

**LUKA RIJEKA d.d.**

Annual Report

for the year ended 31 December  
2018

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

### ISSUER'S GENERAL DATA

Reporting period:

1.1.2018

to

31.12.2018

Year:

2018

### Annual financial statements

Registration number (MB): 03330494

Issuer's home Member State code: HR

Entity's registration number (MBS): 040141664

Personal identification number (OIB): 92590920313

LEI: 74780000F0FHSC596W39

Institution code: 1333

Name of the issuer: PORT OF RIJEKA J.S.C.

Postcode and town: 51000

RIJEKA

Street and house number: Riva 1

E-mail address: uprava@lukarijeka.hr

Web address: www.lukarijeka.hr

Number of employees (end of the reporting): 572

Consolidated report: KN (KN-not consolidated/KD-consolidated)

Audited: RD (RN-not audited/RD-audited)

Names of subsidiaries (according to IFRS)

Registered office:

MB:

Bookkeeping firm: No (Yes/No)

(name of the bookkeeping firm)

Contact person: Mirta Bačić Vidović  
(only name and surname of the contact person)

Telephone: 051 496 629

E-mail address: financije@lukarijeka.hr

Audit firm: KPMG Croatia d.o.o.  
(name of the audit firm)

Certified auditor: Igor Gošek  
(name and surname)

**BALANCE SHEET**  
balance as at 31.12.2018

in HRK

Submitter: PORT OF RIJEKA J.S.C.			
Item	ADP code	Last day of the preceding business year	At the reporting date of the current period
1	2	3	4
<b>A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID</b>	<b>001</b>	0	0
<b>B) FIXED ASSETS (ADP 003+010+020+031+036)</b>	<b>002</b>	622.394.138	627.930.851
<b>I INTANGIBLE ASSETS (ADP 004 to 009)</b>	<b>003</b>	480.873	325.643
1 Research and development	004	0	0
2 Concessions, patents, licences, trademarks, software and other rights	005	480.873	325.643
3 Goodwill	006	0	0
4 Advance payments for purchase of intangible assets	007	0	0
5 Intangible assets in preparation	008	0	0
6 Other intangible assets	009	0	0
<b>II TANGIBLE ASSETS (ADP 011 to 019)</b>	<b>010</b>	587.661.301	599.377.413
1 Land	011	229.075.870	214.283.420
2 Buildings	012	108.637.611	217.757.923
3 Plant and equipment	013	2.089.174	2.127.531
4 Tools, working inventory and transportation assets	014	50.718.889	46.451.817
5 Biological assets	015	0	0
6 Advance payments for purchase of tangible assets	016	212.500	480.590
7 Tangible assets in preparation	017	190.496.124	111.964.323
8 Other tangible assets	018	325.736	325.736
9 Investment property	019	6.105.397	5.986.073
<b>III FIXED FINANCIAL ASSETS (ADP 021 to 030)</b>	<b>020</b>	12.057.013	11.985.336
1 Investments in holdings (shares) of undertakings within the group	021	40.000	40.000
2 Investments in other securities of undertakings within the group	022	0	0
3 Loans, deposits, etc. to undertakings within the group	023	0	0
4 Investments in holdings (shares) of companies linked by virtue of participating interest	024	11.767.170	11.820.810
5 Investment in other securities of companies linked by virtue of participating interest	025	0	0
6 Loans, deposits etc. given to companies linked by virtue of participating interest	026	0	0
7 Investments in securities	027	249.843	124.526
8 Loans, deposits, etc. given	028	0	0
9 Other investments accounted for using the equity method	029	0	0
10 Other fixed financial assets	030	0	0
<b>IV RECEIVABLES (ADP 032 to 035)</b>	<b>031</b>	4.339.884	3.096.861
1 Receivables from undertakings within the group	032	0	0
2 Receivables from companies linked by virtue of participating interests	033	0	0
3 Customer receivables	034	4.339.884	3.096.861
4 Other receivables	035	0	0
V. Deferred tax assets	036	17.855.067	13.145.598
<b>C) CURRENT ASSETS (ADP 038+046+053+063)</b>	<b>037</b>	101.206.339	88.874.906
<b>I INVENTORIES (ADP 039 to 045)</b>	<b>038</b>	531.876	1.803.894
1 Raw materials	039	531.876	1.803.894
2 Work in progress	040	0	0
3 Finished goods	041	0	0
4 Merchandise	042	0	0
5 Advance payments for inventories	043	0	0
6 Fixed assets held for sale	044	0	0
7 Biological assets	045	0	0
<b>II RECEIVABLES (ADP 047 to 052)</b>	<b>046</b>	28.105.134	26.377.465
1 Receivables from undertakings within the group	047	399.569	545.412
2 Receivables from companies linked by virtue of participating interest	048	0	0

3 Customer receivables	049	25.794.014	24.798.033
4 Receivables from employees and members of the undertaking	050	1.643	893
5 Receivables from government and other institutions	051	1.843.107	611.682
6 Other receivables	052	66.801	421.445
<b>III SHORT-TERM FINANCIAL ASSETS (ADP 054 to 062)</b>	<b>053</b>	<b>70.249.290</b>	<b>9.992.658</b>
1 Investments in holdings (shares) of undertakings within the group	054	0	0
2 Investments in other securities of undertakings within the group	055	0	0
3 Loans, deposits, etc. to undertakings within the group	056	0	0
4 Investments in holdings (shares) of companies linked by virtue of participating interest	057	0	0
5 Investment in other securities of companies linked by virtue of participating interest	058	0	0
6 Loans, deposits etc. given to companies linked by virtue of participating interest	059	0	0
7 Investments in securities	060	0	0
8 Loans, deposits, etc. given	061	70.249.290	9.992.658
9 Other financial assets	062	0	0
<b>IV CASH AT BANK AND IN HAND</b>	<b>063</b>	<b>2.320.039</b>	<b>50.700.889</b>
<b>D ) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>064</b>	<b>1.045.720</b>	<b>776.855</b>
<b>E) TOTAL ASSETS (ADP 001+002+037+064)</b>	<b>065</b>	<b>724.646.197</b>	<b>717.582.612</b>
<b>OFF-BALANCE SHEET ITEMS</b>	<b>066</b>	<b>804.016</b>	<b>804.016</b>
<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (ADP 068 to</b>	<b>067</b>	<b>609.452.742</b>	<b>576.869.571</b>
<b>I. INITIAL (SUBSCRIBED) CAPITAL</b>	<b>068</b>	<b>539.219.000</b>	<b>539.219.000</b>
<b>II CAPITAL RESERVES</b>	<b>069</b>	<b>38.623.828</b>	<b>38.623.828</b>
<b>III RESERVES FROM PROFIT (ADP 071+072-073+074+075)</b>	<b>070</b>	<b>0</b>	<b>0</b>
1 Legal reserves	071	0	0
2 Reserves for treasury shares	072	0	0
3 Treasury shares and holdings (deductible item)	073	0	0
4 Statutory reserves	074	0	0
5 Other reserves	075	0	0
<b>IV REVALUATION RESERVES</b>	<b>076</b>	<b>36.634.056</b>	<b>34.054.579</b>
<b>V FAIR VALUE RESERVES (ADP 078 to 080)</b>	<b>077</b>	<b>78.947</b>	<b>49.493</b>
1 Fair value of financial assets available for sale	078	78.947	49.493
2 Cash flow hedge - effective portion	079	0	0
3 Hedge of a net investment in a foreign operation - effective portion	080	0	0
<b>VI RETAINED PROFIT OR LOSS BROUGHT FORWARD (ADP 082-083)</b>	<b>081</b>	<b>1.508.182</b>	<b>-5.103.089</b>
1 Retained profit	082	1.508.182	0
2 Loss brought forward	083	0	5.103.089
<b>VII PROFIT OR LOSS FOR THE BUSINESS YEAR (ADP 085-086)</b>	<b>084</b>	<b>-6.611.271</b>	<b>-29.974.240</b>
1 Profit for the business year	085	0	0
2 Loss for the business year	086	6.611.271	29.974.240
<b>VIII MINORITY (NON-CONTROLLING) INTEREST</b>	<b>087</b>	<b>0</b>	<b>0</b>
<b>B) PROVISIONS (ADP 089 to 094)</b>	<b>088</b>	<b>8.907.959</b>	<b>5.140.220</b>
1 Provisions for pensions, termination benefits and similar obligations	089	2.655.584	2.477.663
2 Provisions for tax liabilities	090	0	0
3 Provisions for ongoing legal cases	091	0	0
4 Provisions for renewal of natural resources	092	0	0
5 Provisions for warranty obligations	093	0	0
6 Other provisions	094	6.252.375	2.662.557
<b>C) LONG-TERM LIABILITIES (ADP 096 to 106)</b>	<b>095</b>	<b>36.394.081</b>	<b>61.304.036</b>
1 Liabilities towards undertakings within the group	096	0	0
2 Liabilities for loans, deposits, etc. to companies within the group	097	0	0
3 Liabilities towards companies linked by virtue of participating interest	098	0	0
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest	099	0	0
5 Liabilities for loans, deposits etc.	100	0	0
6 Liabilities towards banks and other financial institutions	101	20.651.835	48.492.125
7 Liabilities for advance payments	102	0	0
8 Liabilities towards suppliers	103	7.700.624	5.326.860

9 Liabilities for securities	104	0	0
10 Other long-term liabilities	105	0	0
11 Deferred tax liability	106	8.041.622	7.485.051
<b>D) SHORT-TERM LIABILITIES (ADP 108 to 121)</b>	<b>107</b>	<b>54.191.865</b>	<b>49.066.705</b>
1 Liabilities towards undertakings within the group	108	897.286	879.893
2 Liabilities for loans, deposits, etc. to companies within the group	109	0	0
3 Liabilities towards companies linked by virtue of participating interest	110	0	0
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest	111	0	0
5 Liabilities for loans, deposits etc.	112	11.037.543	7.770.423
6 Liabilities towards banks and other financial institutions	113	5.407.461	7.534.025
7 Liabilities for advance payments	114	0	0
8 Liabilities towards suppliers	115	25.965.834	22.355.831
9 Liabilities for securities	116	0	0
10 Liabilities towards employees	117	3.461.160	3.476.354
11 Taxes, contributions and similar liabilities	118	3.905.421	3.507.776
12 Liabilities arising from the share in the result	119	0	0
13 Liabilities arising from fixed assets held for sale	120	0	0
14 Other short-term liabilities	121	3.517.160	3.542.403
<b>E) ACCRUALS AND DEFERRED INCOME</b>	<b>122</b>	<b>15.699.550</b>	<b>25.202.080</b>
<b>F) TOTAL – LIABILITIES (ADP 067+088+095+107+122)</b>	<b>123</b>	<b>724.646.197</b>	<b>717.582.612</b>
<b>G) OFF-BALANCE SHEET ITEMS</b>	<b>124</b>	<b>804.016</b>	<b>804.016</b>

**STATEMENT OF PROFIT OR LOSS**  
for the period 01.01.2018 to 31.12.2018

in HRK

Submitter: PORT OF RIJEKA J.S.C.			
Item 1	ADP code 2	Same period of the previous year 3	Current period 4
<b>I OPERATING INCOME (ADP 126 to 130)</b>	<b>125</b>	166.719.198	156.439.286
1 Income from sales with undertakings within the group	126	8.235	2.200
2 Income from sales (outside group)	127	154.829.078	143.447.634
3 Income from the use of own products, goods and services	128	0	0
4 Other operating income with undertakings within the group	129	118.366	92.108
5 Other operating income (outside the group)	130	11.763.519	12.897.344
<b>II OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)</b>	<b>131</b>	177.431.241	193.905.551
1 Changes in inventories of work in progress and finished goods	132	0	0
2 Material costs (ADP 134 to 136)	133	66.270.570	62.327.295
a) Costs of raw material	134	18.718.779	17.378.519
b) Costs of goods sold	135	0	0
c) Other external costs	136	47.551.791	44.948.776
3 Staff costs (ADP 138 to 140)	137	65.196.104	66.468.919
a) Net salaries and wages	138	40.918.663	41.250.083
b) Tax and contributions from salaries expenses	139	14.720.486	15.471.699
c) Contributions on salaries	140	9.556.955	9.747.137
4 Depreciation	141	9.767.498	9.923.146
5 Other expenses	142	26.220.674	25.424.806
6 Value adjustments (ADP 144+145)	143	381.485	27.061.286
a) fixed assets other than financial assets	144	0	26.989.808
b) current assets other than financial assets	145	381.485	71.478
7 Provisions (ADP 147 to 152)	146	6.252.375	623.717
a) Provisions for pensions, termination benefits and similar obligations	147	0	0
b) Provisions for tax liabilities	148	0	0
c) Provisions for ongoing legal cases	149	6.252.375	623.717
d) Provisions for renewal of natural resources	150	0	0
e) Provisions for warranty obligations	151	0	0
f) Other provisions	152	0	0
8 Other operating expenses	153	3.342.535	2.076.382
<b>III FINANCIAL INCOME (ADP 155 to 164)</b>	<b>154</b>	13.083.648	14.532.897
1 Income from investments in holdings (shares) of undertakings within the group	155	0	261.222
2 Income from investments in holdings (shares) of companies linked by virtue of participating interest	156	6.537.330	11.591.588
3 Income from other long-term financial investment and loans granted to undertakings within the group	157	0	0
4 Other interest income from operations with undertakings within the group	158	0	0
5 Exchange rate differences and other financial income from operations with undertakings within the group	159	0	0
6 Income from other long-term financial investments and loans	160	0	0
7 Other interest income	161	1.913.031	583.465
8 Exchange rate differences and other financial income	162	4.633.287	2.096.622
9 Unrealised gains (income) from financial assets	163	0	0
10 Other financial income	164	0	0
<b>IV FINANCIAL EXPENDITURE (ADP 166 to 172)</b>	<b>165</b>	8.890.115	3.880.208
1 Interest expenses and similar expenses with undertakings within the group	166	0	0
2 Exchange rate differences and other expenses from operations with undertakings within the group	167	0	0
3 Interest expenses and similar expenses	168	2.626.977	1.064.522
4 Exchange rate differences and other expenses	169	4.900.983	1.878.791
5 Unrealised losses (expenses) from financial assets	170	0	0
6 Value adjustments of financial assets (net)	171	0	0

7 Other financial expenses	172	1.362.155	936.895
<b>V SHARE IN PROFIT FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST</b>	<b>173</b>	<b>0</b>	<b>0</b>
<b>VI SHARE IN PROFIT FROM JOINT VENTURES</b>	<b>174</b>	<b>0</b>	<b>0</b>
<b>VII SHARE IN LOSS OF COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST</b>	<b>175</b>	<b>0</b>	<b>0</b>
<b>VIII SHARE IN LOSS OF JOINT VENTURES</b>	<b>176</b>	<b>0</b>	<b>0</b>
<b>IX TOTAL INCOME (ADP 125+154+173 + 174)</b>	<b>177</b>	<b>179.802.846</b>	<b>170.972.183</b>
<b>X TOTAL EXPENDITURE (ADP 131+165+175 + 176)</b>	<b>178</b>	<b>186.321.356</b>	<b>197.785.759</b>
<b>XI PRE-TAX PROFIT OR LOSS (ADP 177-178)</b>	<b>179</b>	<b>-6.518.510</b>	<b>-26.813.576</b>
1 Pre-tax profit (ADP 177-178)	180	0	0
2 Pre-tax loss (ADP 178-177)	181	-6.518.510	-26.813.576
<b>XII INCOME TAX</b>	<b>182</b>	<b>92.761</b>	<b>3.160.664</b>
<b>XIII PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)</b>	<b>183</b>	<b>-6.611.271</b>	<b>-29.974.240</b>
1 Profit for the period (ADP 179-182)	184	0	0
2 Loss for the period (ADP 182-179)	185	-6.611.271	-29.974.240
<b>DISCONTINUED OPERATIONS (to be filled in by undertakings subject to IFRS only with discontinued operations)</b>			
<b>XIV PRE-TAX PROFIT OR LOSS OF DISCONTINUED OPERATIONS (ADP 187-188)</b>	<b>186</b>	<b>0</b>	<b>0</b>
1 Pre-tax profit from discontinued operations	187	0	0
2 Pre-tax loss on discontinued operations	188	0	0
<b>XV INCOME TAX OF DISCONTINUED OPERATIONS</b>	<b>189</b>	<b>0</b>	<b>0</b>
1 Discontinued operations profit for the period (ADP 186-189)	190		
2 Discontinued operations loss for the period (ADP 189-186)	191		
<b>TOTAL OPERATIONS (to be filled in only by undertakings subject to IFRS with discontinued operations)</b>			
<b>XVI PRE-TAX PROFIT OR LOSS (ADP 179+186)</b>	<b>192</b>		
1 Pre-tax profit (ADP 192)	193	0	0
2 Pre-tax loss (ADP 192)	194	0	0
<b>XVII INCOME TAX (ADP 182+189)</b>	<b>195</b>		
<b>XVIII PROFIT OR LOSS FOR THE PERIOD (ADP 192-195)</b>	<b>196</b>		
1 Profit for the period (ADP 192-195)	197		
2 Loss for the period (ADP 195-192)	198		
<b>APPENDIX to the P&amp;L (to be filled in by undertakings that draw up consolidated annual financial statements)</b>			
<b>XIX PROFIT OR LOSS FOR THE PERIOD (ADP 200+201)</b>	<b>199</b>	<b>0</b>	<b>0</b>
1 Attributable to owners of the parent	200	0	0
2 Attributable to minority (non-controlling) interest	201	0	0
<b>STATEMENT OF OTHER COMPREHENSIVE INCOME (to be filled in by undertakings subject to IFRS)</b>			
<b>I PROFIT OR LOSS FOR THE PERIOD</b>	<b>202</b>	<b>-6.611.271</b>	<b>-29.974.240</b>
<b>II OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (ADP 204 to 211)</b>	<b>203</b>	<b>54.958</b>	<b>-3.181.623</b>
1 Exchange rate differences from translation of foreign operations	204	0	0
2 Changes in revaluation reserves of fixed tangible and intangible assets	205	0	-3.145.703
3 Profit or loss arising from re-evaluation of financial assets available for sale	206	54.958	-35.920
4 Profit or loss arising from effective cash flow hedging	207	0	0
5 Profit or loss arising from effective hedge of a net investment in a foreign operation	208	0	0
6 Share in other comprehensive income/loss of companies linked by virtue of participating interest	209	0	0
7 Actuarial gains/losses on defined remuneration plans	210	0	0
8 Other changes in equity unrelated to owners	211	0	0
<b>III TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>212</b>	<b>11.132</b>	<b>-572.692</b>
<b>IV NET OTHER COMPREHENSIVE INCOME OR LOSS (ADP 203-212)</b>	<b>213</b>	<b>43.826</b>	<b>-2.608.931</b>
<b>V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 202+213)</b>	<b>214</b>	<b>-6.567.445</b>	<b>-32.583.171</b>
<b>APPENDIX to the Statement on comprehensive income (to be filled in by entrepreneurs who draw up consolidated statements)</b>			
<b>VI COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 216+217)</b>	<b>215</b>	<b>0</b>	<b>0</b>
1 Attributable to owners of the parent	216	0	0
2 Attributable to minority (non-controlling) interest	217	0	0

