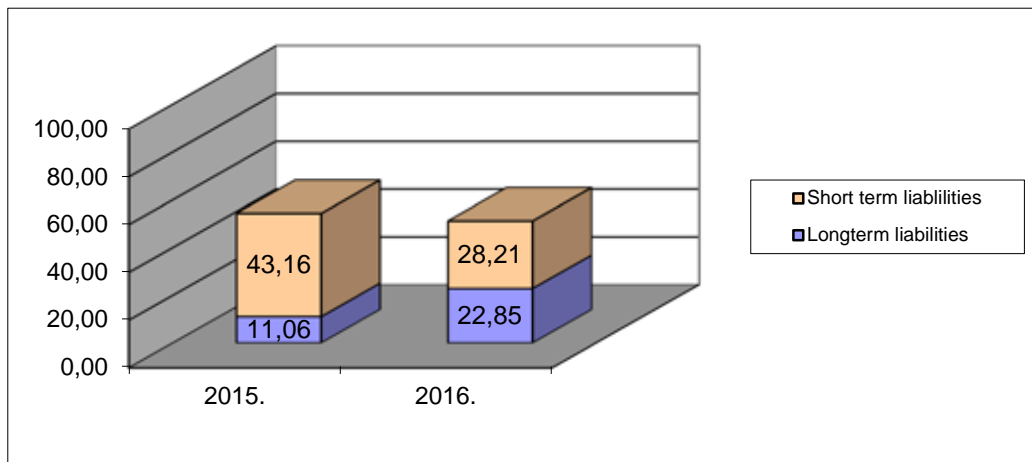
Long-term liabilities have increased due to investment from long-term sources to Bulk cargo Terminal.

Short term liabilities have decreased due to the settlement of accounts payable.

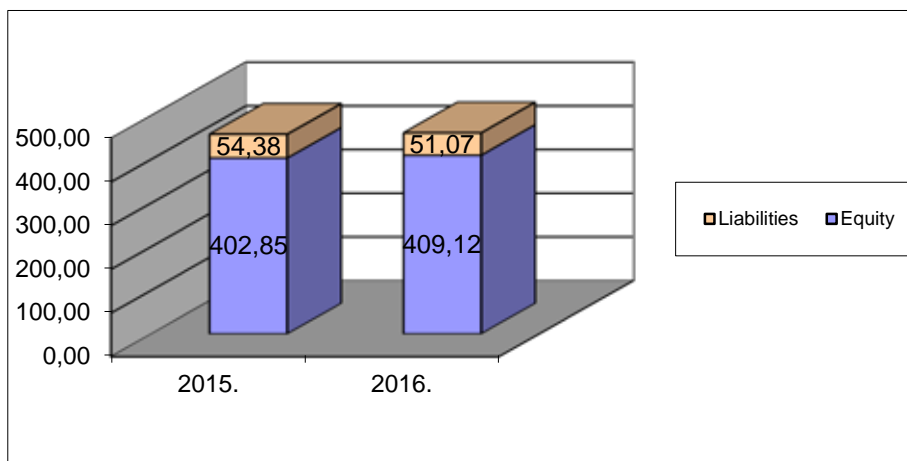
The highest item within the liabilities is the capital and reserves with a share of 88.90% of the total liabilities and capital.

Long-term and short-term financial liabilities comprise 11.10% of the total liabilities and capital.

The structure of financial liabilities of Luka Ploče d.d. (in mill kuna)



Structure of the sources of funding of Luka Ploče d.d. (in mill kuna)



Key indicators Luka Ploče d.d.

Indicators		
	REALIZED 2015	REALIZED 2016
Liquidity ratios		
Working Capital	221.884.000	226.228.000
Current liquidity	6,12	9,02
Turnover of working capital	0,62	0,75
Days of working capital	585,81	483,31
Days in period	365	365
Debt indicators		
Current liabilities / equity	0,11	0,07
Long term liabilities/ equity	0,03	0,06
Borrowings /equity	0,03	0,05
Total liabilities / assetss	0,13	0,12
Profitability ratios		
EBITDA margin	13,55%	5,66
EBIT margin	7,95%	1,15
Productivity Indicators		
Number of employees	452	445
Revenue per employee (in thousands)	303.208	383.533

RESULTS OF THE LUKA PLOČE GROUP IN 2016:

Luka Ploče Group monitors and presents operating revenues, operating profit , capital investments , total assets and total liabilities for the following activities :

- Cargo handling (loading, unloading, transshipment, finishing, weighing general cargo , bulk and liquid cargo) and represents the parent company.
- Storing of liquid oil derivate.
- freight forwarding services , maritime services (mooring , unmooring cargo and passenger ships)
- secondary activities (maintenance , catering and similar activities)

Results of above stated activities for the year ending on December 31st 2016. are as given below:

- Operating Revenues: 183,18 million kuna representing the increase of 17,94 % in comparison with the same period of the previous year.
- Operating expenses : 207,20 million kuna representing 44,96 % increase in comparison with the same period of the previous year.
- EBITDA :-15,18 million kuna
- EBIT: -24,02 million kuna
- Net LOSS: 19,79 million kuna

** Total operating expenses of 207,20 million kuna include the costs (24,6 million kuna) of assets valuation*

Key indicators Luka Ploče Group

Indicators		
	REALIZED 2015	REALIZED 2016
Liquidity ratios		
Working Capital	206.226.000	233.802.000
Current liquidity	4,03	9,95
Turnover of working capital	0,75	0,79
Days of working capital	486	4,61
Days in period	365	365
Debt indicators		
Current liabilities / equity	0,15	0,06
Long term liabilities/ equity	0,07	0,06
Borrowings /equity	0,06	0,05
Total liabilities / assetss	0,18	0,10
Productivity Indicators		
Number of employees	584	557
Revenue per employee (in thousands)	265.924	332.106

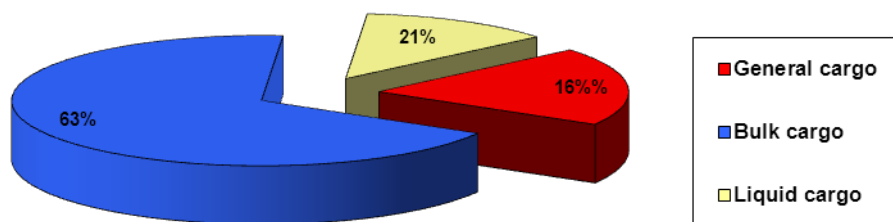
SALES AND MARKETING

Volume of cargo reloaded in the 2016. totals to 2.706.422 tons, which represents a 4,25% decrease in comparison to the year 2015. when the total volume recorded was 2.830.652 tones. The prevailing cargo type in the overall structure is bulk cargo, comprising 63% of the total cargo traffic volume. General cargo volume represent a share of 16%, while the liquid cargo volume represents a share of 21% of the total cargo traffic volume.

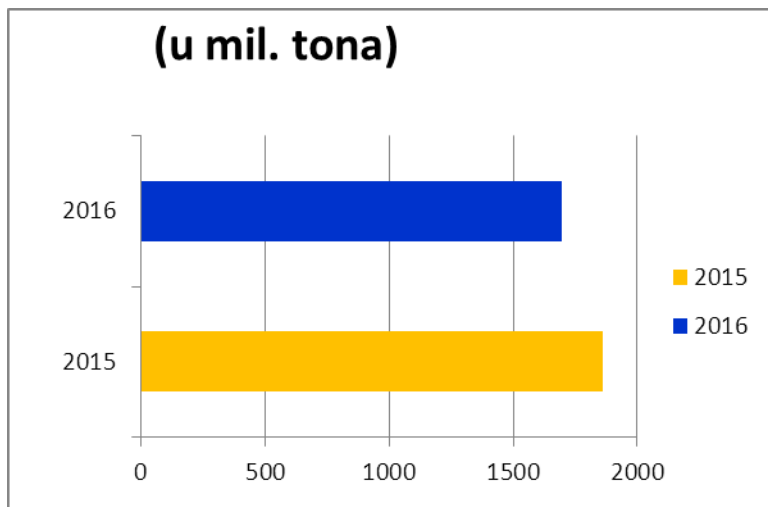
Volumes as per the type of cargo (in tones)

TYPE OF CARGO	2016.	2015.	Indeks 2016./2015.
General cargo	441.585	503.029	88
Bulk cargo	1.697.234	1.863.114	91
Liquid cargo	567.603	464.509	122
TOTAL	2.706.422	2.830.652	96

Structure as per the type of cargo in 2016.

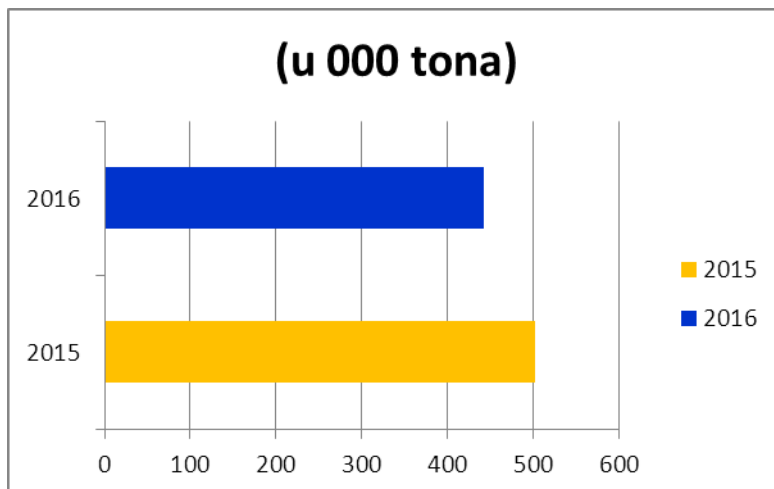


Bulk cargo



The volume of bulk cargo traffic in year 2016. has recorded the decrease of 12% in comparison to the previous year. Handling of metallurgical coal is still prevailing in the structure of reloaded bulk cargo.

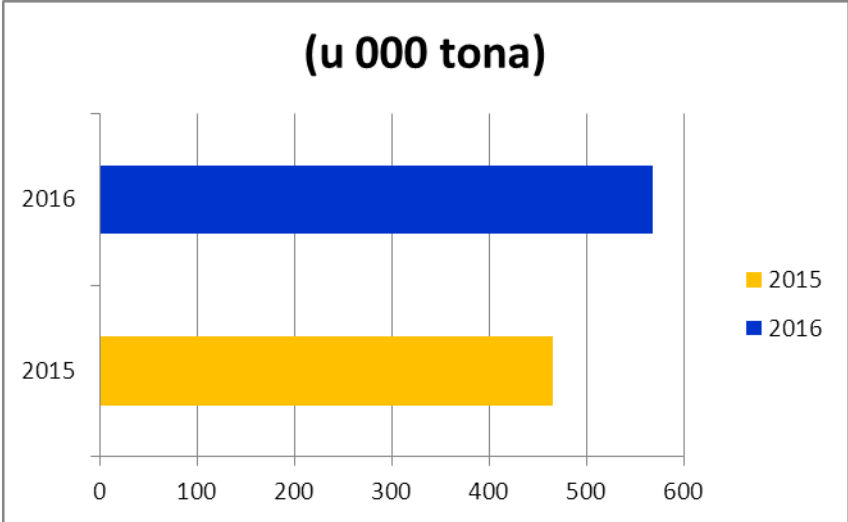
General cargo



Port of Ploče has had a 12% decrease of general cargoes in year 2016. in comparison to the year 2015., mainly as a result of decreased volume of reloading of steel billets, aluminum products and wood.

Container traffic has increased by 1 % in year 2016. with 20.965 TEUs compared to previous year 2015. when 20.676 TEUs have been reloaded.

Liquid cargo



Volume of liquid cargoes have increased by 22% in year 2016. in comparison to the previous year.

EXPECTATIONS for future development of Ploče Port

In order to achieve the planned growth and profitability during 2017, we'll be focused on the implementation of the following operation guidelines including:

- Focus on business growth through bulk cargo by improving competitiveness by increasing discharging rates, draft and a cargo storing capacity
- Improvement of volume of other cargo traffic (general, container) by additional finishing on them (sorting, packing, etc.)
- Focusing on the further rationalization of operations
- Prudent liquidity management
- Investing in the development of bulk cargo terminal in 2017. in the amount of 141.8 million kuna,

The entire investment is financed by: 46.23% by own funds and 53.77% by HBOR Loan.

RESEARCH AND DEVELOPMENT

Luka Ploče d.d. undertakes intensive activities aimed at returning to the Serbian and Hungarian markets in addition to the BiH market. The main prerequisite for the expansion of the market is the competitiveness of this traffic direction. Luka Ploče d.d., as an important segment, has its prices and reloading rates at the level of other Adriatic ports. Other participants in the traffic direction, the institutions owned by the State, eg the Port Authority, Plovput d.o., HŽ Cargo d.o.o., make this route more expensive and less competitive. It is necessary to achieve that the prices of the other participants are at the price level of the other Adriatic ports. We try to route the traffic route from Turkey via Bulgaria to the Serbia-steel mill in Smederevo to the Ploče port.

