HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb
Strojarska cesta 11

Annual consolidated financial statements and the Independent Auditor's Report for the year 2018

RESPONSIBILITY FOR THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of the company HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb, Strojarska cesta 11, ("the Company") is responsible for ensuring that the annual consolidated financial statements of the Company and depending company ("the Group") for the year 2018 are prepared in accordance with the Accounting Act (Official Gazette No 78/15, 134/15, 120/16 and 116/18) and International Financial Reporting Standards as adopted by the European Commission and published in the Official Journal of the European Union to give a true and fair view of the consolidated financial position, the consolidated results of operations, the consolidated cash flows and the consolidated changes in equity of the Group for that period.

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

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

- suitable accounting policies are selected and then applied consistently in accordance with applicable financial reporting standards
- judgments and estimates are reasonable and prudent;
- preparing of the annual consolidated financial statements on the going concern basis unless such assumption is not appropriate.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the consolidated financial position, the consolidated results of operations of the Group, consolidated cash flows and consolidated changes in equity and their compliance with the Accounting Act (Official Gazette No 78/15, 134/15, 120/16 and 116/18) and the International Financial Reporting Standards as adopted by the European Commission and published in the Official Journal of the European Union. The Management board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

Željko Ukić, President of the Management Board	Mladen Lugarić, Member of the Management Board	Damir Rubčić, Member of the Management Board

HŽ PUTNIČKI PRIJEVOZ d.o.o.
Strojarska cesta 11
10 000 Zagreb
The Republic of Croatia

Zagreb, 6 September 2019

AUDIT
REVIZIJSKE USLUGE, ZAGREB

MOORE STEPHENS
AUDIT ZAGREB

Audit d.o.o. za revizijske usluge
Radnička cesta 54
10000 Zagreb
HRVATSKA

Tel:+385 (0) 1 3667 994
Fax:+385 (0) 1 3667 997
E-mail:audit-revizija@audit.hr

INDEPENDENT AUDITOR'S REPORT

To the Owner of the company HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb

Report on the Audit of the Consolidated Annual Financial Statements

Qualified opinion

We have audited the annual consolidated financial statements of the company HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb, Strojarska cesta 11, (the "Company") and depending company ("the Group") for the year ended 31 December 2018, which comprise the Consolidated Statement of financial position (Balance Sheet) as at 31 December 2018, Consolidated Statement comprehensive income, Consolidated Statement of cash flows and Consolidated Statement of changes in equity for the year then ended, and accompanying Notes to the annual consolidated financial statements, including a summary of significant accounting policies and other explanations.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified opinion, the accompanying consolidated annual financial statements, give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards ("IFRS") as adopted by the European Commission and published in the Official Journal of the European Union.

Basis for Qualified opinion

In the consolidated statement of financial position (Consolidated Balance sheet) as at 31 December 2018, the Group stated total value of the real estate in the amount of HRK 63,669 thousand within which relate to buildings in the amount of HRK 28,599 thousand, and to the investment property in the amount of HRK 35,070 thousand for which ownership is not regulated by registration in the land registers. Furthermore, the value of the land that is an integral part of these real estates is not stated in the business books. Given that the settling of property rights is ongoing, we are unable to determine the effects of any corrections, if any, to the Company's annual consolidated financial statements for the year 2018.

We conducted our audit in accordance with Accounting Act, Auditing Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated annual financial statements section of our Independent Auditor's report.

We are independent of the Group in accordance with the Code of Ethics for Professional 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 qualified opinion.

Other matters

The Company prepared separate annual financial statements for the year ended 31 December 2018, and for a better understanding of the Company's operations as a whole, users should read the separate annual financial statements of the Company in connection with these annual consolidated financial statements.