**STATEMENT OF CASH FLOWS - indirect method**  
for the period 01.01.2018 to 31.12.2018

in HRK

Submitter: PORT OF RIJEKA J.S.C.			
Item	ADP code	Same period of the previous year	Current period
1	2	3	4
<b>Cash flow from operating activities</b>			
1 Pre-tax profit	001	-6.518.510	-26.813.576
2 Adjustments (ADP 003 to 010):	002	7.729.257	38.359.220
a) Depreciation	003	9.767.498	9.923.146
b) Gains and losses from sale and value adjustment of fixed tangible and intangible assets	004	-519.745	-66.202
c) Gains and losses from sale and unrealised gains and losses and value adjustment of financial assets	005	23.838	35.757
d) Interest and dividend income	006	-1.913.031	-583.465
e) Interest expenses	007	3.672.275	2.384.451
f) Provisions	008	-546.063	-177.921
g) Exchange rate differences (unrealised)	009	-3.137.000	-217.832
h) Other adjustments for non-cash transactions and unrealised gains and losses	010	381.485	27.061.286
<b>I Cash flow increase or decrease before changes in the working capital (ADP 001+002)</b>	<b>011</b>	<b>1.210.747</b>	<b>11.545.644</b>
3 Changes in the working capital (ADP 013 to 016)	012	28.081.469	7.204.504
a) Increase or decrease in short-term liabilities	013	16.380.000	7.488.810
b) Increase or decrease in short-term receivables	014	12.520.000	2.033.493
c) Increase or decrease in inventories	015	294.469	1.272.018
d) Other increase or decrease in the working capital	016	-1.113.000	-3.589.817
<b>II Cash from operations (ADP 011+012)</b>	<b>017</b>	<b>29.292.216</b>	<b>18.750.148</b>
4 Interest paid	018	-3.703.000	-1.842.188
5 Income tax paid	019	22.000	0
<b>A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)</b>	<b>020</b>	<b>25.611.216</b>	<b>16.907.960</b>
<b>Cash flow from investment activities</b>			
1 Cash receipts from sales of fixed tangible and intangible assets	021	224.750	3.867.533
2 Cash receipts from sales of financial instruments	022	0	0
3 Interest received	023	1.913.031	583.465
4 Dividends received	024	0	0
5 Cash receipts from repayment of loans and deposits	025	0	0
6 Other cash receipts from investment activities	026	111.960.565	60.306.605
<b>III Total cash receipts from investment activities (ADP 021 to 026)</b>	<b>027</b>	<b>114.098.346</b>	<b>64.757.603</b>
1 Cash payments for the purchase of fixed tangible and intangible assets	028	-125.571.767	-21.484.028
2 Cash payments for the acquisition of financial instruments	029	0	0
3 Cash payments for loans and deposits for the period	030	0	0
4 Acquisition of a subsidiary, net of cash acquired	031	0	0
5 Other cash payments from investment activities	032	0	0
<b>IV Total cash payments from investment activities (ADP 028 to 032)</b>	<b>033</b>	<b>-125.571.767</b>	<b>-21.484.028</b>
<b>B) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 027 +033)</b>	<b>034</b>	<b>-11.473.421</b>	<b>43.273.575</b>
<b>Cash flow from financing activities</b>			
1 Cash receipts from the increase of initial (subscribed) capital	035	0	0
2 Cash receipts from the issue of equity financial instruments and debt financial instruments	036	0	0
3 Cash receipts from credit principals, loans and other borrowings	037	0	0
4 Other cash receipts from financing activities	038	0	0
<b>V Total cash receipts from financing activities (ADP 035 to 038)</b>	<b>039</b>	<b>0</b>	<b>0</b>
1 Cash payments for the repayment of credit principals, loans and other borrowings and debt financial instruments	040	-12.211.585	-7.912.362



2 Dividends paid	041	0	0
3 Cash payments for finance lease	042	-3.005.000	-3.888.323
4 Cash payments for the redemption of treasury shares and decrease of initial (subscribed) capital	043	0	0
5 Other cash payments from financing activities	044	0	0
<b>VI Total cash payments from financing activities (ADP 040 to 044)</b>	<b>045</b>	<b>-15.216.585</b>	<b>-11.800.685</b>
<b>C) NET CASH FLOW FROM FINANCING ACTIVITIES (ADP 039 +045)</b>	<b>046</b>	<b>-15.216.585</b>	<b>-11.800.685</b>
1 Unrealised exchange rate differences in cash and cash equivalents	047	0	0
<b>D) NET INCREASE OR DECREASE OF CASH FLOWS (ADP 020+034+046+047)</b>	<b>048</b>	<b>-1.078.790</b>	<b>48.380.850</b>
<b>E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>049</b>	<b>3.398.829</b>	<b>2.320.039</b>
<b>F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD(ADP 048+049)</b>	<b>050</b>	<b>2.320.039</b>	<b>50.700.889</b>





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**LUKA RIJEKA GROUP**  
**MANAGEMENT REPORT FOR THE**  
**YEAR ENDED 31 DECEMBER 2018**

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

Rijeka, April 2019



**STRUCTURE OF LUKA RIJEKA GROUP**

The Group is comprised of the following companies:

**LUKA RIJEKA d.d. Rijeka (the Company)**

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

**LUKA - PRIJEVOZ d.o.o. Kukuljanovo**, 100% owned by Luka Rijeka d.d., whose principal activity is providing transport services.

The company is headquartered at Kukuljanovo 460, Kukuljanovo.

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

The company is headquartered at Dubrovačka 4, Rijeka.

Luka Rijeka d.d. holds a 49% ownership share in **Jadranska vrata d.d., Rijeka** and is consolidated using the equity method of accounting recognising the Group's share in the profit or loss of the equity accounted investee AGCT.

As at 31 December 2018, the Company's share capital amounted to HRK 539,219 thousand, distributed among 13,480,475 shares with a nominal value of each share amounting to HRK 40. All issued shares are fully paid in and authorised.

The ownership interest of CERP, institution of the Republic of Croatia, was at 31 December 2018. 25.02%.

The biggest single private investor is polish company OT LOGISTIC S.A. with the share of 26.51% in ownership structure of Company.

## Management report for the year ended 31 December 2018

### STRUCTURE OF LUKA RIJEKA GROUP (continued)

The overview of key shareholders and the ownership structure of the Company as at 31 December 2018 is as follows:

Shareholder	Number of shares	% of ownership
OT LOGISTICS SPOLKA AKCYJNA	3,574,116	26.51%
CERP/ Republic of Croatia	3,372,495	25.02%
OTP BANK d.d. /AZ OMF B category	2,020,492	14.99%
PRIVREDNA BANKA ZAGREB D.D./ STATE STREET CLIENT ACCOUNT	1,179,425	8.75%
Addiko Bank d.d. / PBZ CO OMF B category	1,024,100	7.60%
OTP BANK d.d. /ERSTE PLAVI OMF B category	1,017,260	7.55%
OTP BANK d.d. /ERSTE PLAVI EXPERT –Voluntary Pensions Fund	136,370	1.01%
OTP BANK d.d. /AZ MANDATORY PENSIONS FUND A category	115,000	0.85%
Zagrebačka Banka d.d. /AZ PROFIT Open Voluntary Pensions Fund	95,575	0.71%
OTP BANK d.d. /ERSTE PLAVI OMF category A	38,800	0.29%
Other shareholders	906,842	6.72%
<b>TOTAL</b>	<b>13,480,475</b>	<b>100.00%</b>

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

## Management report for the year ended 31 December 2018

### Management and Supervisory Bodies and Committees

#### **Audit committee**

Members of the Audit committee during 2018 were as follows:

Duško Grabovac	President
Alen Jugović	Member
Jerzy Grezegorz Majewski	Member

#### **Supervisory Board**

Members of the Supervisory Board during 2018 were as follows:

Alen Jugović	Member from 20.01.2017 - President from 27.12.2017
Zbigniew Nowik	Vice president from 27.12.2017
Jerzy Grezegorz Majewski	Member from 27.12.2017
Duško Grabovac	Member from 27.12.2017
Dragica Varljen	Member from 04.07.2018
Krešimir Trtanj	Member from 15.05.2015 to 04.07.2018

#### **Management Board**

Members of the Management Board during 2018 were as follows:

Jędrzej Mirosław Mierzewski	President from 01.01.2018 to 01.04.2019
Tomislav Kalafatić	Member from 06.02.2018
Vedran Tičac	Member from 01.01.2018 to 19.06.2018
Bartłomiej M. Pastwa	Member from 19.06.2018



**KEY EVENTS**

**Project Škrljevo**

In 2018 the work was completed on the usable units 1 and 3, for which usage permits were obtained. Total amount of HRK 44,510,129 was invested in LPS Škrljevo in 2018, while the total amount invested since the beginning of the construction amounted to HRK 200 million. By completing the usable units 1 and 3, the port of Rijeka increased its closed storage capacities for an additional area of approx. 26,000 m<sup>2</sup>, ie received covered spaces with a total area of approximately 35,000 m<sup>2</sup>. An additional 14,000 square meters of space have been designated for the container depot, which in the future, if necessary, the growth of traffic can be further increased in order to be able to service all containers. An additional plus of the story is certainly a completely reconstructed railway industrial track that will allow the transshipment of wagons in all weather conditions. In addition, substation and sprinkler stations, traffic and other supporting infrastructure have been built. On 07.03.2019, Škrljevo got last use permit, so the terminal is now completely in use.

**NATURAL INDICATORS OF OPERATIONS**

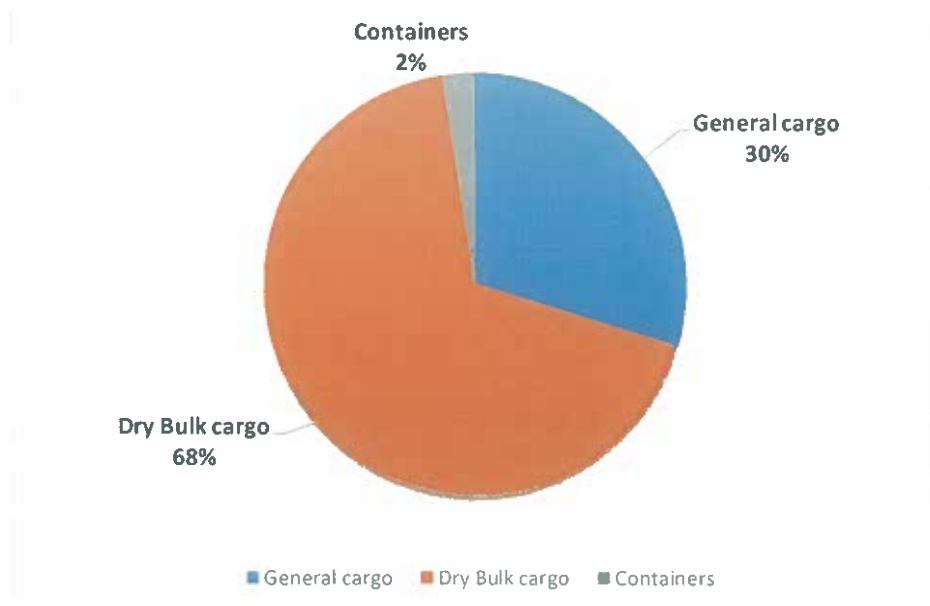
**Total turnover**

In the January to December, throughput amounted to 2,534,422 tons of cargo. Dry bulk cargo increased by 6%, and 1,717,192 tons were transhipped in that period.

Total throughput of Luka Rijeka d.d. from January to December 2017/2018 was as follows:

Luka Rijeka	Realization 01.-12.2017	Plan 2018	Realization 01.-12.2018	Index 2018/2017	Index 2018/Plan
General cargo (tons)	857,944	838,500	753,696	88	90
Dry Bulk Cargo (tons)	1,613,388	1,678,150	1,717,192	106	102
Containers (tons)	75,906	80,000	63,534	84	79
<b>TOTAL (tons)</b>	<b>2,547,238</b>	<b>2,596,650</b>	<b>2,534,422</b>	<b>99</b>	<b>98</b>

Structure of turnover Luka Rijeka d.d. in 2018:



**NATURAL INDICATORS OF OPERATIONS (continued)**

**General cargo**

Total throughput of general cargo in 2018 amounts to 753,696 tons. The index is 88 compared to the observed period of 2017. The general cargo structure in the throughput realized during the reporting period indicates two dominant types of cargo. These are wood and metal products hence the trends of these types of cargo reflect in the realization of total throughput of general cargo. Total wood throughput (conventional and filling of containers) in the observed period of 2018 amounts to 436,961 tons, which represents 58% of the total general cargo throughput. The results show that wood relocation accounted for 93% of the annual plan. With the share of 23%, the throughput of metal products has a significant place in the general cargo throughput. In the observed period annual Plan is realized with 92%. It is important to note that the throughput of cattle, agri general cargo and fruit increased in the observed period. Cattle cargo increased by 16% compared to last year's 55,331 tons and accounted for 93% of the annual Plan. Agri general cargo increased by 40% and in 2018 and has exceeded the planned amount by 47% as the amount of livestock feed increases with the increase of cattle throughput. Throughput of fruit increased by 3% and exceeded annual Plan for 14%.

**Bulk cargo**

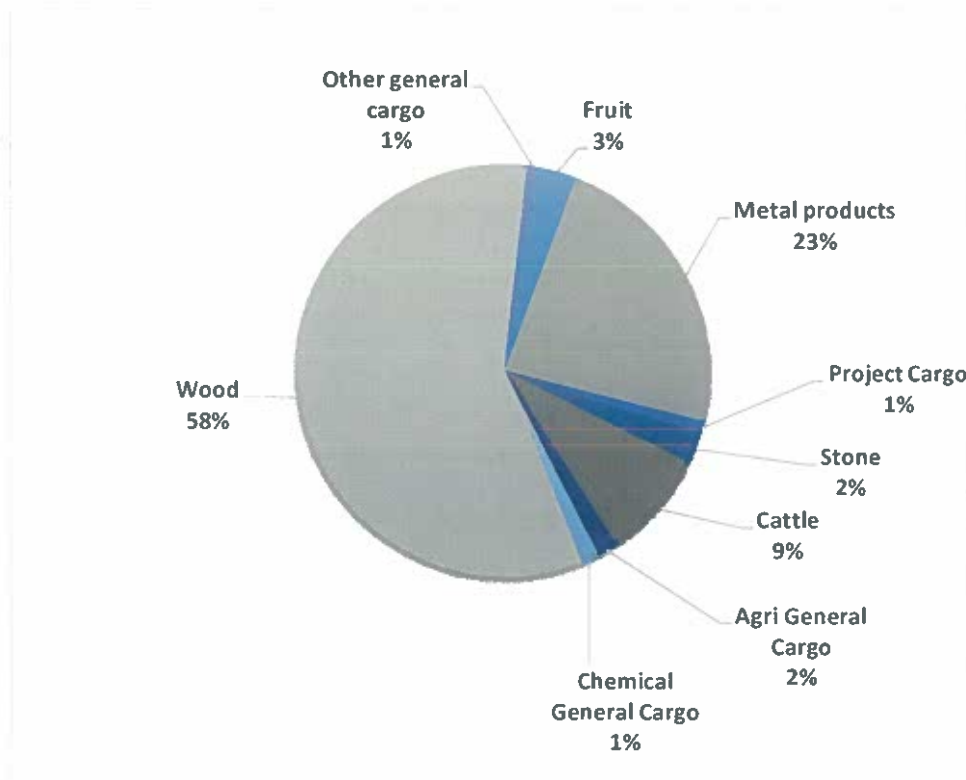
In the observed period 01.-12.2018, a total of 1,717,192 tons were realized compared with the 1,613,388 tons of throughput realized in 2017. We reached an increase of 6% and Plan exceeded with 2%. In 2018, the realized coal throughput increased by 3% compared to the previous year, with 531,453 tons compared to 517,427 tons in 2017. Total throughput of iron ore in 2018. is 668,071 tons, and the year ended with index 134. Salt throughput increased by 33% in the observed period with 161,463 tons of cargo and the annual plan is exceeded for 35%. In this reporting period, cement throughput realizes 3% increase compared to the last year and 3% more than planned. Regarding bulk cargo, we should mention scrap metal, which increased on 88,087 tons in this period and 14% compared to the last year's period. Gravel increased by 7% and realized annual plan with index 105. Both, sugar beet and fertilizers exceeded the planned throughput for 2018.