Also, efforts are being made to get iron ore from Brazil on large vessels of up to 200,000 tons for steel mill in Smederevo. All previously would be enabled by the construction of a new bulk cargoes terminal we expect to complete at the end of 2017.

Realizing the redirection of goods through the Port of Ploče for the steel mill in Smederevo would significantly increase the volume of cargo traffic of the Luka Ploče d.d.

In addition to this, economic activities within the harbor zone are encouraged: a new sorting plant, Top - logistic d.o.o. with high-tariff commodities, whose business activities generate an increase in container traffic through port of Ploče, and thus the connection of new container lines from Ploče. We also try to attract the opening of the container line from Turkey / Istanbul-Izmir-Mersin-Iskenderun to Ploče.

It is important to point out that we are trying to return significant quantities of IMO cargo to Dračevac warehouse – storage for such cargo type.

In 2016, Luka Ploče invested significant funds to renovation of closed warehouses (roof repair, balustrade, drainage, elevators) to create better conditions for storing more demanding general cargoes. The investment will continue in 2017.

There are prospects for transshipment of parts of the equipment through the port of Ploče which are intended for construction of announced plants- thermal power plants and wind power plants in BiH.

Transshipment is renewed via the Port of Ploče for Cemex Hrvatska d.d. together with the reloading for the needs of cement plant Kakanj an annual level of 120,000 tons.

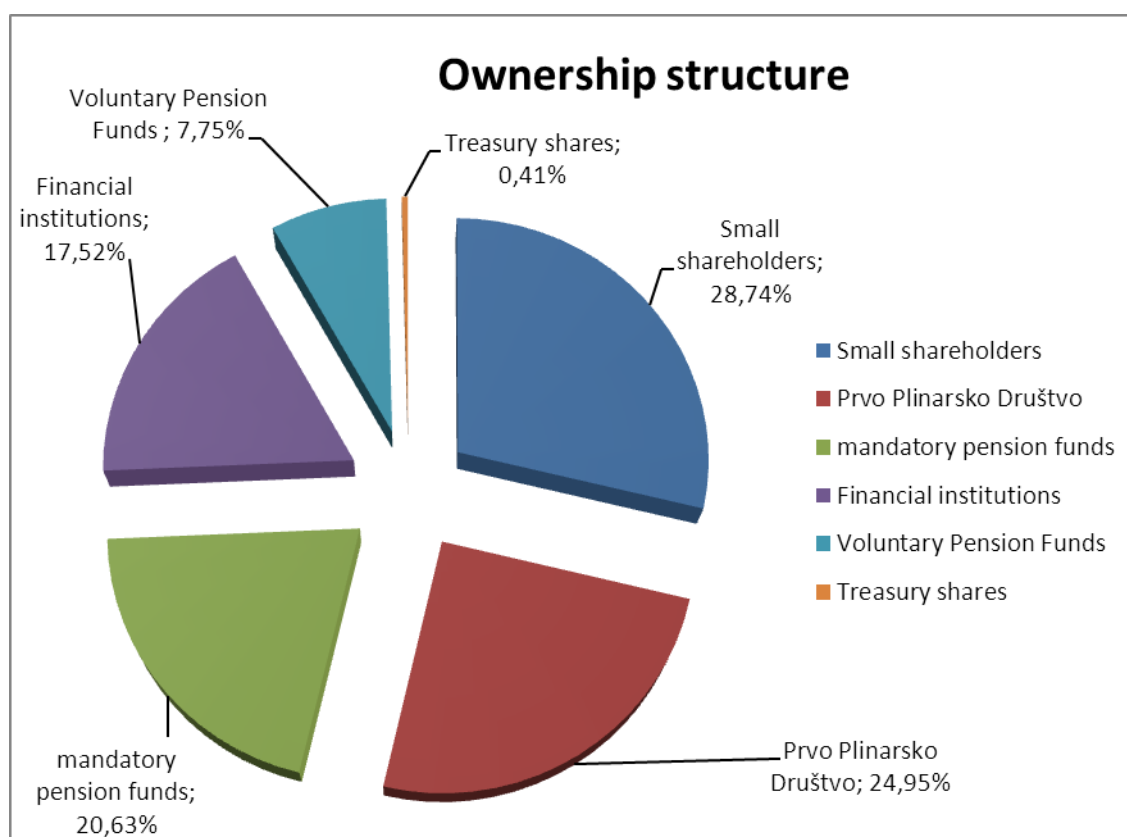
Our strategic goal is to deal with international trade in order to increase the traffic in port of Ploče in the long term, to employ capacities and to achieve better financial results.

SHARES

The Company acquired 1,719 of own shares during years 2011., 2012. and 2013. in accordance with Article 233, Paragraph 2. of the Companies Act.

The acquired shares have not been disposed of until the date of this publication.

Top shareholders as on 31.December 2016.



TRANSACTIONS WITH ASSOCIATED COMPANIES WITHIN THE GROUP

Transactions with affiliated companies within the Group are carried out under usual commercial conditions with the application of market prices.

Affiliates are:

- Luka Ploče Održavanje d.o.o. , 100% owned by the Luka Ploče d.d.
Main business of the company are repair and maintenance
 - Luka Šped d.o.o. 100% owned by the Luka Ploče d.d.
Main business are forwarding agency services
 - Pomorski servis - Luka Ploče d.o.o. 100% owned by the Luka Ploče d.d.
Main business is rendering of maritime services
 - Pločanska plovdba d.o.o. 100% owned by the Luka Ploče d.d.
Main business is rendering of shipping services
 - Luka Ploče Energija d.o.o. 100% owned by the Luka Ploče d.d.
Main business are energetics.
- More on affiliated companies can be found in Note 18 of the financial statements.

ACCOUNTING POLICIES IMPORTANT FOR ASSESSMENT OF ASSETS, LIABILITIES, FINANCIAL POSITION AND SUCCESSFUL BUSINESS

The Company classifies their financial assets in the following categories: at fair value through profit or loss, loans and receivables and other liabilities. The classification depends on the purpose for which the financial assets were acquired and are determined at the initial recognition.

Financial assets and assets at fair value through profit or loss consist of financial assets held for trading and assets determined at the initial recognition.

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Other financial liabilities comprise all financial liabilities which are not determined at fair value through profit or loss and include assets for loans, long-term deposits and other liabilities.

When Company is Lessor under the lease agreement where substantially all the risks and rewards of ownership are transferred upon lessee, then the lease is classified as finance lease, and liability is determined at amount equal to net investment to the lease and are shown

Loans and receivables arise when Company provides advances to its customers with no intention of trading with those receivables. These include advances to customers and placements with banks, receivables from financial leases, receivables from operational leases and other receivables within assets and liabilities.

RISKS OF THE COMPANY AND THE GROUP

Defining clear, prudent and effective strategies and related policies and financial risk management processes is one of the primary goals of Luka Ploče d.d and the Group. Consciously of great importance for proper financial risk management, authorized persons of Luka Ploče d.d. clearly define the framework for financial risk management and thus create the conditions for ensuring long-term sustainability and stability of the Company.

The Company directs all efforts to defining an adequate framework that takes into account the financial risks arising from the business area, all in order to align business strategies and initiatives with the overall level of tolerance to the financial risk of the company.

In addition, defining high standards emphasizes the importance of establishing a solid financial risk management framework successfully integrated into the everyday risk management process of the company.

Financial risk management is carried out for regulatory and commercial purposes, thereby confirming responsible corporate behavior and justifying and maintaining the trust of clients and owners.

The main objective of the process of monitoring and controlling financial risks is to ensure regular and timely monitoring of risk exposure, maintaining risk exposure within defined thresholds, establishing reporting lines and clear flow of information, ie the basis for ensuring the efficiency of the decision-making process.

Exposure to risks

Given that the Company is exposed to various risks in its business, the material risks to which it is exposed or may be exposed are monitored on a regular basis, taking into account the impact of macroeconomic trends on the company's operations as well as external risk factors. The Company is directly exposed to risks associated with credit, price, liquidity risk and cash flow risk. The Company carries out appropriate policies and procedures for managing individual risks, and the way of managing and controlling risks is specifically prescribed and documented in regulations and procedures.

The Company defines the following types of most significant risks:

Credit risk

Group assets bearing credit risk consist of cash assets, deposits, accounts receivable, claims from employees and other receivables. As an additional collateral for collecting receivables from customers, the Group and the Company reduce credit risk by implementing our right to take a pledge over cargo as a guaranty instrument, while claims on employees are secured by wage cessation.

Price risk

Prices of services Luka Ploče d.d. are in line with the prices of other ports in the Adriatic. Prices of services provided by Luka Ploče d.d. are not sufficient to maintain the competitiveness of this traffic route. Competitiveness also depends on the price of light dues, port fees and rail railway freight rates. Increases in prices may have a negative impact on the traffic route via the port of Ploče.

Liquidity risk and cash flow risk

Proper liquidity risk management implies maintaining a sufficient amount of money, ensuring the availability of financial resources by an adequate amount of agreed credit lines and the ability to settle all liabilities. The Group and Company's goal is to maintain the flexibility of financing in a way that contractual credit lines are available. The Finance Department regularly – monthly monitors the level of available sources of funds.

The table below shows the analysis of the Group's and Company's financial liabilities by contractual maturities. These amounts represent undiscounted cash flows of principal and interest.

Table of financial liabilities in thousands of kunas in 2016

	Luka Ploče d.d.	Luka Ploče Grupa
	2016.	2016.
	<i>(in thousands of kunas)</i>	
Less than 1 year (current maturity)	2.916	3.192
Between 1 and 5 years	8.631	9.511
over 5 years	11.055	11.055
	22.602	23.758

More details can be found in Notes 4 and 28.

SIGNIFICANT BUSINESS EVENTS IN 2016.

- On February 25th four members of the Management Board have been appointed for a term of mandate
 1. President of the Board Ivan Pavlović
 2. Member of the Board for development and investments Marko Lončarević
 3. Member of the Board for sales and marketing Tomo Krilić
 4. Member of the Board for financial affairs Željka Dodig
- On September 27th 2016, the fifth member of the Management Board has been appointed: Member of the Board for corporate activities Josip Jurčević
- Company Lučke usluge d.o.o. has been merged to Pločanska plovidba d.o.o
- Decisions on the merger of Luka Ploče održavanje to Luka Ploče d.d. has been made.
- Sale of 100% of share capital in Luka Ploče trgovina d.o.o
- Amendment to the Loan Agreement with EBRD where for Loan recipient Luka Ploče trgovina d.o.o the guaranty support deed is dismissed from Luka Ploče d.d

CODE OF CORPORATE GOVERNANCE

Luka Ploče d.d. as well as the Port of Ploče Group is continually developing and operating in accordance with defined corporate governance standards.

This applies in particular to the way in which the Company's bodies operate, in way they cooperate with shareholders and employees, to ensure business transparency, and to third parties. On 16.06.2008. the Company has adopted its own Corporate Business Code with the aim of further strengthening and establishing high standards of corporate governance. The Management Board fully adheres to the provisions of its own Code and the Code of the Zagreb Stock Exchange d.d. from the date of listing of the shares on the Official Market. The Company applies the corporate governance measures prescribed by law and gives detailed info on it in the annual questionnaire published in accordance with the regulations on the Zagreb Stock Exchange web pages and Luka Ploče d.d.

The General Assembly of the Company is the highest body of the Company where shareholders exercise their rights, but also participate in the supervision of the business. The Management Board convenes the regular General Assembly usually once a year after the audit of the annual financial statements. The invitation to the General Assembly with the relevant decision proposals and any documentation is published on the Company's web pages, the Company's notice board, the Official Gazette of the Republic of Croatia and the pages of the Zagreb Stock Exchange d.d., all in accordance with the provisions of the Companies Act, the Capital Market Act and the Rules of the Zagreb Stock Exchange d.d. The Company provides all shareholders with access to the documentation in our business premises. The Company has an identical approach to dealing with all shareholders, regardless of the number of shares held by them. The shareholders are given a deadline in which they can apply for participation in the General Assembly. Each share entitles to one vote.

The Company has, by the internal act, prescribed in detail the procedures for preparation and disclosure of the financial statements, thereby setting up an internal control and risk management system in relation to the financial reporting process.

Appointment and dismissal of members of the Management Board and members of the Supervisory Board is performed in the manner prescribed by the Company's Article of Association and the Companies Act. The authorizations of the Management Board members are aligned with the provisions of the Companies Act.

Company's bodies are:

Management Board: Ivan Pavlović-president of the Board, Željka Dodig- member of the Board for financial affairs, Tomo Krilić- member of the Board for sales and marketing, Marko Lončarević-member of the Board for development and investments and Josip Jurčević-member of the Board for corporate governance.

CODE OF CORPORATE GOVERNANCE (continued)

Supervisory Board: Davorin Rudolf-president, Darko Drozdek –deputy president and members: Krešimir Gjenero, Pavao Vujnovac and Tonka Lovrinov.

Audit Committee: Davorin Rudolf- president and members:Krešimir Gjenero and Darko Drozdek.