Audit of the consolidated financial statements of the Group for the year ended December 31, 2017 was performed by the audit firm BDO Croatia d.o.o., Zagreb, which in its Independent Auditor's Report as of September 18, 2018 expressed a modified opinion on these annual consolidated financial statements related to the potential effects of regulating property ownership and the sufficiency of provisions for initiated litigation processes.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual financial statements of the current period and include identified most significant risks of material misstatement due to error or fraud with the highest impact on our audit strategy, on our resources available and the time spent by the engaged audit team. These matters were addressed in the context of our audit of the consolidated annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the issues below are the key audit issues to be reported in our Independent Auditor's Report.

Related party transactions	
Description	How we have audited Key audit matters
See Accounting Policies, Note 2.25. Key accounting estimates and judgments and note 37. Related Party Transactions in Annual Consolidated Financial Statements. We considered the related party transactions being significant to the audit as the risk is that these transactions are not conducted at market prices, and/or the accounting treatment of the rights and obligations of these transactions are not correct, it could influence the results of the Company. Furthermore, for financial reporting purposes, IAS 24 Related party disclosure, requires complete and appropriate disclosure of the transactions with related parties.	Our audit procedures included, among others: • understanding and documenting the process of identifying related party transactions and evaluating the design of controls related to the fraud risk identified • we have verified that transactions have been approved in accordance with internal procedures including the involvement of key personnel at the appropriate level • we have analyzed the supporting documentation to make sure that the transactions were at market principles and their business rationale • we have evaluated that the transactions (rights and obligations) are recorded in accordance with the terms of the contract • we have confirmed all receivables and liabilities from related companies

	• we have identified the differences between related parties and what they relate to • verification of required disclosures in accordance with IAS 24 (see Note 39) By our audit procedures, we have been assured that related party transactions in material assets are recorded and disclosed in accordance with International Financial Reporting Standards.

Valuation of Property, plant and Equipment and Investment property	
Description	How we have audited Key audit matters
See Note 2.11. Property, plant and equipment, 2.12. Investment property, 2.13. Impairment of non-financial assets, 2.25. Key accounting estimates and judgements, note 9. Depreciation and amortization, note 16. Property, plant and equipment and note 17. Investment property. Property, plant and equipment at 31 December 2018 amounts to HRK 1,789,027 thousand, while property investments amount to HRK 35,070 thousand, representing 88% of total assets in the Group's Consolidated Statement of financial position / Consolidated Balance sheet. Impairment requires Management to make significant judgments relating to the estimated level of income, the operating costs and the applicable discount rates. Given the material significance of this assets, its role as a key material resource in the Group's operations and the complexity of accounting treatment (procurement, measurement, depreciation calculation, cost capitalization, impairment, etc.), this issue is of particular significance for our audit.	Our audit procedures included, among others: • assessing the compliance of property, plant and equipment and investment property recognition policies with relevant financial reporting standards; • analysis of the Management Board and the Supervisory Board meetings minutes regarding information to the investment plans and investment project decisions • test of controls and test of details for the purchase of the Property, plant and equipment in 2018 according to the selected sample • we have evaluated the estimated useful life of the assets used by the Group when calculating the depreciation as well as the beginning of the depreciation calculation for activated assets and the cessation of for the assets non in use. • based on the sample, we tested disposal of long-term tangible and intangible assets • a review of the recoverable value of a railway vehicle owned by the Company (amount of planned free cash flow, selected period of planned free cash flow, end of depreciation period, selected WACC)

	• evaluation of the impairment indicators analysis with the requirements of IAS 36 • interview with the responsible experts in charge of asset management • it was established that the registration of property ownership rights is not fully resolved. The settling of property rights is ongoing. Other than the above mentioned, we have verified by our audit procedures that property, plant, equipment and property investment in material assets are recorded and disclosed in accordance with International Financial Reporting Standards.

