

**HRVATSKE CESTE d.o.o.
Vončinina 3, Zagreb**

**The Annual Financial Statements
and Independent Auditor's Report
for the year ended 31 December 2018**

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Responsibility for the annual financial statements

The Management Board of the company HRVATSKE CESTE d.o.o., Zagreb, Vončinina 3 ("the Company") is responsible for ensuring that the annual financial statements for the year 2018, are prepared in accordance with the Accounting Act (National Gazette No. 78/15, 134/15, 120/16, 116/18), the International Financial Reporting Standards and in accordance with the Roads Act (National Gazette No. 84/11, 22/13, 54/13, 148/13, 92/14) to give a true and fair view of the financial position, the results of operations, changes in equity and cash flows of the Company for that period.

After making enquiries, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing the annual financial statements of the Company.

In preparing the annual financial statements, the Management Board is responsible for:

- selection and consistent application of suitable accounting policies in accordance with the applicable financial reporting framework;
- giving reasonable and prudent judgments and estimates; and
- using the going concern basis of accounting, unless it is inappropriate to presume so.

The Management Board is responsible for keeping the proper accounting records, which at any time with reasonable certainty present the financial position, the results of operations, changes in equity and cash flows of the Company, and also their compliance with the Accounting Act (NN 78/15, 134/15, 120/16, 116/18), the International Financial Reporting Standards and in accordance with the Roads Act (National Gazette No. 84/11, 22/13, 54/13, 148/13, 92/14). The Management Board is also responsible for safe keeping the assets of the Company and also for taking reasonable steps for prevention and detection of fraud and other irregularities.

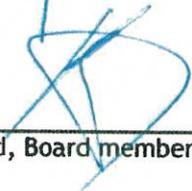
Signed for and on behalf of the Management Board:



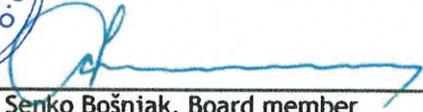
Josip Škorić, Chairman of the Board



Alen Leverić, Board member



Nikša Konjevod, Board member



Senko Bošnjak, Board member



HRVATSKE CESTE d.o.o.
Vončinina 3
10 000 Zagreb

11 June 2019

INDEPENDENT AUDITOR'S REPORT

To the Owner of the company Hrvatske ceste d.o.o., Zagreb

Report on the audit of the annual financial statements

Opinion

We have audited the annual financial statements of the company Hrvatske ceste d.o.o., Zagreb, Vončinina 3 (the "Company") for the year ended 31 December 2018, which comprise the Statement of financial position (Balance Sheet) as at 31 December 2018, Income Statement, Statement of other comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies and other explanations.

In our opinion, the accompanying annual financial statements, give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows of the Company for the year that ended in accordance with the Accounting Act, the International Financial Reporting Standards (the "IFRS") as adopted by European Committee and published in Official Journal of the European Union and by the Roads Act

Basis for Opinion

We conducted our audit in accordance with Accounting Act, Audit Act and International Auditing Standards (ISAs). Our responsibilities under those standards are further described in our Independent Auditor's report under section Auditor's responsibilities for the audit of the annual financial statements. We are independent of the Company in accordance with the International Ethics Standards Board of Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

/i/ We draw attention to Notes 2.9.b) and c) and 14 to the financial statements which explain that financial statements are prepared in accordance with the International Financial Reporting Standards with some exceptions determined by the Roads Act. Our opinion has not been modified in this respect.

/ii/ We draw attention to Note 16 to the financial statements which explains that the Company has not completely regulated proprietary-legal relations, i.e. ownership over real estate. Procedures of clearing up and recording of ownership over the real estate are in progress. Our opinion has not been modified in this respect.

/iii/ We draw attention to Note 40 to the financial statements where it is determined that a significant number of court disputes are initiated against the Company. Our opinion has not been modified in this respect.

Key Audit Matters

Key audit matters are those issues that were, by our professional judgment, of the most importance in our audit of the annual financial statements of the current period and include the recognized most significant risks of significant misstatement due to error or fraud with the greatest impact on our audit strategy, the disposition of our available resources and the time spent by the engaging audit team. We have dealt with these issues in the context of our audit of the annual financial statements as a whole and in forming our opinion about them, and we do not give a separate opinion on these issues.

We have identified that the issues listed below are the key audit matters to be disclosed in our Independent Auditor's Report.

Key Audit Issues	How We Addressed Key Audit Issues
<p>Investment maintenance and reconstruction of real estate, plants and equipment</p> <p>In the 2018 annual financial statements, the Company realized real estate, plant and equipment enhancements and decreases in 2018 as set out in Note 16.</p> <p>Investment maintenance and reconstruction of real estate, plant and equipment is defined as a key audit matter because it involves significant estimates.</p> <p>Related Disclosures in Related Annual Financial Statements Please see Notes 2.7 (c) (Accounting Policies) and Note 16.</p>	<p>In the audit, we focused on:</p> <ul style="list-style-type: none"> • verifying whether the transactions were recorded in 2018 in accordance with the accounting policies of the Company, i • check whether for all road reconstructions an estimate of the share of reconstruction in the investment project has been made and whether this estimate is reasonable, <p>Additionally, we have considered whether the accounting policies are in accordance with International Financial Reporting Standards and whether changes in accounting policies are disclosed in the notes to the financial statements.</p>
<p>The risk of non-fulfillment of the contractual provisions of the contract with the lender related to the business indicators</p> <p>Contracts with the lenders include contractual provisions based on the business indicators. In case of non-fulfillment of these contractual provisions by the Company, the loan obligation becomes due.</p> <p>Related Disclosures in Related Annual Financial Statements Please see note 28.</p>	<p>During our audit, we reviewed the loan agreement and the contracted business indicators.</p> <p>Then we checked the calculation of business indicators that were defined by contract with the lender and concluded that the Company did not meet the contracted business indicators.</p> <p>However, in February 2019, the Company received a written statement from the lender that it will not use the right of early payment of loans irrespective of unfulfilled contractual provisions.</p> <p>Statement was obtained in February 2019, so after December 31, 2018, the loan agreement which was obtained from the EBRD on December 31, 2018, was classified as a short term loan.</p>

Other Information in the Annual Report

The Management Board is responsible for other information. Other information includes information included in the Annual report, but do not include the annual financial statements and our Independent auditor's report on them.

Our opinion on the annual financial statements does not include other information, except to the extent explicitly stated in the part of our Independent auditor's report, entitled Report on compliance with other legal or regulatory requirements, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this sense, except as stated in the Section Emphasis of matters, we do not have anything to report.

Responsibilities of the Management Board and Those Charged with Governance for the annual financial statements

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

In preparing the annual financial statements, the Management Board is responsible for assessing the Company'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 the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the audit of the annual financial statements

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

Auditor's Responsibilities for the audit of the annual financial statements (continued)

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

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

We also give a statement to those in charge of management that we have acted in accordance with the relevant ethical requirements regarding the independence and we will communicate with them on all relationships and other matters that can reasonably be considered to affect our independence as well as, where applicable, on related protections.

Among the issues we are communicating with those in charge of managing, we determine those issues that are of utmost importance in auditing the annual financial statements for the current period and are therefore key audit issues. We describe these issues in our Independent Auditor's Report unless the law or regulation prevents public disclosure or when we decide in extremely rare circumstances that the issue should not be disclosed in our Independent Auditor's Report as it can reasonably be expected that the negative consequences of disclosure will outweigh the benefits of public interest in such communication.

Report on other legal requirements

Report based on the requirements of Regulation (EU) No. 537/2014

On 26 September 2018, we were appointed by the General Assembly of the Company, based on the proposal of the Company's Management Board to audit the annual financial statements for 2018.

At the date of this Report, we are continuously engaged in carrying out the Company's legal audits of the Company's annual financial statements for the year 2013, up to the Company's annual financial statements for the year 2018, a total of 6 years.

In addition to the issues we have mentioned in our report of the Independent Auditor as Key Audit Issues, we have nothing to report in connection with point (c), paragraph 2, Article 10 of Regulation (EU) No. 537/2014.

By our statutory audit of the Company's annual financial statements for the year 2018 we are able to detect irregularities, including fraud under Section 225, Response to Non-Compliance with the IESBA Code and the Rules of the IESBA Code that requires us to audit our engagement to see if the Company complied with the laws and regulations are generally recognized to have a direct impact on the determination of significant amounts and disclosures in their annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and disclosures in its annual financial statements, but compliance with which may be crucial for operational aspects the Company's business, its ability to continue with unlimited business time or to avoid significant penalties.

Except in case we encounter, or find out about, disrespect of any of the foregoing of the aforementioned laws or regulations that are apparently insignificant, according to our judgment of its content and its influence, financially or otherwise, for the Company, its shareholders and the wider public, we are obliged to inform the Company thereof and request to investigate this case and take appropriate measures to resolve the irregularity and to prevent the reappearance of these irregularities in the future. If the Company does not correct any irregularities arising on the basis of which incorrect disclosures in the audited annual financial statements that are cumulatively equal to or greater than the amount of significance to the financial statements as a whole are required to modify our opinion in an independent auditor's report.

In the audit of the Company's annual financial statements for the year 2018, we determined the significance for the financial statements as a whole in the amount of HRK 33,300 thousands, which represents approximately 1,5% of total costs and investments as at 31 December 2018. We have selected the criterion of total costs and investments as the measure of significance since we consider it to be the most appropriate benchmark in relation to the Company's activities.

Our audit opinion is consistent with the additional report for the Company's Board of Auditors comprised in line with Article 11 of the EU Regulation No 537/2014.

We have not provided to the Company prohibited non-audit services during the period between the initial date of the Company's audited annual financial statements for the year 2018 and the date of this report. In addition, we have not provided services for the design and implementation of internal control procedures or risk management related to the preparation and / or control of financial information or the design and implementation of technological systems for financial information in the preceding year. Therefore, we have remained independent of the Company in the performance of the audit.

Report based on the requirements of the Accounting Act

The Management is responsible for the preparation of the Management report as part of the Annual report of the Company. We are obliged to express an opinion on the compliance of the Management report as part of the Annual report of the Company with the annual financial statements of the Company. In our opinion, based on our audit of the annual financial statements of the Company, information in the Management report as part of the Annual report of the Company for the year ended 31 December 2018, are in accordance with the financial information stated in the annual financial statements of the Company set out on pages 8 to 56 on which we expressed our opinion as stated in the section Opinion above.

In our opinion, based on the work that we performed during the audit, the Company's Management report for 2018, which is an integral part of the Annual report for 2018 is prepared in accordance with the Accounting Act.

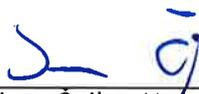
Based on the knowledge and understanding of the Company and its environment obtained while performing the audit, except as stated in the Section Emphasis of matters, we have not found that there are material misstatements in the Company's Management report for 2018.

Management is responsible for the preparation of the annual financial statements for the year ended 31 December 2018 in a prescribed form based on the Statute of structure and content of annual financial statements (Official Gazette 95/16) and in accordance with other regulations governing the operations of the Company ("Standard annual financial statements"). Financial information presented in the Company's standard annual financial statements are in accordance with the information presented in the Company's annual financial statements given on pages 8 to 56 on which we expressed our opinion as stated in the section Opinion above.

The engagement partner on the audit of the annual financial statement of the Company for the year 2018 resulting in this Independent Auditor's report is Ivan Čajko, certified auditor.