**Container turnover**

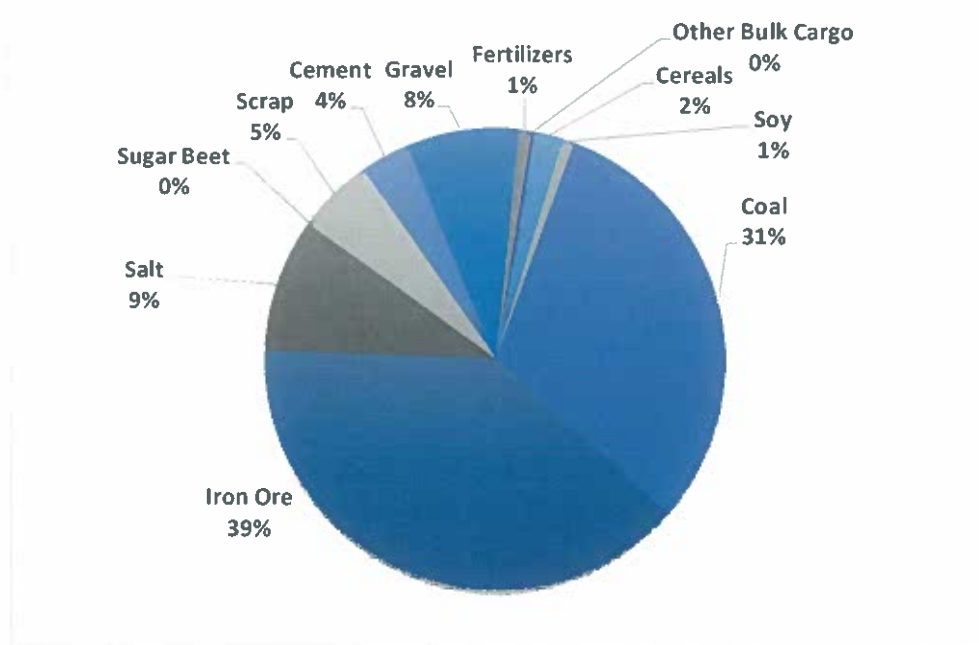
Associate company Jadranska vrata d.d. achieved throughput of 227,375 TEU units, and increase of 8%. Jadranska vrata d.d. are doing the job of transportation of containers from container ships to trucks and wagons. Container throughput on Luka Rijeka d.d. terminals shows a decrease to 33,000 TEU in observed period of 2018 from 2017. Luka Rijeka d.d. deals with container loading and unloading services, and land-based manipulations of cargo from Terminal Brajdica to Terminal Škrljevo and Terminal Zapad (and vice versa).

NATURAL INDICATORS OF OPERATIONS (continued)

General cargo structure:



Bulk cargo structure:



## Management report for the year ended 31 December 2018

### FINANCIAL INDICATORS

Key financial indicators of the Group are as follows:

Indicators	HRK 000		
	31.12.2017.	31.12.2018.	index 2018/2017
1	2	3	4=3/2
<b>Liquidity ratios</b>			
Working capital hrk	29,097	14,623	50
Current liquidity	1.39	1.19	86
<b>Debt indicators</b>			
Short-term liabilities/capital	0.11	0.12	108
Long-term liabilities/capital	0.07	0.10	157
Borrowing/capital	0.06	0.10	160
Total liabilities/assets	0.15	0.18	122
<b>Profitability ratios</b>			
EBIT hrk	-9,989	-10,528	
EBITDA hrk	534	178	
EBITDA margin	0.32%	0.11%	
EBIT margin	-5.95%	-6.70%	
NET margin	-0.77%	-18.38%	
<b>Productivity indicators</b>			
Number of employees	620	587	95
Revenue per employee hrk	270,587	267,741	99

\*EBIT = business revenue – business cost + value adjustment

\*\*EBITDA = EBIT + depreciation

Cash on account and cash desk includes the amount of HRK 20,003,646.09 (according to the middle exchange rate of the CNB on 31 December 2018) received on behalf of the CEF project which serves for the exclusive purpose of the project and cannot be used for other business.

Luka Rijeka is required to assess whether the recoverable value of all of its assets is higher or lower than their net book value – i.e. it is required to assess whether impairment of assets exists. This is a requirement of International Financial Reporting Standards (“IFRS”) and is applicable for all entities which report under IFRS and has significant impact on profit and loss account for 2018, which is HRK 26,989,808.

## Management report for the year ended 31 December 2018

### FINANCIAL INDICATORS (continued)

Key financial indicators of the Company are as follows:

Indicators	HRK 000		
	31.12.2017.	31.12.2018.	index 2018/2017
1	2	3	4=3/2
<b>Liquidity ratios</b>			
Working capital hrk	27,678	13,146	47
Current liquidity	1.37	1.17	85
<b>Debt indicators</b>			
Short-term liabilities/capital	0.12	0.13	109
Long-term liabilities/capital	0.07	0.11	166
Borrowing/capital	0.07	0.12	164
Total liabilities/assets	0.16	0.20	123
<b>Profitability ratios</b>			
EBIT hrk	-10,711	-10,408	
EBITDA hrk	-563	-485	
EBITDA margin	-0.34%	-0.31%	
EBIT margin	-6.42%	-6.65%	
NET margin	-3.97%	-19.16%	
<b>Productivity indicators</b>			
Number of employees	605	572	95
Revenue per employee hrk	297.195	298,902	101

\*EBIT = business revenue – business cost + value adjustment

\*\*EBITDA =EBIT + depreciation

**FINANCIAL INDICATORS (continued)**

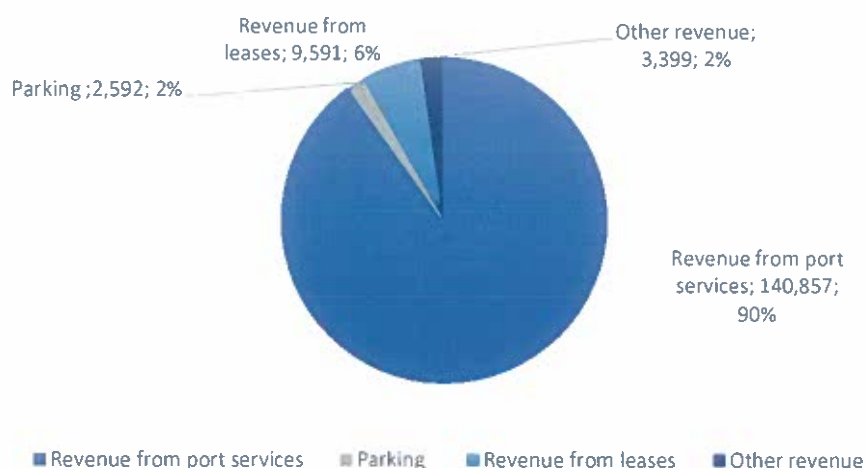
**Revenues**

In the observed period total revenue of the Company Luka Rijeka d.d. amounts to HRK 170,972,183 and is currently on index 95 compared to previous year and makes 95% of the annual plan.

In the structure of total revenue, the greatest part is business revenue with HRK 156,439,286 that are on index 94 compared to 2017, and 92% of the annual plan's realization.

Natural throughput, which is on index 99 compared to 2017, is key business revenue generator from its core business. Revenue from port business amounted to HRK 140,874,362 accounting for 92% of business revenue.

Operating income structure:



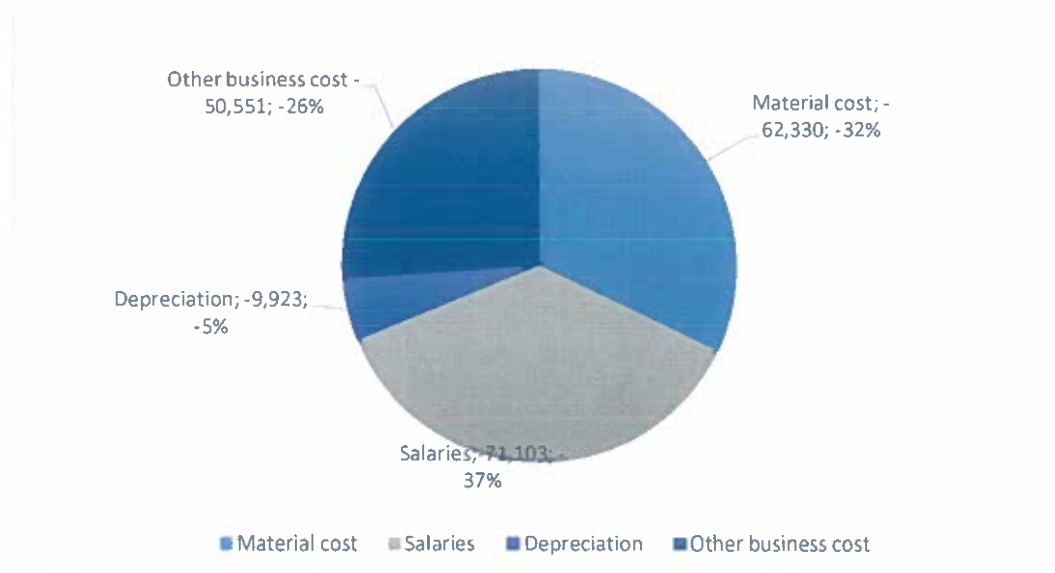
**Expenses**

Total costs in 2018 amount to HRK 197,785,760 i.e. represent an 6% increase compared to 2017, but only due to impact of impairment of HRK 26,989,808, while without it, the costs actually decreased 8%. Business costs for the aforementioned period amount to HRK 193.9 million HRK and have increased by 9% compared to 2017, again with same reason. The category of financial costs have been reduced by 56% due to much lower interest cost and exchange rate costs. In the structure of operating costs, the largest share is taken up by material costs and staff costs. Staff costs - salaries account for 39% of the total operating costs structure with HRK 71.1 million, which is 2% decrease compared to the past year.

The total cost of work, own workers increased by workforce hiring, in the operating costs structure in 2018, amounts to 52%, while in the 2017 it was on the same level. Material costs amount to HRK 62.3 million or 37% of total operating costs, and account for 6% increase compared to last year's observed period.

**FINANCIAL INDICATORS (continued)**

Operating expenses structure:



**Operating result**

EBIT for 2018 amounted to a negative HRK -10,408 thousand while EBITDA was HRK -485 thousand.

**Staff**

According to HR records, on 31.12.2018 there are 572 employees, 33 workers less than on 31.12.2017.

Until 31.12.2018, according to agreed severance payment, 10 employees left, which, along with regular retirements and other departures, on the one hand, affected the reduction of the employees while on the other hand work necessity resulted in increase of 60 new employees.



## **RISK MANAGEMENT**

### **Market risk**

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

#### *The destination markets*

Regarding the most important destination markets of the port of Rijeka, the situation is very different. Significant markets of the Middle East and North Africa continues to be shaken by political crisis, which escalated into conflicts and extensive emigration of the local population (especially from Syria and Iraq). Generally complex relationships in the Middle East generator are high risk in terms of the volume of overseas trade in these countries.

A particularly important element for all the countries of this region and the global economy in general are oil prices, while low oil prices significantly affect them in a negative way. The long-term effect is very destructive to the economy of these countries and thus their overseas trading.

#### *Market competition*

Competition in the gravitational area of Luka Rijeka is extremely strong. Key competitors of Luka Rijeka are ports in the North Adriatic cluster (Koper, Trieste, Venice, Ravenna, Monfalcone). By Croatian accession to the European Union, Luka Rijeka is becoming competitive to other ports of North Adriatic cluster, supported by recuperation of customers and cargos who had (especially during war period) left Luka Rijeka. North Adriatic port cluster has a natural advantage of the shortest maritime route for cargos originating from the east and passing through the Suez Canal. This advantage is more than 2,000 Nm, which is approx. 5-7 days of sailing, significantly affecting the overall transport shipping costs and therefore on the competitiveness of the goods on the market.

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

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

**RISK MANAGEMENT (continued)**

**Market risk (continued)**

Finally, the marginal clusters of the southern Adriatic and the Aegean Sea, which also target the southern part of the gravitational area of the Port of Rijeka should be mentioned. This is primarily Luka Ploče, which is oriented on Bosnia and Herzegovina, Luka Bar on Serbia and Montenegro, the port of Durres on Albania and Kosovo, and the Port of Thessaloniki and other Aegean ports which except Greece, target market of Macedonia and Serbia, but as above, represent the secondary zone of competing interests of Luka Rijeka. Management of the Company is aware of the competition and works on minimizing everyday risk through price adjustments - tariffs, continuous investments in technology, capacity increase and through increase in labor productivity.

**Credit risk**

The Group uses several methods of credit risk control, mostly with insight to credit reports provided by rating companies, and with other insurance instruments. The risk increases when contracting with new customers, where instances can occur that a service is contracted with an unreliable client (in terms of the non-fulfilment of the dynamics of the contract, payment etc.). This can cause a variety of problems (filling of warehouses with goods for which storage fees have not been paid and which occupy valuable space, delays with respect to the agreed schedules with liners and other shipping companies, or wagons and lorries, resulting in the penalties and other damages, etc.). This risk is minimized by updating the base of existing clients of the Company where all of their data over the years is accumulated, so that before any contract is signed, an assessment of the acceptability of the customer is reached.

**Currency risk**

The share of foreign income in total operating income amounts to 75%, at which port services are mainly denominated in EUR, with a minority denominated in US dollars for all transit operations of foreign clients. Port services for domestic clients are denominated in kuna. Exposure to foreign currency risk in EUR is reflected in the majority of the prices being denominated in EUR, as well as a significant part of the liabilities or their indexation to EUR. Hence, serving as a way of minimizing currency risk. Furthermore, the risk of fluctuation of the kuna towards the EUR is relatively moderated as long as CNB remains with policy of the currency pegged to the EUR.

Exposure to currency risk in US dollars is due to minority of prices being denominated in USD, while liabilities denominated in US dollars (loan and finance lease agreement with the Port Authority of Rijeka subordinated from the World bank; concession fees) further increase the risk due to volatility of the US dollar as a global currency. The Company controls this risk in a way that in 2016 foreign exchange exposure of liabilities in USD are covered by forming deposits in the same currency.

**Interest rate risk**

The Company is exposed to interest rate risk as it borrows with floating interest rates. The Company enlarged its indebtedness and exposure to variable interest rate loans and estimates that the possible increase in variable interest rates is not significant in near future and does not warrant the use of specific hedging instruments with respect to interest rate risk.

**RISK MANAGEMENT (continued)**

**Liquidity risk**

Liquidity risk is managed through maintaining adequate maturity structure of assets and liabilities, and through weekly and monthly planning and management of inflows and outflows of cash funds, as well as with the provision of sufficient amounts of liquid assets to settle liabilities as they fall due. The Company regularly monitors the relationship between current assets and current liabilities.

**Technological risk**

Technological risk is reflected in the obsolescence of the existing port technology, which increases maintenance costs, reduces productivity of port manipulation, ie. the profitability of the process and reduces the competitiveness due to unreliable and slow service. Technological risks is reduced by the Company's preventive maintenance, as well as by investing in technology, a necessity which enables speed, reliability and efficiency of loading and other port manipulation.

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

One of the technological factors significant to Luka Rijeka is adequate road and rail infrastructure. In relation to Luka Rijeka, the road connectivity is satisfying. Much more important is the connection with the rail network, which due to its characteristics requires significant investments around which, in addition to large investment projects which are already underway, there are discussions on the level of traffic strategies RH (lowland railway).

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

**Human resource risk**

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

In previous years, the Company reduced the number of workers towards the operational number necessary for achievement of company's long-term plans. Quality of the program, as well as constant consultation with the trade unions have made this process relatively painless.

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

Besides that, the Company uses working force of subcontractors for running necessary port operations without disturbance.

**RISK MANAGEMENT (continued)**

**Environmental risk**

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

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

In order to minimize or eliminate negative impacts on the environment, the Company gradually implements requirements of the ISO 14000 with the aim to become certified. Employees are gradually being educated so as to implement the required norms and enhance ecological awareness.

System of risk control

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

- Control of business processes. The parent company has a certified quality management system ISO 9001-2015, which is constantly monitored, improved and controlled. Certificate of compliance with ISO 9001: 2008 is valid until 12.12.2021, until when is required to documentation of the existing quality management system with the requirements of the new ISO 9001:2015. In 2016, the Group has introduced energy efficiency management system according to ISO 50001, which aims to introduce the system and systematic control of energy consumption.  
Luka Rijeka d.d. 16.03.2018 received the certificate of compliance of its energy management system with the international standard ISO 5001: 2011 valid until 15.03.2021.
- Control of business/financial transactions and financial statements thorough the accounting system and the Controlling department
- Annual and long-term planning of the operations at the Group level and at the level of business units, as well as monthly, quarterly and yearly monitoring of the plan through Controlling department. Monitoring the implementation of the annual plan works internally on a monthly basis and covers the following main categories:
  - ✓ Monitoring of natural realization of the following categories and cargo terminals
  - ✓ Monitoring the financial implementation at the level of individual organizational units and the company as a whole in the format of the income statement
  - ✓ Ad hoc analysis of realization according to defined criteria using defined database that are complement monthly with realized quantities

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

## BUSINESS EXPECTATIONS

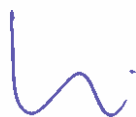
### CEF PROJECTS

In 2019, for both CEF projects, it is planned to finish designing the preliminary and main project. Design contracts are signed and the value of the contract is 1,274,000 HRK for Bakar and 5,307,500 HRK for Rijeka. The plan is for design to be completed by 8/9 month and then the taking of construction permits and the announcement of the tender for the implementation of the project and the execution of works. Works will probably not start until the end of 2019. Due to prolongation of project start, there is a risk of withholding funds by Innovation and Networks Executive Agency (INEA)

### PROJECT ŠKRLJEVO

Completion of port background warehouse Škrljevo, Luka Rijeka d.d. will somewhat solve its problem of lack of storage space and cramp in the city center. The new terminal will also provide additional support for the development of container traffic in the Port of Rijeka, which grows year after year. New areas have been created for the deposit of empty, filling and discharging of containers, which will affect the development of two-way traffic. The opening of the new terminal invites all current and future business partners to redirect new freight to the port of Rijeka.