Litigations and potential liabilities	
Description	How we revised Key audit Matters
See Accounting Policies, note 2.21. Provisions, note 2.25. Key accounting estimates and judgements and notes 12. and 27. Provisions in annual consolidated financial statements. The Group has stated the provisions for contingent liabilities due to court cases in which the Company is a defendant as at 31 December 2018 in the amount of HRK 81.281 thousand (31 December 2017 in the amount of HRK 86.365 thousand). Due to its specific activity, the Company is exposed to a significant number of long-standing court disputes that require complex assessments with a high level of judgment and uncertainty, which can lead to significant misstatement of the provisions cost. The outcome of the court proceedings is outside the control of the Company, and accordingly the Management Board makes estimates on the outcome of court disputes based on opinions of the internal legal service and external attorneys representing the Company. Given the significance of the amount and complexity of the outcome assessment process, the issue of court disputes and potential liabilities was of particular significance for our audit.	Our audit procedures included, among others: • compliance assessment of the litigations provision recognition policy with the with the relevant financial reporting standards; • review of the purpose and nature of the material provisions • analysis of the attorney's response to our written inquiries and other supporting documentation prepared by the Company • review of the previously recorded provision amounts to estimate the accuracy of previous judgments and estimates • review of the required disclosures related to the provisions in the financial statements to determine whether they are accurate and complete. By our audit procedures, we have been assured that provisions for initiated court disputes in materially significant aspects have been recorded and disclosed in accordance with International Financial Reporting Standards.

Other information in the Annual Report

The Management Board is responsible for other information. Other information includes the information included in the Annual Report but does not include the annual consolidated financial statements and our Independent Auditor's Report on these statements.

Our qualified opinion on the annual consolidated 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 Other Legal Requirements*, and we do not express any kind of conclusion with assurance on them.

Related to our audit of the annual consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated as well whether the non-financial information required by the provisions of by paragraph 1 or paragraph 2 of Article 21a of the Accounting Act are presented in the separate non-financial report t. If, based on the work we have done, we conclude that there is a significant misstatement of these other information, we are required to report this fact. In that context, except as set forth in the Basis for Qualified opinion and Other matters, we do not have anything to report.

Responsibilities of the Management Board and those who are responsible for managing the annual consolidated financial statements

The Management Board of the Company is responsible for the preparation of annual consolidated financial statements that provide true and fair view in accordance with the IFRSs as adopted by the European Commission and published in the Official Journal of the European Union, and for such internal controls as the Management Board determines are necessary to enable the preparation of annual consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual consolidated financial statements, the Management Board of the Company 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 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 Audit of Annual Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Independent 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 consolidated financial statements.

As an integral part of the audit in accordance with IAS, we create professional judgments and maintain professional skepticism during the audit. We also:

- identify and assess the risks of material misstatement of the annual consolidated 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 Board of the Company.
- conclude on the appropriateness of the used accounting policies based on the going concern used by the Company's Management Board and, based on the obtained audit evidence, conclude whether there is significant uncertainty about events or circumstances that may cast significant doubt on the Group's ability to continue operating as a going concern. If we conclude that there is significant uncertainty, we are required to draw attention in our Independent Auditor's Report to related disclosures in the annual consolidated financial statements or, if appropriate, to modify our opinion. Our conclusions are based on the obtained audit evidence until the date of our Independent Auditor's Report. However, future events or conditions may cause the Group to discontinue continuing operations as a going concern.
- evaluate the overall presentation, structure and content of the annual consolidated financial statements, including the disclosures, and whether the annual consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with the 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.

Report on other legal requirements

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

1. On 26 September 2018, the General Assembly of the Company appointed us to carry out an audit of the annual consolidated financial statements for the year 2018.

2. As at the date of this report, we have been continuously engaged in carrying out the Group's statutory audits, from the audit of the Group's annual consolidated financial statements for the year 2018, which is a total of 1 year.

3. In addition to the matters we have included in our Independent Auditor's Report as Key Audit Matters within the subsection Report on the audit of annual consolidated financial statements, we have nothing to report in relation to point (c) of Article 10 of Regulation (EU) No. 537/2014.

4. By our statutory audit of the Group's annual consolidated financial statements for the year 2018, we are able to detect irregularities, including fraud in accordance with Section 225.