In Zagreb, 11 June 2019

BDO Croatia d.o.o.
Trg J. F. Kennedy 6b
10000 Zagreb



Ivan Čajko, Management Board
member



BDO Croatia d.o.o.
za pružanje revizorskih, konzalting
i računovodstvenih usluga
Zagreb, J. F. Kennedy 6/b



Ivan Čajko, Certified auditor

HRVATSKE CESTE d.o.o, Zagreb
INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2018

POSITION	Note	2017	2018
		HRK	HRK
OPERATING INCOME	3		
Sales income		28,840,916	22,679,671
Income from own consumption		246,633	262,472
Other operating income		143,108,423	160,708,449
Total operating income		172,195,972	183,650,592
OPERATING EXPENSES			
Material expenses	4	(14,021,832)	(15,691,975)
Service expenses	5	(19,835,473)	(21,336,721)
Employees expenses	6	(97,496,650)	(104,368,025)
Amortization and depreciation	7	(19,614,349)	(21,104,925)
Other costs	8	(10,138,331)	(9,518,901)
Value adjustments	9	(1,476,581)	(2,092,805)
Provisions	10	(1,245,395)	(465,870)
Other operating expenses	11	(7,583,260)	(6,151,833)
Total operating expenses		(171,411,871)	(180,731,055)
PROFIT FROM OPERATING ACTIVITIES		784,101	2,919,537
FINANCIAL INCOME	12	1,043,502	206,086
FINANCIAL EXPENSES	13	(1,827,603)	(3,125,623)
LOSS FROM FINANCIAL ACTIVITIES		(784,101)	(2,919,537)
TOTAL INCOME		173,239,474	183,856,678
TOTAL EXPENSES		(173,239,474)	(183,856,678)
PROFIT/(LOSS) BEFORE TAXATION		0	0
Income tax	14	(473,719)	(308,690)
LOSS FOR THE PERIOD		(0)	(0)

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

HRVATSKE CESTE d.o.o, Zagreb
STATEMENT OF FINANCIAL POSITION / BALANCE SHEET
as of 31 December 2018

POSITION	Note	31 Dec 2017	31 Dec 2018
		HRK	HRK
ASSETS			
<i>Long-term assets</i>			
Intangible assets	15	13,354,429	18,307,869
Property, plant and equipment	16	73,277,000,775	74,994,758,950
Financial assets	17	7,706,037	7,706,037
Receivables	18	2,262,727	1,805,201
Total long-term assets		73,300,323,968	75,022,578,057
<i>Short-term assets</i>			
Inventories	19	15,344,487	15,506,514
Trade receivables	20	6,858,950	12,492,587
Receivables from employees and company's members	21	307,658	290,526
Receivables from the state and other institutions	22	122,328,517	194,309,205
Other short-term receivables	23	3,615,810	2,786,722
Cash with banks and in hand	24	132,909,231	340,038,967
Payments for future periods and accrued income	25	82,018,320	98,340,642
Total short-term assets		363,382,973	663,765,163
TOTAL ASSETS		73,663,706,941	75,686,343,220
OFF – BALANCE SHEET NOTES		1,955,794	15,602,810

HRVATSKE CESTE d.o.o, Zagreb
STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued
as of 31 December 2018

POSITION	Note	31 Dec 2017	31 Dec 2018
		HRK	HRK
CAPITAL AND LIABILITIES			
Capital	26		
Subscribed (share) capital		107,384,800	107,384,800
Public capital		63,330,080,756	64,989,583,752
Profit for the year		0	0
Total capital		63,437,465,556	65,096,968,552
Provisions	27	169,348,222	160,901,864
Long-term liabilities	28	8,834,097,580	9,006,024,954
Short-term liabilities			
Liabilities to related companies	29	317,102	306,876
Liabilities for loans, deposits, etc.	30	5,342,006	5,984,643
Liabilities to banks and other financial institutions	31	579,487,043	408,960,019
Trade accounts payable	32	273,493,576	262,422,224
Liabilities to employees	33	5,444,208	6,915,267
Liabilities for taxes, contributions and similar payments	34	17,374,352	29,701,945
Other short-term liabilities	35	21,556,321	19,356,128
Accrued expenses and deferred income	36	319,780,975	688,800,748
Total short-term liabilities		1,222,795,583	1,422,447,850
TOTAL CAPITAL AND LIABILITIES		73,663,706,941	75,686,343,220
OFF - BALANCE SHEET NOTES		1,955,794	15,602,810

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

HRVATSKE CESTE d.o.o, Zagreb
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

POSITION	Subscribed (share) capital	Public capital from the result	TOTAL
	HRK	HRK	HRK
Balance at 1 January 2017	107,384,800	62,843,953,488	62,951,338,288
Capital increase - fuel reimbursement	0	1,942,555,598	1,942,555,598
Capital increase – co-financing of public goods	0	8,391,249	8,391,249
Capital increase – currency differences	0	68,369,561	68,369,561
Capital increase – interest	0	416,422	416,422
Capital increase – sale of salt to CRA	0	16,756,738	16,756,738
Capital increase - transfer from CRA categorisation of roads	0	65,109,124	65,109,124
Capital increase - Environmental Protection Fund - landslides	0	5,067,089	5,067,089
Capital increase – Zagreb roads - donation for asphalt reconstruction	0	6,820,134	6,820,134
Capital decrease – transfer for costs and taxes	0	(137,654,359)	(137,654,359)
Capital decrease - depreciation	0	(391,698,673)	(391,698,673)
Capital decrease - provision for court disputes	0	(8,817,710)	(8,817,710)
Capital decrease – investment maintenance replaced part	0	(98,689,147)	(98,689,147)
Capital decrease – reconstruction of state road – replaced part	0	(64,925,180)	(64,925,180)
Capital decrease – co- financing of CRA according to Regulation Act	0	(78,044,000)	(78,044,000)
Capital decrease - co-financing unclassified roads	0	(14,495,077)	(14,495,077)
Capital decrease - settlement of IGH-Pelješac Bridge	0	(13,650,000)	(13,650,000)
Capital decrease - currency differences	0	(9,003,252)	(9,003,252)
Capital decrease – interest and reimbursement	0	(382,049,197)	(382,049,197)
Capital decrease – maintenance cost – regular	0	(386,874,435)	(386,874,435)
Capital decrease – maintenance cost - extraordinary	0	(3,074,453)	(3,074,453)
Capital decrease – flood relief	0	(16,128,869)	(16,128,869)
Capital decrease – research and develop.	0	(5,497,557)	(5,497,557)
Capital decrease – cost value of sold salt to CRA	0	(16,756,738)	(16,756,738)
Balance at 31 December 2017	107,384,800	63,330,080,756	63,437,465,556
Capital increase - fuel reimbursement	0	2,067,740,730	2,067,740,730
Capital increase – co-financing of public goods	0	5,833,781	5,833,781
Capital increase – currency differences	0	117,997,183	117,997,183
Capital increase –interest	0	187,448	187,448
Capital increase – sale of salt to CRA	0	22,486,800	22,486,800
Capital increase – transfer from CRA categorisation of roads	0	222,760,261	222,760,261
Capital increase - transfer from HAC (tunnel St. Ilija)	0	1,312,798,130	1,312,798,130
Capital increase – recognition of EU accrued income for depreciation	0	15,665,440	15,665,440
Capital increase - provision for court disputes	0	8,912,228	8,912,228
Capital decrease – transfer for costs	0	(150,071,493)	(150,071,493)
Capital decrease – transfer for corporate income tax	0	(308,690)	(308,690)
Capital decrease - depreciation	0	(436,106,544)	(436,106,544)
Capital decrease – investment maintenance replaced part	0	(115,211,563)	(115,211,563)
Capital decrease – reconstruction of state road – replaced part	0	(227,974,804)	(227,974,804)
Capital decrease – transfer to CRA according to categorisation of roads	0	(318,067,536)	(318,067,536)
Capital decrease – co-financing of CRA according to Regulation Act	0	(106,944,673)	(106,944,673)
Capital decrease - co-financing of unclassified roads	0	(25,504,923)	(25,504,923)
Capital decrease - currency differences	0	(1,031,558)	(1,031,558)
Capital decrease – interest and reimbursement	0	(260,482,317)	(260,482,317)
Capital decrease – maintenance cost – regular	0	(420,971,838)	(420,971,838)
Capital decrease – maintenance cost - extraordinary	0	(12,572,604)	(12,572,604)
Capital decrease – flood relief	0	(8,331,491)	(8,331,491)
Capital decrease – research and develop.	0	(8,812,171)	(8,812,171)
Capital decrease – cost value of sold salt to CRA	0	(22,486,800)	(22,486,800)
Balance at 31 December 2018	107,384,800	64,989,583,752	65,096,968,552

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

HRVATSKE CESTE d.o.o, Zagreb
STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

POSITION	2017	2018
	HRK	HRK
<u>Cash flow from operating activities</u>		
Cash inflows - customers	36,619,761	28,604,385
Cash inflows - royalties, fees, commissions and similar	2,153,660,326	2,401,186,546
Cash inflows – damage insurance	1,471,664	1,582,493
Cash inflows – tax return	69,707,194	73,828,267
Cash outflows – suppliers	(592,357,201)	(687,963,016)
Cash outflows – employees	(102,555,123)	(107,868,056)
Cash outflows – damage insurance	(524,995)	(406,773)
Other cash inflows and outflows	(22,999,291)	(21,252,909)
Cash from operating activities	1,543,022,335	1,687,710,937
Cash outflows – interest	(434,415,441)	(151,416,592)
Cash outflows – corporate income tax	(188,871)	(491,072)
Net cash flow from operating activities	1,108,418,023	1,535,803,273
<u>Cash flow from investing activities</u>		
Cash inflows from sale of long-term assets	793,452	1,048,488
Cash inflows from sale of financial instruments	1,680,324	0
Cash inflows from dividends	215,338	0
Total cash inflows from investing activities	2,689,114	1,048,488
Cash outflows for purchase of long-term assets	(911,873,896)	(1,350,422,889)
Total cash outflows from investing activities	(911,873,896)	(1,350,422,889)
Net cash flow from investing activities	(909,184,782)	(1,349,374,401)
<u>Cash flow from financial activities</u>		
Cash inflows from loan principal	4,703,232,650	3,773,440,039
Other cash inflows from financial activities	68,369,561	118,001,082
Total cash inflows from financial activities	4,771,602,211	3,891,441,121
Cash outflows for repayment of loan principal	(5,215,470,806)	(3,869,708,699)
Other cash outflows from financial activities	(9,003,252)	(1,031,558)
Total cash outflows from financial activities	(5,224,474,058)	(3,870,740,257)
Net cash flow from financial activities	(452,871,847)	20,700,864
TOTAL NET CASH FLOW	(253,638,606)	207,129,736
CASH AND CASH EQUIVALENTS AT 1 JANUARY	386,547,837	132,909,231
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	132,909,231	340,038,967
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(253,638,606)	207,129,736

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

1. GENERAL

1.1. Legal framework, activities and employees

The company Hrvatske ceste d.o.o. Zagreb, Vončinina 3 (“the Company”), was established based on the Decision on the Division and Transformation of the Croatian Road Administration into companies Hrvatske ceste, a limited liability company for management, construction and maintenance of State roads and Hrvatske autoceste, a limited liability company for management, construction and maintenance of the motorways, issued by the Government of the Republic of Croatia on 5 April 2001, Class 340-03 / 01-01 / 02, registry No. 5030116-01-5 as the sole founder of the Company. By the Solution Tt-01/2163-2 dated 11 April 2001, the Company emerged by division and transformation of an institution.

As at 3 June 2004, the Croatian Government reached Decision on Amendments of division of property, rights, and liabilities, and on schedule of employees of the Croatian Road Administration (Hrvatska uprava za ceste), Decision on the decrease of stock capital of the company Hrvatske ceste d.o.o. and the Decision on Amendments of the Founder’s Statement on the Establishment of the limited liability company Hrvatske ceste wherefore stock capital is decreased for HRK 21,513,400 and is determined in the amount of HRK 107,384,800.

Operating subject - activities:

- conduction of operational activities of a technical-technological unity of public roads system according to Strategy, through basic spatial, traffic, technical and economic research and analysis,
- programming and planning of public road development, total projection for state roads and projection with research works, drafting professional base for location permit for highways,
- construction of state roads, except highways, including:
 - repurchase of land and objects,
 - cession of construction works,
 - organisation of expert control and construction control,
- organisation of technical inspection and takeover of State roads, except highways, and parts of state roads, except highways, for usage and maintenance,
- maintenance of state roads, except highways, including:
 - planning, maintenance and security measurements,
 - regular and extraordinary maintenance,
 - cession of regular and extraordinary maintenance activities,
 - planning, expert control and maintenance control,
- making decisions on usage of road land and conducting accompanying activities on state roads, except highways, and other.

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

1. GENERAL (continued)

General data on employees:

The number of staff employed by the Company and the structure by qualification level at 31 December 2017 and at 31 December 2018 is presented as follows:

Qualification structure	At 31 December 2017		At 31 December 2018	
	Number	%	Number	%
M.Sc.,Dr	24	5.29%	24	5.35%
University degree	253	55.73%	255	56.79%
Higher education	60	13.22%	62	13.81%
Secondary school certificate	107	23.57%	101	22.49%
Skilled workers	4	0.88%	3	0.67%
Other	6	1.32%	4	0.89%
TOTAL	454	100.00%	449	100.00%

1.2. Company Bodies

The Company Bodies are Assembly, Supervisory Board and Management Board. The Republic of Croatia, as the founder, exercises its rights through the Croatian Government, represented by a competent minister. The Supervisory Board has 4 members elected by the Company's Assembly, out of which one of them is elected by the employees according to the Labour law. Every HRK 1,000,000 of stock capital gives to the Company's member right to one vote. The Company's Management Board has one to four members elected by the Company's Assembly by its decision, at the proposal of the Ministry of the Sea, Transport and Infrastructure. Members' mandate is 4 years and the Company's Assembly may dismiss the Members of the Board at any time.

Supervisory Board:

Bariša Kusić, President since June 9, 2016
 Ante Parat, Vice president since June 9, 2016
 Božo Markić, Board member since June 8, 2016
 Aleksandra Licul, Board member since January 22, 2018

Management Board:

Josip Škorić, President since October 2, 2017
 Alen Leverić, Board member since October 2, 2017
 Nikša Konjevod, Board member since October 2, 2017
 Senko Bošnjak, Board member since January 7, 2019

2. BASIS OF PREPARATION

2.1. Statement of compliance and basis of presentation

Financial statements of the Company for 2018 are prepared in accordance with the Accounting Act (National Gazette 78/15, 134/15, 120/16, 116/18), with the International Financial Reporting Standards ("IFRS") and with the Regulations on the structure and content of the annual financial statements (Official Gazette No 95/16).

Financial statements have been prepared by the application of basic accounting presumption of the business event inception upon which the effects of operations are recognized when arisen and are shown in the financial statements for the period to which they relate and with the basic accounting assumption that going concern concept is applied.