**Tomislav Kalafatić**  
*Member of the  
Management Board*



LUKA RIJEKA d.d.  
Rijeka, Riva 1

**Bartłomiej Pastwa**  
*Member of the  
Management Board*



**26 April 2019**  
Riva 1  
Rijeka  
Croatia

## **STATEMENT OF IMPLEMENTATION OF THE CORPORATE GOVERNANCE CODE**

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### **General information**

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

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

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

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

Jurisdiction, procedure of convening and quorum, as ways of making decisions of the General Assembly are regulated by the Articles of Association. When convening the General Assembly, the management board shall set a date by which will be established state in the register of shares that will be relevant for the exercise of voting rights at the General Assembly. This date should be before the General Assembly and may be up to 6 days before the general meeting.

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

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

The basic medium for the publication of information is the National Gazette and the Company's internet website: [www.lukarijeka.hr](http://www.lukarijeka.hr)

### **Corporate governance structure**

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

### **General Assembly of the Company**

The General Assembly makes decisions that are of significant impact on the status of assets, financial position, operating results, ownership structure and management of the company. Decisions will be made exclusively at the General Assembly, stipulated by majority of votes. The management board shall, as soon as possible, publish the decision of the General Meeting and the data on possible action to challenge these decisions. In 2018, a regular Annual General Assembly Meeting was held on 7 August 2018.

### **Supervisory Board**

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

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

Alen Jugović	President
Zbigniew Nowik	Vice president
Jerzy Grzegorz Majewski	Member
Duško Grabovac	Member.
Krešimir Trtanj	Member until 4 July 2018
Varljen Dragica	Member from 4 July 2018

During the reporting period, Supervisory Board had six members.

### **Audit Committee**

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

The Audit Committee, appointed in accordance with the law, during the previous year consisted of 3 members all of whom were also members of the Supervisory Board. During 2018, one meeting of the Audit Committee was held.

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

In 2018 the Audit Committee was composed of:

Duško Grabovac	Committee President
Alen Jugović	Member
Jerzy Grzegorz Majewski	Member

### **Management Board**

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

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

Jedrzej Miroslaw Mierzewski	President until 1 April 2019
Vedran Tičac	Member until 19 June 2018
Tomislav Kalafatić	Member from 6 February 2018
Bartłomiej Michał Pastwa	Member from 19 June 2018



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

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

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

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

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

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

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

**Bartłomiej M. Pastwa**  
*Member of the Management Board*



**Tomislav Kalafatić**  
*Member of the Management Board*



**26 April 2019**  
Riva 1  
51000 Rijeka  
Croatia

LUKA RIJEKA d.d.  
Rijeka, Riva 1

## **STATEMENT OF MANAGEMENT'S RESPONSIBILITIES**

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

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the separate and consolidated financial statements (together further referred to as "the financial statements") on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

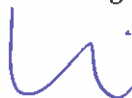
After making enquiries, the Management Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

The Management is also responsible for the preparation and content of the Management Report and the Statement on the implementation of corporate governance code, as required by the Croatian Accounting Act. The Management Report and the Statement of implementation of the corporate governance code, as well as the accompanying financial statements were authorised and signed by the Management Board on 26 April 2019 for issue to the Supervisory Board. The Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

**Bartłomiej M. Pastwa**  
*Member of the Management Board*



**Tomislav Kalafatić**  
*Member of the Management Board*



**26 April 2019**  
Riva 1  
51000 Rijeka  
Croatia

LUKA RIJEKA d.d.  
Rijeka, Riva 1



## **Independent Auditors' report to the shareholders of Luka Rijeka d.d.**

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the separate financial statements of Luka Rijeka d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries (together referred to as "the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2018, and their respective separate and consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2018, and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

#### ***Basis for Opinion***

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



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

### Report on the Audit of the Financial Statements (continued)

#### Key Audit Matters

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

#### Revenue recognition

The Group and the Company recognised revenues for the year ended 31 December 2018 in the amount of HRK 144,097 thousand and HRK 143,449 thousand, respectively. Refer to accounting policy 3.2 and note 7 to the financial statements.

Key audit matter	How our audit addressed the matter
<p>The Group's and the Company's core activities include transshipment of goods, cargo management and manipulation, and rendering other accompanying services, such as warehousing of goods and docking.</p> <p>The Group and the Company generate revenue from its core activities by providing port services to customers, typically by direct reference to the tariffs confirmed by the port authority which is considered a contract equivalent.</p> <p>As at 1 January 2018, the Group and the Company adopted the new revenue standard, IFRS 15 <i>Revenue from Contracts with Customers</i>. The new standard changes the way entities generally account for similar arrangements. It also requires them to identify all goods or services provided to customers and determine whether to account for each such good or service as a separate performance obligation. In certain circumstances, arrangements can contain two or more service components which might need to be grouped together if their commercial effect cannot be understood without accounting for them as an integrated service package and one performance obligation.</p> <p>As discussed above, the arrangements with customers are generally based on the formal port tariff specified by the port authority which identifies separate services with a stand-alone and reliably measurable value to the customer and for which revenue is accounted for separately over time or at a point-in-time as the performance obligation relevant to the service is executed.</p> <p>Due to the above factors, accounting for revenues requires management to exercise significant judgment and make estimates. The area required our increased attention in the audit and was considered by us to be a key audit matter.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"><li>• Testing of the design, implementation and operating effectiveness of controls over the revenue cycle and evaluating the controls within the information technology (IT) systems that support the recording of revenue;</li><li>• Assessing the Group's and the Company's policy for recognizing revenue, including considering whether the policy is in accordance with the five-step approach required by the new revenue standard;</li><li>• For a sample of contracts or contract equivalents with key customers:<ul style="list-style-type: none"><li>- challenging the Group's and the Company's identification of performance obligations included therein;</li><li>- critically assessing the Group's and the Company's determination of revenue recognition pattern (point-in-time vs over time) for identified performance obligations by reference to the provisions of the contracts and our understanding of the resulting pattern of satisfying related performance obligations;</li><li>- based on the results of the above procedures, critically evaluating the revenue amounts recognized by, among other things, inspecting contracts and supporting documents, such as statements of facts and timesheets, for all ships berthed in the Port of Rijeka harbour in the periods immediately before and after the reporting date;</li></ul></li><li>• For a sample of customers, obtaining external confirmations of amounts due as at the reporting date, and inquiring as to the reasons for any significant differences between the amounts confirmed and the Group's and the Company's accounting records, and inspecting the underlying documentation;</li><li>• Tracing a sample of amounts invoiced during the year to collections as evidenced by bank statements and inspecting the accuracy of the related accounting entries;</li><li>• Inspecting journal entries posted to revenue accounts focusing on unusual and irregular items.</li></ul>

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



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

### **Report on the Audit of the Financial Statements (continued)**

#### **Other Information**

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Company and the Group but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the specific information in the Corporate Governance Statement required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Corporate Governance Statement") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

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

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

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

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

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

### **Report on the Audit of the Financial Statements (continued)**

#### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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



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

### Report on the Audit of the Financial Statements (continued)

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

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

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

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

#### Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 7 August 2018 to audit the financial statements of the Company and the Group for the year ended 31 December 2018. Our total uninterrupted period of engagement is 5 years, covering the periods ending 31 December 2014 to 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 26 April 2019;
- for the period to which our statutory audit relates, we have not provided any non-audit services, hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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

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

26 April 2019

## STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(in thousands of HRK)</i>	<i>Note</i>	<b>2018 Group</b>	<b>2017 Group</b>	<b>2018 Company</b>	<b>2017 Company</b>
Revenue from sales	7	144,097	155,909	143,449	154,836
Other income	8	13,065	11,852	12,989	11,882
		<b>157,162</b>	<b>167,761</b>	<b>156,438</b>	<b>166,718</b>
Materials, services and consumables used	9	(59,557)	(63,490)	(62,330)	(66,267)
Personnel expenses	10	(73,517)	(72,220)	(71,103)	(69,920)
Depreciation and amortisation	16,17,18	(10,706)	(10,523)	(9,923)	(9,767)
Other expenses	11	(50,971)	(31,898)	(50,551)	(31,475)
		<b>(194,751)</b>	<b>(178,131)</b>	<b>(193,907)</b>	<b>(177,429)</b>
Finance income	12	2,683	6,552	14,534	13,083
Finance costs	13	(3,905)	(8,915)	(3,880)	(8,890)
<b>Net finance costs</b>		<b>(1,222)</b>	<b>(2,363)</b>	<b>10,654</b>	<b>4,193</b>
Share of profit of equity-accounted investees	19	13,105	11,591	-	-
<b>Profit / (loss) before tax</b>		<b>(25,706)</b>	<b>(1,142)</b>	<b>(26,815)</b>	<b>(6,518)</b>
Income tax	14	(3,179)	(153)	(3,161)	(93)
<b>Profit/(loss) for the year</b>		<b>(28,885)</b>	<b>(1,295)</b>	<b>(29,976)</b>	<b>(6,611)</b>
Revaluation of financial assets (net of tax)		(3,511)	55	(3,511)	55
Deferred taxes effect		991	(11)	991	(11)
Other comprehensive income		<b>(2,520)</b>	<b>44</b>	<b>(2,520)</b>	<b>44</b>
<b>Total comprehensive income / (loss)</b>		<b>(31,405)</b>	<b>(1,251)</b>	<b>(32,496)</b>	<b>(6,567)</b>
<b>Loss per share (in HRK)</b>					
- basic and diluted	15	(2.14)	(0.10)		

Notes which follow form an integral part of these financial statements.



## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

<i>(in thousands of HRK)</i>	<i>Note</i>	<b>31.12.2018 Group</b>	<b>31.12.2017 Group</b>	<b>31.12.2018 Company</b>	<b>31.12.2017 Company</b>
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	16	326	481	326	481
Property, plant and equipment	17	591,893	581,095	590,601	579,109
Investment property	18	8,347	8,557	8,347	8,557
Investments in subsidiaries and equity accounted investees	19	101,083	99,569	11,767	11,767
Investments in equity instruments	20	125	250	125	250
Non-current financial assets	21	3,191	4,379	3,191	4,379
Deferred tax assets	14	13,146	17,856	13,146	17,856
<b>Total non-current assets</b>		<b>718,111</b>	<b>712,187</b>	<b>627,503</b>	<b>622,399</b>
<b>Current assets</b>					
Inventories		1,804	532	1,804	532
Trade and other receivables	23	28,226	29,758	27,584	29,145
Income tax receivable		5	24	2	6
Current financial assets	22	9,993	70,250	9,993	70,250
Cash and cash equivalents	24	52,080	3,753	50,701	2,320
<b>Total current assets</b>		<b>92,108</b>	<b>104,317</b>	<b>90,084</b>	<b>102,253</b>
<b>Total assets</b>		<b>810,219</b>	<b>816,504</b>	<b>717,587</b>	<b>724,652</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Shareholders' equity</b>					
Share capital	25	539,219	539,219	539,219	539,219
Capital and other reserves	26	38,624	38,624	38,624	38,624
Revaluation reserves	26	34,104	36,713	34,104	36,713
Retained earnings/(accumulated losses)		51,889	80,774	(35,080)	(5,104)
<b>Total equity</b>		<b>663,836</b>	<b>695,330</b>	<b>576,867</b>	<b>609,452</b>
<b>Non-current liabilities</b>					
Borrowings	27	53,879	30,199	53,819	29,926
Provisions	28	2,478	2,656	2,478	2,656
Deferred tax liability	14	12,541	13,099	7,485	8,043
<b>Total non-current liabilities</b>		<b>68,898</b>	<b>45,954</b>	<b>63,782</b>	<b>40,625</b>
<b>Current liabilities</b>					
Trade and other payables	29	59,766	54,108	59,439	53,902
Borrowings	27	15,057	14,860	14,837	14,421
Provisions	28	2,662	6,252	2,662	6,252
<b>Total current liabilities</b>		<b>77,485</b>	<b>75,220</b>	<b>76,938</b>	<b>74,575</b>
<b>Total liabilities</b>		<b>146,383</b>	<b>121,174</b>	<b>140,720</b>	<b>115,200</b>
<b>Total equity and liabilities</b>		<b>810,219</b>	<b>816,504</b>	<b>717,587</b>	<b>724,652</b>

Notes which follow form an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**GROUP**

*(in HRK thousands)*

	Share capital	Capital and other reserves	Revaluation reserves	Retained earnings	Total
<b>As at 1 January 2017</b>	<b>539,219</b>	<b>38,624</b>	<b>36,669</b>	<b>82,069</b>	<b>696,581</b>
Profit for the year	-	-	-	(1,295)	(1,295)
<i>Change in fair value of equity instruments</i>	-	-	55	-	55
<i>Deferred tax effects</i>	-	-	(11)	-	(11)
Other comprehensive income	-	-	44	-	44
Total comprehensive income	-	-	44	(1,295)	(1,251)
<b>As at 31 December 2017</b>	<b>539,219</b>	<b>38,624</b>	<b>36,713</b>	<b>80,774</b>	<b>695,330</b>
Profit for the year	-	-	-	(28,885)	(28,885)
<i>Change in fair value of land</i>	-	-	(3,511)	-	(3,511)
<i>Change in fair value of equity instruments</i>	-	-	(89)	-	(89)
<i>Deferred tax effects</i>	-	-	991	-	991
Other comprehensive income	-	-	(2,609)	-	(2,609)
Total comprehensive income	-	-	(2,609)	(28,885)	(31,494)
<b>As at 31 December 2018</b>	<b>539,219</b>	<b>38,624</b>	<b>34,104</b>	<b>51,889</b>	<b>663,836</b>

Notes which follow form an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**COMPANY**

*(in HRK thousands)*

	Share capital	Capital and other reserves	Revaluation reserves	Retained earnings / (accumulated losses)	Total
<b>As at 1 January 2017</b>	<b>539,219</b>	<b>38,624</b>	<b>36,669</b>	<b>1,507</b>	<b>616,019</b>
Profit for the year	-	-	-	(6,611)	(6,611)
<i>Change in fair value of equity instruments</i>	-	-	55	-	55
<i>Deferred tax effect</i>	-	-	(11)	-	(11)
Other comprehensive income	-	-	44	-	44
Total comprehensive income	-	-	44	(6,611)	(6,567)
<b>As at 31 December 2017</b>	<b>539,219</b>	<b>38,624</b>	<b>36,713</b>	<b>(5,104)</b>	<b>609,452</b>
Profit for the year	-	-	-	(29,976)	(29,976)
<i>Change in fair value of land</i>	-	-	(3,511)	-	(3,511)
<i>Change in fair value of equity instruments</i>	-	-	(89)	-	(89)
<i>Deferred tax effects</i>	-	-	991	-	991
Other comprehensive income	-	-	(2,609)	-	(2,609)
Total comprehensive income	-	-	(2,609)	(29,976)	(32,585)
<b>As at 31 December 2018</b>	<b>539,219</b>	<b>38,624</b>	<b>34,104</b>	<b>(35,080)</b>	<b>576,867</b>

Notes which follow form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(in thousands of HRK)</i>	<i>Note</i>	<b>2018 Group</b>	<b>2017 Group</b>	<b>2018 Company</b>	<b>2017 Company</b>
<b>Profit / (loss) before tax</b>		<b>(25,706)</b>	<b>(1,142)</b>	<b>(26,815)</b>	<b>(6,518)</b>
Share of net profit of equity accounted investee	<i>19</i>	(13,105)	(11,591)	-	-
Depreciation and amortization	<i>16,17,18</i>	10,706	10,523	9,923	9,767
Gain on disposal of property, plant and equipment and intangibles	<i>8</i>	(66)	(520)	(66)	(520)
Impairment of property and equipment		26,990		26,990	
Impairment of trade receivables - net	<i>11</i>	71	381	71	381
Interest income	<i>12</i>	(323)	(1,913)	(584)	(1,913)
Interest expense	<i>13</i>	1,859	3,696	1,842	3,672
Dividend income	<i>12</i>	-	-	(11,591)	(6,536)
Losses on equity instruments		36	24	36	24
Reversal of provisions	<i>8,11</i>	(263)	(546)	(263)	(546)
Foreign exchange differences - net		(394)	(3,111)	(376)	(3,137)
		<b>(195)</b>	<b>(4,199)</b>	<b>(833)</b>	<b>(5,326)</b>
<b>Changes in working capital:</b>					
Decrease/(increase) in inventories		(1,272)	294	(1,272)	294
Decrease/(increase) in trade and other receivables		1,322	12,509	1,351	12,520
Increase/(decrease) in trade and other payables		(3,263)	16,307	(3,384)	16,381
Decrease in provisions		(3,505)	(1,113)	(3,505)	(1,113)
<b>Cash from operations</b>		<b>(6,913)</b>	<b>23,798</b>	<b>(7,643)</b>	<b>22,756</b>
Income tax paid/(received)		19	92	4	22
Interest paid		(1,066)	(3,727)	(1,049)	(3,703)
<b>Net cash from operating activities</b>		<b>(7,960)</b>	<b>20,163</b>	<b>(8,688)</b>	<b>19,075</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant, equipment and intangibles		(41,472)	(126,456)	(41,262)	(125,570)
Proceeds from disposal of property, plant and equipment and investment property		732	873	611	873
Net inflows/(outflows) related to Group and State owned apartments		1,382	(649)	1,382	(649)
Interest received		323	1,913	584	1,913
Dividend from equity accounted investees		11,591	6,536	11,591	6,536
Net inflows/(outflows) from bank deposits		60,628	111,966	60,628	111,960
Other net inflows/(outflows) from financial assets		(104)	37	(104)	-
<b>Net cash from investing activities</b>		<b>33,080</b>	<b>(5,780)</b>	<b>33,430</b>	<b>(4,937)</b>
<b>Cash flows from financing activities</b>					
Proceeds from loans		35,418	-	35,418	-
Repayment of loans		(8,027)	(12,212)	(7,891)	(12,212)
Repayments of finance leases		(4,184)	(3,288)	(3,888)	(3,005)
<b>Net cash from financing activities</b>		<b>23,207</b>	<b>(15,500)</b>	<b>23,639</b>	<b>(15,217)</b>
<b>Net increase of cash and cash equivalents</b>		<b>48,327</b>	<b>(1,117)</b>	<b>48,381</b>	<b>(1,079)</b>
Cash and cash equivalents at beginning of year		3,753	4,870	2,320	3,399
<b>Cash and cash equivalents at the end of year</b>	<i>24</i>	<b>52,080</b>	<b>3,753</b>	<b>50,701</b>	<b>2,320</b>

Notes which follow form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 1 – GENERAL INFORMATION

##### History and incorporation

Luka Rijeka d.d. ('the Company') was formed through conversion of the former social company and registered as a joint-stock company at the Commercial Court in Rijeka on 25 January 1999 under the trade register number 040141664. The Company's PIN number is 92590920313. The principle activities of the Company comprise maritime loading, unloading, transshipment and storage of goods as well as mooring and unmooring ships. The Company is headquartered in Riva 1, Rijeka, Croatia. The Company and its subsidiaries and associates are together referred to as the Group.