Remuneration Committee: Pavao Vujnovac- president and members: Tonka Lovrinov and Krešimir Gjenero.

Management Board and Supervisory Board work at sessions in accordance with the Law and the Rules of Procedure of the Management Board and the Supervisory Board

In Ploče, March 30th 2017 .

Ivan Pavlović
Predsjednik

Željka Dodig
Member of the Board

Tomo Kričić
Member of the Board

Marko Lončarević
Member of the Board

Josip Jurčević
Member of the Board

Management Liability statement

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that non-consolidated and consolidated financial statements are prepared for each financial year in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union ("EU") which give a true and fair view of the state of affairs and results of Luka Ploče d.d. and of the companies being consolidated ("Group") for that period.

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.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed,
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and of the Group, and must also ensure that their financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is also responsible for the contents and preparation of the management report in accordance with the legal and regulatory requirement as well as for other information published with the management report (commonly referred to as: "other information"). Management report with other information is given on pages 1. to 20., approved for issuing by the Management Board and signed below accordingly.

Non-consolidated and consolidated financial reports have been approved by the Management Board on March 30th 2017. for their submittal for approval to the General Assembly, and are signed below:

Ivan Pavlović

President

Željka Dodig

Member of the Board

Tomo Krilić

Member of the Board

Marko Lončarević

Member of the Board

Josip Jurčević

Member of the Board

Luka Ploče d.d.

Trg kralja Tomislava 21

20340 Ploče

Ploče, March 30th 2017.

LUKA PLOČE d.d.

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
31 DECEMBER 2016**

LUKA PLOČE d.d., Ploče

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

<i>(in thousands of HRK)</i>	Note	Luka Ploče Group		Luka Ploče d.d.	
		2016	2015	2016	2015
Continuing operations					
Revenues	7, 8	180,085	147,794	166,124	128,471
Other income	8	2,628	5,778	2,280	5,557
Raw material and energy costs	9	(84,539)	(40,334)	(81,913)	(37,210)
Costs of services	9	(16,854)	(18,911)	(22,384)	(25,025)
Staff costs	10	(64,511)	(66,466)	(49,832)	(49,642)
Depreciation	15,16,17	(8,851)	(9,523)	(7,694)	(7,669)
Other operating expenses	11	(32,442)	(7,708)	(6,876)	(6,574)
Impairment of receivables - net	22	(22)	(1,103)	(6)	(27)
Other (losses) / gains – net	12	487	2,840	2,269	3,025
Operating profit		(24,019)	12,367	1,968	10,906
Finance income / (expenses) – net	13	4,192	19,676	4,295	19,502
Share of profit in associates	19	39	21	-	-
Profit / (loss) before tax		(19,788)	32,064	6,263	30,408
Income tax	14	-	(478)	-	-
Net profit / (loss)		(19,788)	31,586	6,263	30,408
Net profit / (loss) attributable to:					
Equity holders of Luka Ploče d.d.		(19,788)	31,586	6,263	30,408
Non-controlling interests		-	-	-	-
Net profit / (loss)		(19,788)	31,586	6,263	30,408
Profit (loss) per share (in HRK)	27	(46.97)	74.98	14.87	72.19

The notes and accounting policies that follow are an integral part of these financial statements.

LUKA PLOČE d.d., Ploče**STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2016**

<i>(in thousands of HRK)</i>	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
Net profit / (loss)	(19,788)	31,586	6,263	30,408
Other comprehensive income:	-	-	-	-
Total comprehensive profit / (loss)	(19,788)	31,586	6,263	30,408
Comprehensive profit/ (loss)attributable to:				
Equity holders of Luka Ploče d,d,	(19,788)	31,586	6,263	30,408
Non-controlling interests	-	-	-	-
Total	(19,788)	31,586	6,263	30,408
Total comprehensive profit / (loss)	(19,788)	31,586	6,263	30,408

The notes and accounting policies that follow are an integral part of these financial statements.

LUKA PLOČE d.d., Ploče

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Luka Ploče Group		Luka Ploče d.d.	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
ASSETS					
Non-current assets					
Intangible assets	15	1,282	1,045	1,200	1,018
Property, plant and equipment	16	169,061	216,040	164,027	119,096
Advances for tangible assets		22,326	27,581	21,869	21,791
Investment property	17	4,771	4,867	4,771	4,867
Investments in subsidiaries	18		-	11,480	37,466
Investments in associates	19	521	1,954	80	1,580
Long-term loan receivables	20	2,319	2,724	2,319	6,224
Long-term deposits		36	71	-	-
Total non-current assets		200,316	254,282	205,746	192,042
Current assets					
Inventories	21	1,861	2,155	1,133	1,128
Trade and other receivables	22	60,217	62,188	62,054	67,803
Short-term deposits	23	155,753	188,937	155,481	188,681
Financial assets at fair value through profit or loss	24	280	193	280	193
Receivables from income taxes		-	39	-	-
Cash and cash equivalents	25	41,821	15,766	35,497	7,395
Total current assets		259,932	269,278	254,445	265,200
Total assets		460,248	523,560	460,191	457,242
Shareholders' equity					
Share capital	26	88,107	88,107	88,107	88,107
Premium on issued shares		8,283	6,763	8,283	6,763
Legal reserves	26	48,159	49,167	48,159	48,159
Other reserves	26	-	715	-	-
Reserves for reinvested profit	26	96,094	115,679	95,385	90,642
Retained earnings		409,830	429,618	409,121	402,858
Non-controlling interests		-	-	-	-
Total shareholders' equity		409,830	429,618	409,121	402,858
LIABILITIES					
Non-current liabilities					
Borrowings	28	20,566	26,506	19,686	7,397
Provisions	29	3,717	4,384	3,166	3,671
Total non-current liabilities		24,283	30,890	22,852	11,068
Current liabilities					
Borrowings	28	3,192	7,643	2,916	6,025
Trade and other payables	30	22,579	55,097	24,938	36,992
Provisions	29	364	312	364	299
Total current liabilities		26,135	63,052	28,218	43,316
Total liabilities		50,418	93,942	51,070	54,384
Total equity and liabilities		460,248	523,560	460,191	457,242

The notes and accounting policies that follow are an integral part of these financial statements.

LUKA PLOČE d.d., Ploče

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

Luka Ploče Group

<i>(all amounts are expressed in thousands of HRK)</i>	Share capital	Premium on issued shares	Legal reserves	Reserves for reinvested profit	Other reserves	Treasury shares	Retained earnings	Non-controlling interests	Total
At 1 January 2015	169,187	88,107	5,444	715	50,320	(1,066)	85,361	(25)	398,043
Net loss for the year	-	-	-	-	-	-	31,586	-	31,586
Other comprehensive income	-	-	-	-	-	-	-	-	-
Transactions with owners:									
Transfer from other reserves	-	-	-	-	(87)	-	87	-	-
Transfer to reserves for reinvested profit	-	-	1,319	-	-	-	(1,319)	-	-
Acquired treasury shares	-	-	-	-	-	-	(36)	25	(11)
At 31 December 2015	169,187	88,107	6,763	715	50,233	(1,066)	115,679	-	429,618
Net profit/ (loss) for the year	-	-	-	-	-	-	(19,788)	-	(19,788)
Other comprehensive income	-	-	-	-	-	-	-	-	-
Transactions with owners:									
Transfer from other reserves	-	-	-	-	-	-	-	-	-
Transfer to reserves for reinvested profit	-	-	1,520	-	-	-	(1,520)	-	-
Acquired treasury shares	-	-	-	(715)	(1,008)	-	1,723	-	-
At 31 December 2016	169,187	88,107	6,763	715	50,233	(1,066)	115,679	-	429,618

The notes and accounting policies that follow are an integral part of these financial statements.

LUKA PLOČE d.d., Ploče

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

Luka Ploče d.d.

(all amounts are expressed in thousands of HRK)

	Share capital	Premium on issued shares	Legal reserves	Other reserves	Treasury shares	Retained earnings	Total
At 1 January 2015	169,187	88,107	5,444	49,225	(1,066)	61,553	372,450
Net loss for the year	-	-	-	-	-	30,408	30,408
Transfer from retained earnings	-	-	1,319	-	-	(1,319)	-
Other comprehensive income	-	-	-	-	-	-	-
At 31 December 2015	169,187	88,107	6,763	49,225	(1,066)	90,642	402,858
Net profit for the year	-	-	-	-	-	6,263	6,263
Transfer from retained earnings	-	-	1,520	-	-	(1,520)	-
Other comprehensive income	-	-	-	-	-	-	-
At 31 December 2016	169,187	88,107	8,283	49,225	(1,066)	95,385	409,121

The notes and accounting policies that follow are an integral part of these financial statements.

LUKA PLOČE d.d., Ploče

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Luka Ploče Group		Luka Ploče d.d.	
		2016	2015	2016	2015
Profit (loss) before tax		(19,788)	32,064	6,263	30,408
Depreciation		8,851	9,523	7,694	7,669
Provision for impairment of receivables		109	1,103	94	27
Gains on fair valuation		(87)	(34)	(87)	(34)
Loss/(gain) on sale of tangible assets		8	-	8	-
Gain from subsidiary sales		(4)	-	(1,733)	-
Finance expenses/(income) – net		(4,192)	(19,676)	(4,295)	(19,502)
Non-current provisions – net		(404)	1,801	(440)	1,831
Inventory write-off		24,609	185	-	-
Interest income		(1,763)	(4,404)	(1,898)	(4,789)
Total items not affecting cash		27,127	(11,502)	(657)	(14,798)
Changes in working capital:					
Decrease/ (increase) of trade and other receivables		(3,246)	(31,069)	212	(25,928)
Decrease/ (increase) of inventories		60	(490)	(5)	(656)
Increase / (decrease) of trade payables and other liabilities		(16,144)	39,774	(13,223)	22,934
		(19,330)	8,215	(13,016)	(3,650)
Interest paid		(178)	(420)	(147)	(420)
Interest collected		4,925	6,089	4,906	6,080
Income tax paid		-	(244)	-	-
Net cash generated from operations		(7,244)	34,202	(2,651)	17,620
Cash flows from investing activities					
Purchase of tangible assets		(105,112)	(84,975)	(52,720)	(44,754)
Proceeds from sale of tangible assets		27,493	-	27,720	-
Long-term loan repayments received		343	356	7,102	356
Long-term loans given		-	(1,500)	-	(1,500)
Investments in subsidiaries		-	-	-	(1,300)
Proceeds from sale of shares		1,500	-	1,500	-
Investments in deposits		(214,390)	(217,838)	(214,390)	(217,838)
Repayment of deposit		250,323	275,748	250,322	271,700
Net cash (used in)/from investing activities		(39,843)	(28,209)	19,534	6,664
Cash flows from financing activities					
Proceeds from finance leases and borrowings		78,633	14,556	16,468	-
Repayment of borrowings		(6,187)	(34,647)	(5,912)	(33,034)
Net cash used in financing activities		72,446	(20,091)	10,556	(33,034)
Net increase/(decrease) in cash and cash equivalents		25,359	(14,098)	27,439	(8,750)
Cash and cash equivalents at beginning of year		15,766	29,989	7,395	16,425
Foreign exchange (losses)/gains in cash and cash equivalents		696	(125)	663	(280)
Cash and cash equivalents at end of year	25	41,821	15,766	35,497	7,395

The notes on pages 8 to 53 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 1 – GENERAL INFORMATION

LUKA PLOČE d.d. (the “Company”) is a joint stock company registered under the laws and regulations of the Republic of Croatia. The Company is domiciled in Ploče, Croatia. The address of its registered office is Trg Kralja Tomislava 21, Ploče.

The Company's primary activities are port services (manipulation of goods), public warehousing and wholesale and retail services in domestic and foreign trade. Other activities of the Group include construction, maintenance, shipping, trade and other services.

As at 31 December 2016, the LUKA PLOČE Group (the “Group”) consists of the parent company LUKA PLOČE d.d. and 6 subsidiaries (2015: 8 subsidiaries) located in Ploče, Croatia (Note 18) and participating interests in associated companies (Note 19).

As at 31 December 2016, the Company’s shares were listed on the public joint stock company listing on the Zagreb Stock Exchange.

Management and the Supervisory Board of the company

During the reporting period the members of the Management Board were as follows:

Name	Surname	Function
Ivan	Pavlović	President
Željka	Dodig	Member
Tomo	Krilić	Member
Marko	Lončarić	Member
Josip	Jurčević	Member

During the reporting period the members of the Supervisory Board were as follows:

Name	Surname	Function
Davorin	Rudolf	President
Darko	Drozdek	Vice president
Krešimir	Gjenero	Member
Tonka	Lovrinov	Member
Pavao	Vujnovac	Member

NOTE 2 – BASIS OF PREPARATION

2.1 Statement of compliance

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

The consolidated financial statements of the Company for the year ended 31 December 2016 comprise the Company and its subsidiaries and associated companies (referred to as "the Group"). The financial statements were approved by the Board on March 30, 2017.