On 8 July 2012, new Roads Act came to power (National Gazette 84/11) in which articles 94, 95 and 96 explicitly define the implementation of a capital approach. The capital approach includes keeping records of certain operating events in the following way:

- Assets of annual compensation for the usage of public roads, users' compensation and the compensation for the financing of building and maintenance of public roads by which the Republic of Croatia finances building, maintenance and other public roads' managing activities and also public roads, represent property of the Republic of Croatia (public capital), which is led separately in business books of legal entity which manages with public road.
- The legal entity which manages with the public road into operating expenses includes depreciation of public roads which are managed. Part of depreciation which is not covered from own income is accrued by charging the assets of public capital.
- Public capital also represents the income on the basis of foreign exchange differences, interest and other income realized on the basis of money management which represents public capital, and public capital is decreased for interest and other compensations connected with the financing of building and maintenance of public roads and also losses on the exchange.
- Difference between own income and expenses realized in the business year is compensated by charging public capital in accordance with the approved operating plan of the Company.
- Compensation for the financing of building and maintenance of public roads, which is paid by producers and importers of petroleum products and also the authority of the state administration for commodity supplies, is paid to the account of the Company and represents capital by which the Republic of Croatia finances building and maintenance of public roads, return of loans by which building of public roads is financed and also additional capitalization of the Company, in accordance with program.
- Public capital is increased for the profit realized by the Company while the Republic of Croatia is the Company's only member.
- Assets arising from compensation for the financing of building and maintenance of public roads, which is paid by producers and importers of petroleum products as well as the authority of state administration for commodity supplies, are used for purposes in accordance with annual plans for building and maintenance of motor-roads which in accordance with Government brings the Company.

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

2.1. Adoption of new accounting policies

The Company first applied the following standards and appendix for annual reporting period beginning on 1 January 2018:

- *IFRS 9 Financial Instruments*
- *IFRS 15 Revenue from Contracts with Customers*
- *Classification and measurement of payment transactions based on shares – Appendix IFRS 2*
- *Annual improvements for reporting cycle from 2014 to 2016*
- *Transfer to investment property – Appendix IAS 40*
- *Interpretation 22 Transactions in foreign currency and advances*

The Company had to change its accounting policies after adoption of IFRS 9 and IFRS 15. Application of the above standards did not have significant impact on the financial statements of the Company. Furthermore, in addition to the above, the most of other above – mentioned appendix did not have impact on the amounts recognized in prior period and is not expected that will have significant impact on the current or future periods.

Adoption of IFRS 9: Financial Instruments

At the date of initial application of January 1, 2018, financial instruments were as follows:

	Measurement category		Carrying amount		IFRS 9 effect
	Original (IAS 39)	New (IFRS 9)	Original (IAS 39)	New (IFRS 9)	
<i>(in thousands of HRK)</i>					
Long-term assets					
Receivables from sales of flats	Amortized cost	Amortized cost	2,262,727	2,262,727	-
Short-term assets					
Trade and other receivables	Amortized cost	Amortized cost	10,782,418	10,782,418	-
Cash and cash equivalent	Amortized cost	Amortized cost	132,909,231	132,909,231	-
Total					-

The Standard is effective for annual periods beginning on or after January 1, 2018, with earlier use being allowed. IFRS 9 Financial Instruments Refers to All Phases of a Financial Instruments Project and Modifies IAS 39 Financial Instruments: Recognition and Measurement as well as all prior versions of IFRS 9. The Standard introduces new classification and measurement requirements, impairment and hedge accounting. The management of the Company has adopted the standard with the effective date and its application did not have any significant impact on the financial statements.

2.2. Adoption of new accounting policies (continued)

Adoption of IFRS 15: Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles).

Application of this standard did not have significant impact on the Financial Statements of the Company.

Standards and interpretations adopted by the Board, which are not yet in effect and which had not been already adopted by the Company

- **IFRS 16: Leases**

The Standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 defines the rules for recognition, measurement, presentation and disclosure for the leases of both parties, ie the buyer (the "lessee") and the supplier (the "lessor"). In accordance with the new standard the lessees most leases should be recognized in their financial statements. A single accounting model will be applied to all rentals, with certain exceptions. Accounting treatment of leases at the lessor will not be significantly altered. The management of the Company has decided not to apply new standard for leases retroactively completely but to use directive on exemption for lessee. During the transition to the new standard, the obligation to pay on the basis of existing operating leases will be discounted using appropriate incremental borrowing rate and will be recognized as a liability for rent. The property with right of use will display the amount of the lease obligation adjusted for the amount prepaid or accrued payment for rent.

The management of the Company estimated that the application of IFRS 16 will not have significant impact on the Financial Statements of the Company.

2.3. Key estimates and uncertainty of estimates

Certain estimates are used during preparation of the financial statements that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities.

Future events and their influences could not be predicted with certainty and, following to this, the real results may differ from the estimated. Estimates utilized during preparation of the financial statements are subject to changes by the occurrence of new events, by gathering of additional experience, obtaining of additional information and comprehensions and by a change of environment in which the Company operates.

2.3. Key estimates and uncertainty of estimates (continued)

Key estimates used in the application of accounting policies during preparation of the financial statements relate to depreciation and amortization of long-term intangible and tangible assets, impairment of assets, impairment of inventories, impairment of receivables and provisions and the disclosure of contingent liabilities.

Expected loss model

With IFRS 9, the expected loss model is introduced (ECL). The measurement of the expected loss is based on reasonable and supporting information that is available without excessive expense and effort and which includes information on past events, current and foreseeable future conditions and circumstances.

When estimating expected future impairment requirements, historical probabilities of non-fulfilment and future parameters relevant to credit risk are used.

The most important part of the financial assets are trade receivables and cash.

Trade receivables are stated at invoiced amount. Impairment of bad and doubtful receivables is based on the best estimate of the Management Board of bad debt. All receivables in bankruptcy and sued receivables are fully written off. Management of the Company is carried out impairment of bad and doubtful receivables based on the aging of all receivables and a specific review of significant individual amounts included in receivables.

During the reporting period there were no changes in the methods of initial assessment or significant assumptions which were used. During the reporting period there were no significant changes in the carrying value of financial instruments, and therefore were no significant impact on the amount of value adjustments.

2.4. Reporting currency

The financial statements of the Company are prepared in Croatian Kuna as a functional and reporting currency of the Company.

2.5. Policy of recognition and measuring of income

a) Operating income

In accordance with the new IFRS 15, relating to the recognition of contracts with customers, the Company applies the model of five steps:

- Identify the contract(s) with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to each performance obligation,
- Recognize revenue when a subject fulfils the obligation of delivery.

The Company records income from the following areas:

- Income from issued licences and consents,
- Income from fees for the use of land.

2.5. Policy of recognition and measuring of income (continued)

Revenue is recognized for each separate contractual obligation in the transaction price amount. The transaction price is the amount of contractual remuneration that the Company expects to be entitled to in return for the delivery of the promised goods or services.

Revenues are stated in amounts deducted for value added tax, estimated returns, rebates and discounts. Application of this standard did not have significant impact on the accounting policies of the Company, and revenue recognition takes place at the same time as when IAS 18 - Revenue was effective and no significant impact of IFRS 15 is determined.

a) Revenues from the sale of services

Provided that the amount of revenue can be measured reliably and if the Company is likely to receive a fee, the service revenues are recognized in the period in which they are provided.

b) Interest income

Interest income is accrued on a time basis, based on outstanding principal and at the applicable effective interest rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or to the net carrying amount of the financial asset. Interest income is recognized as a financial income in the statement of profit or loss.

c) Dividend income

Income from dividend and share in the profit is recognised as income when the Annual General Meeting of the investee's company has established the right to their receipt, i.e. after adoption of decision on dividend pay-out.

d) Revenue from leases

Income from business leases is accounted on a flat basis during the period of lease.

2.6. Policy of recognition and measuring of expenses

a) Operating expenses

Expenses are recognized based on the direct connection between occurred expenses and certain realized items of income (principle of confrontation). Based on the mentioned, operating expenses represent all expenses in relation to invoiced income from providing services.

Recognition of expenses is deferred to further accounting periods if it is expected realization of revenues in the next several accounting periods.

Operating expenses include the costs of material, small inventory and services, maintenance services, the costs of gross salaries and wages, depreciation of own assets, depreciation of public goods (roads) and other operating expenses covered directly by debiting operating income.

2.6. Policy of recognition and measuring of expenses (continued)

b) Maintenance costs

Expenses for repairs or maintenance of property, plant and equipment, results due to recovery or maintenance of future economic benefits that can be expected from the originally estimated standard results of an asset. These costs are recognized as an expense when occurred.

c) Gross salaries and wages

Employee benefits include wages, salaries and pension contributions, contributions on salaries, fees for use of annual leave and sick leave, participation in profits and bonuses and non-monetary benefits of current employees, and benefits after termination of employment, such as severance and life insurance, and are recorded as expense in the period in which they occur, regardless of whether the current obligation is settled, in the income statement within operating expenses.

All pertaining tax levies directly connected to accrued wages and compensations are included in employees' expenses and represent their constituent part.

Reimbursement to employees in accordance with collective contracts, are included in employees' expenses and is their component part in the period of gaining rights. So far as the period of obtaining of certain right differs from the period of payment for more than one year (long-term receipts), the liability has to be discounted by the average interest rate on the state bonds with similar maturity date.

d) Depreciation and Amortization

Intangible assets, property, plant and equipment are amortized and depreciated.

The amount of investment in long-term assets shall be compensated by the depreciation according to agreed or appropriate period of use of individual right, respectively property, plant and equipment. When estimating of depreciation amount it is determined the expected residual value at the end of the useful life. If this residual amount is of no significance in relation to the total value of assets, it is not taken into depreciation count. Expected residual value of property which relates to roads is usually nil.

Useful life is estimated for each item of property individually and depends on technical characteristics of assets, quickness of its economic obsolescence as well as its intended use. The depreciation/amortization rates applied are as follows:

Description	2017	2018
	year	year
Buildings	20	20
Roads and construction objects on roads	66.6 - 142.8	66.6 - 142.8
Equipment	20	20
Intangible assets	4	4

2.6. Policy of recognition and measuring of expenses (continued)

d) Depreciation and Amortization (continued)

Depreciation / amortization count is performed by method which corresponds to realization of economic uses from assets. For roads and properties is expected similar benefit during the whole year, thus it is applied a proportional depreciation method for this property. Depreciation/amortization count is performed individually for all assets.

During the year depreciation / amortization is calculated on an annual temporary calculation corrected for the change during the year. Depreciation begins to accrue after the month in which it has commenced the use of assets.

Depreciation of public good (roads) as well as the accompanying equipment, in part which may be covered by own income, is charged to the expenses for the period, while the difference of the uncovered part of depreciation is to be covered by debiting public capital.

e) Financial expenses

Within financial expenses are recorded interest expenses resulted from business relationships, and are recognized as an expense in the period in which they are incurred and stated as accrued expenses until the reporting date.

Foreign exchange losses arising from the translation of cash and receivables and liabilities denominated in foreign currency (monetary items) into their Kuna equivalent are recorded in the income statement.

2.7. Policy of assets disclosure

a) Inventories

Inventories are measured at cost or net worth, whichever is the lower. At the end of each year, the value of the inventory is impaired due to damage or other justified reasons, at the proposal of authorized persons for inventories.

Inventory of raw material and material, spare parts, small inventory, packaging and car-tires are stated at the actual value that comprises invoiced value increased by all related acquisition costs which arose by bringing the inventory to present location and the existing state (custom fees, taxes, transportation costs and all other costs that may be attributed to the procurement) by applying method of weighted average cost. Commercial discounts and similar items are deducted when determining the purchase expenses.

Items are recorded as small inventory when their useful life is shorter than one year, and when their individual value does not exceed HRK 3,500. When putting small inventory, packaging and car-tires in use, they are written off at time of consumption.

Surpluses and shortages determined by annual inventory list (inventory counts) are recorded in business records within other income, respectively, other expenses.

Income from sale of unmarketable goods from stocks is recorded within other income.

2.7. Policy of assets disclosure (continued)

b) Financial assets

The Company has adopted IFRS 9 Financial Instruments as at 1 January 2018 and its implementation did not have a significant impact on the financial statements.

The Company recognizes financial assets in its financial statements when it becomes party to the contractual provisions of the instrument. Depending on the business model for asset management and contractual features cash flows for the said asset, the Company measures financial assets at amortized cost, fair value through other comprehensive income or fair value through statement of profit and loss.

Asset items are classified and measured as follows:

	Classification and measurement
Non-current asset	
Long-term receivables	Hold to collect / amortized cost
Current asset	
Cash and cash equivalents	Hold to collect / amortized cost
Trade and other receivables	Hold to collect / amortized cost

The Company's business models reflect the way in which the Company manages assets in order to realize cash flows.

i) Trade receivables

Trade receivables that do not have a significant financial component at initial recognition have been measured in accordance with IFRS 15 at their transaction price.

ii) Impairment

The Company on the basis of expected credit losses, recognizes impairment of financial assets. At each reporting date, the Company measures the expected credit losses and recognizes the same in the financial statements. Expected credit losses from financial instruments are measured in a manner that reflects:

- Impartial and weighted amount of probability which is determined by assessing the range of possible outcomes,
- The time value of money,
- Reasonable and acceptable data about past events, current conditions and predictions of future economic conditions.