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

Issued share capital of the Company amounts to HRK 539,219,000 and is distributed among 13,480,475 shares with a nominal value of HRK 40 each. The Company's shares are listed on the official market of the Zagreb Stock Exchange with the ticker LKRI-R-A. The shareholder structure is shown in note 25.

Members of the Supervisory Board of the Company during the reporting period and to the date of this report were as follows:

<b>First name</b>	<b>Last name</b>	<b>Role</b>	<b>Appointed</b>	<b>Resigned</b>
Krešimir	Trtanj	Member	13.05.2015.	4.07.2018.
Alen	Jugović	President	27.12.2017.	-
Zbigniew	Nowik	Vice president	27.12.2017.	-
Jerzy Grzegorz	Majewski	Member	27.12.2017.	-
Duško	Grabovac	Member	27.12.2017.	-
Dragica	Varljen	Member	4.07.2018.	-

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

Jedrzej Miroslaw Mierzewski	President until 1 April 2019
Vedran Tičac	Member until 19 June 2018
Tomislav Kalafatić	Member from 6 February 2018
Bartłomiej Michał Pastwa	Member from 19 June 2018

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 2 – BASIS OF PREPARATION

(i) *Statement of compliance*

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

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

These financial statements were authorised for issue by the Management Board on 26 April 2019.

(ii) *Basis of measurement*

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

- Land (note 3.7 (ii))
- Financial assets measured at FVOCI or FVTPL (note 3.15)

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

(iii) *Functional and presentation currency*

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

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### **3.1 Basis of consolidation**

###### *(i) Business combinations*

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

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

###### *(ii) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

###### *(iii) Associates (equity accounted investees)*

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

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

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

###### *(iv) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

##### **3.2 Revenue recognition**

During 2018, the Group adopted the new revenue standard, IFRS 15 *Revenue from contracts with customers* (for details on the new standard refer to note 4). The adoption of IFRS 15 did not have significant effects on the Group's accounting policy for revenue recognition. Below is the revenue recognition policy aligned with the new standard.

##### *Revenue recognition and performance obligations*

Revenue is measured based on the consideration specified in a contract with a customer, which is based on the tariff for port services prescribed by the port authority. The Group recognizes revenue when it transfers control over a good or service to a customer. The transfer of control of a good or service may take place continuously (revenue recognition on a progress towards completion basis) or on a specific date (recognition on completion). Before revenue is recognised, the Group identifies both the contract (a contract equivalent typically defined as a customer arrangement with direct reference to the prescribed tariff) and the various performance obligations contained in the contract. The number of performance obligations depends on the type of contract and activities. Most of the Group's customer arrangements involve several separate services which have a stand-alone and reliably measurable value to the customer (based on the tariff) whereby each separate service has its own separate performance obligation. Revenue is shown, net of value-added tax.

Revenue recognition policies under IFRS 15 (applicable from 1 January 2018) with respect to the following revenue streams are as follows:

##### *(i) Revenue from port services*

The Group provides port related services such as carriage, transshipment, freight, handling (on and off loading) and warehousing of various types of cargo. These services are predominantly recognized over time. The services that have been determined to be one performance obligation are highly inter-related and fulfilled over time. Revenue therefore continues to be recognized over time. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed on the basis of the actual service provided as a proportion of the total services to be provided (for instance, number of tonnes off or on loaded compared to total shipment size; or number of storage days elapsed compared to the total number of storage days contracted).

##### *(ii) Finance income*

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

##### **3.3 Leases**

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

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



## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

##### 3.4 Foreign currency transactions

###### *Transactions and balances in foreign currencies*

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

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

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

##### 3.5 Intangible assets

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

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

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

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

Software	1 – 5 years
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##### 3.6 Investment property

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

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

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

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

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

##### 3.7 Property, plant and equipment

###### (i) Buildings, plant and equipment

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

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

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

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

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

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

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

###### (ii) Land

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

##### 3.7 Property, plant and equipment (*continued*)

###### (iii) *Assets under the concession arrangement*

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

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

###### *Maintenance expenditure*

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

###### *Capital expenditure into the concession area*

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

In cases where these assets relate to items which are transferred to the local port authority ("Grantor") at the expiry of the concession arrangement, the depreciation of such assets is calculated using the straight-line method to allocate their cost less any residual value over the shorter of their estimated useful lives and the remaining term of the concession arrangement.

In cases where these assets are not transferred to the Grantor, the depreciation of such assets is calculated in accordance with the depreciation policy applicable to the category property, plant and equipment to which the asset is classified in accordance with accounting policy 3.7 (i).

###### *Assets transferred to the Group by the concession Grantor*

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

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

##### **3.8 Impairment of non-financial assets**

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

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

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

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

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

##### **3.9 Inventories**

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

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

##### **3.10 Trade receivables**

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

##### **3.11 Cash and cash equivalents**

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

##### **3.12 Government grants**

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

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

##### **3.13 Employee benefits**

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

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

###### *(ii) Termination benefits*

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

###### *(iii) Regular retirement benefits*

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

###### *(iv) Long-term employee benefits*

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

###### *(v) Short-term employee benefits*

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

##### **3.14 Provisions**

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

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

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 3.15 Financial assets

###### Policy applicable from 1 January 2018

###### (i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

###### (ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- FVOCI (fair value through other comprehensive income) – debt investment;
- FVOCI – equity investment;
- or FVTPL (fair value through profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 3.15 Financial assets (continued)

##### Policy applicable from 1 January 2018 (continued)

##### (ii) Classification and subsequent measurement (continued)

###### *Business model assessment*

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on; earning contractual interest income; maintaining a particular interest rate profile; matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows; or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business and/or the portfolio are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Business model for receivables is for them to be held until collection.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

###### *Assessment whether contractual cash flows are solely payments of principal and interest*

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing the basic criterion of whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that the basic criterion would not be met.

The structure of financial assets of the Group is simple as it primarily relates to trade receivables with no significant financing component and short-term bank deposits at fixed interest rates and cash and cash equivalents. This facilitates and minimizes the complexity of the assessment of whether or not the financial assets meets the basic criterion of representing 'solely payments of principal and interest'.

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 3.16 Financial assets (continued)

##### Policy applicable from 1 January 2018 (continued)

##### (iii) Classification and subsequent measurement (continued)

##### *Subsequent measurement and gains and losses*

The table below provides an overview of key features of the accounting policy that the Group applies with respect to subsequent measurement of financial assets and recognition of gains and losses per each type of financial asset:

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
<b>Financial assets at amortised cost</b>	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
<b>Debt investments at FVOCI</b>	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
<b>Equity investments at FVOCI</b>	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividends clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

##### (iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

When the Group enters into transactions whereby it transfers financial assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 3.17 Financial assets (continued)

##### Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL.

An overview of key features of the accounting policy that the Group applied before 1 January 2018 with respect to subsequent measurement of financial assets and recognition of gains and losses per each type of financial asset is provided in the table below:

<b>Financial assets at FVTPL</b>	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
<b>Held-to-maturity financial assets</b>	Measured at amortised cost using the effective interest method.
<b>Loans and receivables</b>	Measured at amortised cost using the effective interest method.
<b>Available-for-sale financial assets</b>	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 3.16 Financial liabilities

###### (i) Recognition and initial measurement

Debt securities issued are initially recognised when they are originated. All other financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

###### (ii) Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as at FVTPL on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

###### (iii) Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

##### Adoption of IFRS 9

The adoption of IFRS 9 did not have any significant effect on the accounting policies of the Group with respect to financial liabilities which are outlined above.

##### 3.17 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

##### 3.18 Impairment of non-derivative financial assets

###### Policy applicable from 1 January 2018

###### *Recognition of loss allowances*

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 3.18 Impairment of non-derivative financial assets (continued)

###### Policy applicable from 1 January 2018 (continued)

###### *Recognition of loss allowances (continued)*

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on financial assets (primarily receivables) has increased significantly if early warning indicators are activated in line with the Group's policy or the contractual terms of the instrument.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

###### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

###### *Credit impaired financial assets*

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or considerable delays in payment of due receivables;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

###### *Presentation of allowance for ECL in the statement of financial position*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

###### *Write-off of financial assets*

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group generally expects no significant recovery from the amount written off.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 3.18 Impairment of non-derivative financial assets (continued)

###### Policy applicable before 1 January 2018

###### *Non-derivative financial assets*

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider in regular circumstances;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost.

An overview of key feature of the policy which was applied prior to 1 January 2018 with respect to impairment of non-derivative financial assets is provided in the table below:

<b>Financial assets measured at amortised cost</b>	<p>The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.</p> <p>In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.</p> <p>An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.</p>
<b>Available-for-sale financial assets</b>	<p>Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.</p>

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **3.19 Borrowings and borrowing costs**

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

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

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

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

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

##### **3.20 Share capital**

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

##### **3.21 Dividends**

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

##### **3.22 Segment reporting**

Segment represents a separable part of the Group either as a part engaged in providing products or services (business segment) or as a part engaged in providing products or services within a particular economic environment (geographical segment) that is subject to risk and benefits that differ from those of other segments. The Group does not report segment information in terms of the requirement of IFRS 8 *Operating segments* as internal reporting is not based on segmental information other than revenues per type of cargo which is disclosed within note 7 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **3.23 Taxation**

###### *(i) Income tax*

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

###### *(ii) Deferred tax assets and liabilities*

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

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

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

###### *(iii) Tax exposures*

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

###### *(iv) Value added tax (VAT)*

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

##### **3.24 Comparative information**

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures. In the statement of cash flows for the Company, dividend received in the current year is significantly higher and is therefore separately disclosed within cash flows from investing activities (prior year amount of HRK 6.536 thousand has been reclassified accordingly from operating cash flows).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 4 – CHANGES IN ACCOUNTING POLICIES: ADOPTION OF NEW STANDARDS

The Group has initially applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

##### *IFRS 15 Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Given the nature of the Group's and the Company's business and the level of disclosure in the previous financial statements, management believes that the adoption of a new standard did not significantly change its accounting policy for revenue recognition and no additional disclosures are required.

Regardless, the Group's estimates of the type of services and contracts did not have any impact on the transitional financial statement of the Group as of 31 December 2018 or on the statement of comprehensive income for the year then ended. There was no significant impact on the transitional cash flow statement for the period ended 31 December 2018. In summary, the new IFRS 15 does not have a significant impact on the financial statements, both in terms of the amounts and disclosures and accounting policies applied.

##### *IFRS 9 Financial Instruments*

The Group applies IFRS 9 from 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The main changes introduced by the new standard are outlined below as well as their impact on the financial statements.

##### i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Effects on the Group and Company are as follows:

<i>in thousands of HRK</i>	Original classification under IAS 39	New classification under IFRS 9	Group		Company		
			under IAS 39	under IFRS 9	under IAS 39	under IFRS 9	
<b>Financial assets</b>							
Investments in equity instruments	Financial assets available for sale	Equity instruments at FVOCI	125	125	125	125	
Other financial assets	Financial assets held to maturity	Financial assets at amortised cost	13,184	13,184	13,184	13,184	
Trade and other receivables	Loans and receivables	Financial assets at amortised cost	28,231	28,231	27,586	27,586	
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost	52,080	52,080	50,701	50,701	
<b>Total financial assets</b>			<b>93,620</b>	<b>93,620</b>	<b>91,596</b>	<b>91,596</b>	

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities and in this aspect, there were no effects on the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 4 – CHANGES IN ACCOUNTING POLICIES: ADOPTION OF NEW STANDARDS

##### *IFRS 9 Financial Instruments*

###### ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. Management has determined that the effect of applying the "expected credit loss" model on the financial statements is not material. Additional information on how the Company measures the impairment allowance is described in note 3.18.

###### iii. Transitional provisions

The Group and Company have applied a retrospective approach to IFRS 9 adoption. However, as there is no significant impact on the financial statements as a result of the adoption, comparative information has not been restated. As a result, the management believes that the information presented at 31 December 2017 reflects the requirements of IFRS 9 and is therefore comparable to the information presented for the period ending 31 December 2018. Given the simplicity of the structure of financial assets and financial liabilities, the implementation of the standard did not require significant and complex estimates and judgments by management.

#### NOTE 5 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2018 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. Overview:

##### *IFRS 16 Leases*

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

So far, the most significant impact identified is that the Group and the Company will recognise new assets and liabilities for its operating leases, including the recognition of assets and liabilities arising from the Concession Agreement due to the fact that the accounting treatment of the Group and Company with respect to the Concession Agreement does not include the application of IFRIC 12 (for details see note 6 (i)). Management expects that the application of IFRS 16 with respect to the treatment of the Concession Agreement will have a significant effect on the financial statements for the Group and the Company will represent a significant estimate given the specific of the status of the concession arrangement. Management has estimated that the adoption of IFRS 16 will have the following effect on the financial statements as at 1 January 2019:

- Recognition of new assets and liabilities under the Concession Agreement in the amount of approximately HRK 22,675 thousand, with an estimated depreciation of approximately HRK 11,337 thousand for 2019 on this basis. Given that the original concession contract concluded in 2000 (extended in 2011) contains provisions that have been made in market conditions which significantly differ from than present currently and those expected in the future, the Group has been in continuous negotiations with the grantor about the amending and adjusting the conditions contained in the concession agreement to align them with the current and expected market circumstances (primarily related to the level and type of required as well as already executed capital investments and the minimum levels of service). The above estimate is therefore based on the assumption of the Group that the current concession agreement will be amended to align it with market conditions and the Group will, in the alignment phase, recognize assets and liabilities arising from fixed payments of concession fees and expected capital investments required up to the expected date of amendment of the contract (approximately two years). Upon amending the contract, the Group will make a re-evaluation.



## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 6a – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

##### *Critical judgements and estimates in applying accounting policies*

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

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

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

##### (i) *Service Concession Arrangements*

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

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

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

Furthermore, according to the concession agreement, the Operator is required to incur capital expenditure relating to the maintenance/replacement of port infrastructure assets in the concession area (including buildings, plant, machinery and equipment) in a total amount of EUR 146 million in accordance with a predefined schedule (for details see note 33 - Capital commitments). The Operator is obligated to return the “relevant assets” (including the investments into relevant assets as prescribed by the concession arrangement) back to the Grantor upon expiry of the concession arrangement and to demolish, at no cost and on the request of the Grantor, any assets in the concession area if the grantor so requires (currently the Operator does not expect any future demolition costs).

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 6a – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (*CONTINUED*)

*Critical judgements and estimates in applying accounting policies (continued)*

(i) *Service Concession Arrangements (continued)*

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 6a – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (*CONTINUED*)

*Critical judgements and estimates in applying accounting policies (continued)*

(ii) *Deferred tax assets recognition*

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see notes 3.23 and 14).

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases, staff turnover and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 3.13 and 28).

(iv) *Consequences of certain legal actions*

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

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

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

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

Provisions for the Group's obligations arising legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.14 and 28).

(v) *Recoverability of trade and other receivables*

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 6a – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (*CONTINUED*)

*Critical judgements and estimates in applying accounting policies (continued)*

(vi) *Revaluation of land*

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

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

#### NOTE 6b – DETERMINING FAIR VALUES

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

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

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

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

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

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

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

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

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

- note 17: Property, plant and equipment (with respect to land)
- note 20: Investments in equity instruments

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 7 – REVENUE FROM SALES**

<i>(in thousands of HRK)</i>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Sales to domestic customers	33,536	39,328	36,834	42,485
Sales to foreign customers	110,561	116,581	106,615	112,351
	<b>144,097</b>	<b>155,909</b>	<b>143,449</b>	<b>154,836</b>

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

<i>(in thousands of HRK)</i>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
General cargo	65,715	72,614	65,715	72,614
Bulk cargo	50,651	53,967	50,651	53,967
Containers	5,180	6,415	5,180	6,415
Other port services	22,551	22,913	21,903	21,840
	<b>144,097</b>	<b>155,909</b>	<b>143,449</b>	<b>154,836</b>

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

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

<i>(u tisućama kuna)</i>	<b>2018.</b>	<b>2017.</b>	<b>2018.</b>	<b>2017.</b>
	<b>Grupa</b>	<b>Grupa</b>	<b>Društvo</b>	<b>Društvo</b>
Port manipulation	126,343	135,971	126,343	135,971
Rent and warehousing	5,470	6,312	5,470	6,312
Transport services	3,636	3,507	-	-
Other port services	8,648	10,119	11,636	12,553
	<b>144,097</b>	<b>155,909</b>	<b>143,449</b>	<b>154,836</b>

**NOTE 8 – OTHER INCOME**

<i>(in thousands of HRK)</i>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Gain on sale of non-current tangible and intangible assets	66	520	66	520
Donations and grants	32	34	-	-
Bad debts recovered	20	-	20	-
Insurance recoveries	498	200	498	200
Rental income (i)	9,499	9,834	9,591	9,952
Reversal of provisions	263	546	263	546
Income from court cases	673	94	673	94
Other income	2,014	624	1,878	570
	<b>13,065</b>	<b>11,852</b>	<b>12,989</b>	<b>11,882</b>

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 9 – MATERIALS, SERVICES AND CONSUMABLES USED**

<i>(in thousands of HRK)</i>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Energy	12,236	12,318	12,236	12,318
Utilities	5,891	5,547	5,881	5,532
Postage and telecommunications	691	731	670	708
Concession fees	6,601	6,842	6,601	6,842
Transport services	6,921	7,048	10,418	10,786
Quality control and disinfection	1,328	1,942	1,328	1,942
Freight handling services	9,946	10,839	9,946	10,839
Maintenance	9,149	8,845	9,104	9,818
Raw materials and consumables	5,803	7,056	5,145	6,399
Rent	315	309	315	271
Other materials expenses	676	2,013	686	812
	<b>59,557</b>	<b>63,490</b>	<b>62,330</b>	<b>66,267</b>

Variable part of the concession fee for 2018 amounted to HRK 1,786 thousand (2016: HRK 1,838 thousand).