2.2 Basis of presentation

The financial statements have been prepared using the historical cost convention, except where otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2 – BASIS OF PREPARATION (continued)

2.3 Functional and presentation currency

Items included in the financial statements of Group's entities are stated using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in HRK, which represents the Company's functional and presentation currency.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Issued but not yet adopted standards and interpretations

A number of new standards, amendments and interpretations to existing standards that are valid, but not obligated for the year ended 31 December 2016, have not been applied in preparing these financial statements. The Group and the Company do not plan to early adopt these standards and do not expect that these standards have a significant impact on the financial statements of the Group and the Company.

3.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and companies over which the Company has control (subsidiaries) as of and for the years ended 31 December 2016. The Company and its subsidiaries together are referred to as the Group.

(i) Business mergers

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Basis of consolidation (continued)

(ii) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

(iii) Associates

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 of accounting whilst 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 reserves is recognised in reserves. 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 have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iv) Transactions eliminated on consolidation

Balances and transactions between Group and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are shares and mutual societies where the Group shares control with other owners eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are investments eliminated against the investment in this company. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that no evidence of impairment

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses relating to borrowings, cash and cash equivalents and short-term deposits are recorded in the income statement within “Finance income or costs”. All other foreign exchange losses and gains are recorded in the income statement within “Other (losses)/gains-net”.

Non-monetary assets and items that are measured in terms of historical cost in foreign currencies are translated using the exchange rate at the transaction date.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated still functional currency at foreign exchange rates ruling at the date of determination of fair values.

3.5. Intangible assets

Licences and project documentation are amortized over their expected useful lives. The expected useful lives are reviewed annually and are the subject of assessing impairment if there is any indication of impairment.

Subsequent expenditure related to capitalized intangible assets is recognized in the carrying amount of the item only when it increases the future economic benefits embodied in the asset and will flow to the Company. All other expenditure is recognized in the income statement as an expense as incurred.

Depreciation is calculated using the straight-line basis over the estimated useful lives of certain assets. Intangible assets are amortized from the date they are available for use. These costs are amortized over their useful life period of 2.5 to 5 years.

3.6 Property, plant and equipment

i) Owned Assets

Property, plant and equipment are included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes the cost that is directly attributable to the purchase of the assets.

Subsequent costs are 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 or the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and assets under construction are not depreciated. Depreciation of other tangible assets is calculated using the straight-line method to allocate their cost over their estimated useful lives.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property, plant and equipment (continued)

i) Owned Assets (continued)

	<u>Years</u>
Buildings	8-67
Equipment	2-67
Leasehold improvements	15-67

Leasehold improvements relate to improvements made on leased assets, located on maritime land.

The residual value of an asset is the estimated amount that the Group or the Company would currently obtain from the 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 residual value of an asset is nil if the Group or the Company expect to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other gains/(losses) – net' in the income statement.

(ii) Property which is subject to the concession arrangement

The Company has a signed long-term concession agreement for the provision of port services, which represent most of the revenues generated by the Company. Current concession arrangement involves transfer of the operating rights over the port of Ploče for a limited period of time, under the control of local port authorities, using the specified asset (port infrastructure) or assets constructed by the Company during the term of the concession arrangement, or received by the Company for a fee or free of charge.

This arrangement defines a "public service obligations" of the Company in exchange for a fee. The fee is based on the operating conditions, continuity of services, regulation of prices and obligations related to the maintenance / replacement of the port infrastructure. The agreement sets forth the terms and conditions governing the transfer of port infrastructure to the local port authority or concessionaire successor upon expiry.

Expenditures for maintenance

Maintenance of assets that are part of the concession arrangement is recognized as an expense when incurred in profit or loss and is disclosed in operating costs as a cost of used materials and services.

Capital expenditure in the area under concession

Capital investments in the port infrastructure, made in accordance with the terms of the concession agreement, are recognized as assets within the appropriate class of property, plant and equipment and are stated at cost less accumulated depreciation and any accumulated impairment losses. Acquisition cost includes expenditure that is directly attributable to the acquisition of assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property, plant and equipment (continued)

(ii) Property which is subject to the concession arrangement (continued)

In the case of property which is, under the concession arrangement, upon its expiry transferred to the local port authority (the Provider of the concession), amortization of such assets is calculated using the straight-line method to allocate the cost, less the residual value of the asset, over the shorter of the estimated useful life and remaining concession arrangements. In the case of property that is not transferred to the Provider of the concession, depreciation is calculated in accordance with the depreciation policy of the class of property, plant and equipment in which the said asset is classified as explained in Note 3.6 (i).

The assets transferred to the Company by the Service Concession

As part of the concession arrangements, the local port authority (the Provider of the concession) has transferred the management rights over a number of items of property that make up the port infrastructure on the Company which has the right to use these assets in the provision of services defined in the concession agreement. Such assets are not recognized by the Company but instead are accounted for as off-balance sheet items.

3.7 Investment property

Investment property, principally comprising flats, is held for long-term rental yields or appreciation and is not occupied by the Group or the Company. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment, where required. The depreciation of flats is calculated using the straight-line method to allocate cost over their estimated useful life of 66 years.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group or the Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

3.8 Accounting treatment of leases – the Group or the Company is the lessee

The Group and the Company lease certain property, plant and equipment. Leases of property, plant and equipment where the Group and the Company have substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Accounting treatment of leases – the Group or the Company is the lessee (continued)

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

3.9 Accounting treatment of leases – the Group or the Company is the lessor

Assets under an operating lease are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term, even if the proceeds are not balanced, unless there is an alternative basis representing the time frame in which the benefits of the lease and the depreciation of the leased property are matched.

3.10 Impairment of assets

(i) Financial assets

A financial asset is impaired if objective evidence indicates that one or more events have had a negative effect on future cash flows of that asset.

Impairment of financial assets measured at amortized cost is calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual level. Other financial assets are assessed collectively in other financial assets of similar credit risk.

Impairment losses are recognized in the income statement. The cumulative loss in respect of financial assets available for sale previously recognized in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be objectively connected to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and financial assets available for sale that are debt securities, the reversal is recognized in profit or loss. For financial assets available for sale that are equity securities, the reversal of impairment is recognized in other comprehensive income.

(ii) Non-financial assets

The carrying value of non-financial assets of the Company and the Group, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset. For goodwill and intangible assets that have indefinite lives or that are not yet ready for use, the recoverable amount is estimated at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment of assets (continued)

(ii) Non-financial assets(continued)

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Cash-generating unit is the smallest group of assets that can be identified and generate cash flows that are independent from other assets and groups of assets.

Impairment losses are recognized in profit or loss. Impairment losses relating to cash generating units, allocated first to reduce the real value of goodwill allocated to the units and then to reduce the carrying amount of the actual amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment loss on goodwill is not reversed. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that suggest that the loss no longer exists or has decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only if the carrying amount of an asset does not exceed the carrying amount that would have been determined, net of depreciation, and impairment losses on assets not recognized.

3.11 Inventories

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

3.12 Trade and loan receivables

Trade and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group or the Company will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "Impairment of receivables - net". Subsequent recoveries of the provision for impairment of trade receivables are recorded in the income statement within 'impairment of receivables - net'.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial assets

The Group and the Company classify their financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other losses/gains - net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of 'other income' when the right to receive payment is established.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transactions costs and subsequently are carried at amortised cost using the effective interest method.

The Group and the Company assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of loans and receivables is described in Note 3.10.

3.14 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.

3.15 Borrowings

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 income statement over the period of the borrowings using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan extent that it is probable that some or all of the facility will be drawn down.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Borrowings (continued)

Borrowings are classified as current liabilities, unless the Group or the Company have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.16 Share capital

Ordinary shares are classified as equity. 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.

Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

3.17 Income tax

The Company and all Group entities are liable for income tax under the laws and regulations of the Republic of Croatia. The tax base represents the difference between income and expenses, as determined by the applicable law. Income tax is calculated at a rate of 20%. The managements of all Group entities periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3.18 Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investment in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 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 balance sheet on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.20 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group or the Company make payments to 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 and the Company do not have any other pension scheme and consequently, have no other obligations in respect of employee pensions. In addition, the Group and the Company are not obliged to provide any other post-employment benefits.

(b) Long-term employee benefits

The Group and the Company recognise 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 includes assumptions of the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

(c) Short-term employee benefits

The Group and the Company recognise a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Group and the Company recognise a liability for accumulated compensated absences based on unused vacation days at the balance sheet date.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Company or the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group or the Company recognise termination benefits 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. Termination benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Provisions

Provisions for legal claims are recognised when: the Group or the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.22 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.23 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year, less treasury shares.

3.24 Dividend distribution

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

3.25 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 or the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts and after eliminated sales within the Group.

The Group and the Company recognise 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 and the Company's activities as described below.

(a) Sales of goods

Sales of goods are recognised when the Group or the Company have delivered the products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of loss have been transferred to the customer and the customer has accepted the products in accordance with the contract terms.

Products are sold with volume discounts and customers have a right to return faulty products. Sales are recorded based on the price specific in the sales contracts, net of estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate the discounts and returns.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25 Revenue recognition (continued)

(b) Sales of services

The Company's primary activity is providing port services: loading, unloading, transloading of goods and storage services, transportation, refinement and weighing of general freight, wood and wood products, loose freight, RO-RO freight, providing water and electric energy to ships. The prices of provided services are determined based on tariffs.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group and the Company reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the

(c) Interest income (continued)

instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 4 – FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The accounting policies for financial instruments have been applied to the following items:

<i>(all amounts are expressed in thousands of HRK)</i>	Luka Ploče Group		Luka Ploče d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Financial assets				
Loans given	3,166	3,556	3,166	10,313
Long-term deposits	-	71	-	-
Other assets at fair value through profit or loss	280	193	280	193
Trade receivables	54,137	54,204	56,212	56,595
Short-term deposits	155,753	188,937	155,481	188,681
Cash and cash equivalents	41,821	15,766	35,497	7,395
Total	255,157	262,727	250,636	263,177
Financial liabilities				
Borrowings	23,758	34,149	22,602	13,422
Trade payables	17,260	47,143	20,890	32,719
Total	41,018	81,292	43,492	46,141

The fair value of financial instruments

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

- The fair value of financial assets and financial liabilities that are traded on active liquid markets, under standard conditions, is determined with reference to quoted market
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models, based on discounted cash flow analysis using prices from observable current market transactions and prices offered for similar instruments

4.1 Financial risk factors

Financial instruments held to maturity in the normal operations are carried at cost and net amount less portion repaid. Fair value is determined as the amount at which the instrument could be exchanged between willing parties in an arm's length basis, except in the case of a forced sale or liquidation. The fair value of a financial instrument is the quoted market price, or one that is obtained using the discounted cash flow.

On 31 December 2016, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair values due to the short term nature of these assets and liabilities and because most of current assets and current liabilities carries a variable interest rate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

Management believes that the fair value of long-term receivables of the Group arising from the sale of apartments to employees is not materially different from their carrying value due to the current low level of market interest rates for such claims. Management regularly monitors the relevant market interest rates on similar assets in order to assess the validity of this assumption.

At the reporting dates, the carrying value of bank loans and other loans approximates their fair value because most of these loans carries or variable interest rate or a fixed interest rate which approximates current market interest rates and the majority of long-term loan carries a variable interest rate.

The Group's and the Company's activities expose them to a variety of financial risks: market risk (foreign exchange risk, price risk, cash flow interest rate risk), credit risk and liquidity risk. The Group and the Company do not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Company's finance department.

(a) *Market risk*

(i) *Foreign exchange risk*

The Group and the Company are exposed to foreign exchange risk arising from realised income and foreign purchases, as well as from borrowings issued in various currencies: Euros (EUR) and US dollars (USD). The majority of foreign sales revenue and long-term debt is denominated in USD. Therefore, movements in exchange rates between the USD, EUR and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow.

The following table presents an overview of the Group's and the Company's assets and liabilities denominated in foreign currencies as at 31 December 2016 and the maximum effect on profit after taxation, with all other variables held constant:

Luka Ploče Group

Currency	Assets	Liabilities	Net assets/(liabilities)	Change in currency	Effect on profit after taxation
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	<i>%</i>	<i>(in thousands of HRK)</i>
EUR	43.046	20.907	22.139	1,00%	221
USD	202.510	223	202.287	3,00%	6.069

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(i) Foreign exchange risk (continued)

Luka Ploče d.d.

Currency	Assets	Liabilities	Net assets/(liabilities)	Change in currency	Effect on profit after taxation
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	%	%
EUR	40.770	20.738	20.032	1,00%	200
USD	200.175	221	199.954	3,00%	5.999

The following table presents an overview of the Group's and the Company's assets and liabilities denominated in foreign currencies as at 31 December 2015 and the maximum effect on profit after taxation, with all other variables held constant:

Luka Ploče Group

Currency	Assets	Liabilities	Net assets/(liabilities)	Change in currency	Effect on profit after taxation
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>
EUR	22.244	26.407	(4.163)	1,00%	(42)
USD	228.925	22.715	206.210	3,00%	6.186

Luka Ploče d.d.