For trade receivables, the Company applies a simplified approach of IFRS 9 measurement of expected credit losses using the expected provision for credit losses of account receivables.

2.7. Policy of assets disclosure (continued)

iii) Derecognition of financial assets

The Company derecognises financial assets when;

- Contractual rights to cash flows from financial assets expire,
- Financial assets are transferred and the transfer fulfils conditions for termination of derecognition.

The Company transfers financial assets if, and only if, either:

- (a) Transfers contractual rights to receive cash flows from financial assets, or
- (b) Retains contractual rights to receive cash flows from a financial asset but assumes a contractual obligation to pay cash flows to one or more recipients in the arrangement.

When the Company transfers financial assets, it is required to estimate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case, when all risks and rewards of ownership are transferred, the Company ceases to recognize financial assets and recognizes separately, as assets or liabilities, all rights and obligations that have arisen or are retained in the transfer.

If almost all the risks and rewards of ownership of financial assets are retained, the Company continues to recognize financial assets.

If the Company neither transfers nor retains almost all the risks and rewards of ownership of financial assets, the Company determines whether it has retained control of the financial asset. If no control over financial assets is retained, the Company derecognises financial assets and recognizes separately as assets or liabilities and all rights and obligations that have arisen or are retained in the transfer.

If control is retained, the Company continues to recognize financial assets to the extent that it continues to participate in that financial asset.

iv) Investments in associates

Investments in associates in which the Company has significant influence, and has no control are reported in separate financial statements at cost less impairment losses, if any. It is considered that the Company has significant influence, if directly or indirectly has between 20% and 50% of voting rights. Except voting rights, the Company may have a significant influence when it has the power to participate in decisions about financial and operating policies of associates.

The Company annually reviews the existence of possible impairment cost of investment when an event or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in associates for which it is stated impairment loss are reviewed at each balance sheet date for possible elimination of impairment. Income from dividends and shares are recorded in the income statement when the Company makes a decision about their payment.

2.7. Policy of assets disclosure (continued)

c) Property, plant and equipment

Property, plant and equipment are tangible assets:

- intended for use in the production or delivery of goods or services, for renting to others or for administrative purposes, and
- for which is expected to be used for more than one accounting period

Under the concept of property, plant and equipment, is its considered buildings with all purposes, plant and equipment (machines) and tools, plant and office inventory, furniture and transport equipment (assets), as defined in the Accounting Act and accounting standards.

Purchase of property, plant and equipment during the year is recorded at purchase cost. Purchase cost represents invoiced value of acquired assets plus any costs incurred by putting the assets into use (import duties, delivery and transmission costs, installation, fees, costs of borrowing) and by the time of use of property.

Subsequent expenditure relating to the already recognized assets is added to the carrying amount of that asset when it is probable that future economic benefits will inflow into the company in a higher amount than originally agreed. Subsequent expense, which prolongs the life of the asset, increased capacity of use or increased product quality increases the value of the asset, and all other expenses are recognized in the expense of the period in which they arise.

After initial recognition of long-term assets single property, plant and equipment is stated at the cost model and the cost is decreased for accumulated depreciation and accumulated impairment losses, respectively.

Carrying value of particular property, plant and equipment ceases to be recognized in the moment of disposal or when the future economic benefits are not expected from the usage or disposal of this property.

Gains or losses arisen from derecognition of property, plant and equipment are included into profit or loss of the period in which they are derecognized and are classified as income / expense in the amount of the difference between the net amount of receivables from disposal and accounting value of assets and recognized separately from operating income / expenses.

Internally-generated long-term tangible assets are stated at cost (actual value), if the cost doesn't exceed market value.

Roads, as public good that may not become an object of ownership, and which have been given to the Company for managing, are recorded within the Company's long-term assets and they are stated as public capital. Costs of designing, expropriation, construction, supervision and other costs related to construction of new roads, as well as investment and improvement maintenance costs, which relate to renovation and replacement of part of the road of limited duration of use, are all included in the value of the public good (roads).

2.7. Policy of assets disclosure (continued)

c) Property, plant and equipment (continued)

The construction and reconstruction of the public good (road) is financed from the fee paid from the state budget per litre of excise duty on energy sources, excess of own revenues, depreciation of public goods (roads), loans and donations.

Borrowing costs that can be measured and attributable to the acquisition, construction or production of a qualifying asset are assigned to assets values and capitalized as part of the cost of the acquisition until the moment of asset activation, and are then recorded as an expense.

Accounting policies adopted in 2017 have defined the capitalization policy of investment maintenance in long term assets. Treatment of long-term and short-term assets is regulated and it is defined as follows;

- 50% of the cost capitalizes within the assets, while 50% presents expense in the profit and loss account, i.e. public capital,

- reconstruction of the road will be recorded according to the share of reconstruction in the investment project as the expense or fixed asset increase.

d) Intangible assets

Intangible assets meet recognition conditions if acquired separately and arises from contractual or other legal rights. Intangible assets consist of rights, which use will produce economic benefits to the company in a period longer than one year, and whose individual cost value can be reliably measured.

Amortization of intangible assets is counted according to the estimated useful lives and the contractual duration of rights for the utilization of single assets, respectively. In case of intangible property with indefinite useful life special attention is to be given to the impairment test which is for all the assets performed before preparation of the annual financial statements.

Long-term intangible assets are measured at cost decreased for accumulated amortization and accumulated impairment losses.

Carrying value of intangible assets is derecognized in the moment of disposal or when the future economic benefits are not expected from the usage or disposal of this asset. Gains or losses arisen from derecognition of intangible assets are included into profit or loss of the period in which they are derecognized and are classified as income/expense in the amount of the difference between the net amount of receivables from disposal and accounting value of assets.

2.8. Policy on recognition and measuring of liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities that are measured at amortised cost. All financial liabilities are initially recognised at fair value plus associated transaction costs. Financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Derecognition

The Company ceases to recognize the liability in the financial statements when, and only when, the obligation has been settled.

When the existing financial liability is replaced by another by the same creditor under substantially different terms or the terms of existing liabilities have changed significantly, such change or modification is treated as termination of the original liability and recognition of the new liability, and the difference in the corresponding carrying amounts is recognized in the statement of profit or loss.

2.9. Policy of capital disclosure

a) Share capital

Share capital represents a part of the total Company's capital. Share capital is registered with the competent commercial court.

b) Public capital

Public capital represents the value of assets of the state roads, bridges, tunnels and other facilities on the roads, which are given to the Company under management and are reported in the business ledgers of the Company, but are not registered in the stock capital of the Company.

Public capital is increased for income from fees on fuel. According to Roads Act, article 91, fee for the financing of building and maintenance of public roads is to be paid by the litre of a collected excise tax on fuel to the account of the Company from the state budget. Receipts from fuel charges represent funds to finance the construction and maintenance of state roads.

Public capital is increased for other income and receipts which could be directly attributable to public capital as: public donations and subventions for the building of public good, foreign exchange gains related to public good and interest on special purpose deposits formed by public capital. Public capital is reduced for accumulated depreciation (depreciation) of public goods (roads) for the difference of the amount of depreciation uncovered by own revenues of the Company.

Public capital is decreased for the amounts which could be directly attributed to public capital, as costs for the maintenance of state roads, financial expenses (loan origination fees, loan fees and guarantees, foreign exchange differences, interest expense in the period of loan repayment, costs of interest till the beginning of the period of repayment, penalty interest, etc.) which are not included into cost of public good.

2.9. Policy of capital disclosure (continued)

c) Profit for the year

Profit for the year is the amount remaining after expenses were deducted from net income calculated for corporate income tax purposes. If expenses exceed income, the remaining amount represents net loss for the year.

The Company does not state operating result neither as a gain or a loss, but with capital approach is booking-off income and expense items related to a public roads, public capital, and difference between income and expenses is compensated from public capital and stated in the Income statement as income for the period.

2.10. Corporate income tax

Taxable income is the profit for the period specified in accordance with tax regulations, and according to which there is a duty of paying taxes on profit. The tax loss is loss for the period determined in accordance with tax regulations, according to which there is no obligation to pay corporate income tax. Corporate income tax expense is the cumulative amount of current and deferred taxes included in the determination of net profit or loss for the period.

Deferred tax liabilities are the amounts of corporate income tax payable in future periods relating to taxable temporary differences.

Deferred tax assets are amounts of corporate income tax recovery in future periods, and relate to:

- (a) temporary deductible differences,
- (b) unused tax losses carried forward and
- (c) unused tax reliefs carried forward.

Current tax liability is measured by actual tax rate, according to Income tax return.

Deferred tax assets and liabilities are measured at income tax rate which is expected to be applied in the period of cancellation of difference.

2.11. Leases

The Company classifies each own lease as operating or financial lease.

Leases are classified as financial leases if all the risks and economic benefits associated with ownership are transferred from the lessor to the lessee. Financial lease is recognized in the Balance sheet of the lessee as an asset and liability for financial lease.

Leases are classified as business leases if there is a contract on which the lessor transfers the right to the lessee to use a property (lease) in the agreed period in exchange for countervailing.

2.11. Leases (continued)

The new standard which is in effect on 1 January 2019 established the obligation to recognize a business lease in the financial statements as a property with the right of use under the lease.

The Company is defined exception of application of this standard on:

- Short-term leases (up to one year)
- Leases whose object of lease is low value.

In that case, business / operating lease is recognized as an expense in the lessee's profit and loss account on a straight- line basis over the lease term.

Initial measurement

From the first day of the lease, the Company is measured asset with the right of use at cost, whereas the obligation on the basis of this lease is measured at the current value of all payments in connection with leases which have not been made on that day. The payments are discounted at an interest rate which is contained in the lease or per incremental borrowing rate in cases when this rate can not be determined.

Subsequent measurement

After initial recognition, the Company is measured asset with the right of use by cost model. The company increases lease liability for the amount of interest on the basis of lease and reduces for payments made. Also, the Company remeasured the established obligation for lease for all possible changes.

2.12. Government grants and disclosure of government assistance

Due to the specific role of the Company, and the specific methods of evaluation, billing and finance the core activities of the company Hrvatske ceste d.o.o., established under the Roads Act with the aim of construction and maintaining public roads, some of the inflows needed to finance the activities, is provided from the proceeds of fees from fuels from which it finances primarily construction of public goods, and the return of borrowed funds.

Road as a public good over which one cannot acquire ownership rights, which are given to the management of the Company, are recorded within the long-term assets of the Company and stated as public capital.

Construction and reconstruction of the public good (road) is financed from the oil derivative, excess of own revenues, depreciation of the public good (road), loans and donations.

2.12. Government grants and disclosure of government assistance (continued)

Public capital is increased by the proceeds of fees from petroleum products. According to the Roads Act, paragraph 91, receipts from fees from petroleum products are paid per litre delivered of collected cost to the Company's account. Proceeds from the fees for petroleum products are used to cover part or the total depreciation of public goods (roads), if the Company's own resources are not sufficient for their coverage, and to finance road construction in a broader sense. Public capital is increased by other income and receipts that are directly attributable to public capital, such as special purpose donations and grants for the construction of public goods, foreign exchange gains related to public goods and interest on special purpose deposits formed by public capital funds.

Public capital is decreased for impairment (depreciation) of public good (road) and by amounts that are directly attributable to public capital, such as financial expenses (loan origination fees, loan fees and guarantees, foreign exchange differences, interest expense in the period of repayment, the interest expense up to the beginning of the repayment period, default interest, etc.), which are not included in the purchase value of the public good.

2.13. Provisions

A provision is recognized only when the Company has a present obligation as a result of a past event and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Provisions are determined for costs of legal proceedings, costs of jubilee awards to employees and retirement costs (regular jubilee awards and severance pays) and also for the costs of stimulating severance pays based on a staff restructuring plan of the Company.

Provisions for costs which relate to receipts of employees are based on expected receipts according to Collective contract and the Regulation on work in force.

Provision of costs of jubilee awards to employees and retirement costs (regular jubilee awards and severance pays) is determined as a net book value of the future pay-offs using a discount rate equal to the average indebtedness interest rate of the Company.

2.14. Contingent liabilities and assets

Contingent liabilities are not recognized in the financial statements but are disclosed in notes to the financial statements.

A contingent asset is not recognized in the financial statements but is disclosed in the moment when an inflow of economic benefits is probable.

2.15. Events after the statement of financial position date / (balance sheet) date

Events after the statement of financial position date / (balance sheet) date that provide additional information about the Company's position at the statement of financial position date / (balance sheet) date (adjusting events) are stated in the financial statements before the approval for issuance of the financial statements by the Company's Management Board. Those events which as a result have no adjustments are disclosed in notes to the financial statements if they are of material significance as the additional explanations on circumstances which have arisen during after expiration of business year.

2.16. The fair value of financial instruments

The Management Board of the Company is certain that the fair value of assets and liabilities stated in the statement of financial position / (balance sheet) does not differ significantly from their carrying amounts.

2.17. Information about operating segments

The Company is not organized by production segments, but the Company uses the capital approach, which means the existence of the two parallel records of public good and own income and expenses, as also the assets, liabilities and capital arisen from these changes. Note III. to the financial statements include the Company's financial statements and financial statements of the public good. Individual positions of the financial statements are reclassified in relation to the financial statements presented on pages 8 to 10.