**NOTE 10 – PERSONNEL EXPENSES**

<i>(in thousands of HRK)</i>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Gross salaries and wages	58,476	57,322	56,723	55,641
Contributions on salaries	10,221	9,980	9,748	9,556
Other employee related costs	4,820	4,918	4,632	4,723
	<b>73,517</b>	<b>72,220</b>	<b>71,103</b>	<b>69,920</b>

As at 31 December 2018 the number of staff employed by the Group was 587 (2017: 620) while the Company employed 572 employees (2017: 605). In 2018, termination benefits were accrued for 56 employees in the amount of HRK 2,043 thousand and recognised as an expense (2017: HRK 1,820 thousand for 27 employees).

**NOTE 11 – OTHER EXPENSES**

<i>(in thousands of HRK)</i>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Bank charges	325	249	292	217
Intellectual services	2,796	3,944	2,707	3,855
Fines and penalties	1,733	2,887	1,733	2,887
Reimbursement of costs to employees	2,578	2,677	2,578	2,677
Non-income related taxes, contributions and fees	10,156	10,122	10,115	10,081
Insurance	3,755	3,583	3,631	3,459
Court fees and expenses	412	195	412	195
Impairment of receivables	71	381	71	381
Marketing and entertainment	104	594	103	589
Increase in provisions for court cases	624	6,252	624	6,252
Impairment of land	26,990	-	26,990	-
Other expenses	1,427	1,014	1,295	882
	<b>50,971</b>	<b>31,898</b>	<b>50,551</b>	<b>31,475</b>

Non-income related taxes, contributions and fees relate to utility charges and fees for water regulation. Intellectual services include audit and related services (HRK 335 thousand), accounting services, legal and other consulting services.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 12 – FINANCE INCOME**

<i>(in thousands of HRK)</i>	<b>2018 Group</b>	<b>2017 Group</b>	<b>2018 Company</b>	<b>2017 Company</b>
Interest and similar income	323	1,913	584	1,913
Foreign exchange gains	2,098	4,637	2,097	4,633
Other financial income	262	2	11,853	6,537
	<b>2,683</b>	<b>6,552</b>	<b>14,534</b>	<b>13,083</b>

- (i) Interest income mostly consists of interest on bank deposits in the amount of HRK 484 thousand (2017: HRK 1,883 thousand).

**NOTE 13 – FINANCE COSTS**

<i>(in thousands of HRK)</i>	<b>2018 Group</b>	<b>2017 Group</b>	<b>2018 Company</b>	<b>2017 Company</b>
Interest and similar expenses	1,859	3,696	1,842	3,672
Foreign exchange losses	1,887	4,902	1,879	4,901
Losses on equity financial instruments	36	24	36	24
Other financial expenses	123	293	123	293
	<b>3,905</b>	<b>8,915</b>	<b>3,880</b>	<b>8,890</b>

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

**NOTE 14 – INCOME TAX**

Tax income consists of:

<i>(in thousands of HRK)</i>	<b>2018 Group</b>	<b>2017 Group</b>	<b>2018 Company</b>	<b>2017 Company</b>
Current income tax	18	39	-	(21)
Deferred tax	3,161	114	3,161	114
<b>Income tax expense / (benefit)</b>	<b>3,179</b>	<b>153</b>	<b>3,161</b>	<b>93</b>

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

<i>(in thousands of HRK)</i>	<b>2018 Group</b>	<b>2017 Group</b>	<b>2018 Company</b>	<b>2017 Company</b>
<b>Profit / (loss) before taxation</b>	<b>(25,706)</b>	<b>(1,142)</b>	<b>(26,815)</b>	<b>(6,518)</b>
Tax calculated at 18% (2017: 18%)	(4,627)	(206)	(4,827)	(1,173)
Non-taxable income	-	-	(2,177)	(1,177)
Non-deductible expenses	91	316	91	314
Tax effect of share in result of equity accounted investee	(2,359)	(2,086)	-	-
Tax incentive - reduction of tax rate	(8)	(8)	(8)	(8)
Recognition of previously unrecognised temporary differences	(1,520)	(114)	(1,520)	(114)
Current year losses for which no deferred tax asset has been recognised	2,044	2,251	2,044	2,251
Tax losses utilization	9,558	-	9,558	-
<b>Tax expense/(benefit) recognised in the statement of comprehensive income</b>	<b>3,179</b>	<b>153</b>	<b>3,161</b>	<b>93</b>
<b>Effective tax rate</b>	<b>(12%)</b>	<b>(13%)</b>	<b>(12%)</b>	<b>(1%)</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 14 – INCOME TAX (CONTINUED)

As at 31 December 2018, the Company and the Group has unused tax losses to carry forward of HRK 85,237 thousand (31 December 2017: HRK 72,729 thousand) for which a deferred tax asset was partially recognised as management believes that sufficient future taxable profits will be available against which the tax losses can be offset.

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

<b>2017 - Company and Group</b>	<b>Opening balance</b>	<b>Recognised in equity</b>	<b>Recognised in profit or loss</b>	<b>Closing balance</b>
	<i>(in thousands of HRK)</i>			
Land	3,602	-	-	3,602
Other financial assets	354	-	(35)	319
Financial assets available for sale	431	11	(58)	384
Provision for employee entitlements	499	-	(21)	478
Tax losses	13,073	-	-	13,073
	<b>17,959</b>	<b>11</b>	<b>(114)</b>	<b>17,856</b>

<b>2018 - Company and Group</b>	<b>Opening balance</b>	<b>Recognised in equity</b>	<b>Recognised in profit or loss</b>	<b>Closing balance</b>
	<i>(in thousands of HRK)</i>			
Land and buildings	3,602	-	4,858	8,460
Other financial assets	319	-	-	319
Financial assets available for sale	384	-	22	406
Provision for employee entitlements	478	-	(32)	446
Tax losses	13,073	-	(9,558)	3,515
	<b>17,856</b>	<b>-</b>	<b>(4,710)</b>	<b>13,146</b>

Deferred tax assets with respect to provisions relate to temporary differences arising from provisions on employee entitlements (jubilee awards and retirement benefits) while the deferred tax asset with respect to land relates to the impairment of land and buildings recorded in 2018 as presented in more detail in note 17.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 14 – INCOME TAX (CONTINUED)**

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

<b>2017 - Group</b>	<b>Opening balance</b>	<b>Recognised in equity</b>	<b>Recognised in profit or loss</b>	<b>Closing balance</b>
	<i>(in thousands of HRK)</i>			
Revaluation of land	8,043	-	-	8,043
Investments in equity accounted investees	5,056	-	-	5,056
	<b>13,099</b>	<b>-</b>	<b>-</b>	<b>13,099</b>

<b>2018 - Group</b>	<b>Opening balance</b>	<b>Recognised in equity</b>	<b>Recognised in profit or loss</b>	<b>Closing balance</b>
	<i>(in thousands of HRK)</i>			
Revaluation of land	8,043	982	(1,549)	7,476
Financial assets available for sale	-	9	-	9
Investments in equity accounted investees	5,056	-	-	5,056
	<b>13,099</b>	<b>991</b>	<b>(1,549)</b>	<b>12,541</b>

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

<b>2017 - Company</b>	<b>Opening balance</b>	<b>Recognised in equity</b>	<b>Recognised in profit or loss</b>	<b>Closing balance</b>
	<i>(in thousands of HRK)</i>			
Revaluation of land	8,043	-	-	8,043
	<b>8,043</b>	<b>-</b>	<b>-</b>	<b>8,043</b>

<b>2018 - Company</b>	<b>Opening balance</b>	<b>Recognised in equity</b>	<b>Recognised in profit or loss</b>	<b>Closing balance</b>
	<i>(in thousands of HRK)</i>			
Revaluation of land	8,043	982	(1,549)	7,476
Investments in equity accounted investees	-	9	-	9
	<b>8,043</b>	<b>991</b>	<b>(1,549)</b>	<b>7,485</b>

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 15 – EARNINGS PER SHARE**

	<b>2018</b>	<b>2017</b>
	<b>Group</b>	<b>Group</b>
Profit for the year <i>(in thousands of HRK)</i>	(28,885)	(1,295)
Total and weighted number of issued shares	13,480,475	13,480,475
<b>Earnings per share (basic and diluted) in HRK</b>	<b>(2.14)</b>	<b>(0.10)</b>

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

**NOTE 16 – INTANGIBLE ASSETS**

Movement in intangibles for the Group and Company was as follows:

<i>(in thousands of HRK)</i>	<b>Software</b>	<b>Intangibles in progress</b>	<b>Total</b>
<b>Cost</b>			
<b>At 1 January 2017</b>	<b>4,619</b>	-	<b>4,619</b>
Additions	-	-	-
Transfers	-	-	-
Disposals and write-off's	-	-	-
<b>At 31 December 2017</b>	<b>4,619</b>	-	<b>4,619</b>
Additions	20	-	20
Transfers	-	-	-
Disposals and write-off's	-	-	-
<b>At 31 December 2018</b>	<b>4,639</b>	-	<b>4,639</b>
<b>Accumulated amortisation</b>			
<b>At 1 January 2017</b>	<b>3,876</b>	-	<b>3,876</b>
Charge for the year	262	-	262
Disposals and write-off's	-	-	-
<b>At 31 December 2017</b>	<b>4,138</b>	-	<b>4,138</b>
Charge for the year	175	-	175
Disposals and write-off's	-	-	-
<b>At 31 December 2018</b>	<b>4,313</b>	-	<b>4,313</b>
<b>Carrying amount</b>			
<b>At 31 December 2017</b>	<b>481</b>	-	<b>481</b>
<b>At 31 December 2018</b>	<b>326</b>	-	<b>326</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 17 – PROPERTY, PLANT AND EQUIPMENT**

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

<i>(in thousands of HRK)</i>	<b>Land</b>	<b>Buildings</b>	<b>Equipment and fittings</b>	<b>Leasehold improvements</b>	<b>Assets under construction and advances</b>	<b>Total</b>
<b>Cost or revalued amount</b>						
<b>At 1 January 2017</b>	<b>229,076</b>	<b>139,855</b>	<b>205,874</b>	<b>6,901</b>	<b>73,109</b>	<b>654,815</b>
Additions	-	-	-	-	126,672	126,672
Disposals and write-off's	-	646	6,281	2,256	(9,183)	-
Transfers	-	(1,146)	(3,148)	-	-	(4,294)
<b>At 31 December 2017</b>	<b>229,076</b>	<b>139,355</b>	<b>209,007</b>	<b>9,157</b>	<b>190,598</b>	<b>777,193</b>
Additions	-	-	-	-	50,356	50,356
Transfers	-	123,078	1,251	4,614	(128,943)	-
Disposals and write-off's	(545)	-	(1,540)	-	-	(2,085)
Revaluation	(1,581)	-	-	-	-	(1,581)
<b>At 31 December 2018</b>	<b>226,950</b>	<b>262,433</b>	<b>208,718</b>	<b>13,771</b>	<b>112,011</b>	<b>823,883</b>
<b>Accumulated depreciation and impairment losses</b>						
<b>At 1 January 2017</b>	-	<b>40,222</b>	<b>149,781</b>	<b>342</b>	-	<b>190,345</b>
Charge for the year	-	2,627	7,132	288	-	10,047
Disposals and write-off's	-	(1,146)	(3,148)	-	-	(4,294)
<b>At 31 December 2017</b>	-	<b>41,703</b>	<b>153,765</b>	<b>630</b>	-	<b>196,098</b>
Charge for the year	-	3,761	6,174	386	-	10,321
Disposals and write-off's	-	-	(1,419)	-	-	(1,419)
Impairment	12,666	14,324	-	-	-	26,990
<b>At 31 December 2018</b>	<b>12,666</b>	<b>59,788</b>	<b>158,520</b>	<b>1,016</b>	-	<b>231,990</b>
<b>Carrying amount</b>						
<b>At 31 December 2017</b>	<b>229,076</b>	<b>97,652</b>	<b>55,242</b>	<b>8,527</b>	<b>190,598</b>	<b>581,095</b>
<b>At 31 December 2018</b>	<b>214,284</b>	<b>202,645</b>	<b>50,198</b>	<b>12,755</b>	<b>112,011</b>	<b>591,893</b>

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

Land and buildings of the Group with a carrying amount of HRK 71,721 thousand (2017: HRK 79,886 thousand) are mortgaged against the Group's borrowings.

The cost of leased equipment where the Group is the lessee under a finance lease arrangement amounts to HRK 23,784 (2017: HRK 23,784 thousand) thousand and is fully depreciated.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 17 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

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

<i>(in thousands of HRK)</i>	<b>Land</b>	<b>Buildings</b>	<b>Equipment and fittings</b>	<b>Leasehold improvements</b>	<b>Assets under construction and advances</b>	<b>Total</b>
<b>Cost or revalued amount</b>						
<b>At 1 January 2017</b>	<b>229,076</b>	<b>139,855</b>	<b>200,433</b>	<b>6,910</b>	<b>73,231</b>	<b>649,505</b>
Additions	-	-	-	-	125,570	125,570
Disposals and write-off's	-	646	5,186	2,256	(8,088)	-
Transfers	-	(1,146)	(3,148)	-	-	(4,294)
<b>At 31 December 2017</b>	<b>229,076</b>	<b>139,355</b>	<b>202,471</b>	<b>9,166</b>	<b>190,713</b>	<b>770,781</b>
Additions	-	-	-	-	50,146	50,146
Disposals and write-off's	-	123,078	1,162	4,605	(128,845)	-
Transfers	(545)	-	(758)	-	-	(1,303)
Revaluation	(1,581)	-	-	-	-	(1,581)
<b>At 31 December 2018</b>	<b>226,950</b>	<b>262,433</b>	<b>202,875</b>	<b>13,771</b>	<b>112,014</b>	<b>818,043</b>
			-			
<b>Accumulated depreciation and impairment losses</b>						
<b>At 1 January 2017</b>	-	<b>40,222</b>	<b>146,109</b>	<b>344</b>	-	<b>186,675</b>
Charge for the year	-	2,627	6,376	288	-	9,291
Disposals and write-off's	-	(1,146)	(3,148)	-	-	(4,294)
<b>At 31 December 2017</b>	-	<b>41,703</b>	<b>149,337</b>	<b>632</b>	-	<b>191,672</b>
Charge for the year	-	3,761	5,391	386	-	9,538
Disposals and write-off's	-	-	(758)	-	-	(758)
Impairment	12,666	14,324	-	-	-	26,990
<b>At 31 December 2018</b>	<b>12,666</b>	<b>59,788</b>	<b>153,970</b>	<b>1,018</b>	-	<b>227,442</b>
<b>Carrying amount</b>						
<b>At 31 December 2017</b>	<b>229,076</b>	<b>97,652</b>	<b>53,134</b>	<b>8,534</b>	<b>190,713</b>	<b>579,109</b>
<b>At 31 December 2018</b>	<b>214,284</b>	<b>202,645</b>	<b>48,905</b>	<b>12,753</b>	<b>112,014</b>	<b>590,601</b>

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

Land and buildings of the Company with a carrying amount of HRK 71,721 thousand (2017: HRK 79,886 thousand) are mortgaged against the Company's borrowings.

The cost of leased equipment where the Company is the lessee under a finance lease arrangement amounts to HRK 23,784 (2017: HRK 23,784 thousand) thousand and is fully depreciated.

During 2018 interest in the amount of HRK 365 thousand were capitalised as assets and presented within assets under construction.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 17 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### *Revaluation of land*

The Group and the Company revalued their land during the second quarter of 2018 based on fair value estimates made by an independent expert valuer. Management considers that the fair values of land have not changed significantly since the date of that last valuation and that the carrying value of land as at the reporting date approximates its fair value. The carrying amount that would have been recognised had the land been carried under the cost model amounts to HRK 172,754 thousand. As at 31 December 2017, the revaluation surplus recognised in revaluation reserves amounts to HRK 34,055 thousand. Furthermore, valuation reports of independent valuers included also valuation of the buildings that are carried at cost model. For buildings where the recoverable amount was estimated to be less than the carrying amount, the carrying amount of the asset is reduced to the recoverable amount. Impairment losses on land and buildings recognized as expense and reported in Note 11 amounted to HRK 26,990 thousand.

##### *Measurement of fair values*

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

The Group's land balance also includes a land plot which is currently used as a parking lot. The Group has not classified this land as investment property as the initial planned purpose was to build own premises for use in the principal activity, but is currently in the process of considering its purpose and conversion into investment property which would result in its reclassification.