Currency	Assets	Liabilities	Net assets/(liabilities)	Change in currency	Effect on profit after taxation
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	%	%
EUR	34.914	5.661	29.253	1,00%	293
USD	211.166	22.683	188.483	3,00%	5.654

The recorded effect on profit after taxation is mainly the result of foreign exchange gains/losses on translation of EUR-denominated borrowings, as well as EUR and USD-denominated trade payables, trade receivables and cash and cash equivalents. The Group and the Company do not use derivative instruments to actively hedge foreign exchange risk exposure.

(ii) Interest rate risk

The sensitivity analysis below is based on the exposure to interest rates at the reporting date. For floating rate liabilities, the analysis is prepared in a manner that is reasonably calculated the effect of a possible increase in interest rates for debt with variable interest rates on the expected contractual cash flows of such duties in relation to those calculated using the interest rates applicable at the end of the current

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

reporting period. In an analysis of interest rate risk, used to increase / decrease of 0.2% which represents a reasonably possible change in interest rates at the discretion of the Board.

As the Group and the Company have significant interest-bearing assets (term deposits with banks), the Group's income and operating cash flows are substantially dependent of changes in market interest rates. As at 31 December 2015, if the effective interest rate on term deposits had increased/decreased by 0,2% (2014: 0.2%), the loss after tax for the reporting period would have been 418 HRK thousand lower/higher for the Group (2014: HRK 457 thousand), and HRK 414 thousand lower/higher for the Company (2014: HRK 451 thousand) as a result of higher/lower interest income.

The Group's and the Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group and the Company do not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

The Group and the Company continuously monitor interest rate changes. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group and the Company calculate the impact on the income statement of a defined interest rate shift.

The reference interest rate for the bulk loan is based on EURIBOR. At 31 December 2015, if the effective interest rate on borrowings with EURIBOR variable rate had increased/decreased by 1% (2014: EURIBOR variable rate 1% at an annual level), the loss after tax for the reporting period would have been HRK 102 thousand higher/lower for the Group (2014: HRK 543 thousand), and HRK 90 thousand higher/lower for the Company (2014: HRK 443 thousand) as a result of higher/lower interest expense.

(b) Credit risk

The Group's and the Company's assets, which potentially subject them to concentrations of credit risk, primarily include cash and cash equivalents, trade receivables, receivables from employees and other receivables. The collection of the Group's and the Company's trade receivables is additionally secured by goods, while receivables from employees are secured by salary deductions.

The quality of receivables that are neither past due nor impaired is, monitored according to customers different exposure to credit risk as follows:

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

<i>(in thousands of HRK)</i>	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
Related parties	-	-		551
New customers	30,483	23,566	30,483	23,566
Existing customers – payments within maturity period	1,741	3,596	1,481	2,299
Existing customers – with some defaults in the past	3,785	8,314	3,423	8,151
Total	36,009	35,476	39,452	34,225

The Company mainly deposits its cash with financial institutions that are members of international banking groups, which according to Standard & Poor's ratings have a majority of A-1 / A + to A-2 / BBB +.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations.

(c) Liquidity risk

The Group and the Company aim to maintain flexibility in funding by keeping committed credit lines available. The finance department regularly (monthly) monitors available cash resources.

The table below analyses financial liabilities of the Group and the Company according to contracted maturities. The amounts stated below represent undiscounted cash flows.

Financial liabilities do not include employee liabilities, contributions payable, taxes and advances received.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

<i>(in thousands of HRK)</i>	Less than 1 year	Between 1 - 5 years	Over 5 years
Luka Ploče Group			
31 December 2016			
Finance lease	2,992	8,120	-
Borrowings	473	1,447	11,497
Trade and other payables	17,260	-	-
31 December 2015			
Finance lease	5,772	5,723	-
Borrowings	1,945	22,131	677
Trade and other payables	47,143	-	-
	Less than 1 year	Between 1 - 5 years	Over 5 years
Luka Ploče d.d.			
31 December 2016			
Finance lease	2,718	7,120	-
Borrowings	353	1,571	11,497
Trade and other payables	20,890	-	-
31 December 2015			
Finance lease	5,731	5,666	-
Borrowings	367	1,123	677
Trade and other payables	32,719	-	-

Trade and other payables as well as short-term borrowings are due within 12 months after the balance sheet date, while the maturity of long-term borrowings is disclosed in Note 28.

Financial assets in the amount of HRK 254,921 thousand, mainly relate to deposits, cash and receivables which are short-term in nature. The above indicates that the Group has sufficient liquidity in the short term.

4.2 Capital risk management

The Group and the Company monitor capital on the basis of laws and regulations of the countries in which they operate. Croatian laws and regulations require minimum paid in capital of HRK 200,000 for joint stock companies and HRK 20,000 for limited liability companies. There are no specific objectives required by the owners in managing capital. The Group is not subject to externally imposed capital requirements. In addition, there are no internally monitored capital objectives.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 5 – FAIR VALUE ESTIMATION

The company applies a series of accounting policies and disclosures that require fair value measurement for financial and non-financial assets and liabilities. The Company has a system of control within the fair value measurement which includes the overall responsibility of the Board of Finance and functions related to the monitoring of all significant fair value measurement, consultation with outside experts and, in the context of the above, the reporting of the same bodies in charge of corporate governance. The fair values are measured in relation to the information gathered from third parties, in which case the Administration and Finance function assessed if evidence gathered from third parties provided that the above estimates of fair value meet the requirements of IFRSs, including the level of the fair value hierarchy into which these estimates should be classified.

All significant issues related to estimating the fair value are reported to the Supervisory and Audit Committee. The fair values are categorized into different levels in the fair value hierarchy based on the input variables used in the valuation techniques as follows:

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

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, pricing service, 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 of the significant inputs is not based on observable market data, the instrument is included in level 3.

The table below present the Group's and the Company's assets at fair value as at 31 December 2016 and 2015:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 5 – FAIR VALUE ESTIMATION (continued)

(in thousands of HRK)

	Level 1	Level 3	Total
	<hr/>	<hr/>	<hr/>
31 December 2016			
Listed companies	280	-	280
Unlisted companies	-	-	-
Total	<hr/> 280	<hr/> -	<hr/> 280
31 December 2015			
Listed companies	193	-	193
Unlisted companies	-	-	-
Total	<hr/> 193	<hr/> -	<hr/> 193

NOTE 6 – CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Concession Arrangements services*

The European Union has adopted the interpretation of IFRIC 12 Service Concession Arrangements, which is effective for financial years beginning on or after 1 April 2009. A significant part of the Company's registered activities is carried out in the area under concession of the maritime domain. According to the Law on maritime domain and sea ports, maritime domain is managed by the Port Authority Ploče, which is the grantor of the concession. The concession agreement was originally signed on 13 August 2005 for a period of 12 years, and was renewed in 2008, which extended the concession period for an additional 20 years, until 2037. Agreement on the extension of the concession was concluded on 24 May 2010. Concession Agreement refers to the port activities in a specific area (part of the port area of Ploče and port Metković), with the risk and responsibility of the operator (or the Company) and considering; technical regulations applicable to the activity, reconstruction, current and investment maintenance, construction, modernization, reconstruction and development of port services stipulated in the Law on maritime domain and seaports; the terms and conditions related to the license for the provision of port services and other requirements prescribed by the Port Authority Ploče. According to the concession agreement, the operator will have the right to use the property that represents the port infrastructure ("relevant property") owned by the Port of Ploče, which is found in the above-mentioned area for the provision of port services. The ownership rights of the relevant assets remain on the concession provider and those assets have not been recorded in the Company's books.

The concession agreement establishes obligations for reconstruction, investment and maintenance areas under concession. According to the concession agreement, Operator has the obligation to cover all costs associated with the activity determined by the concession (energy, water, gas, postal and telephone services, garbage and similar related costs), as well as the cost of utilities, water charges,

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES (continued)

(i) Concession Arrangements services (continued)

water preserves, insurance costs and various other benefits arising from the use of the area under concession.

In addition to covering the costs associated with concession, concession operator, is obligated to pay to the Provider the annual concession fee consisting of a fixed fee per square meter of area under concession and a variable fee per ton for each type of cargo transhipped through the Port and variable compensation for the services of tying and untying and acceptance and diverting of ships.

Furthermore, in accordance with the concession agreement, operator shall make capital expenditures related to the maintenance / replacement of property within the port infrastructure in the area under concession (including buildings, plant and equipment) in the amount of HRK 248 million in accordance with the predefined schedule (for details see Note 32 - Commitments and contingencies). The operator is obliged to return to the Provider "relevant property" (including investment in the relevant assets as stipulated in the concession contract) after the expiry of the concession and tear down, at no cost, at the request of the Provider, any property in the concession area, if the Provider requires (currently, Operator does not expect future costs arising from the demolition).

At the reporting date, the Company is, in major part, owned by shareholders from the private sector. IFRIC 12 includes public-private concession agreements for services and regard to the ownership structure of the current concession arrangement form of public-private agreements on concession for services, and should be subject to the provisions of IFRIC 12 if the package contains the characteristics defined in the above interpretation.

Characteristics of concession arrangements that IFRIC 12 includes, and as defined above interpretation are as follows:

- A commitment which is taken over by operator is a public service
- The side that assign the contract (concession grantor) is a public sector entity, governmental body, or a private sector entity to which responsibility for the service is transferred
- The operator is responsible for at least a part of infrastructure management and related services and does not act solely as agent on behalf of the concession grantor
- Starting price, determined with contract, which the operator will charge, regulates the price revision for the duration of the service agreement
- The operator is required at the end of the period of the agreement to transfer infrastructure to the concession grantor in a particular state for a small fee or at no extra charge, regardless of the party that had initially funded.

One of the main factors that management considers in terms of the applicability of IFRIC 12 is a mechanism which regulates and revises price for the duration of the service agreement. The concession provider, under the current agreement has the right to regulate the maximum level of price that the Company may charge for providing services that are subject to the agreement by prescribing maximum fees and harmonizing or approving an application for a modification of fees or price lists proposed by the Company. However, due to the specifics of port location and prices of the supporting transport infrastructure, in order to maintain competitiveness and a satisfactory level of transactions, fees that are charged by the Company to its customers are continuously significantly below the

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES (continued)

(i) Concession Arrangements Services (continued)

maximum prescribed fees of the Port Authority Ploče. In this regard, taking into account all relevant provisions of IFRIC 12, the Board applied the judgment and has assessed that, the mechanism of regulating and revising prices that is currently in practice has no essential characteristics of price regulation. The Company's management regularly monitors deviations between service fees charged to customers and maximum tariffs in order to determine if this projection is still applicable.

If the Management, during its monitoring of relevant elements of the current mechanism of price regulation, identifies substantial change in circumstances, which would make the above described mechanism relevant in representing the essential mechanism of price regulation, and if the Management assesses that such circumstances have a long-term character, the Management would again review and analyze accounting treatment that is currently used and the possible applicability of IFRIC 12 in the context of the above substantial changes in the mechanism of price regulation.

In case that the Company changes its accounting policy in accordance with IFRIC 12, the Board expects that the changes would be implemented retrospectively, unless it would not be practical, and expects that the impact on the financial statements would be generally as follows: reclassification from property, plant and equipment to intangible assets in the amount relating to leasehold improvements owned by the Provider, the recognition of intangible and / or financial assets related to the "relevant property", which currently isn't included into the Company's balance sheet and the recognition of revenue from construction and construction costs in the statement of comprehensive income related to infrastructure investment into Providers property.

In case of the accounting policy change, the Company will make the valuation and accounting model that will enable it to assess the amount and type of property in connection with the application of IFRIC 12 (or intangible or financial assets or a combination of both) that need to be recognized in the statement of financial position and the expected structure and dynamics of the items associated with the application of IFRIC 12, which affect the future statements of comprehensive income of the Company. Currently Management did not quantify the possible impact of the potential application of IFRIC 12 by the Company since the change in the accounting policy, in this regard, is not considered to be likely.

Provisions for other long-term employee benefits

In line with the collective bargaining agreement, the Group and the Company provide jubilee awards to employees. For the present value calculation of these benefits, the Group and the Company estimate employee turnover based on past trends and determine the appropriate discount rate based on current market conditions. Were the discount rate and employee turnover used to differ by 10% from management estimates, the carrying amount of the related liability would not be significantly different from that recorded.

Legal claims and disputes

Provisions for legal claims and disputes are recorded based on Management's estimate of probable losses after consultation with legal counsel. Based on existing knowledge, it is reasonably likely that the outcomes of these legal claims will differ from estimated potential losses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 6 – CRITICAL ACCOUNTING ESTIMATES (continued)

Useful life of tangible assets

The Management of the Company and Group companies determines and reassesses the useful lives and related depreciation charge for tangible assets. This estimate is based on the assessment of the remaining useful lives of assets. It could change significantly as a result of technical innovations and competitor actions. Management will increase the depreciation charge if it assesses that the useful life of assets is lower than prior to estimates, or it will write off obsolete and discarded property.