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

3. OPERATING INCOME

DESCRIPTION	2017	2018
	HRK	HRK
Income from issued licences and consents	24,745,392	18,652,820
Income from fees for the use of land and ancillary service activities	3,524,248	3,430,975
Income from services, tenders, trainings	571,276	595,876
Domestic sales	28,840,916	22,679,671
Income from own consumption	246,633	262,472
Other operating income	143,108,423	160,708,449
TOTAL	172,195,972	183,650,592

Income from issued licences and consents disclosed in for the year 2018 in the amount of HRK 18,652,820 (2017: HRK 24,745,392) represents the Company's own revenue as defined in Art. 86 of the Roads Act and was generated from the fees for extraordinary transport and excessive use of public roads according to Regulation on special transport (National Gazette No 119/07, 52/08) and Regulation on the criteria for calculation of fees for special transport (National Gazette No 68/10), and from October 25, 2018, according to the new Regulation on special transport (National Gazette No 92/18). An decrease of 24% in 2018 mainly refers to the significantly decreased traffic of Zagrebtransa carriers related to economic activity on the construction of wind power plants.

Income from fees for the use of land and ancillary service activities stated for the year 2018 in the amount of HRK 3,430,975 (2017: HRK 3,524,248) arose on the assignment of the rights to use the land along public roads. The terms and conditions for the use of the road land as well as conditions and procedure of assignment of usage of road land and the rights and obligations in performing ancillary services on the road land are determined in the Ordinance on the use of road land and performance of ancillary activities (National Gazette 78/14) and the Decision on level of fee for the establishment of right of easement and right of construction on a public road (National gazette No 87/14).

Other operating income

DESCRIPTION	2017	2018
	HRK	HRK
Recovery of prior-period revenues by court judgments	1,805,397	3,068,993
Income from guarantees	0	2,922,737
Recovery of amounts previously written off	1,731,951	1,740,493
Collected indemnities from insurance	1,471,664	1,582,493
Income from sale of non-current assets	261,132	505,555
Write off of liabilities to suppliers	2,510	307,794
Other income not specified	221,998	206,734
Income from damages and penalties collected	155,954	27,969
Income from cash payment discounts	22,123	0
Rental income	255,054	274,188
Part of public capital for covering difference between income and expenses	137,180,640	150,071,493
TOTAL	143,108,423	160,708,449

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

4. MATERIAL EXPENSES

DESCRIPTION	2017	2018
	HRK	HRK
Energy	12,491,086	14,555,843
Raw material and supplies	1,176,917	711,227
Written -off small inventory and car-tires	353,829	424,905
TOTAL	14,021,832	15,691,975

5. SERVICE EXPENSES

DESCRIPTION	2017	2018
	HRK	HRK
Maintenance of buildings and equipment	6,790,757	6,355,442
Rental services	3,141,397	3,798,122
Postage and telecommunication charges	2,679,892	2,794,915
Municipal utility services	1,409,349	1,559,372
Student service expenses and other expenses	576,523	1,099,990
Medical services	660,332	732,088
Transportation	713,585	656,967
Lawyer services	231,797	591,775
Cleaning, washing and ironing services	418,657	494,104
Advertising	491,417	490,682
Intellectual and consulting services	511,444	453,430
Property insurance premiums	524,995	406,773
Archiving services	318,815	370,736
Commercial and media monitoring	343,467	251,000
Bank and payment operation charges	220,529	224,110
Auditing services	143,500	184,000
Legal services and costs of hiring expert witnesses	122,939	169,760
Arrangement of WEB page and Internet	81,806	165,335
Software maintenance	0	164,700
Road and vehicle inspection fees	167,479	140,712
Security and fire protection services	160,674	120,540
Employee insurance premiums	105,205	95,933
Graphic, photographic and photocopying services	20,914	16,235
TOTAL	19,835,473	21,336,721

6. EMPLOYEES EXPENSES

DESCRIPTION	2017	2018
	HRK	HRK
Net wages and salaries	56,388,878	59,702,244
Taxes and contributions from salaries	26,799,267	29,578,857
Contributions on salaries	14,308,505	15,086,924
TOTAL	97,496,650	104,368,025

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

7. DEPRECIATION AND AMORTIZATION

DESCRIPTION	2017	2018
	HRK	HRK
Depreciation and amortization of tangible and intangible assets	411,313,022	457,211,469
Transferred to equity	(391,698,673)	(436,106,544)
TOTAL	19,614,349	21,104,925

The depreciation charge on public goods for the year 2018 charged to public capital amounts to HRK 436,106,544 (2017: HRK 391,698,673), in accordance with Art. 96 of the Roads Act.

Depreciation of public roads (civil engineering structures with roadbed) is provided using the depreciation rates ranging from 0.70% to 1.50%. Since the Company is not the owner of the public roads, the depreciation of public roads was presented using the equity approach.

Under the equity approach, depreciation of public roads is recognised as an expense in the income statement and covered out from own revenues to the possible extent. If own revenue is not sufficient to cover the total depreciation charge, the uncovered balance is recovered by charging it to public capital i.e. transferring the depreciation expense to the public capital.

8. OTHER COSTS

DESCRIPTION	2017	2018
	HRK	HRK
Fund of voluntary pension insurance	1,572,900	2,271,780
Cost of transportation to and from workplace	2,054,561	2,133,110
Other fees	1,300,369	1,364,512
Transport and accommodation costs - business travels	476,122	640,382
Per diems and business travel costs	440,455	447,549
Professional training costs	692,447	438,297
Litigation costs and fees	2,005,929	336,160
Aid for workers	177,912	282,785
Entertainment	113,416	247,998
Field addition and separate life	182,540	236,435
Fees to the members of the Supervisory Board	263,635	236,015
Appropriate awards - gift for children of employees	160,200	183,900
Membership fees	176,340	173,427
Appropriate awards – jubilee awards	147,000	149,500
Professional literature and press costs	115,183	131,795
Severance payments	72,000	112,000
Taxes independent of the operating result	134,619	84,995
Forest fees	45,273	48,261
Trainee fees and scholarships	3,040	0
Costs of environment protection	4,390	0
TOTAL	10,138,331	9,518,901

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

9. VALUE ADJUSTMENTS

DESCRIPTION	2017	2018
	HRK	HRK
Value adjustment of trade receivables	513,823	232,487
Value adjustment of other receivables	962,758	1,860,318
TOTAL	1,476,581	2,092,805

The amount of HRK 1,860,318 in 2018 refers to write off of receivables to DUZS works in refugee camps while in 2017 a large part of value adjustment of other receivables was written off to cities and counties (HRK 879, 816).

10. PROVISIONS

DESCRIPTION	2017	2018
	HRK	HRK
Provisions for retirement and long - service benefits	244,083	465,870
Litigation provision	1,001,312	0
TOTAL	1,245,395	465.870

Provisions based on ongoing lawsuits are charged to the income statement for those disputes relating to the Company, (disputes regarding ownership, management costs, labour disputes, etc.), and for all disputes caused by the construction or maintenance of state roads, provisions are debited to the public capital (failures to maintain state roads, compensation for damages due to accidents due to road construction, disputes over land for the construction of roads and similar expenses).

In 2018 additional provision was made for retirement benefits (tax-recognized amount) in the amount of HRK 171,677 and for jubilee awards of HRK 294,193 while provisions for court proceedings initiated at the expense of the Company stayed at the same level.

11. OTHER OPERATING EXPENSES

DESCRIPTION	2017	2018
	HRK	HRK
Penalties and damages	7,354,194	5,854,013
Subsequently determined expenditure	44,396	9,195
Non-written-off value of disposed assets and shortages	9,670	1,125
Other non-specified expenses	175,000	287,500
TOTAL	7,583,260	6,151,833

Penalties and damages in the amount of HRK 5,854,013 (2017: HRK 7,354,194) refer to the payment of legal and physical entities for damages that are caused by traffic accidents on the state roads.

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

12. FINANCIAL INCOME

OPIS	2017	2018
	HRK	HRK
Income from penalty interest	4	60,197
Income from call rate	66,096	41,183
Income from interest of borrowings	0	6,781
Income from investment in shares / stakes of related companies	450,000	0
Sale of financial assets (net)	156,947	0
Dividend income and share in profit of unrelated companies	215,338	0
Foreign exchange gains for liabilities and receivables	0	3,900
Other financial income (suing)	155,117	94,025
TOTAL	1,043,502	206,086

Other financial incomes (suing) in the amount of HRK 94,025 (in 2017 the amount was HRK 155,117) are occurred by payment of litigation costs and lawyer's services of sued customers, for which we are trusted law office for suing proceeding. After payment of lawyer's services of sued customers, law offices charge the same to the Company that is booked to expenses for lawyer's services (with lawyers are agreed that they will be paid only for the amount of lawyers' costs which the Company get from sued customers).

13. FINANCIAL EXPENSES

DESCRIPTION	2017	2018
	HRK	HRK
Interest expenses - unrelated companies by court judgments	1,827,603	3,118,679
Expenses from penalty interest	0	6,944
TOTAL	1,827,603	3,125,623

Interest expenses by court judgments in the amount of HRK 3,118,679 (2017: HRK 1,827,603) mostly refer to accrued interests on payments of legal and physical entities for damages that are caused by traffic accidents on the state roads.

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

14. CORPORATE INCOME TAX

Set out below is the reconciliation between taxable profit and the accounting profit:

POSITION	Tax balance sheet	Tax balance sheet
	2017	2018
	HRK	HRK
Total income	173,239,474	183,856,678
Total expenses	(173,239,474)	(183,856,678)
Profit / (loss) for the year	0	0
Profit increase / loss decrease		
Depreciation and amortisation	0	0
70%/50% of entertainment expenses, /30% of expenses for the use of personal cars	753,190	1,473,431
Expenditures determined in the supervisory process	1,742,360	0
Value adjustment and write off of receivables	1,250,226	388,437
Provision cost	91,027	294,193
Tax base increase for other expenses	0	10,000
Total profit increase / loss decrease	3,836,803	2,166,061
Profit decrease / loss increase		
Dividend income and share in profit	(665,338)	0
Proceeds from collection of receivables written off	(79,797)	(64,897)
Government grants for training and education	(459,895)	(386,222)
Total profit decrease / loss increase	(1,205,030)	(451,119)
Tax base	2,631,773	1,714,942
Corporate income tax rate	18%	18%
Tax liability	473,719	308,690
Paid advances	373,329	432,158
Difference for payment / refund	100,390	(123,468)
Advances for the following tax period	39,477	25,724

The corporate income tax rate effective in the Republic of Croatia for the year 2018 was 18%.

The Company prepares its financial statements and declares profit in accordance with International Financial Reporting Standards, with some exceptions determined by the Roads Act (National Gazette 84/11, 22/13, 54/13, 148/13, 92/14). The departures in the presentation of the Company's profit were due to the application of the Roads Act.

According to the noted Act, the loss for the period is charged to public capital. Otherwise, the loss for the year 2018 would amount to HRK 150,071,493 and for 2017 would amount to HRK 137,180,639.

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

15. INTANGIBLE ASSETS

DESCRIPTION	Concessions, patents, licences, trade and service marks, software and other rights	Intangible assets under development
	HRK	HRK
COST		
Balance at 1 January 2017	55,129,041	0
Additions 2017	10,574,727	10,574,727
Transfer to use 2017	(4,613,777)	(10,574,727)
Balance at 31 December 2017	61,089,991	0
Additions 2018	0	10,537,283
Transfer to use 2018	10,537,283	(10,537,283)
Disposal, alienation and deficiencies	0	0
Balance at 31 December 2018	71,627,274	0
IMPAIRMENT		
Balance at 1 January 2017	46,865,389	0
Amortization 2017	5,483,951	0
Disposal, alienation and deficiencies	(4,613,778)	0
Balance at 31 December 2017	47,735,562	0
Amortization 2018	(5,583,843)	0
Balance at 31 December 2018	53,319,405	0
NET CARRYING VALUE		
Balance at 1 January 2017	8,263,653	0
Balance at 31 December 2017	13,354,430	0
Balance at 31 December 2018	18,307,869	0

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Notes to the financial statements (continued)
for the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT

DESCRIPTION	Land	Buildings	Plant and equipment, tools, furniture, transport vehicles	Prepayments for tangible assets	Tangible assets under construction	Other tangible assets	Total property, plant and equipment
COST							
Balance at 1 January 2017	29,664,074	79,088,206,949	94,430,089	35,441,171	2,672,550,975	97,129	81,920,390,387
Addition	0	0	0	51,818,861	885,892,579	0	937,711,440
Transfer to use	51,401	1,261,471,587	3,394,985	0	(1,271,888,953)	5,790	(6,965,190)
Changes on prepayments	0	0	0	(45,297,489)	0	0	(45,297,489)
Transfer from CRA (categorisation)	0	175,491,664	0	0	0	0	175,491,664
Reconstruction - transfer to PC	0	(64,925,180)	0	0	0	0	(64,925,180)
Expenses, shortages, replaced part – invest. maintenance	0	(98,812,752)	(3,236,380)	0	0	0	(102,049,132)
Balance at 31 December 2017	29,715,475	80,361,432,268	94,588,694	41,962,543	2,286,554,601	102,919	82,814,356,500
Addition	0	0	0	358,533,169	1,000,775,940	0	1,359,309,109
Transfer to use	0	1,323,387,554	4,921,257	0	(1,332,644,511)	5,790	(4,335,700)
Changes on prepayments	0	0	0	(59,889,845)	0	0	(59,889,845)
Transfer to CRA (categorisation)	0	(374,303,351)	0	0	0	0	(374,303,352)
Transfer from CRA (categorisation)	0	378,873,582	0	0	0	0	378,873,581
Transfer from HAC (tunnel St. Ilija and harbor Ploče)	0	1,643,343,706	13,244,349	0	0	0	1,656,588,055
Reconstruction - transfer to PC	0	(227,974,804)	0	0	0	0	(227,974,804)
Expenses, shortages, replaced part – invest. maintenance	0	(115,212,688)	(7,701,414)	0	0	0	(122,914,102)
Balance at 31 December 2018	29,715,475	82,989,546,265	105,052,886	340,605,867	1,954,686,030	102,919	85,419,709,442
IMPAIRMENT							
Balance at 1 January 2017	0	8,941,396,030	83,098,396	0	0	0	9,024,494,426
Depreciation	0	400,318,409	5,510,662	0	0	0	405,829,071
Transfer of roads from CRA and cities	0	110,382,542	0	0	0	0	110,382,542
Expenses, disposals and shortages	0	(123,605)	(3,226,710)	0	0	0	(3,350,315)
Balance at 31 December 2017	0	9,451,973,376	85,382,348	0	0	0	9,537,355,724
Depreciation	0	446,326,911	5,300,717	0	0	0	451,627,628
Transfer of roads to CRA and cities	0	(56,235,816)	0	0	0	0	(56,235,816)
Transfer of roads from CRA and cities	0	156,113,321	0	0	0	0	156,113,321
Transfer from HAC	0	330,545,576	13,244,349	0	0	0	343,789,925
Expenses, disposals and shortages	0	0	(7,700,290)	0	0	0	(7,700,290)
Balance at 31 December 2018	0	10,328,723,368	96,227,124	0	0	0	10,424,950,492
NET CARRYING VALUE							
Balance at 31 December 2017	29,715,475	70,909,458,892	9,206,346	41,962,543	2,286,554,601	102,919	73,277,000,776
Balance at 31 December 2018	29,715,475	72,660,822,897	8,825,762	340,605,867	1,954,686,030	102,919	74,994,758,950

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company's title to properties is not fully resolved. Therefore, the Company has no registered title to all the properties. Resolving the issues and registering the title are in progress.

Movements in tangible assets under construction during 2018:

DESCRIPTION	31 Dec 2017	Additions	Disposals and retirements	31 Dec 2018
	HRK	HRK	HRK	HRK
Administrative and assembly buildings and other facilities Total	9,854,434	7,354,644	655,538	16,553,541
PC - reconstruction SR - land	17,278,985	14,976,503	17,238,146	15,017,342
PC - reconstruction SR - projects	14,655,884	11,061,140	3,197,037	22,519,986
PC - reconstruction SR - works	157,871,148	280,276,354	257,188,880	180,958,622
PC - reconstruction SR - supervision	8,840,800	11,112,659	9,795,090	10,158,369
PC - reconstruction SR - co-financing (constr. and design)	(3,870,482)	0	(2,707,435)	(1,163,047)
PC - reconstruction - other	908,683	2,508,884	1,397,810	2,019,758
Reconstruction SR Total	195,685,018	319,935,539	286,109,527	229,511,031
PC - invest. maint. SR - land	0	5,727,693	5,678,104	49,589
PC - invest. maint. SR - projects	187,600	7,591,020	7,756,820	21,800
PC - invest. maint. SR - works	0	215,402,474	215,402,474	0
PC - invest. maint. SR - supervision	0	10,543,731	10,543,731	0
PC - invest. maint. SR - other	0	660,115	660,115	0
Investment maintenance SR Total	187,600	239,925,033	240,041,244	71,389
PC - SR - purchase of land	311,978,011	26,197,385	135,577,827	202,597,570
PC - SR - studies and projects	312,134,871	28,275,789	27,087,719	313,322,940
PC - SR - construction	1,036,963,351	197,014,459	320,834,434	913,143,377
PC - SR - co-financing (constr. and design)	(2,129,382)	0	(40,466)	(2,088,916)
PC - SR - other costs	24,024,020	8,893,901	2,986,801	29,931,120
PC - SR - consulting services	3,112,340	1,810,024	2,283,051	2,639,313
State roads - Total	1,686,083,212	262,191,558	488,729,366	1,459,545,404
PC - Bridges - purchase of land	95,735,847	4,457,587	48,987,033	51,206,401
PC - Bridges - studies and projects	74,969,905	3,470,384	17,895,522	60,544,767
PC - Bridges - construction	200,323,389	152,725,565	243,655,517	109,393,437
PC - Bridges - consulting services	920,290	4,600,592	916,824	4,604,058
Bridges - Total	371,949,431	165,254,129	311,454,896	225,748,663
PC Betterment II - land	0	136,704	136,704	0
PC Betterment II - studies and other costs	0	46,328	46,328	0
PC Betterment II - supervision	0	17,821	17,821	0
Betterment II Total	0	200,852	200,852	0
Repair of landslides	22,275,806	842,165	427,470	22,690,502
Plant and equipment	519,100	4,611,459	4,565,059	565,500
Tools, fittings and vehicles	0	362,659	362,659	0
TOTAL	2,286,554,601	1,000,678,040	1,332,546,611	1,954,686,030

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Notes to the financial statements (continued)
for the year ended 31 December 2018

17. LONG-TERM FINANCIAL ASSETS

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Corporate shares	7,061,300	7,061,300
Investment in shares	7,061,300	7,061,300
Investment in long-term securities - frozen FX savings	644,737	644,737
Investments in securities	644,737	644,737
TOTAL	7,706,037	7,706,037

Investment in shares and stakes:

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Industrogradnja d.d.	1,000	1,000
a) Total shares in companies	1,000	1,000
Via tel d.o.o. Zagreb	5,222,300	5,222,300
Ceste Zadarske županije d.o.o. Zadar	676,000	676,000
Ceste Sisak d.o.o.	1,162,000	1,162,000
b) Total stakes in companies	7,060,300	7,060,300
TOTAL	7,061,300	7,061,300

The Company is sole founder and Member of the company Via Tel d.o.o., Zagreb.

18. LONG-TERM RECEIVABLES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Receivables for flats with tenancy rights	2,262,727	1,805,201
TOTAL	2,262,727	1,805,201

19. INVENTORIES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Inventories of raw material and supplies	15,326,117	15,492,071
Inventories of food in the restaurant	18,370	14,443
Small inventory in use	337,624	322,774
Value adjustment of small inventory in use	(337,624)	(322,774)
Car tyres in use	494,951	467,218
Value adjustment of car tyres in use	(494,951)	(467,218)
TOTAL	15,344,487	15,506,514

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

20. TRADE RECEIVABLES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Domestic trade receivables	6,858,950	12,492,587
Bad and doubtful receivables	8,879,215	8,417,639
Value adjustment of bad and doubtful receivables	(8,879,215)	(8,417,639)
TOTAL	6,858,950	12,492,587

The age structure of customer receivables is presented below:

Overdue maturity date:	31 Dec 2017	31 Dec 2018
	HRK	HRK
Undue	6,257,551	7,342,510
Up to 60 days	420,396	288,951
From 61 to 180 days	0	231,404
From 181 to 360 days	70,235	4,515,269
Over 360 days	110,768	114,453
TOTAL	6,858,950	12,492,588

21. RECEIVABLES FROM EMPLOYEES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Receivables for shortages	91,226	85,466
Receivables for advances	500	500
Other amounts due from employees	215,932	204,560
TOTAL	307,658	290,526

22. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Receivables from the Ministry of Finance (fuel fee)	94,485,715	151,226,444
Receivables for value added tax	27,723,070	43,015,090
Receivables from the Croatian State Health Insurance Fund	47,538	67,671
Other receivables (calc. interests on deposits)	72,194	0
TOTAL	122,328,517	194,309,205

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Notes to the financial statements (continued)
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23. OTHER RECEIVABLES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Other receivables Hrvatske vode	3,387,738	3,387,738
Other receivables Municipality Brtonigla	500,000	210,000
Other receivables City Novi Vinodolski	804,573	804,573
Other receivables CRA Primorsko-gor.	87,497	210,387
Other receivables City Karlovac	38,170	0
Other receivables Municipality Kloštar	0	546,643
Other receivables City Dubrovnik	33,938	33,938
Other receivables City Varaždin	1,339,001	1,339,001
Other receivables City Kutina	792,319	792,319
Other receivables Vodovod d.o.o. Sl.Brod	318,062	318,062
Other receivables Ivanić Grad	378,087	0
Other receivables -DUZS (refugee camp)	1,860,318	1,860,318
Other receivables -investm. cycle (CRA)	8,584,617	7,984,617
Other receivables City Rijeka	0	691,530
Other receivables KD VIK Rijeka	0	495,222
Other receivables Tekija	0	930,437
Other receivables City Čakovec	12,000	0
Other receivables City Zagreb	435,556	0
Other receivables HEP ODS d.o.o. Elektroistra Pula	344,766	0
Other receivables HEP ODS d.o.o. Elektra Zabok	925,000	0
Value adjustment of other receivables	(16,225,832)	(16,818,063)
TOTAL	3,615,810	2,786,722

24. CASH WITH BANKS AND IN HAND

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Foreign currency account	55,665,546	1,964,337
Gyro account balance	40,948,855	301,986,713
Specific-purpose funds and letters of credit	36,235,342	36,007,173
Cash in hand	59,488	80,744
TOTAL	132,909,231	340,038,967

25. PREPAID EXPENSES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Prepaid expenses	82,018,320	98,340,642
TOTAL	82,018,320	98,340,642

At the end of 2017 and in April 2018, I and II phase of the financial restructuring of the Company were implemented by reprogram previous loans. The said amount refers to the costs of financing the new responsibilities which are delimited on the duration of the contract.

HRVATSKE CESTE d.o.o., Zagreb
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26. CAPITAL

The subscribed capital, as disclosed in the statement of financial position (balance sheet) at 31 December 2018 in the amount of HRK 107,384,800 (31 December 2017 in the same amount), represents own permanent sources of funding the operations of the Company and comprises the share capital registered at the Commercial Court in Zagreb.

Public capital derived from the result, as reported in the statement of financial position (balance sheet) at 31 December 2018 in the amount of HRK 64,989,583,752 (31 December 2017: HRK 63,330,080,756) represents the net book value of public goods - public roads managed by the Company upon the establishment and the difference between proceeds (revenue) and expenditure (expenses and investments) on the public goods in the period subsequent to the establishment of the Company.

- **Receipts or increase of the public capital**

The component of public capital from other sources of funding includes proceeds such as net foreign exchange differences on the loans raised for the construction of state roads and other liabilities in connection therewith, interest on term deposit from the public capital and other.

Amounts credited to public capital in 2018 were as follows:

DESCRIPTION	31 Dec 2018	% portion
	HRK	
Capital increase - fuel reimbursement	2,067,740,730	54.78
Capital increase - co-financing of public goods	5,833,781	0.15
Capital increase - currency differences, interest and other	118,184,630	3.13
Capital increase - sale of salt to CRA	22,486,800	0.60
Capital increase - transfer from CRA categorisation of roads	222,760,261	5.90
Capital increase - transfer from HAC (tunnel St. Ilija and harbor Ploče)	1,312,798,130	34.78
Capital increase - recognition of EU income for depreciation	15,665,440	0.42
Capital increase - decrease of provisions for court disputes	8,912,228	0.24
TOTAL	3,774,382,000	100.00

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Notes to the financial statements (continued)
for the year ended 31 December 2018

26. CAPITAL (continued)

Pursuant to Art. 86 and 91 of the Roads Act, fee for the financing of building and maintenance of public roads is to be paid for the litre of a collected excise tax on fuel in the amount of HRK 0,80 per litre to the account of the Company from the state budget. (see Note 2.9.b).

• **Expenditures or decrease of the public capital**

The component of public capital from other sources of funding includes expenditures such as interest on long-term loans, bank loan charges, fees for issued government guarantees, costs of co-financing other public goods and depreciation of state roads (to the extent not covered out by the Company's own revenue) that are treated as deductions from public capital.

Amounts debited to public capital in 2018 were as follows:

DESCRIPTION	31 Dec 2018 HRK	% portion
Capital decrease – transfer for costs and corporate income tax	(150,380,183)	7.11
Capital decrease - depreciation	(436,106,544)	20.62
Capital decrease – investment maintenance SR, replaced part	(115,211,563)	5.45
Capital decrease – reconstruction SR – replaced parts	(227,974,804)	10.78
Capital decrease – co- financing of CRA according to Regulation Act	(106,944,673)	5.06
Capital decrease – co- financing of unclassified roads	(25,504,923)	1.21
Capital decrease – transfer in CRA according to CRA categorisation of roads	(318,067,536)	15.04
Capital decrease - currency differences, interest and other	(261,513,875)	12.37
Capital decrease – maintenance cost – regular	(420,971,837)	19.91
Capital decrease – extraordinary maintenance	(12,572,604)	0.59
Capital decrease – flood relief	(8,331,491)	0.39
Capital decrease – research and develop.	(8,812,171)	0.42
Capital decrease – cost value of sold salt to CRA	(22,486,800)	1.06
UKUPNO	(2,114,879,005)	100.00

Profit for the year, stated in the statement of financial position (balance sheet) at 31 December 2018 in the amount of HRK nil (31 December 2017: HRK nil), represents the operating result based on the application of the equity approach described in Notes 2.9.c) and 14 to the financial statements.