Responding to Non-Compliance with Laws and Regulations of the IESBA Code, which requires us, in carrying out our audit engagement, to establish whether the Group complied with laws and regulations that are generally recognized to have a direct impact on the determination of significant amounts and their disclosures in annual consolidated financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and their disclosures in annual consolidated financial statements, but compliance with which may to be the key to the operational aspects of the Group's business, its ability to continue to operate as a going concern or to avoid significant penalties.

Unless we encounter, or find out about, non-compliance with any 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 Group, its shareholders and the wider public, we are obliged to inform the Group 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 Group on the date of Consolidated Statement of financial position does not correct irregularities based on which incorrect disclosures in the audited annual consolidated financial statements arise that are cumulatively equal to or greater than the amount of materiality to the annual consolidate financial statements as a whole, we are required to modify our opinion in the Independent auditor's report.

In the audit of the Group's annual consolidated financial statements for the year 2018, we determined the materiality for financial statements as a whole in the amount of HRK 13,400,000, representing approximately 1.5% of operating revenues, because these revenues represent a stable business indicator including key revenues from the activities the Group is engaged in, namely revenue from passenger transportation, revenue from maintenance and income from state aid to encourage passenger transport.

5. Our audit opinion is consistent with the additional audit report prepared for the Company's Audit Committee in accordance with provisions of the Article 11 of Regulation (EU) No. 537/2014.

6. We have not provided to the Group prohibited non-audit services during the period between the initial date of the Group's audited annual consolidated 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 Group in the performance of the audit.

Report based on the requirements of the Accounting Act

1. In our opinion, based on the work that we performed during the audit, the information in the Group's Management Report for the year 2018 are in accordance with the accompanying annual financial statements of the Group for the year 2018.

2. In our opinion, based on the work that we performed during the audit, the Group's Management Report for the year 2018 is prepared in accordance with the Accounting act.

3. Based on the knowledge and understanding of the Company and its environment obtained while performing the audit, we have not found that there are material misstatements in the Company's Management Report for the year 2018.

In Zagreb, 6 September 2019

AUDIT d.o.o.
Radnička cesta 54
10000 Zagreb

Darko Karić, director, certified auditor

za revizijske usluge AUDIT d.o.o. ZAGREB

HŽ PUTNIČKI PRIJEVOZ d.o.o., ZAGREB
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

POSITION	*Notes*	2018.	2017.
		HRK '000	HRK '000
Sales revenue	3	313.077	318.925
Revenues based on the use of own products, goods and service		6.564	7.649
Other income	4	579.526	550.846
Operating revenue		**899.167**	**877.420**
Changes in the value of work in progress and finished goods		(44)	(20)
Costs of raw materials	5	(159.584)	(152.118)
Cost of goods sold	6	(16.187)	(10.371)
Other operating expenses	7	(142.659)	(149.106)
Personnel expenses	8	(318.188)	(328.587)
Depreciation and amortization	9	(136.259)	(136.651)
Other expenses	10	(72.664)	(70.497)
Value adjustment	11	(20.332)	(1.635)
Provisions	12	(24.504)	(9.973)
Operating expenses		**(890.421)**	**(858.958)**
Profit from operating activities		**8.746**	**18.462**
Finance income		7.070	4.059
Finance costs		(11.329)	(16.995)
Net finance costs	13	**(4.259)**	**(12.936)**
TOTAL REVENUE		**906.237**	**881.479**
TOTAL EXPENSES		**(901.750)**	**(875.953)**
PROFIT BEFORE TAX		**4.487**	**5.526**
Income tax	14	0	0
PROFIT FOR THE YEAR		**4.487**	**5.526**
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4.487**	**5.526**

The accompanying notes form an integral part of these annual consolidated financial statements.