#### NOTE 18 – INVESTMENT PROPERTY

*(in thousands of HRK)*

	31.12.2018 Group	31.12.2017 Group	31.12.2018 Company	31.12.2017 Company
<b>Cost</b>				
At 1 January	12,177	12,633	12,177	12,633
Additions	-	-	-	-
Disposals and write-off's	-	(456)	-	(456)
	<b>12,177</b>	<b>12,177</b>	<b>12,177</b>	<b>12,177</b>
<b>Accumulated depreciation</b>				
At 1 January	3,620	3,509	3,620	3,509
Charge for the year	210	214	210	214
Disposals and write-off's	-	(103)	-	(103)
	<b>3,830</b>	<b>3,620</b>	<b>3,830</b>	<b>3,620</b>
<b>Carrying amount as at 31 December</b>	<b>8,347</b>	<b>8,557</b>	<b>8,347</b>	<b>8,557</b>

Investment property relates to 40 apartments owned by the Group and leased for an indefinite period to protected tenants.

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

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

The Group regularly tests the investment property for impairment by analysis of comparable real estate prices. As at the reporting dates, current quoted market prices for similar properties and realised sales prices do not indicate impairment and the carrying amount is a reasonable approximation of fair value. Furthermore, in 2018, had no sale of apartments (2017: the Group sold 3 apartments and realised a gain on sale of HRK 520 thousand)..

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 19 – INVESTMENTS IN SUBSIDIARIES AND EQUITY ACCOUNTED INVESTEES

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Investments in subsidiaries	-	-	40	40
Investment in equity accounted investees	101,083	99,569	11,727	11,727
	<b>101,083</b>	<b>99,569</b>	<b>11,767</b>	<b>11,767</b>

The investments in subsidiaries are as follows:

<b>COMPANY</b>	<b>Ownership interest</b>		<b>Investment</b>	
	<b>31.12.2018.</b>	<b>31.12.2017.</b>	<b>31.12.2018.</b>	<b>31.12.2017.</b>
Luka - prijevoz d.o.o.	100%	100%	20	20
Stanovi d.o.o.	100%	100%	20	20
			<b>40</b>	<b>40</b>

The investments in equity accounted investees relate to the following:

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Jadranska vrata d.d.				
- at cost	-	-	11,727	11,727
- applying the equity method	101,083	99,569	-	-
	<b>101,083</b>	<b>99,569</b>	<b>11,727</b>	<b>11,727</b>

During 2011, the Group sold a 51% ownership interest in its former wholly owned subsidiary Jadranska vrata d.d. As a result, upon loss of control, the Group ceased consolidating the subsidiary and remeasured the remaining interest therein to fair value based on a valuation performed by an expert independent valuer and with the surplus from the remeasurement being recognised as financial income at the date of disposal. From the date of loss of control, the former subsidiary is accounted for as an associate by applying the equity method of accounting. Principal operations of the equity accounted investee are related to operating a container cargo terminal in port of Rijeka area. Movement in the investment in equity accounted investees is as follows:

<i>(in thousands of HRK)</i>	<b>2018</b>	<b>2017</b>
	<b>Group</b>	<b>Group</b>
As at 1 January	99,569	94,514
Share of profit/(loss) of associate	13,105	11,591
Dividend payment	(11,591)	(6,536)
<b>As at 31 December</b>	<b>112,674</b>	<b>106,105</b>

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

<b>Jadranska vrata d.d.</b>	<b>31.12.2018.</b>	<b>31.12.2017.</b>
<i>(in thousands of HRK)</i>		
Assets	204,235	200,056
Liabilities	55,895	54,891
Revenue	121,867	110,771
Net profit/(loss)	26,744	23,656

The General Assembly of Jadranska Vrata d.d. held on 4 April 2017 adopted a decision to pay out dividend from net profits for 2016 and retained earnings of previous years in the total amount of 13,339 thousand of which 6,536 thousand relates to the Company and was recognized as financial income in 2017. Further, the General Assembly of Jadranska Vrata d.d. held on 28 March 2018 adopted a decision to pay out dividend from net profits for 2017 in the total amount of 23,656 thousand of which 11,591 thousand relates to the Company and was recognized as financial income in 2018.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 20 – INVESTMENTS IN EQUITY INSTRUMENTS

Investments in equity instruments comprise the following:

<i>(in thousands of HRK)</i>	<b>31.12.2018 Group</b>	<b>31.12.2017 Group</b>	<b>31.12.2018 Company</b>	<b>31.12.2017 Company</b>
Investment in quoted equity securities	125	250	125	250

Movement in AFS financial assets was as follows:

<i>(in thousands of HRK)</i>	<b>31.12.2018 Group</b>	<b>31.12.2017 Group</b>	<b>31.12.2018 Company</b>	<b>31.12.2017 Company</b>
As at 1 January	250	219	250	219
Impairment recognised in profit or loss	(36)	(24)	(36)	(24)
Revaluation recognised through equity	(89)	55	(89)	55
<b>As at 31 December</b>	<b>125</b>	<b>250</b>	<b>125</b>	<b>250</b>

#### *Fair value measurement*

The fair value of investments in shares of listed companies is based on stock market prices at the reporting date. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 1 (see note 6b). Investments in equity instruments quoted on the stock exchange but where there is no active market are carried at cost and tested for impairment regularly.

#### NOTE 21 – NON-CURRENT FINANCIAL ASSETS

<i>(in thousands of HRK)</i>	<b>31.12.2018 Group</b>	<b>31.12.2017 Group</b>	<b>31.12.2018 Company</b>	<b>31.12.2017 Company</b>
Non-current receivables for apartments sold	3,097	4,339	3,097	4,339
Other financial assets	94	40	94	40
Other non-current receivables	-	-	-	-
	<b>3,191</b>	<b>4,379</b>	<b>3,191</b>	<b>4,379</b>

#### *(i) Receivables for apartments sold*

Non-current receivables relate to receivables for apartments sold on credit to employees which are EUR denominated and bear a below market interest rate. In 2018, 58 apartments were repaid in full (2017: 38 apartments). As at 31 December 2018, a total of 1,145 apartments were in repayment (2017: 1,203 apartments). Management considers that the fair value of non-current receivables approximates their carrying amount as the effect of discounting is estimated as immaterial due to low levels of current market interest rates for similar loans.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 22 – CURRENT FINANCIAL ASSETS

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Short-term deposits in banks	9,844	70,151	9,844	70,151
Other loans, deposits and similar items	149	99	149	99
	<b>9,993</b>	<b>70,250</b>	<b>9,993</b>	<b>70,250</b>

Interest rate on short-term deposits are variable, ranging from 0.11% to 1.7% per annum.

#### NOTE 23 – TRADE AND OTHER RECEIVABLES

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Receivables from domestic customers	11,770	9,234	11,273	8,717
Receivables from foreign customers	11,447	14,714	11,447	14,714
Current receivables for apartments sold on credit	2,624	2,763	2,624	2,763
Receivables from State for taxes, contributions and fees	646	1,826	610	1,837
Advances given	431	-	431	-
Accrued income	-	-	-	-
VAT receivable	79	93	-	-
Prepaid expenses	804	1,056	777	1,045
Other receivables	425	72	422	69
	<b>28,226</b>	<b>29,758</b>	<b>27,584</b>	<b>29,145</b>

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

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
At 1 January	11,682	12,674	11,682	12,674
Increase	71	381	71	381
Collected	(20)	-	(20)	-
Written-off	(40)	(1,373)	(40)	(1,373)
<b>At 31 December</b>	<b>11,693</b>	<b>11,682</b>	<b>11,693</b>	<b>11,682</b>

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

Ageing analysis of trade receivables is as follows:

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Up to 90 days	22,773	23,451	22,276	22,934
91-180 days	309	272	309	272
181-360 days	102	150	102	150
Over 360 days	33	75	33	75
	<b>23,217</b>	<b>23,948</b>	<b>22,720</b>	<b>23,431</b>

Trade receivables are denominated in following currencies:

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
HRK	11,770	9,234	11,273	8,717
EUR	11,357	14,714	11,357	14,714
USD	90	-	90	-
	<b>23,217</b>	<b>23,948</b>	<b>22,720</b>	<b>23,431</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 24 – CASH AND CASH EQUIVALENTS

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Cash with banks	51,486	3,103	50,695	2,313
Cash at hand	594	650	6	7
	<b>52,080</b>	<b>3,753</b>	<b>50,701</b>	<b>2,320</b>

Cash with banks relates to cash accounts with commercial banks carrying an average interest rate of 0.01% per annum.

#### NOTE 25 – SHARE CAPITAL

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Company</b>	<b>Company</b>
Share capital	539,219	539,219
	<b>539,219</b>	<b>539,219</b>

As at 31 December 2018, the Company's share capital amounted to HRK 539,219 thousand, distributed among 13,480,475 shares with a nominal value of each share amounting to HRK 40. All issued shares are fully paid in and authorised.

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

	<b>2018</b>		<b>2017</b>	
	Number of shares	% of ownership	Number of shares	% of ownership
OT LOGISTICS SPOLKA AKCYJNA	3,574,116	26.51%	3,574,116	26.51%
CERP - Republic of Croatia	3,372,495	25.02%	3,372,510	25.02%
OTP BANK d.d./AZ d.d. (custodial account)	2,020,492	14.99%	1,927,914	14.30%
PBZ D.D./FUNDUSZ INWESTYCYJNY ZAMKNIĘTY AKTYWÓW NIEPUBLICZNYCH kojim upravlja PFR TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A.	1,179,425	8.75%	1,194,425	8.86%
ADDIKO BANK D.D./PBZ CO OMF KATEGORIJE B	1,024,100	7.60%	1,024,100	7.60%
OTP BANKA D.D./ ERSTE PLAVI OMF KATEGORIJE B	1,017,260	7.55%	1,017,260	7.55%
OTP BANKA D.D./ ERSTE PLAVI EXPERT- DOBROVOLJNI MIROVINSKI FOND	136,370	1.01%	136,370	1.01%
OTP BANKA D.D./ AZ OBVEZNI MIROVINSKI FOND KATEGORIJE A Zagrebačka Banka d.d. /AZ PROFIT OTVORENI DOBROVOLJNI MIROVINSKI FOND (Custodial account)	115,000	0.85%	115,000	0.85%
MIROVINSKI FOND (Custodial account)	95,575	0.71%	95,711	0.71%
OTP BANK d.d./Erste Plavi OMF Kategorije A- (custodial account)	38,800	0.29%	39,093	0.29%
Other shareholders	906,842	6.72%	983,975	7.30%
<b>Total</b>	<b>13,480,475</b>	<b>99.99%</b>	<b>13,480,475</b>	<b>100.00%</b>

The shareholding of OT Logistics S.A. has remained at the same level as in prior year and at the reporting date, it holds 3,574,116 shares with a total nominal amount of HRK 142,964,640, representing 26.51% of the registered capital or voting rights. Based on the shareholder agreement signed on 15 September 2017 between OT Logistics S.A. and Allianz AZ d.o.o. and Erste d.o.o. management companies for obligatory pension funds with which OT Logistics S.A. operates jointly in the context of the Capital Market Act, these shareholders together hold 51.25% of the share capital or 51.25% of the total number of votes at the General Assembly of the Company.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 26 – RESERVES**

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Capital and other reserves	38,624	38,624	38,624	38,624
Revaluation reserves	34,104	36,713	34,104	36,713
	<b>72,728</b>	<b>75,337</b>	<b>72,728</b>	<b>75,337</b>

The Company is required to create legal reserves under Croatian law amounting to a minimum of 5% of the profit for the year until the total legal reserves reach 5% of the share capital. The Company currently does not have any legal reserve.

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

**NOTE 27 – BORROWINGS**

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
<b>Non-current borrowings</b>				
Bank loans	48,492	20,652	48,492	20,652
Finance lease liabilities	5,387	9,547	5,327	9,274
	<b>53,879</b>	<b>30,199</b>	<b>53,819</b>	<b>29,926</b>
<b>Current borrowings</b>				
Bank loans	7,346	7,958	7,346	7,958
Loans from other financial institutions	4,167	4,221	4,167	4,221
Other loans and borrowings	-	136	-	-
Finance lease liabilities	3,544	2,545	3,324	2,242
	<b>15,057</b>	<b>14,860</b>	<b>14,837</b>	<b>14,421</b>
<b>Total borrowings</b>	<b>68,936</b>	<b>45,059</b>	<b>68,656</b>	<b>44,347</b>

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

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
1 year or less	11,513	12,179	11,513	12,179
1 - 2 years	8,764	3,086	8,764	3,086
2 – 5 years	26,272	9,260	26,272	9,260
Over 5 years	13,456	8,306	13,456	8,306
	<b>60,005</b>	<b>32,831</b>	<b>60,005</b>	<b>32,831</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 27 – BORROWINGS (CONTINUED)**

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

<i>(in thousands of HRK)</i>	<b>31.12.2018 Group</b>	<b>31.12.2017 Group</b>	<b>31.12.2018 Company</b>	<b>31.12.2017 Company</b>
Up to 1 year	3,544	2,545	3,324	2,242
Between 1 and 2 years	3,595	2,821	3,535	2,627
Between 2 and 5 years	1,792	6,726	1,792	6,647
Over 5 years	-	-	-	-
	<b>8,931</b>	<b>12,092</b>	<b>8,651</b>	<b>11,516</b>

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

<i>(in thousands of HRK)</i>	<b>31.12.2018 Group</b>	<b>31.12.2017 Group</b>	<b>31.12.2018 Company</b>	<b>31.12.2017 Company</b>
EUR	60,285	30,828	60,005	30,116
USD	8,651	14,231	8,651	14,231
	<b>68,936</b>	<b>45,059</b>	<b>68,656</b>	<b>44,347</b>

As at 31 December 2018, the Group has a borrowing facility for guarantees of HRK 20,703 thousand.

Reconciliation of movements in liabilities to cash flows arising from financing activities for the Group is as follows:

<i>(in thousands of HRK)</i>	<b>Loans</b>	<b>Finance lease</b>	<b>Total</b>
Balance as at 1 January 2018	32,967	12,092	45,059
<i>Cash transactions</i>			
Loans repaid	(8,027)	-	(8,027)
Loans received	35,418	-	35,418
Financial lease repaid	-	(4,184)	(4,184)
Total cash transactions	27,391	(4,184)	23,207
<i>Non-cash transactions</i>			
Exchange rate effect	(353)	376	23
Other non-cash transactions	-	647	647
Balance as at 31 December 2018	<b>60,005</b>	<b>8,931</b>	<b>68,936</b>

**Bank loans**

Bank loans amounting to HRK 35,451 thousand have variable interest rates (2017: HRK 3,404 thousand). The variable interest rates for bank loans were in the range from 1.7% to 4.25% per annum (2017: from 1.7% to 4.25%).

Bank loans amounting to HRK 20,388 thousand have fixed interest rates (2017: HRK 25,206 thousand). The fixed interest rates for bank loans included in the table above were in the range from 3.0% to 5.0% (2017: from 3.0% to 5.0%).

**Loans from other financial institutions**

Loans from other financial institutions relate to loans from Royal pension insurance fund which were used to finance the workforce restructuring process in previous period.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 27 – BORROWINGS (CONTINUED)**

*Finance leases*

Finance leases in the amount of HRK 8,931 thousand for the Group and HRK 8,651 thousand for the Company relate mostly to lease of equipment. Most of the balance relates to the interest free finance lease arrangement with the Port authority of Rijeka amounting to HRK 8,651 thousand at 31 December 2018. The lease has a term of seven years ending in 2021.

*Security*

Bank borrowings in the amount of HRK 55,838 thousand (2017: HRK 25,206 thousand) are secured by mortgages over the Company's and Group's land and buildings (note 17).

*Subordinated loan*

As at 31 December 2017, the Group had an outstanding US dollar denominated liability of HRK 2,714 thousand for a subordinated loan towards the Port Authority of Rijeka based on a principal loan agreement for financing of infrastructure projects concluded between the Port Authority of Rijeka and the International Bank for Reconstruction and Development ("IBRD"). The loan has been repaid in full during 2018.

**NOTE 28 – PROVISIONS**

<b>Group and Company - (in thousands of HRK)</b>	<b>Jubilee awards and retirement benefits</b>	<b>Legal cases</b>	<b>Total</b>
<b>As at 31 December 2017</b>			
Non-current	2,656	-	2,656
Current	-	6,252	6,252
	<b>2,656</b>	<b>6,252</b>	<b>8,908</b>
<b>As at 31 December 2018</b>			
Non-current	2,478	-	2,478
Current	-	2,662	2,662
	<b>2,478</b>	<b>2,662</b>	<b>5,140</b>

Movement in provisions was as follows:

<b>Group and Company - (in thousands of HRK)</b>	<b>Jubilee awards and retirement benefits</b>	<b>Legal cases</b>	<b>Total</b>
As at 1 January 2017	3,202	7,365	10,567
Increase	-	6,252	6,252
Decrease	(546)	(7,365)	(7,911)
<b>As at 31 December 2017</b>	<b>2,656</b>	<b>6,252</b>	<b>8,908</b>
As at 1 January 2018	2,656	6,252	8,908
Increase	-	624	624
Decrease	(178)	(4,214)	(4,392)
<b>As at 31 December 2018</b>	<b>2,478</b>	<b>2,662</b>	<b>5,140</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 28 – PROVISIONS (continued)

(i) *Jubilee awards and regular retirement benefits*

According to the Collective Agreement the Group has an obligation to pay jubilee awards and regular retirement benefits. No other post-retirement benefits are provided.

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

(in thousands of HRK)

	Estimate	
	2018	2017
Discount rate	2.85%	2.00%
Average rate of staff turnover	10.39%	8.77%
Average expected retirement age	61 - 65	61 - 65

(ii) *Legal cases*

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

During 2018, several court cases ended for which the Group had financial outflows.