Were the actual useful lives of the tangible assets to differ by 10% from Management's estimates, the estimated carrying amount of tangible assets would be an estimated HRK 769 thousand higher (2015: HRK 770 thousand) or HRK 885 thousand lower (2015: HRK 870 thousand).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 7 – SEGMENT INFORMATION

Management separately monitors and discloses operating revenues, profit from operations, capital expenditure, total assets and total liabilities as follows:

1. The Port services segment provides manipulation of cargo (loading, unloading, transportation, refinement, weighing of general freight, wood and wood products, loose freight and RO-RO freight) and represents the parent company.
2. The Storage of liquid derivatives segment provides the service of oil derivatives storage.
3. The Marine services segment provides freight forwarding and various ship handling services to users of port services.
4. Other business segments relate to the Group's secondary business activities (maintenance, restaurants and similar).

The segment results for the year ended 31 December 2016 are as follows:

<i>(in thousands of HRK)</i>	Port services	Liquid derivatives segment	Marine services	Trading goods	Other segments	Total Group
Operating revenues	85,126	5,984	8,791	78,956	1,228	180,085
Operating profit/(loss) before depreciation	9,662	1,838	(226)	4,489	(6,322)	9,441
Depreciation	(7,694)	(25,328)	(212)	-	(226)	(33,460)
Operating profit/(loss)	1,968	(23,490)	(438)	4,489	(6,548)	(24,019)
Capital expenditure	59,308	48,131	154	-	1,990	109,583

The segment results for the year ended 31 December 2015 are as follows:

<i>(in thousands of HRK)</i>	Port services	Liquid derivatives segment	Marine services	Trading goods	Other segments	Total Group
Operating revenues	95,753	11,311	9,447	29,105	2,178	147,794
Operating profit/(loss) before depreciation	17,999	3,865	584	1,211	(1,769)	21,890
Depreciation	(7,669)	(1,420)	(222)	-	(212)	(9,523)
Operating profit/(loss)	10,330	2,445	362	1,211	(1,981)	12,367
Capital expenditure	44,754	39,229	145	-	847	84,975

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 7 – SEGMENT INFORMATION (continued)

The Group and the Company operate in three main geographical areas. Sales among geographical segments are allocated based on the country in which the customer is located.

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Bosnia and Herzegovina	71,906	67,922	68,407	60,312
Croatia	11,879	40,652	7,417	32,038
European Union countries	93,088	39,220	87,123	36,121
Other	3,212	-	3,177	-
Total	180,085	147,794	166,124	128,471

Concentration risk sales

The Group generates 6,5% (2015: 27%) of revenues from sales to domestic customers while 93,5% (2015: 73%) of the sales are derived from sales to foreign customers (in terms of the geographical location of customers) which mainly relates to sale to customers from Bosnia and Herzegovina, which generates 40% of revenue (2015: 46%). The Group determines the selling price to customers in accordance with the macroeconomic conditions prevailing in each market where customers are located in view of the maximum and approved tariffs for services covered by the concession contract.

Group revenues are substantially exposed to volatility due to the relatively high concentration of income at the small number of customers. The top five customers of the Group generated approximately 73,57% of total sales revenues (2015: 63%) of which the greatest impact on the revenues of the Group and the Company have the two largest customer with which is realized 44,10% of total revenues in 2016 (2015: 44%). As a result of exposure to a small number of customers, the Company manages this risk through active and frequent communication with key customers, acquire new customers and through monitoring of relevant competitors and market conditions both at local and international level.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 8 – REVENUES

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Revenues				
Sales of services				
- domestic sales	11,879	40,652	7,417	32,038
- foreign sales	89,250	78,037	80,518	67,328
	101,129	118,689	87,935	99,366
Revenues from trading goods	78,956	29,105	78,189	29,105
	180,085	147,794	166,124	128,471
Other income				
Interest income	1,763	4,404	1,898	4,789
Other income	865	1,374	382	768
	2,628	5,778	2,280	5,557
	182,713	153,572	168,404	134,028

Interest income include income from interest on short-term bank deposits. During 2016 the Company has intensified activity of trade in goods which has resulted in significant growth in revenue and cost of goods sold (see Note 9).

NOTE 9 – COSTS OF SERVICES

Costs of materials and energy are as follows:

	Luka Ploče Grupa		Luka Ploče d.d.	
	2016.	2015.	2016.	2015.
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Cost of goods sold	74,467	28,729	73,851	27,894
Fuel costs	3,455	4,962	3,455	4,162
Consumption of raw materials and supplies	3,520	2,617	1,713	1,826
Consumption of electricity	2,514	2,497	2,311	2,497
Small inventory, spare parts and office supplies	508	1,297	508	701
Other material costs	75	232	75	130
	84,539	40,334	81,913	37,210

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 9 – COSTS OF SERVICES (continued)

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Repairs and maintenance	4,093	3,624	11,060	11,828
Utilities	5,429	5,824	5,067	5,542
Intellectual services	2,188	4,157	1,772	3,336
Security costs	2,593	2,659	2,593	2,659
Advertising and entertainment expenses	698	974	550	708
Transport and telecommunication expenses	716	742	488	463
Other services	1,137	931	854	489
	16,854	18,911	22,384	25,025

Utility charges include fees per concession agreements in the amount of HRK 2,910 thousand (2015: HRK 3,024 thousand) of which HRK 1,753 thousand relates to the variable portion of concession fees (2015: HRK 1,860 thousand).

NOTE 10 – STAFF COSTS

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries	40,952	42,313	31,271	31,856
Taxes and contributions /i/	18,226	20,080	14,495	14,495
Termination benefits and jubilee awards /ii/	1,668	154	1,626	111
Other employee benefits /iii/	3,665	3,919	2,440	3,180
	64,511	66,466	49,832	49,642

/i/ Pension contributions for pensions paid by the Group and the Company to mandatory pension funds for 2016 amounted to HRK 9,662 thousand and HRK 7,772 thousand (2015: HRK 10,391 thousand and HRK 7,693 thousand). Contributions are calculated as a percentage of the employees' gross salaries.

/ii/ Other employee benefits include gifts, business travel expenses, daily allowances and other benefits.

At 31 December 2015, the Group had 557 employees (2015: 584), and the Company had 445 employees (2014: 452).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 11 – OTHER OPERATING EXPENSES

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Value adjustment of plant and equipment /i/	24,609	-	-	-
Insurance premiums	1,777	1,652	1,519	1,452
Supervisory Board fees	413	416	413	416
Contributions and membership fees	777	678	736	656
Daily allowances and travel expenses	602	513	433	345
Damages, penalties and demurrage	483	407	483	353
Write-off of raw materials	395	312	395	312
Other staff costs	255	232	201	217
Bank charges	2,008	491	1,933	411
Provisions for litigation	2	1,684	-	1,684
Donations	375	330	308	330
Other operating expenses	746	993	455	398
	32,442	7,708	6,876	6,574

/i/ Value adjustment of plant and equipment refers to subsidiary sale of Luka Ploče trgovina (note 33).

NOTE 12 – OTHER (LOSS)/ GAINS - NET

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Fair value gains of financial assets through profit or loss (Note 24)	87	34	87	34
Loss/(gain) on sale of tangible assets and disposals /i/	(8)	-	(8)	-
Gains from subsidiary sales	4	-	1,733	-
The disposal of fixed assets	-	(185)	-	-
Net foreign exchange differences	404	2,991	457	2,991
	487	2,840	2,269	3,025

/i/ The sale of tangible assets consists of the following:

<i>(in thousands of HRK)</i>	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
Net book amount	87	-	87	-
Proceeds on sale of tangible assets	79	-	79	-
Net (loss)/gain on sale of tangible assets	(8)	-	(8)	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 13 – FINANCE INCOME / (EXPENSES) - NET

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Foreign exchange profit/ (losses) – net	4,370	20,157	4,442	19,921
Interest expense	(178)	(481)	(147)	(419)
Finance income/ (expenses) – net	4,192	19,676	4,295	19,502

/ i / Foreign exchange differences are mainly related to foreign exchange losses from investments in short-term deposits denominated in US dollars.

NOTE 14 – INCOME TAX

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Current income tax	-	478	-	-
	-	478	-	-

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

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Profit/ (loss) before tax	(19,788)	32,064	6,263	30,408
Income tax (20%)	(3,958)	6,413	1,253	6,082
Effect of income not subject to tax	(84)	(207)	(84)	(199)
Effect of expenses not deductible for tax purposes	5,582	550	203	195
The effect of tax relief /i/	(1,372)	(6,179)	(1,372)	(6,071)
Utilised previously unrecognised tax losses	(168)	(99)	-	(7)
Tax charge	-	478	-	-

/i/ The Group performs business activities within the customs free zone and realises tax benefits in accordance with regulations. Tax benefits are realised for investments in the infrastructure within the customs free zone exceeding HRK 1 million (the Company) and for using the customs free zone (subsidiaries). Investors who meet the requirements are exempt from paying the tax liability in the 100% amount, while users of the customs free zone only pay 50% of the tax liability.

The Group and the Company do not record deferred tax assets based on realised tax losses due to the uncertainty of their future use. At the end of 2016, the Group and the Company recorded tax losses in the amount of HRK 10,549 thousand and HRK 0 (2015: the Group HRK 11,389 thousand and the

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

Company HRK 0 thousand) available for carry forward into the following five years, which expire as follows:

Year of expiry	Luka Ploče Group		Luka Ploče d.d.	
	Tax loss	Unrecognised deferred tax assets	Tax loss	Unrecognised deferred tax assets
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
2017.	2,389	430	-	-
2018.	6,705	1,207	-	-
2020.	1,455	262	-	-
	10,549	1,899	-	-

In accordance with Croatian regulations, the tax authorities may at any time inspect any of the Group company's books and records within 3 years subsequent to the year in which the tax liability is reported, and may impose additional tax assessments and penalties. The Group's Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 15 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Luka Ploče Group	Luka Ploče d.d.
At 1 January 2015		
Cost	1,853	1,626
Accumulated depreciation	(417)	(215)
Net book amount	1,436	1,411
Year ended 31 December 2015		
Opening net book amount	1,436	1,411
Additions	7	-
Disposals	-	-
Depreciation	(398)	(393)
Year ended 31 December 2015	1,045	1,018
At 31 December 2015		
Cost	1,653	1,626
Accumulated depreciation	(608)	(608)
Net book amount	1,045	1,018
Year ended 31 December 2016		
Opening net book amount	1,045	1,018
Additions	579	579
Reclassification	64	-
Depreciation	(405)	(397)
Year ended 31 December 2016	1,282	1,200
At 31 December 2016		
Cost	2,614	2,205
Accumulated depreciation	(1,332)	(1,005)
Net book amount	1,282	1,200

Intangible assets relate to investments in computer software.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

Luka Ploče Group <i>(in thousands of HRK)</i>	Land and buildings	Equipment	Assets under construction	Leasehold improvements	Total
At 1 January 2015					
Cost	33,496	162,891	67,871	12,730	276,988
Accumulated depreciation	(9,765)	(92,319)	-	(7,163)	(109,247)
Net book amount	23,731	70,572	67,871	5,567	167,741
Year ended 31 December 2015					
Opening net book amount	23,731	70,572	67,871	5,567	167,741
Additions	152	80	57,213	68	57,513
Transfer from assets under construction	-	1,269	(1,269)	-	-
Disposals (Note 28)	-	(20)	-	(165)	(185)
Depreciation	(668)	(7,641)	-	(720)	(9,029)
Closing net book amount	23,215	64,260	123,815	4,750	216,040
At 31 December 2015	33,784	163,438	123,815	12,626	333,663
Cost	(10,569)	(99,178)	-	(7,876)	(117,623)
Accumulated depreciation	23,215	64,260	123,815	4,750	216,040
Net book amount					
Year ended 31 December 2016					
Opening net book amount	23,215	64,260	123,815	4,750	216,040
Additions	-	23	109,560	-	109,583
Reclassification	-	-	-	(64)	(64)
Transfer from assets under construction	187	9,065	(9,610)	358	-
Disposals (Note 12)	(2,021)	(754)	(120,764)	-	(123,539)
Depreciation	(429)	(7,208)	-	(713)	(8,350)
Value adjustment	(9,922)	(3,261)	(11,426)	-	(24,609)
Closing net book amount	11,030	62,125	91,575	4,331	169,061
At 31 December 2016					
Cost	22,028	168,511	91,575	12,920	295,034
Accumulated depreciation	(10,998)	(106,386)	-	(8,589)	(125,973)
Net book amount	11,030	62,125	91,575	4,331	169,061

Assets under construction refer primarily to the investment in the capacity of bulk cargo terminal and related machinery.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

Luka Ploče d.d. <i>(in thousands of HRK)</i>	Land and buildings	Equipment	Assets under construction	Leasehold improvements	Total
At 31 December 2015					
Cost	13,662	127,785	24,069	12,408	177,924
Accumulated depreciation	(2,645)	(64,825)	-	(7,003)	(74,473)
Net book amount	11,017	62,960	24,069	5,405	103,451
Year ended 31 December 2015					
Opening net book amount	11,017	62,960	24,069	5,405	103,451
Additions	-	-	22,962	-	22,962
Transfer from assets under construction	-	1,002	(1,002)	-	-
Disposals (Note 28)	-	(132)	-	(6)	(138)
Depreciation	(192)	(6,274)	-	(713)	(7,179)
Closing net book amount	10,825	57,556	46,029	4,686	119,096
At 31 December 2015					
Cost	13,662	128,507	46,029	12,395	200,593
Accumulated depreciation	(2,837)	(70,951)	-	(7,709)	(81,497)
Net book amount	10,825	57,556	46,029	4,686	119,096
Year ended 31 December 2015					
Opening net book amount	10,825	57,556	46,029	4,686	119,096
Additions	-	-	52,141	-	52,141
Transfer from assets under construction	187	7,532	(8,077)	358	-
Disposals	-	(9)	-	-	(9)
Depreciation	(187)	(6,301)	-	(713)	(7,201)
Closing net book amount	10,825	58,778	90,093	4,331	164,027
At 31 December 2015					
Cost	13,849	135,634	90,093	12,754	252,330
Accumulated depreciation	(3,024)	(76,856)	-	(8,423)	(88,303)
Net book amount	10,825	58,778	90,093	4,331	164,027

Assets under construction refer primarily to the investment in the capacity of bulk cargo terminal and related machinery.