HŽ PUTNIČKI PRIJEVOZ d.o.o., ZAGREB
CONSOLIDATED STATEMENT OF FINANCIAL POSITION / CONSOLIDATED BALANCE SHEET as at 31 December 2018

POSITION	Notes	31.12.2018. HRK '000	31.12.2017. restated HRK '000	1.1.2017. restated HRK '000
ASSETS				
Intangible assets	15	13.288	4.097	4.688
Property, plant and equipment	16	1.789.027	1.818.449	1.906.410
Investment property	17	35.070	36.981	38.892
Financial assets	18	27.962	27.299	29.862
TOTAL NON-CURRENT ASSETS		**1.865.347**	**1.886.826**	**1.979.852**
Supplies	19	45.457	53.996	31.105
Trade receivables	20	43.645	44.370	45.846
Receivables from employees	21	5.553	5.562	5.501
Receivables from the state and other institutions	22	12.269	12.769	6.398
Other claims	23	905	109	1.036
Financial assets		60	142	90.109
Cash and cash equivalents	24	85.707	87.808	60.718
Prepayments and accrued income	25	4.070	4.510	4.278
TOTAL CURRENT ASSETS		**197.666**	**209.266**	**244.991**
TOTAL ASSETS		**2.063.013**	**2.096.092**	**2.224.843**
OFF-BALANCE SHEET RECORDS	36	**2.265.647**	**2.617.868**	**347.979**
CAPITAL I RESERVES				
Share (subscribed) capital		872.367	872.367	872.367
Accumulated loss		(91.252)	(96.710)	(96.983)
Profit for the year		4.487	5.526	(98)
TOTAL CAPITAL AND RESERVES	26	**785.602**	**781.183**	**775.286**
Provisions	29	**108.205**	**100.802**	**119.183**
Long-term liabilities	28	**425.913**	**388.817**	**369.879**
Liabilities for loans, deposits and etc.	29	770	1.067	1.323
Liabilities to banks and other financial institutions	30	22.474	21.149	121.830
Commitments for advances		203	1.766	2.898
Commitments towards suppliers	31	90.925	98.090	81.319
Liabilities to employees	32	19.540	16.447	18.644
Liabilities for taxes, contributions and similar charges	33	12.346	12.487	14.164
Other obligations	34	31.139	40.901	22.840
Deferred payment and future period revenue	35	565.896	633.383	697.477
Short-term liabilities		**743.293**	**825.290**	**960.495**
TOTAL CAPITAL AND LIABILITIES	36	**2.063.013**	**2.096.092**	**2.224.843**
OFF-BALANCE SHEET RECORDS	28	**2.265.647**	**2.617.868**	**347.979**

The accompanying notes form an integral part of these annual consolidated financial statements.

HŽ PUTNIČKI PRIJEVOZ d.o.o., ZAGREB
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018 – indirect method

	2018.	2017.
	HRK '000	HRK '000
Cash flow from operating activities		
Profit before taxation	4.487	5.526
Depreciation	136.259	136.651
Impairment	20.332	1.635
Provisions	24.504	9.973
Interests expenses	(76.043)	(75.788)
Interests income	11.328	16.995
Changes in inventories	(1.666)	(3.026)
Changes in receivables from related companies	(8.174)	(7.717)
Changes in trade receivables	8.559	(23.325)
Changes in receivables from the state and other institutions	(874)	965
Changes in other receivables	9	(61)
Changes in liabilities to the related companies	1.031	(5.353)
Changes in liabilities for deposits and guarantees	(1.327)	(91)
Changes in liabilities for prepayments	440	(232)
Changes in trade payables	(1.266)	(1.132)
Changes in liabilities to the employees	(7.165)	16.771
Changes in liabilities for taxes and contributions	3.093	(2.196)
Changes in other short-term liabilities	(141)	1.677
Other increases or decreases in working capital	(9.762)	(18.117)
Changes in future period revenue and deferred costs	8.556	11.694
Use of provisions	8.926	8.965
Interests paid	(11.328)	(16.995)
Interests collected	1.667	3.026
Net cash flow from operating activities	**111.445**	**59.845**
Cash flow from investing activities		
Inflows from sale of long-term tangible and intangible assets	562	760
Inflows from deposits	0	89.967
Other inflows from investing activities	0	2.563
Expenditure for financial assets	(581)	0
Expenditure for n advances given for property	(61.518)	(5.312)
Expenditure for the acquisition of tangible and intangible assets	(95.490)	(43.942)
Net cash flows from investing activities	**(157.027)**	**44.036**
Cash flow from financing activities		
Inflows from loans	67.732	42.740
Outflows for loan repayments	(24.183)	(119.472)
Distribution of profit to the budget of the Republic of Croatia	(68)	(59)
Net cash flows from financing activities	**43.481**	**(76.791)**
TOTAL NET CASH FLOW	**(2.101)**	**27.090**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**87.808**	**60.718**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**85.707**	**87.808**
DECREASE / INCREASE IN CASH AND CASH EQUIVALENTS	**(2.101)**	**27.090**