#### NOTE 29 – TRADE AND OTHER PAYABLES

(in thousands of HRK)

	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	Group	Group	Company	Company
Trade payables - domestic	22,468	25,588	23,135	26,340
Trade payables - foreign	100	523	100	523
Liabilities toward employees	4,323	3,690	4,293	3,654
Liabilities for apartments sold	3,513	3,512	3,513	3,512
Interest payable	467	451	467	451
Other taxes, contributions and fees payable	1,537	1,070	1,362	917
VAT liabilities	49	904	38	890
Salary taxes and contributions payable	2,108	2,103	2,108	2,103
Deferred income	20,004	27	20,004	27
Accrued expenses	4,379	15,479	4,379	15,479
Other payables	818	761	40	6
	<b>59,766</b>	<b>54,108</b>	<b>59,439</b>	<b>53,902</b>

- (i) Two funding contracts were concluded at the end of 2017, as part of the incentives of the European Commission for the reconstruction of the port area in Rijeka and Bakar, between the INEA Agency (the Innovation and Networks Executive Agency) as the Grantor, Port Authority of Rijeka as the coordinator and the Company. The Company and the Port Authority of Rijeka are also considered recipients of the grant (the Company has the right to approximately 96% of the total amount of the grant). The maximum total amount of the grant for both contracts is determined as 85% of the costs that will be required for the planned works in this area and amounts to 33.795 thousand euros. The payment of these funds is planned in instalments, in accordance with the dynamics specified in the contract. During 2018, the Company received HRK 20 million with respect to these contracts. Assets that are a prerequisite for the realization and retention of this grant are still not under construction as at 31 December 2018.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 30 – RISK MANAGEMENT**

**Capital risk management**

*Net debt to equity ratio (Gearing ratio)*

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

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Debt (long- and short-term borrowings)	(68,936)	(45,059)	(68,656)	(44,347)
Short term bank deposits	9,844	70,151	9,844	70,151
Cash and cash equivalents	52,080	3,753	50,701	2,320
Net cash / (debt)	<u>(7,012)</u>	<u>28,845</u>	<u>(8,111)</u>	<u>28,124</u>
Equity	663,836	695,330	576,867	609,452
Net debt to equity ratio	-1%	4%	-1%	5%

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

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

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

**Financial risk management**

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

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Financial assets available for sale	125	250	125	250
<b>Total AFS financial assets</b>	<b>125</b>	<b>250</b>	<b>125</b>	<b>250</b>
Non-current financial assets	3,191	4,379	3,191	4,379
Short-term financial assets	9,993	70,250	9,993	70,250
Trade receivables	26,345	26,876	25,766	26,263
Cash and cash equivalents	52,080	3,753	50,701	2,320
<b>Total loans and receivables</b>	<b>91,609</b>	<b>105,258</b>	<b>89,651</b>	<b>103,212</b>
<b>Total financial assets</b>	<b>91,734</b>	<b>105,508</b>	<b>89,776</b>	<b>103,462</b>
Finance lease liabilities	8,931	12,092	8,651	11,516
Loan liabilities	60,005	32,967	60,005	32,831
Trade payables	27,366	30,835	27,255	30,832
<b>Total financial liabilities at amortised cost</b>	<b>96,302</b>	<b>75,894</b>	<b>95,911</b>	<b>75,179</b>
<b>Total financial liabilities</b>	<b>96,302</b>	<b>75,894</b>	<b>95,911</b>	<b>75,179</b>

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 30 – RISK MANAGEMENT (*CONTINUED*)

##### Financial risk management (*continued*)

##### Fair value of financial instruments

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

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

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

As at 31 December 2018, the carrying amounts of cash and cash equivalents, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 30 – RISK MANAGEMENT (CONTINUED)**

**Financial risk management (continued)**

*Liquidity risk management*

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

*Liquidity risk analysis*

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

<i>as at 31 December 2018</i>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing:</i>						
Non-current receivables	<b>3,191</b>	<b>3,191</b>	1,300	1,300	591	-
Trade receivables	<b>26,345</b>	<b>26,345</b>	26,345	-	-	-
Equity instruments at FVOCI	<b>125</b>	<b>125</b>	125	-	-	-
	<b>29,661</b>	<b>29,661</b>	<b>27,770</b>	<b>1,300</b>	<b>591</b>	<b>-</b>

*Interest bearing:*

Current financial assets	<b>9,993</b>	<b>10,163</b>	10,163	-	-	-
Cash and cash equivalents	<b>52,080</b>	<b>52,601</b>	52,601	-	-	-
	<b>62,073</b>	<b>62,764</b>	<b>62,764</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>91,734</b>	<b>92,425</b>	<b>90,534</b>	<b>1,300</b>	<b>591</b>	<b>-</b>

<i>as at 31 December 2018</i>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing:</i>						
Finance lease liabilities	<b>8,651</b>	<b>8,651</b>	3,324	3,535	1,792	-
Trade payables	<b>27,366</b>	<b>27,366</b>	27,366	-	-	-
	<b>36,017</b>	<b>36,017</b>	<b>30,690</b>	<b>3,535</b>	<b>1,792</b>	<b>-</b>

*Interest bearing:*

Finance lease liabilities	<b>280</b>	<b>295</b>	232	63	-	-
Loan liabilities	<b>60,005</b>	<b>61,658</b>	11,833	8,998	26,994	13,833
	<b>60,285</b>	<b>61,953</b>	<b>12,065</b>	<b>9,061</b>	<b>26,994</b>	<b>13,833</b>
	<b>96,302</b>	<b>97,970</b>	<b>42,755</b>	<b>12,596</b>	<b>28,786</b>	<b>13,833</b>



NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 30 – RISK MANAGEMENT (*CONTINUED*)

Financial risk management (*continued*)

Liquidity risk management (*continued*)

<i>as at 31 December 2017</i>	Carrying amount	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
<i>Non-interest bearing:</i>						
Non-current receivables	4,379	4,416	1,337	1,300	1,779	-
Trade receivables	26,876	26,876	26,876	-	-	-
Equity instruments at FVOCI	250	250	250	-	-	-
	<b>31,505</b>	<b>31,542</b>	<b>28,463</b>	<b>1,300</b>	<b>1,779</b>	<b>-</b>
<i>Interest bearing:</i>						
Current financial assets	70,250	70,430	70,430	-	-	-
Cash and cash equivalents	3,753	3,791	3,791	-	-	-
	<b>74,003</b>	<b>74,221</b>	<b>74,221</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>105,508</b>	<b>105,763</b>	<b>102,684</b>	<b>1,300</b>	<b>1,779</b>	<b>-</b>

<i>as at 31 December 2017</i>	Carrying amount	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
<i>Non-interest bearing:</i>						
Finance lease liabilities	11,516	14,265	3,814	3,816	5,724	911
Trade payables	30,835	30,835	30,835	-	-	-
	<b>42,351</b>	<b>45,100</b>	<b>34,649</b>	<b>3,816</b>	<b>5,724</b>	<b>911</b>
<i>Interest bearing:</i>						
Finance lease liabilities	576	613	319	204	90	-
Loan liabilities	32,967	34,231	12,643	3,226	9,679	8,683
	<b>33,543</b>	<b>34,844</b>	<b>12,962</b>	<b>3,430</b>	<b>9,769</b>	<b>8,683</b>
	<b>75,894</b>	<b>79,944</b>	<b>47,611</b>	<b>7,246</b>	<b>15,493</b>	<b>9,594</b>

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 30 – RISK MANAGEMENT (CONTINUED)**

**Financial risk management (continued)**

*Interest rate risk management*

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

<i>(in thousands of HRK)</i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
EURIBOR based bank loans	35,451	689	35,451	689
LIBOR based bank loans	-	2,714	-	2,714
	<b>35,451</b>	<b>3,403</b>	<b>35,451</b>	<b>3,403</b>

*Interest rate sensitivity analysis*

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

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

<i>as at 31 December 2018</i>	<b>Contractual</b>	<b>up to 6</b>	<b>from 6 to</b>	<b>from 1 to</b>	<b>from 2 to</b>
	<b>cash flows</b>	<b>months</b>	<b>12 months</b>	<b>2 years</b>	<b>5 years</b>
	<i>(in thousands of HRK)</i>				
At currently applicable int. rates	<b>36,995</b>	4,873	6,090	17,548	8,484
At currently applicable int. rates + 50 basis points	<b>37,296</b>	4,957	6,161	17,632	8,546
<b>Effect of increase of int. rates by 50 basis points</b>	<b>(301)</b>	<b>(84)</b>	<b>(71)</b>	<b>(84)</b>	<b>(62)</b>

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 30 – RISK MANAGEMENT (CONTINUED)**

**Financial risk management (continued)**

**Currency risk management**

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

	Liabilities		Liabilities	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
<i>(in thousands of HRK)</i>	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
EUR	60,385	31,351	60,105	30,639
USD	8,651	14,231	8,651	14,231
	<b>69,036</b>	<b>45,582</b>	<b>68,756</b>	<b>44,870</b>

	Assets		Assets	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
<i>(in thousands of HRK)</i>	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
EUR	49,895	21,816	49,715	21,816
USD	397	26,882	397	26,882
	<b>50,292</b>	<b>48,698</b>	<b>50,112</b>	<b>48,698</b>

*Foreign currency sensitivity analysis*

The Group is mainly exposed to the fluctuations in the exchange rate of Croatian kuna to Euro and US dollar, since the most of the transactions with international customers is in Euro and US dollar. The relevant foreign exchange rates for the Euro and the US dollar during the reporting period were as follows:

	Spot FX rate		Average FX rate	
	31.12.2018.	31.12.2017.	2018	2017
<i>(in thousands of HRK)</i>				
EUR	7.417575	7.513648	7.414111	7.460100
USD	6.469192	6.269733	6.278406	6.622397

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

	EUR exposure		EUR exposure	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
<i>(in thousands of HRK)</i>	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Increase/(decrease) of net result	(105)	(95)	(104)	(88)

	USD exposure		USD exposure	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
<i>(in thousands of HRK)</i>	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Increase/(decrease) of net result	(825)	1,265	(825)	1,265

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

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 30 – RISK MANAGEMENT (*CONTINUED*)

##### Financial risk management (*continued*)

###### *Credit risk management*

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

Customers are classified into risk groupings based on the financial indicators and own trading records, and appropriate credit risk mitigation measures are taken for each risk class. Customers are classified mainly on the basis of official financial statements of customers, and credit ratings supplied by independent rating agencies, and the history of trading with each customer. The Group's exposure and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least annually.

The Group has no significant credit exposures that would not be covered by collateral and which have not been assessed for impairment indicators as at the reporting date.

###### Operational risk management

###### *Sales concentration risk management*

The Group generates approximately 23% (2017: 25%) of its revenue from domestic customers, whereas around 77% (2017: 75%) of the sales are generated from international customers (based on geographical location of customer). The Group determines the selling prices in accordance with the macroeconomic conditions prevailing in each of the markets where the customers are located having in mind the maximum approved tariffs for services defined in the concession agreement.

The Group's revenues are to a significant extent exposed to volatility due to high concentration of revenues from a smaller number of customers. In 2018, top 10 customers of the Group generated approximately 64% of operating revenues (2017: 52%) while the top five customer generated approximately 54% of operating revenues (2017: 43%). As a result of its exposure to a small number of customer, the Group manages this risk through active and frequent communication with key customers, acquisitions of new customers, and through monitoring of relevant competitors and market conditions both locally and internationally.

The Group expects increased risks associated with maintaining market position (both in terms of international and domestic customers) due to the strengthening of competitors. To lessen this effect, the Group aims to further increase its competitiveness by increasing productivity and capacity and modernising its technology, which it expects to achieve to a large extent through the realisation of the Škrljevo project coupled with the expected refurbishment of local railways.

#### NOTE 31 – RELATED PARTY TRANSACTIONS

The most significant individual shareholder of Luka Rijeka d.d. is OT Logistics S.A. which, together with Pension funds, holds 51.25% of share capital and voting rights of the Company.

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

##### *Transactions with State related parties*

Given that its most significant shareholder is the State, the Group is also in a related party relationship with State institutions and other companies in which the State is a majority owner or has significant influence. For the purposes of related party disclosures, the Group does not consider routine transactions with various communal entities or with other State bodies (with respect to taxes, levies etc.) or with State owned companies (with respect to standard purchases of basic consumables, energy, freight rail transport services and supply of electricity) to be related party transactions.

Transactions with the Port Authority of Rijeka which is the Grantor of the concession for the primary activity of the Group, other those with respect to rent of premises and regular services as presented below, are disclosed in more detail separately further in this note.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 31 – RELATED PARTY TRANSACTIONS (CONTINUED)

##### *Transactions with Owners - OT Logistics S.A.*

During 2018, the Company sold goods and services to OT Logistics S.A. in the total amount of HRK 2,462 thousand and purchased goods and services in the amount of HRK 34 thousand in the same period. As at 31 December 2018, the Company and the Group did not have any receivables or payables towards OT Logistics S.A.

##### *Transactions with subsidiaries*

During 2018, the Company purchased goods and services from subsidiaries in the amount of HRK 4,506 thousand (2017: HRK 5,836 thousand) and at 31 December 2018 owed to subsidiaries HRK 810 thousand (2017: HRK 897 thousand). During 2018, the Company sold goods and services to subsidiaries in the amount of HRK 92 thousand (2017: HRK 118 thousand) and at 31 December 2018 had receivables from subsidiaries in the amount of HRK 9 thousand (2017: 1 thousand kuna). In addition, during 2018, the Company realized revenues from the share of profits of subsidiaries in the amount of HRK 261 thousand.

##### *Transactions with associates*

The Group enters into transactions with the associate company Jadranska vrata d.d. where Luka Rijeka d.d. has a 49% ownership interest. Transactions with the associate relating to balances in the statement of financial position as at 31 December 2018 and 31 December 2017 and transactions in the statement of comprehensive income for the years then ended are as follows:

(in thousands of HRK)

	<b>2018</b>	<b>2017</b>
Trade receivables	537	398
Sales revenue and other income	50	101

##### *Transactions with the Port Authority of Rijeka*

###### *(i) Concession fees*

During 2018, the Group recognized expenditure related to concession fees toward the Port Authority of Rijeka in the amount of HRK 6,276 thousand (2017: HRK 7,614 thousand). The concession fees relates to the service concession arrangements for the provision of port services in the port of Rijeka, Bakar and Bršica. As at 31 December 2018, the Group had outstanding payables toward the Port Authority of Rijeka with respect concession and related expenses of HRK 575 thousand (2017: HRK 474 thousand).

###### *(ii) Finance leases*

As at 31 December 2018, the Group has a finance lease balance payable to the Port Authority of Rijeka with a carrying amount of HRK 8,651 thousand (2017: HRK 11,516 thousand). The lease matures in 2021. During 2018, the Group repaid a total of HRK 3,888 thousand of principal and interest with respect to this finance lease (2017: HRK 3,961 thousand).

###### *(iii) Subordinated loan based on the IBRD principal loan*

The Group had an outstanding US dollar denominated liability for a subordinated loan toward the Port Authority of Rijeka based on a principal loan agreement for financing of infrastructure projects concluded between the Port Authority of Rijeka and the International Bank for Reconstruction and Development (“IBRD”). The loan liability amounted to HRK 2,715 thousand as at 31 December 2017 and was repaid in full during 2018. The Republic of Croatia was the guarantor for the principal loan.

##### *Remuneration to the Management Board members*

Key management of the Group comprises the Management Board and consists of 3 persons (2017: 3 persons). During 2018, the Group paid out HRK 3,494 thousand to the Management Board (2017: HRK 1,585 thousand) with respect to gross salaries (including contributions on salaries).

## NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 32 – CONTINGENT LIABILITIES AND ASSETS

##### *Exposure to court cases*

As at 31 December 2018 there are number of legal proceeding against the Group which stem from regular commercial activities and court cases including former employees.

The Group's exposure to court cases with suppliers as at 31 December 2018 amounts to approximately HRK 147.2 million (based on claim amounts relating to cases in progress) out of which the Group recognized provisions amounting to HRK 2,662 thousand as at 31 December 2018 (*2017: HRK 6,252 thousand*) in relation to court cases where it expects an unfavorable outcome. The remaining exposure relates to court cases with suppliers which management believes will not result in losses for the Group out of which a majority relates to a court case with a domestic supplier in the amount of HRK 101 million where the Group considers, after consultation with legal advisers, that the basis of the court cases is unfounded and does not expect an unfavorable outcome.

The Group's exposure to court cases with former employees stems mostly from work related injuries and amounts to approximately HRK 11 million based on the total amount of claims relating to cases in progress as at 31 December 2018.

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

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

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

Current service levels are considerably lower than those included in the initial business plans. Calculated potential penalties by the Company, without interest, amount to approximately HRK 38.9 million at 31 December 2018 amounted, of which HRK 13.2 million relates to 2016, 12.7 million to 2017 and 13 million to 2018.

At present, the Group is in the process of finalizing an updated business plan and actively negotiating with the port authority on aligning the initial business plan with current and expected market conditions in the light of the required minimum levels of service and other relevant provisions. Consequently, the Group does not expect that the aforementioned penalties will be charged once the concession contract is amended.

#### NOTE 33 – CAPITAL COMMITMENTS

In accordance with the concession agreement currently in place, the extension of the concession period up to 2042 was granted based on a plan of capital expenditure to be made by the Group during the term of the concession in the total amount of EUR 146 million in relation to investments into new port suprastructure, infrastructure and port equipment (a total of EUR 86 million of planned expenditure) as well as in relation to capital maintenance of concession assets (a total of EUR 60 million of planned expenditure). By end of 2018, the Group invested approximately EUR 16 million into new port infrastructure and port equipment and a further EUR 24.5 million relating to capital maintenance of concession assets.

#### NOTE 34 – EVENTS AFTER THE REPORTING DATE

On 7 March 2019, the Company obtained final use permit for the project Škrljevo and activated assets unders construction in the amount of HRK 119 million at the same date.