The Group's and Company's equipment with a net book value of HRK 45,109 thousand as at 31 December 2016 (2015: the Group and Company HRK 42,883 thousand) were pledged as security for the finance lease repayment (Note 28).

The equipment leased out under a finance lease is as follows:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Cost – capitalised finance lease	68,071	62,522	66,784	62,522
Accumulated depreciation	(22,962)	(19,639)	(22,924)	(19,639)
Net book amount	45,109	42,883	43,860	42,883

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 17 – INVESTMENT PROPERTY

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Cost	6,404	6,404	6,404	6,404
Accumulated depreciation	(1,633)	(1,537)	(1,633)	(1,537)
Net book amount	4,771	4,867	4,771	4,867

The Company records as investment property flats that are leased to former and current employees at minimum lease payments. Based on current market prices and the location, Management determined that the fair value of investments approximates the net carrying value.

In 2016, the Group and the Company realised lease income of HRK 101 thousand (2015: HRK 101 thousand) included in other income, and a depreciation charge of HRK 96 thousand (2015: HRK 97 thousand).

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Up to 1 year	101	101	101	101
From 1 to 5 years	404	404	404	404
Over 5 years	1,010	1,111	1,010	1,111
Total	1,515	1,616	1,515	1,616

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 18 – INVESTMENTS IN SUBSIDIARIES

The holdings of the Company in each of its subsidiaries as at 31 December 2015 and 31 December 2014 are as follows:

Subsidiaries	Amount of share		Ownership	Principal activity
	<i>(in thousands of HRK)</i>		%	
	2016	2015	2016 and 2015	
Luka Ploče - Održavanje d.o.o.	3,978	3,978	100%	Repairs and maintenance services
Luka Šped d.o.o.	3,175	3,175	100%	Freight forwarding services
Pomorski servis - Luka Ploče d.o.o.	1,807	1,807	100%	Sea transport services
Luka Ploče Trgovina d.o.o.	-	25,986	100%	Trade
Luka Ploče Usluge d.o.o.	-	1,347	100%	Air transport services
Hladnjača Ploče d.o.o.	-	300	50%	Warehousing
Pločanska plovidba d.o.o.	2,520	1,173	100%	Shipping services
Luka Ploče Energija d.o.o.	7,800	7,800	100%	Energetics
Value adjustment /i/	(7,800)	(8,100)		
	11,480	37,466		

Company Luka Ploče Usluge d.o.o. was incorporated to Pločanska plovidba d.o.o. on 23 May 2016.
Company Luka Ploče trgovina d.o.o. was sold on 6 July 2016

After conclusion of bankruptcy Hladnjača d.o.o. was written off.

Movements in investments in subsidiaries are as follows:

	Luka Ploče d.d.	
	2016	2015
	<i>(in thousands of HRK)</i>	
At beginning of the year	37,466	36,166
Decrease in investments /i/	(25,986)	-
Increase in investments /ii/	-	1,300
At end of the year	11,480	37,466

/i/ On 6 July 2016 the Company has sold Luka Ploče Trgovinu d.o.o. for HRK 27,720 thousand.
See note 33.

/ii/ During 2015 the Company made an additional investment in the subsidiary Luka Ploče Trgovina in the form of a cash payment in the amount of HRK 1,300 thousand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

/iii/ Because of the poor operating results and questionable realisation of the project of building power plants for which purpose the company Luka Ploče Energija d.o.o. was established, the Company impaired this entire investment in the amount of HRK 7,800 thousand.

NOTE 19 – INVESTMENTS IN ASSOCIATES

<i>(in thousands of HRK)</i>	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
Luka Ploče Infrastruktura d.o.o.	-	1,500	-	1,500
Lučka sigurnost d.o.o.	370	316	55	55
Vizir d.o.o.	123	138	25	25
Portus Šped d.o.o	28	-	-	-
Total	521	1,954	80	1,580

The Group and the Company have shares in associates of which the Company has investments in two associates of 49% in the total amount of HRK 80 thousand, whereas the remaining 51% is owned by the Port of Authority. Port of Authority controls the associates by appointing the only member of the Management Board responsible for making operational decisions, and it has the majority in the supervisory boards of these companies. The principal activity of the associates is the security of business premises. Transactions with these associates are disclosed in Note 31. In 2016 Group has recognised share in profit of the associates in the amount of HRK 39 thousand (2015: HRK 21 thousand)

Basic financial information of associates at the reporting date are as follows:

<i>(in thousands of HRK)</i>	Lučka sigurnost d.o.o.		Vizir d.o.o.	
	2016	2015	2016	2015
Assets	1,222	1,086	450	459
Liabilities	(334)	(308)	(185)	(164)
Net assets	888	778	265	295

NOTE 20 – LONG-TERM LOAN RECEIVABLE

<i>(in thousands of HRK)</i>	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
Long-term loan receivable				
- To employees	2,858	3,214	2,858	3,214
- To members of the Supervisory Board	308	342	308	341
- To related parties	-	-	-	6,758
	3,166	3,556	3,166	10,313
Current portion	(847)	(832)	(847)	(4,089)
	2,319	2,724	2,319	6,224

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 20 – LONG-TERM LOAN RECEIVABLE (continued)

In previous years, the Company sold flats to its employees on long-term credits in accordance with legal regulations of the Republic of Croatia. The loans are repayable over a period of 20 – 35 years with an interest rate set at 1% p.a. The loans are repaid regularly in monthly instalments. The loans are not discounted. The loans are secured by mortgages on the apartments. The Company is obliged to pay 65% of the received repayments to the state budget. All loan receivables are denominated in HRK.

In 2011, long-term loans were granted to 3 members of the Supervisory Board in the total amount of HRK 450 thousand. The interest rate is set at 4%, and maturity period is 7 years. The loans are secured by promissory notes.

The short-term loans granted in 2011 in the amount of HRK 2,500 thousand were prolonged for a period of 8 years (Note 20). The loans were granted in HRK with an interest rate of 7%, on 31 October 2015 interest rate was changed to 3%, and they are not secured. Additionally, in 2013 according to the decision of the Supervisory Board, Luka Ploče d.d. and Luka Ploče Trgovina d.o.o. concluded an agreement according to which all liabilities of Luka Ploče Trgovina d.o.o. towards Luka Ploče d.d. from previous periods in the amount of HRK 10,260 thousand were converted into a loan. The loan matures within 2 years with an interest rate set at 3%. The loan is not secured. During 2016. The loans were paid off.

The maturity of long-term loans receivable is as follows:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Up to 1 year	847	832	847	4,089
Between 1 and 5 years	2,019	2,724	2,019	6,224
Over 5 years	300	-	300	-
Total	3,166	3,556	3,166	10,313

NOTE 21 – INVENTORIES

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Raw materials	1,334	1,321	630	598
Spare parts	420	549	420	321
Advances for inventories	85	209	83	209
Trade goods	22	76	-	-
	1,861	2,155	1,133	1,128

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 22 – TRADE AND OTHER RECEIVABLES

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Domestic trade receivables	1,759	3,463	5,007	6,592
Foreign trade receivables	52,497	52,226	51,299	50,063
Provision for doubtful receivables	(119)	(1,485)	(94)	(60)
	<u>54,137</u>	<u>54,204</u>	<u>56,212</u>	<u>56,595</u>
Current portion of long-term loans receivable (Note 20)	847	832	847	4,089
Due from state	126	190	101	167
VAT receivable	3,445	3,278	3,411	3,261
Advances	13	236	12	272
Guarantees	298	38	26	38
Other receivables	1,351	3,410	1,445	3,381
	<u>60,217</u>	<u>62,188</u>	<u>62,054</u>	<u>67,803</u>

Foreign trade receivables on 31 December 2016 include HRK 28.419 thousand of sold merchandise as a result of intensifying trade activities .

As at 31 December 2016, the Group recorded trade receivables past due but not impaired amounting to HRK 18,127 thousand (2015: HRK 18,728 thousand), while the Company recorded trade receivables past due but not impaired amounting to HRK 16,760 thousand (2015: HRK 22,370 thousand). The ageing of these receivables is based on the days outstanding after the maturity date as follows:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Up to 30 days	8,583	4,919	7,742	4,789
Up to 60 days	2,959	4,525	2,760	4,398
Up to 90 days	2,359	2,308	2,315	2,180
Over 90 years	4,226	6,976	3,943	11,003
	<u>18,127</u>	<u>18,728</u>	<u>16,760</u>	<u>22,370</u>

The stated receivables relate to a number of customers whose collection is certain based on historical data.

Receivables outstanding more than 90 days after the maturity date are considered for impairment. Based on historical data, it was estimated that a part of the stated receivables will be collected.

The fair value of trade receivables approximates their carrying amount.

As at 31 December 2016, the provision for impairment of receivables amounted to HRK 191 thousand for the Group (2015: HRK 1,485 thousand) and HRK 94 thousand for the Company (2015: HRK 60 thousand). The provision relates to customers with some defaults in payments, who are in difficult economic situations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 22 – TRADE AND OTHER RECEIVABLES (continued)

Balances and movements on the provision for impairment of trade and other receivables are as follows:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
At 1 January	1,485	499	60	183
Provisions	109	1,138	94	60
Collected receivables previously written off	(9)	(35)	-	(33)
Receivables written off during the year as uncollectible	(1,466)	(117)	(60)	(150)
At 31 December	119	1,485	94	60

Financial assets are denominated in the following currencies:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
EUR	18,305	15,598	17,859	18,143
USD	34,181	35,143	34,186	32,223
HRK	2,796	4,333	5,040	10,356
	55,282	55,074	57,085	60,722

NOTE 23 – SHORT - TERM DEPOSITS

As at 31 December 2015 the Company has 13 deposits in the amount of HRK 155,481 thousand, and the Group has 14 deposit in the amount of HRK 155,753 thousand (201: Company in the amount of HRK 188,937 thousand and the Group in the amount of HRK 188,937 thousand, 9 deposits) within commercial banks and denominated in USD I EUR (2015: USD). Deposits mature in 2016. and 2019. Interest rates are ranged from 0,60% to 1,30%. The total amount of deposits used as collateral for 2016 amounted to HRK 55,764 (2015: HRK 0,00).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 24 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Luka Ploče Group		Luka Ploče d.d.	
	2016.	2015.	2016.	2015.
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
At beginning of year	193	159	193	159
Sale of financial assets				
Fair value gains (Note 10)	87	34	87	34
At end of year	280	193	280	193

As at 31 December 2016, the amount of HRK 280 thousand (2015: HRK 193 thousand) relates to shares of two listed companies in which the Group's holding does not exceed 20% of ownership. The fair value estimation is set out in Note 3.3. Financial assets at fair value through profit or loss are denominated in HRK.

NOTE 25 – CASH AND CASH EQUIVALENTS

	Luka Ploče Group		Luka Ploče d.d.	
	2016.	2015.	2016.	2015.
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Giro account	3,297	4,275	1,143	362
Foreign currency account	38,524	11,281	34,354	7,033
Deposits up to 3 months	-	210	-	-
	41,821	15,766	35,497	7,395

In 2016 and 2015, the interest rates on funds held on giro and current accounts were 0.5 - 2%.

Cash and cash equivalents are denominated in the following currencies:

	Luka Ploče Group		Luka Ploče d.d.	
	2016.	2015.	2016.	2015.
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
EUR	19,299	6,646	17,469	2,691
USD	19,223	4,845	16,883	4,342
HRK	3,297	4,275	1,143	362
Other	2	-	2	-
	41,821	15,766	35,497	7,395

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 26 – CAPITAL AND RESERVES

Share capital

The ownership structure as at 31 December 2015 and 2014 was as follows:

Shareholders	2016		2015	
	Number of shares	Ownership (%)	Number of shares	Ownership (%)
Small shareholders	121,573	28,74	154,653	36,56
Prvo Plinarsko Društvo d.o.o.	105,514	24,95	105,514	24,95
Mandatory pension funds	87,244	20,63	79,874	18,88
Financial institutions	74,142	17,52	49,465	11,69
Voluntary pension funds	32,775	7,75	31,742	7,50
Treasury shares	1,719	0,41	1,719	0,41
Total	422,967	100,0	422,967	100.00

Shareholders' equity at 31 December 2016 amounts HRK 169,187 thousand (2015: HRK 169,187 thousand) and consists of 422,967 ordinary shares (31 December 2015: 422,967 shares) with a nominal value of HRK 400 (31 December 2015: HRK 400).