The accompanying notes form an integral part of these annual consolidated financial statements.

HŽ PUTNIČKI PRIJEVOZ d.o.o., ZAGREB
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

DESCRIPTION	Share capital	Accumulated loss	Profit for the current year	TOTAL
	HRK '000	HRK '000	HRK '000	HRK '000
Balance on 31 December 2016	**872.367**	**(88.349)**	**(98)**	**783.920**
Correction of an error of previous period	0	(8.634)	0	(8.634)
Balance on 31 December 2016 (restated)	**872.367**	**(96.983)**	**(98)**	**775.286**
Transfer losses for the period 2016	0	(98)	98	0
Additions	0	430	0	430
Reduction	0	(59)	0	(59)
Profit for the current year	0	0	5.526	5.526
Balance on 31 December 2017 (restated)	**872.367**	**(96.710)**	**5.526**	**781.183**
Profit transfer for the period 2017	0	5.458	(5.458)	0
Payment of profit to the budget of the Republic of Croatia	0	0	(68)	(68)
Profit for the current year	0	0	4.487	4.487
Balance on 31 December 2018	**872.367**	**(91.252)**	**4.487**	**785.602**

The accompanying notes form an integral part of these annual consolidated financial statements

1. GENERAL INFORMATION

1.1. Legal frame, activities and employees

HŽ PUTNIČKI PRIJEVOZ d.o.o., Zagreb ("the Company") was founded on 30 August 2006 pursuant to the Law on the division of the company HŽ HRVATSKE ŽELJEZNICE d.o.o. Zagreb and registered with the Commercial Court in Zagreb under company subject number 080590508 and personal identification number 80572192786. The Company's headquarters are in Zagreb, Strojarska cesta 11.

As at 31 December 2018 the registered share capital amounts to HRK 872,367 thousand (as at 31 December 2017 same amount). The founder and sole owner of the Company is the Republic of Croatia. By a decision of the Commercial Court in Zagreb as of 19 January 2016, the Company's share capital was increased from HRK 75,627 thousand by the amount of HRK 796,740 thousand to HRK 872,367 thousand pursuant to the Company's General Assembly decision on the increase of the share capital as of 21 December 2015.

The Company is parent company of the Group HŽ PUTNIČKI PRIJEVOZ ("the Group") and is registered for the transport of passengers in domestic and international railway traffic.

The Group consists of the Company and its subsidiary, as follows:

	2018	2017
	Share of the Company in ownership and voting rights (%)	Share of the Company in ownership and voting rights (%)
Tehnički servisi željezničkih vozila d.o.o., Zagreb	100%	100%

1.2. Employees

As at 31 December 2018 the Group had 2.516 employees (31 December 2017: 2.638 employees).

The structure of the employees by qualification level is presented below:

DESCRIPTION	31.12.2018.	31.12.2017.
Ph.D.	1	1
Master's degree	10	10
University degree	182	194
Bachelor	110	118
High school education	1.821	1.894
Low-skilled qualification	73	30
High skilled workers	29	1
Skilled workers	103	111
Semi-skilled workers	11	11
Unskilled workers	176	268
Total	**2.516**	**2.638**

1.3. Governance and management

Bodies of the Company are the General Assembly, Supervisory Board and the Management Board.