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Notes to the financial statements (continued)
for the year ended 31 December 2018

27. PROVISIONS

Movements in provisions in 2018 are shown as follows:

DESCRIPTION	31 Dec 2017	New provisions	Reversal of provisions	31 Dec 2018
	HRK	HRK	HRK	HRK
Long-term provisions for severance payments	875,489	171,677	0	1,047,166
Long-term provisions for jubilee awards	1,191,293	294,193	0	1,485,486
Long-term litigation provisions	167,281,440	0	(8,912,228)	158,369,212
TOTAL	169,348,222	465,870	(8,912,228)	160,901,864

As stated in point 10, the provisions on the commencement of court proceedings shall be charged to the income statement for disputes relating to the Company (disputes concerning ownership, management costs, labor disputes and the like) and for all disputes that are the cause of construction or maintenance of state roads (failure to maintain state roads, compensation for damage caused by traffic accidents due to road construction, land dispute over road construction and the like).

In 2018, pursuant to the Decision of the Management Board, there were reduction of litigation provisions in the amount of HRK 8,912,228 as a result of differences between new claims and solved disputes during 2018.

28. LONG-TERM LIABILITIES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Liabilities to banks in Croatia	7,859,343,225	7,902,310,644
Liabilities to banks abroad	1,520,186,408	1,380,950,329
Current portion of long-term debt (see Note 29)	(545,432,053)	(277,236,019)
TOTAL	8,834,097,580	9,006,024,954

Banks in Croatia

Interest rate	31 Dec 2018	Current portion	Long-term portion
	HRK	HRK	HRK
< 2%	3,452,604,796	(37,422,854)	3,415,181,942
2%-4%	4,449,705,848	0	4,449,705,848
4%-6%	0	0	0
TOTAL	7,902,310,644	(37,422,854)	7,864,887,790

Banks abroad

Interest rate	31 Dec 2018	Current portion	Long-term portion
	HRK	HRK	HRK
< 2%	150,876,027	(150,876,027)	0
2%-4%	673,487,717	(30,803,463)	642,684,254
4%-6%	556,586,585	(58,133,675)	498,452,910
TOTAL	1,380,950,329	(239,813,165)	1,141,137,164

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Notes to the financial statements (continued)
for the year ended 31 December 2018

28. LONG-TERM LIABILITIES (continued)

Movements in amounts due to banks and other financial institutions are presented as follows:

DESCRIPTION	2017	2018
	HRK	HRK
At 1 January	9,809,182,035	9,379,529,633
Loans paid	(5,215,470,806)	(3,869,708,699)
New loans	4,703,232,650	3,773,440,039
Exchange differences	82,585,754	0
At 31 December	9,379,529,632	9,283,260,973
Reclassification of liability for long-term loan EBRD		(139,270,179)
Current portion of the principal	(545,432,053)	(137,965,840)
At 31 December	8,834,097,579	9,006,024,954

Long-term liabilities to banks and other financial institutions are due as follows:

Maturity year	Amount
	HRK
2020	182,392,346
2021	349,915,057
2022	537,887,382
After 2022	7,935,830,169
TOTAL	9,006,024,954

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
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28. LONG-TERM LIABILITIES – (continued)

An overview of amounts due to banks in Croatia is presented below:

Domestic banks	Year due	Currency	Agreed amount in the original currency	Payment	Interest rate	31 Dec 2018	Current portion	Long-term portion
						HRK	HRK	HRK
HBOR	2033	EUR	95,194,088	Quarterly	4-6%	612,866,359	0	612,866,359
MINISTRY OF FINANCE	2030	EUR	517,263,323	Annual	2-4%	3,836,839,490	0	3,836,839,490
ERSTE BANK d.d., HPB d.d., PBZ d.d., SG-SPLITSKA BANKA, ZABA d.d.	2027	EUR	467,144,462	Semi annual	<2%	3,452,604,795	(37,422,854)	3,415,181,941
TOTAL amounts due to banks in Croatia						7,902,310,644	(37,422,854)	7,864,887,790

An overview of amounts due to banks abroad is presented below:

Banks abroad	Year due	Currency	Agreed amount in the original currency	Payment	Interest rate	31 Dec 2018	Current portion	Long-term portion
						HRK	HRK	HRK
European Investment Bank I ("EIB")	2027	EUR	60,000,000	Semi annual	4-6%	233,958,466	(31,127,460)	202,831,006
European Investment Bank II (betterment II/A)	2030	EUR	60,000,000	Semi annual	4-6%	322,628,119	(27,006,215)	295,621,904
European Investment Bank III (Split bypass)	2036	EUR	42,900,000	Semi annual	2-4%	251,549,247	(12,768,155)	238,781,092
European Bank for Reconstruction and Development (EBRD) /i/	2031	EUR	33,347,054	Semi annual	< 2%	150,876,027	(150,876,027)	0
European Investment Bank IV (betterment II/B)	2034	EUR	60,000,000	Semi annual	2-4%	421,938,470	(18,035,308)	403,903,162
TOTAL amounts due to banks abroad			256,247,054			1,380,950,329	(239,813,165)	1,141,137,164

/i/ The loan agreement concluded on 12 December 2006 with the European Bank for Reconstruction and Development (EBRD) includes contractual provisions based on business indicators. In case of non-fulfillment of these contractual provisions by the Company, the loan obligation becomes due. Under the contract, the Company's obligation is to meet the contractual ratios at each reporting date. As the Company did not meet the contracted business indicators based on the loan agreement approved by the EBRD (loan obligation on 31 December 2018 in the amount of HRK 150,876,027), said loan with maturity up to 2031 is classified as a short-term loan. The amount of HRK 139,270,179 becomes due after 31 December 2018. In February 2019, the Company received a written statement from the bank that it will not use the right of early payment of loans irrespective of unfulfilled contractual provisions.

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Notes to the financial statements (continued)
for the year ended 31 December 2018

29. LIABILITIES TO RELATED COMPANIES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Liabilities to Via tel d.o.o.	317,102	306,876
TOTAL	317,102	306,876

30. LIABILITIES FOR LOANS, DEPOSITS ETC.

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Liabilities for received deposits	4,399,988	5,304,499
Liabilities for bail and subscriptions	942,018	680,144
TOTAL	5,342,006	5,984,643

31. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Interest payable on loans	34,054,990	131,724,000
Current portion of long-term loans (see Note 28)	545,432,053	277,236,019
TOTAL	579,487,043	408,960,019

At interest payable on loans for the first time there is obligation for interest payable on loans of Ministry of Finance in the amount of HRK 105,513,000.

32. TRADE PAYABLES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Trade accounts payables – investments	146,172,164	126,442,697
Trade accounts payable - goods and services	106,551,967	115,021,940
Liabilities under cession arrangements	17,150,299	19,886,181
Liabilities under factoring arrangements	3,619,146	1,071,406
TOTAL	273,493,576	262,422,224

The aging structure of trade payables is presented below:

	31 Dec 2017	31 Dec 2018
	HRK	HRK
Undue	234,665,167	244,469,365
Up to 60 days	24,230,814	6,516,535
From 61 to 180 days	696,390	279,993
From 181 to 360 days	4,725,566	1,945,590
Over 360 days	9,175,639	9,210,741
TOTAL	273,493,576	262,422,224

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33. LIABILITIES TO EMPLOYEES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Net salaries and wages	5,213,902	6,574,037
Other liabilities to employees	230,306	341,230
TOTAL	5,444,208	6,915,267

34. LIABILITIES FOR TAXES, CONTRIBUTIONS AND SIMILAR PAYMENTS

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Liabilities for buy back of public flats 65%	1,470,772	1,173,381
Contribution on salaries	1,378,040	1,814,045
Contribution from salaries	1,602,371	2,110,455
Taxes and surtaxes out of salaries	1,195,359	2,003,261
Value added tax	11,609,176	22,642,929
Contributions independent of the operating result	18,242	41,866
Corporate income tax payable	100,390	(83,992)
UKUPNO	17,374,352	29,701,945

35. OTHER SHORT-TERM LIABILITIES

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Liabilities to CRA	21,556,322	11,389,502
Liabilities for unclassified roads (winter maintenance)	0	7,966,626
UKUPNO	21,556,322	19,356,128

36. ACCRUED EXPENSES AND DEFERRED INCOME

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Accrued expenses for co-financing CRA	23,153,180	38,759,542
Accrued expenses for co-financing unclassified roads	20,000,000	6,365,380
Deferred income from use of road land	686,429	826,909
Deferred income -collected guarantees - guarantee period	2,460,803	3,563,643
Deferred income -collected guarantees - termination of contract	48,473,455	39,757,061
Deferred income - EU funds	225,007,108	599,528,213
TOTAL	319,780,975	688.800,748

Accrued expenses and deferred income at 31 December 2018 in the amount of HRK 688,800,748 (31 December 2017: HRK 319,780,975) relate to accrued expenses in the amount of HRK 45,124,922 (31 December 2017: HRK 43,153,180), the obligation for repayment guarantees for bail in the amount of HRK 43,320,704 kuna (31 December 2017: HRK 50,934,258) and deferred revenue for received funds from EU funds in the amount of HRK 599,528,213 (31 December 2017: HRK 225,007,108).

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Notes to the financial statements (continued)
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36. ACCRUED EXPENSES AND DEFERRED INCOME (continued)

Accrued expenses in the amount HRK 45,124,922 are related to the funds that are arranged by the Ordinance on the allocation of funds for the construction and maintenance of public roads, county administrations for roads in the 2018 (National Gazette 41/18, and amendments thereof, National Gazette 4/19) and the Approval by the competent minister to allocate funds for the winter maintenance costs on non-classified roads, allocated to cover the costs of maintaining public roads, i.e. county and local roads and unclassified roads, for which, by 31 December 2018, managers did not submit documents on completed works, respectively the costs of winter service.

Deferred income in the amount of HRK 826,909 relates to road land fees.

Collected guaranties in the amount of HRK 39,757,061 (31 December 2017: HRK 48,473,455) which is waiting a resolution of disputes over compensation for damage due to termination of contract by the perpetrator of the works.

The overview of projects funded from EU funds is given below:

DESCRIPTION	31 Dec 2018
	HRK
Bridge Pelješac and access roads	335,380,551
Bridge land – island Čiovo	164,402,943
Bypass Vodice	39,959,943
Southern bypass Osijek	25,890,873
Plano - Split	27,219,973
Bypass Petrijevac	2,136,887
Connector road of junction Škurinje - harbor Rijeka	758,250
Dubrovnik - airport – Montenegro border	627,742
Bypass Dicmo	534,075
CEF PSA	531,964
Southern bypass Poreč	512,943
Bypass Nedelišće and Pušćina	451,819
Eastern connection road in Slavonski Brod	449,732
Sv. Helena-Vrbovec-Bjelovar-Virovitica- border with Hungary	367,177
Program of sanation of dangerous places on state roads in Croatia	286,450
Crocodile II Croatia	16,951
TOTAL	599,528,213

For the amount of depreciation of HRK 15,665,440 that has charged public capital which refers to roads and objects financed by EU funds, position of deferred income from EU funds is abolished in 2018.

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Notes to the financial statements (continued)
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37. RELATED PARTY TRANSACTIONS

Related party	Receivables	Liabilities	Income	Expense
	HRK	HRK	HRK	HRK
<u>2018</u>				
Via tel d.o.o.	0	306,876	0	1,370,861
Hrvatska elektroprivreda	4,948	3,437,296	306,063	12,315,446
Hrvatske šume	2,025	29,771	462,015	23,982
Hrvatske vode	0	6,073	990	5,185,143
Hrvatska pošta	0	81,294	150	392,694
Narodne novine	0	50,625	0	458,088
Hrvatska radio televizija	0	0	0	142,080
Hrvatske telekomunikacije	45,488	720,828	373,486	2,432,827
INA Matica	98,670	365,461	110,581	1,819,704
	151,131	4,998,224	1,253,285	24,140,825
<u>2017</u>				
Via tel d.o.o.	0	317,102	0	1,370,861
Hrvatska elektroprivreda	1,273,889	3,584,000	1,040,114	10,942,376
Hrvatske šume	2,624	0	576,226	26,750
Hrvatske vode	0	56,486	0	6,175,713
Hrvatska pošta	0	69,206	0	477,723
Narodne novine	0	60,692	0	461,544
Hrvatska radio televizija	0	0	0	132,000
Hrvatske telekomunikacije	67,376	629,568	371,111	2,508,777
INA Matica	0	388,302	44,660	1,751,206
TOTAL	1,343,889	5,105,356	2,032,111	23,846,950

38. MANAGEMENT REMUNERATION

Management remuneration is presented as follows:

DESCRIPTION	2017	2018
	HRK	HRK
Gross salaries	544,297	1,182,136
TOTAL	544,297	1,182,136

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39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital risk management

The Management Board of the Company manages its capital to ensure that it will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents, and equity attributable to the equity holders of the Company, which consists of the share capital and public capital.