Premium on issued shares

The Company realised a premium of HRK 90,159 thousand on newly issued shares in 2011, which was decreased by the costs of issuing new shares of HRK 2,052 thousand, and as at 31 December 2016, the premium for issued shares amounted to HRK 88,107 thousand (2015: HRK 88,107 thousand).

Other reserves

At 31 December 2016, the Company had other reserves in the total amount of HRK 48,159 thousand (2015: HRK 48,579 thousand), and the Group of HRK 48,159 thousand (2015: HRK 49,167 thousand). Reserve for own shares amount HRK 7,838 thousand (2015: 7,838 thousand) of which to acquire own shares at 31 December 2016 was used HRK 1,066 thousand. Other reserves are distributable.

Legal reserves

Legal reserves amount to HRK 8,283 thousand (2015: HRK 6,763 thousand) were formed in line with Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. Legal reserves are not distributable.

Treasury shares

In 2011, the Company purchased 380 treasury shares at prices ranging between HRK 680 and HRK 770 per share. In 2012, the Company purchased 626 treasury shares at prices ranging between HRK 550 and HRK 611 per share. In 2013, the Company purchased 713 treasury shares at prices ranging between HRK 569 and HRK 597 per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 27 – PROFIT/ (LOSS) PER SHARE

The basic loss per share is calculated by dividing the Company's net loss the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares. The basic loss per share equals the diluted loss, since there are no dilutive shares.

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
Net profit/ (loss) attributable to shareholders from continuing operations <i>(in thousands of HRK)</i>	(19,788)	31,586	6,263	30,408
Weighted average number of ordinary shares in issue	421,248	421,248	421,248	421,248
Basic/diluted loss per share from continuing operations <i>(in HRK)</i>	(46,97)	74,98	14,87	72,19

NOTE 28 – BORROWINGS

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Finance lease	10,839	11,422	9,683	11,324
Bank borrowings	11,055	20,629	11,055	-
Due to the state (Note 20)	1,864	2,098	1,864	2,098
	23,758	34,149	22,602	13,422
Current portion	(3,192)	(7,643)	(2,916)	(6,025)
Total long-term borrowings	20,566	26,506	19,686	7,397
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Current portion	3,192	7,643	2,916	6,025
Short-term bank borrowings				
Total short-term borrowings	3,192	7,643	2,916	6,025

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 28 – BORROWINGS (continued)

The contractual maturity of borrowings at the reporting date are as follows:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Up to 1 year (current portion)	3,192	7,643	2,916	6,025
Between 1 and 5 years	9,511	25,855	8,631	6,746
Over 5 years	11,055	651	11,055	651
	23,758	34,149	22,602	13,422

Due to the State for sold apartments

In relation to long-term loans given to its employees for apartments, the Company has created a liability to repay to the State budget 65% of all repayments received from the employees (Note 20).

Finance lease

As at 31 December 2016, Luka Ploče d.d. uses three finance leases from a leasing company denominated in EUR and a lease in HRK from the Port Authority.

Finance leases from a leasing company for the purchase of a crane mature in 2016. In 2016, the effective interest rate on these leases was 4,67% (2015: 4,67%). During 2016 the Company agreed on three new financial lease contracts with an effective interest rate of 3,14%-5,11%

As at 31 December 2016 the total finance lease liabilities amounts HRK 3,057 thousand (2015: HRK 4,426 thousand) of which HRK 1,371 thousand are due in 2017.

The lease of the Port Authority concluded in 2008 is repayable in equal monthly instalments and it is secured by promissory notes. The lease matures in 2024. As at 31 December 2013, the Company and the Port Authority adjusted mutual liabilities and receivables arising from the stated finance lease. After the adjustment new information on the financial conditions was obtained, and accordingly the Company impaired the financial commitments by HRK 6,590 thousand, as well as the lease by HRK 5,637 thousand. Finance leases are secured by assets taken under lease whose current value at 31 December 2016 is recorded in Note 16, and with promissory notes, bills of exchange, insurance policies and short-term deposits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 28 – BORROWINGS (continued)

Current value under the finance lease is as follows:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Up to 1 year (current portion)	2,992	5,772	2,718	5,731
Between 1 and 5 years	8,120	5,723	7,120	5,666
Over 5 years	-	-	-	-
Future financing expenses	(273)	(73)	(155)	(73)
Current value of finance lease liabilities	10,839	11,422	9,683	11,324

The carrying amount of borrowings with variable interest rates is as follows (other borrowings are stated at fixed rates):

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
The reference rate: 3-month EURIBOR	10,839	11,422	9,683	11,324

Currency structure of borrowings is as follows:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
EUR	20,907	26,384	20,738	5,658
USD	-	-	-	-
HRK	2,851	7,765	1,864	7,764
	23,758	34,149	22,602	13,422

Currency risk is explained detailed in Note 4.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 29 – PROVISIONS

Group

(in thousands of HRK)

	Legal disputes	Employee benefits	Total
At 1 January 2016	1,877	2,819	4,696
Additional provisions	-	246	246
Released	(298)	(563)	(861)
At 31 December 2016	1,579	2,502	4,081
Analysis of total provisions			
Non-current	1,579	2,138	3,717
Current	-	364	364
	1,579	2,502	4,081

Company

(in thousands of HRK)

	Legal disputes	Employee benefits	Total
At 1 January 2016	1,744	2,226	3,970
Released	-	278	278
Used during the year	(165)	(553)	(718)
At 31 December 2016	1,579	1,951	3,530
Analysis of total provisions			
Non-current	1,579	1,587	3,166
Current	-	364	364
	1,579	1,951	3,530

Provisions relate to legal disputes, long and short-term employee benefits as defined by the collective bargaining agreement. Non-current provisions relate to legal disputes, jubilee awards and retirement benefits, while current provisions relate to the current portion of termination benefits, jubilee awards and unused vacation days as at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 30 – TRADE AND OTHER PAYABLES

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Domestic trade payables	17,036	24,405	20,669	10,033
Foreign trade payables	224	22,738	221	22,686
	<u>17,260</u>	<u>47,143</u>	<u>20,890</u>	<u>32,719</u>
Net salaries payable	3,165	3,480	2,512	2,621
Taxes/contributions from and on salaries	1,894	2,049	1,364	1,400
Due to the state	257	343	172	128
Advances received	-	1,684	-	36
Deferred income	3	115	-	-
Other	-	283	-	88
	<u>22,579</u>	<u>55,097</u>	<u>24,938</u>	<u>36,992</u>

Trade payables comprising financial liabilities are denominated in the following currencies:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
EUR	-	23	-	3
USD	223	22,715	221	22,683
HRK	17,037	24,405	20,669	10,033
	<u>17,260</u>	<u>47,143</u>	<u>20,890</u>	<u>32,719</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 31 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party, is under common control or exercises significant influence over the other party in making financial or operational decisions.

Related parties which were not included in consolidation are the Port Authority as a state institution (entity with influence on the Group's operations in accordance with the Concession agreement) and the associate Vizir d.o.o. Ploče, Lučka Sigurnost d.o.o. Ploče (see Note 18).

Items resulting from transactions and balances with the stated related parties as at 31 December 2016 and 2015 are as follows:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Receivables				
Port Authority	31	54	9	52
Associates	7	-	-	-
Total	38	54	9	52
Liabilities				
Port Authority	417	386	407	381
Associates	239	261	239	261
Total	656	647	646	642
Revenues				
Port Authority	106	113	61	98
Associates	20	17	1	1
Total	126	130	62	99
Expenses				
Port Authority	2,948	3,073	2,914	3,046
Associates	2,588	2,660	2,588	2,659
Total	5,536	5,733	5,502	5,705

The nature of services with the Port Authority (utilities), associates (security of business premises) and entities under common control (insurance, electricity, transport) is based on usual commercial terms.

The costs to the Port Authority include the fees by concession agreements in the amount of HRK 2,910 thousand (2015: HRK 3,024 thousand) of which HRK 1,753 thousand relates to the variable portion of concession fees (2015: HRK 1,860 thousand).

Transactions with related parties

During 2016, the Company purchased goods and services from subsidiaries in the amount of HRK 8,627 thousand (2015: HRK 9,966 thousand) and on 31 December 2016 owed to subsidiaries HRK 4,029 thousand (2015: HRK 4,857 thousand). During 2016, the Company sold goods and services to its subsidiaries in the amount of HRK 2,912 thousand (2015: HRK 3,522 thousand) and

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 31 - RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties (continued)

on 31 December 2016 claimed HRK 4,065 thousand from subsidiaries (2015: HRK 5,413 thousand).

Transactions with shareholders

During 2016 the Company has sold all its shares of Luka Ploče trgovina d.o.o. to Prvo plinarsko društvo d.o.o. on 6 July 2016 for an amount of HRK 27.720 thousand (note 33) as stated by the sale contract.

Transactions with members of the Supervisory Board

The Company as at 31 December 2016, has 308 thousand (2014 .: 342,000 thousand) receivables from loans granted to members of the Supervisory Board at the rate of 4% (see Note 20). During 2016, the Company collected a total of 34 thousand on the basis of the above loans.

Key management compensation

Key management compensation, including five members of the Management Board of the Company (2015: 3) and 7 directors of the Group companies (2015: 7), was as follows:

	Luka Ploče Group		Luka Ploče d.d.	
	2016	2015	2016	2015
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries	1.887	2.637	1.380	1.475
Taxes and contributions	1.477	2.183	1.197	1.419
	3.364	4.820	2.577	2.894

Pension contributions for key management that the Group and the Company paid to mandatory pension funds for 2016 amounted to HRK 2,419 thousand and HRK 483 thousand, respectively (2015: HRK 2,392 thousand and HRK 425 thousand).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 32 – CONTINGENCIES AND COMMITMENTS

Legal disputes

As at 31 December 2016 and 2015, the Group and the Company had no legal disputes arising in the ordinary course of operations, which would result in a potential liability for the Group and the Company.

Commitments

By signing concession agreements for the construction of the terminal for bulk cargo, the Company and the Group member Luka Ploče Trgovina committed to invest in transshipment equipment the amount of HRK 351 million.

Planned investment is to be executed in two phases.

Completion of the first phase is planned mid-2018., and second phase is planned after eighty percent (80%) of maximum possible 4,6 million metric tons annually capacity is reached as will be made possible after phase one.

Source of finance for phase one is a loan from HBOR and own resources.

Financial contracts states that investment plans are to be reviewed every year and ,as a result, can be changed.

Concession agreement states an outline obligation of maximum HRK 351,000 thousand (until 31 December 2016 HRK 110,474 thousand are invested). Lučka Uprava Ploče continually determines values of investing during that period.

	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Bulk Terminal equipment	141,887	22,500	-	76,139	240,526
Other	7,530	-	-	-	7,530
	149,417	22,500	-	76,139	248,056

Except commitments for capital expenditures per the concession agreement, the Group and Company have an obligation to pay the concession fee consisted of a fixed part calculated per square meter of surface area under concession, which is for 2016 amounted to HRK 1,157 thousand (2015 .: HRK 1,164 thousand) while the variable part depends primarily on the quantity of cargo transported.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 33 – SUBSIDIARY SALES

During 2016 Company sold their interest in Luka Ploče trgovina d.o.o. as stated in contract of sale and transferred all their shares to Prvo plinarsko društvo d.o.o. on 6 July 2016. for an amount of 27.700 HRK (note 12). Financial data regarding the sale of Luka Ploče trgovina are displayed bellow:

a) Financial data

Time frame of presented balance and financial data is until 6 July 2016.

(in thousands of HRK)

	<u>Luka Ploče trgovina</u>
	<u>2016.</u>
Property, plant and equipment	148,354
Value adjustment for assets	(24,609)
Value of assets	123,745
Inventories	234
Trade and other receivables	2,379
Short-term deposits	300
Cash and cash equivalents	219
Prepayments and accrued income	83
Long term loans	(73,824)
Reserves	(194)
Short term loans	(25,222)
Accruals and deferred income	(4)
Net assets	27,716
Percentage of non-controlling interest	0%
	<u>2016.</u>
Operating income	5,996
Operating expenses	(29,541)
Loss before taxation	(23,545)
Income tax	-
Loss after taxation	(23,545)
Profit from subsidiary sale	4
Gain from subsidiary sale	(23,541)

(a) Details of subsidiary sale

Income	27,720
Present value of sold subsidiary company	(27,716)
Profit from sale before taxation	4
Taxes	-
Profit from sale after taxation	4