Gearing ratio

The Management Board of the Company reviews the capital structure. As a part of this review, the Management Board considers the cost of capital and the risks associated with each class of capital. The gearing ratio for the year ended 31 December 2018 was 13,95% (year ended 31 December 2017: 14,58%).

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Long-term and short-term loan debt	9,379,529,632	9,420,969,616
Financial liabilities	9,379,529,632	9,420,969,616
Less: Cash with banks and in hand	(132,909,231)	(340,038,967)
Net debt	9,246,620,401	9,080,930,649
Equity	63,437,465,556	65,096,968,552
Net debt-to-equity ratio	14,58%	13,95%

Categories of financial instruments

DESCRIPTION	31 Dec 2017	31 Dec 2018
	HRK	HRK
Long-term financial assets	7,061,300	7,061,300
Long-term receivables	2,262,727	1,805,201
Short-term receivables	133,110,935	209,879,040
Short-term financial assets	0	0
Cash with banks and in hand	132,909,231	340,038,967
Financial assets	275,344,193	558,784,508
Loan liabilities	9,379,529,632	9,420,969,616
Other liabilities	807,314,756	1,168,405,052
Financial liabilities	10,186,844,388	10,589,374,668

Financial risk management objectives

The Management Board of the Company monitors and manages financial risks arising from the Company's operations using internal reports analysing the exposures by degree and magnitude of risks.

These risks include market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company seeks to minimize the effects

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39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk management objectives - continued

of these risks. The Company does not enter into, or trade with financial instruments, including derivative financial instruments, for speculative purposes.

Foreign currency risk management

The official currency of the Company is Croatian Kuna ("HRK"). However, certain foreign-currency denominated transactions are translated to Croatian Kuna using exchange rates in effect at the reporting date. Hence, the Company is potentially exposed to the risk of fluctuations in foreign exchange rates. Since a significant number of loans are subject to a currency protection clause (mainly Euro), the Company's exposure to this risk is significant.

The net carrying value of the Company's cash assets and liabilities denominated in foreign currency at the reporting date is as follows:

DESCRIPTION	Liabilities		Assets	
	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018
	HRK	HRK	HRK	HRK
EUR	9,279,720,108	9,283,260,973	55,665,546	1,964,337

Foreign currency sensitivity analysis

The following table details the Company's sensitivity to a 1% increase and decrease in the Croatian Kuna against the relevant currency. The sensitivity analysis includes foreign currency denominated receivables and liabilities and adjustments of their translation at the period end for a 1% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity components where HRK strengthens 1% against the relevant currency. For a 1% weakening of the HRK against the relevant currency, there would be an equal effect, but the balance would be negative.

DESCRIPTION	2017	2018
	HRK	HRK
EUR change effect	93,795,296	90,060,250
TOTAL	93,795,296	90,060,250

Price risk management

The Company provides its services on the market of the Republic of Croatia. The Management Board of the Company determines the prices for its services with consent of the Croatian Government.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate, which applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost of an instrument will fluctuate over time.

The Company is exposed to the interest rate risk on its variable rate borrowings.

Credit risk management

Credit risk refers to the risk that counterparty will fail to meet its contractual obligations resulting in financial loss to the Company. The credit risk arising from collecting of short-term receivables is relatively low, as receivables from the State are recovered within the periods defined by applicable laws. Trade receivables are impaired for bad and doubtful receivables.

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities to the counterparty.

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

During the reporting period, the Company was settling the amounts it owes to its creditors, suppliers and the State within the legally defined deadlines.

As disclosed in Note 28 to the financial statements, the most significant portion of financial liabilities is due after 2018.

The Company manages its liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Analysis of liquidity risk

The following table analyses the remaining period until the contractual maturities of the Company's financial liabilities. The table is composed of undiscounted cash outflows on financial liabilities at the earliest date on which the Company may request the payment. The table includes cash flows of principal and interest.

The remaining period up to the contractual maturity of the Company's financial liabilities is as follows:

LIABILITIES	1-6 months	6 months - 1 year	1 - 5 years	Over 5 years	Total
	HRK	HRK	HRK	HRK	HRK
2018					
Interest free	318,702,440	-	-	-	318,702,440
Interest bearing	208,253,099	208,253,099	1,070,194,785	8,096,732,033	9,583,433,016
2017					
Interest free	318,185,559	-	-	-	318,185,559
Interest bearing	893,838,969	9,175,639	2,371,790,485	6,951,436,291	10,226,241,384

The following table analyses the remaining period until the contractual maturities of the Company's financial assets. The table is composed of undiscounted cash inflows on financial assets at the earliest date on which the Company may request the payment.

The remaining period up to the contractual maturity of the Company's financial assets is as follows:

ASSETS	1-6 months	6 months - 1 year	1 - 5 years	Over 5 years	Total
	HRK	HRK	HRK	HRK	HRK
2018					
Interest free	339,038,967		2,805,201		341,844,168
2017					
Interest free	133,110,935		2,262,727		135,373,662

40. LEGAL DISPUTES AND CONTINGENT LIABILITIES

The Company maintains systematic records of legal disputes against and initiated by the Company. The Legal, HR and General Affairs Unit is assisted by external attorneys. However, the records of legal actions managed by external attorneys are kept at the Company.

At 31 December 2018, there were 1,115 legal disputes outstanding against the Company, with the total claims amounting to approximately HRK 240,384,253 (31 December 2017: 1,171 legal disputes, with the total claims of approximately HRK 226,232,393).

HRVATSKE CESTE d.o.o., Zagreb
Notes to the financial statements (continued)
for the year ended 31 December 2018

40. LEGAL DISPUTES AND CONTINGENT LIABILITIES (continued)

Legal disputes and other contingent assets and liabilities are not included in the statement of financial position because the ultimate outcome and the eventual cash outflows and inflows on the basis of those actions are uncertain. When the outcome of contingencies becomes certain, the related amounts are presented as extraordinary income, where the outcome results in inflows, or provisions where the outcome results in losses.

As described in Note 27 to the financial statements, at 31 December 2018 the Company recognised litigation provisions based on the professional legal advice.

41. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE / BALANCE SHEET DATE

After reporting period date there were no significant events that could have the influence on the financial statements for the year 2018, which should, consequently, be published.

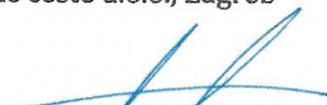
42. PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements set out on the pages above were prepared and authorised for issuance by the Management Board of the Company on 11 June 2019.

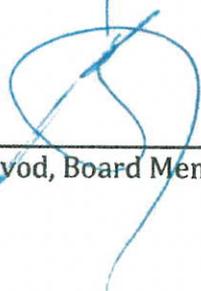
Signed on behalf of the Management Board of Hrvatske ceste d.o.o., Zagreb



Josip Škorić, Chairman of the Board



Alen Leverić, Board Member



Nikša Konjevod, Board Member



Senko Bošnjak, Board Member

III. FINANCIAL STATEMENTS OF THE PUBLIC GOOD

As the equity approach implies keeping simultaneously two sets of accounts, one for public goods and one for own revenue and expenses, as well as assets, liabilities and equity arising from those changes, set out below are the financial statements of the Company and the financial statements of the public good. Certain items of the financial statements are reclassified compared to the financial statements set out on pages 8 to 10.

BALANCE SHEET AS OF 31 DECEMBER 2018

POSITION	Company HRK	Public good HRK	Total HRK
ASSETS			
LONG TERM ASSETS			
Tangible and intangible assets	182,427,514	74,830,639,305	75,013,066,819
Financial assets	7,706,037	0	7,706,037
Receivables	1,805,201	0	1,805,201
Total long-term assets	191,938,752	74,830,639,305	75,022,578,057
SHORT TERM ASSETS			
Inventories	14,443	15,492,071	15,506,514
Receivables			
Trade receivables	1,145,159	11,347,428	12,492,587
Receivables for prepayments	0	0	0
Other receivables	10,967,731	186,418,722	197,386,453
<i>TOTAL receivables</i>	12,112,890	197,766,150	209,879,040
Cash	190,962,777	149,076,190	340,038,967
Total short-term assets	203,090,110	362,334,410	565,424,521
PREPAYMENTS AND ACCRUED INCOME	0	98,340,642	98,340,642
TOTAL ASSETS	395,028,862	75,291,314,358	75,686,343,220
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Subscribed capital	107,384,800	0	107,384,800
Public capital from the result	0	64,547,571,611	64,547,571,611
Profit / (loss) for the year	(150,380,183)	592,392,324	442,012,141
Total capital and reserves	(42,995,383)	65,139,963,935	65,096,968,552
PROVISIONS	26,625,511	134,276,353	160,901,864
LONG TERM LIABILITIES	176,288,343	8,829,736,611	9,006,024,954
SHORT TERM LIABILITIES			
Trade payables	16,636,921	246,092,179	262,729,100
Taxes and contributions payable	29,701,945	0	29,701,945
Liabilities to employees	6,915,267	0	6,915,267
Short-term loan liabilities	131,724,000	277,236,019	408,960,019
Other liabilities	5,984,643	19,356,128	25,340,771
Total short-term liabilities	190,962,776	542,684,326	733,647,102
ACCRUED EXPENSES AND DEFERRED INCOME	44,147,613	644,653,135	688,800,748
TOTAL EQUITY AND LIABILITIES	395,028,861	75,291,314,359	75,686,343,220

INCOME STATEMENT for the period from 1 January to 31 December 2018

POSITION	Budgeted			2018		Budget realization	Deviation from budget
	2018	Company	Public good	Total			
	HRK	HRK	HRK	HRK	%		
OPERATING INCOME							
Fuel income	2,011,000,000	0	2,067,740,730	2,067,740,730	2,82%	56,740,730	
Income from co-financing (cities and munic.)	7,000,000	0	5,833,781	5,833,781	-16,66%	(1,166,219)	
Environment protection fond - landslides	0	0	0	0	0%	0	
Sales income	20,250,000	22,679,670	0	22,679,670	12,00%	2,429,670	
Sales income (salt)	0	0	22,609,760	22,609,760	0%	22,609,760	
Income from usage of own cars	260,000	262,472	0	262,472	0,95%	2,472	
Other income (rental)	250,000	274,188		274,188	9,68%	24,188	
Provisions		0		0		0	
Total operating income	2,038,760,000	23,216,331	2,096,184,271	2,119,400,602	3,96%	80,640,602	
OPERATING EXPENSES							
Raw material and material (40)	14,526,000	15,691,975	0	15,691,975	8,03%	1,165,975	
Sold goods (salt)		0	22,609,760	22,609,760	0%	22,609,760	
Transfer of funds to CRA and unclass.roads	130,000,000	0	132,449,596	132,449,596	1,88%	2,449,596	
Regular maintenance	420,000,000	0	406,158,305	406,158,305	-3,30%	(13,841,695)	
Extraordinary maintenance	20,000,000	0	12,572,604	12,572,604	-37,14%	(7,427,396)	
Repair of damage on the flooded areas	15,500,000	0	8,331,491	8,331,491	-46,25%	(7,168,509)	
Studies and developm. preparation	8,500,000	0	8,812,171	8,812,171	3,67%	312,171	
Other costs of services (41 and 42)	43,392,000	21,336,721	14,813,532	36,150,253	-16,69%	(7,241,747)	
Staff costs	108,644,600	104,368,025	0	104,368,025	-3,94%	(4,276,575)	
Depreciation and amortisation	440,000,000	21,104,925	436,106,544	457,211,469	3,91%	17,211,469	
Other operating costs (44 and 46)	10,054,000	9,518,901	0	9,518,901	-5,32%	(535,099)	
Provisions		465,870	0	465,870		465,870	
Total operating expenses	1,210,616,600	172,486,418	1,041,854,004	1,214,340,422	0,31%	3,723,822	
FINANCIAL INCOME	45,561,000	206,086	118,184,631	118,390,717	159,85%	72,829,717	
FINANCIAL EXPENSES	157,500,000	3,125,622	261,513,875	264,639,497	68,03%	107,139,497	
EXTRAORDINARY INCOME	9,630,000	10,362,768	0	10,362,768	7,61%	732,768	
EXTRAORDINARY EXPENSES	9,555,000	8,244,637	0	8,244,637	-13,71%	(1,310,363)	
TOTAL INCOME (without EU funds)	2,093,951,000	33,785,185	2,214,368,902	2,248,154,086	7,36%	154,203,086	
TOTAL EXPENSES	1,377,671,600	183,856,678	1,303,367,878	1,487,224,556	7,95%	109,552,956	
Profit / (loss) before taxation	716,279,400	(150,071,493)	911,001,023	760,929,530	6,23%	44,650,130	
Income tax	0	(308,690)		(308,690)	-	(308,690)	
PROFIT / (LOSS) FOR THE YEAR	716,279,400	(150,380,183)	911,001,023	760,620,840	6,19%	44,341,441	