As the founder, the Republic of Croatia exercises its rights in the General Assembly through the Croatian Government and competent ministry.

The Supervisory Board has four members.

The Management Board has three members appointed by the General Assembly.

The Supervisory Board

Irena Gerovac Zrnić	president since 8 April 2019, member since 28 March 2019
Gordan Hanžek	deputy chairman since 8 April 19, member since 28 March 2019
Tomislav Družak	member since 28 March 2019
Zdeslav Milas	member since 28 March 2019
Dalibor Petrović	member since 2 February 2015 until 2 February 2019
Snježana Josipović	president since 28 June 2013 until 28 June 2017
Dalibor Obradović	deputy chairman since May 19, 2016 until June 28, 2017
Hrvoje Livaja	member since 7 January 2014 until 7 January 2018

The Management Board

Željko Ukić	president of the Management Board since 2 October 2017
Mladen Lugarić	member of the Management Board since 2 October 2017
Damir Rubčić	member of the Management Board since 2 October 2017

The compensations to the Company's Management Board and the Supervisory Board members are disclosed in the notes 8 and 10 to the annual consolidated financial statements.

1.4. Subsidiaries

As at 31 December 2018 the Group had the following subsidiaries:

SUBSIDIARY	Share in the capital (%)	Basic activity
Subsidiaries – Group		
Tehnički servisi željezničkih vozila d.o.o., Zagreb	100	Railway vehicles maintenance Cleaning services
Subsidiary over which the Group has no control		
Tvornica željezničkih vozila Gredelj d.o.o. in bankruptcy, Zagreb	100	Manufacturing, reconstructing and modernizing railway vehicles
Proizvodnja-Regeneracija d.o.o. in bankruptcy Zagreb	77	-

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement on Compliance and basis of the presentation

The consolidated financial statements of the Group for the year 2018 are prepared in accordance with the Accounting Act (Official Gazette 78/15, 134/15, 120/16 and 116/18) and the International Financial Reporting Standards ("IFRS") in force in the European Union.

In addition to the consolidated financial statements, the Company also prepares separate financial statements. These consolidated financial statements that have been prepared in accordance with the Accounting Act should be read in conjunction with the separate annual financial statements available in the register of annual financial statements

2.2. Basics of measurement

The annual consolidated 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 presumption of the going concern.

The consolidated financial statements are prepared on a historical cost basis, with the exception of financial assets and financial liabilities that are stated at fair value in accordance with IFRS 9 "Financial Instruments".

2.3. Basis for Consolidation

The consolidated financial statements consist of the financial statements of the Group and the financial statements of companies controlled by the Group (subsidiaries). The Group has control in those companies in which it has the power to govern the financial and operating policies of the investee company in order to reap the benefits of its operations.

All significant transactions and balances between Group companies are eliminated on consolidation.

2.4. Functional and reporting currency

The consolidated financial statements of the Group are prepared in Croatian kuna as the functional and reporting currency of the Group. The consolidated financial statements are presented in thousands of Croatian kuna ('000 HRK'), which, since this is the currency in which most of the Group's business events are reported, is also the functional currency of the Group. At 31 December 2018 the exchange rate for 1 USD and 1 EUR was HRK 6.47 or HRK 7.42 (31 December 2017: HRK 6.27 or HRK 7.51).

2. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES - continued

2.5. Adoption of new and revised international financial reporting standards (IFRS)

Standards and interpretations in force in the current period

The following new standards and amended existing standards issued by the International Committee for Accounting Standards and Interpretations issued by the International Financial Reporting Interpretation Committee and adopted in the European Union are effective for the current period:

- **IFRS 9 Financial Instruments: Classification and Measurement**

The Standard is effective for annual periods beginning on or after 1 January 2018, with earlier use being allowed. IFRS 9 "Financial Instruments" reflects all phases of a financial instrument project and changes IAS 39 Financial Instruments: Recognition and Measurement as well as all prior versions of IFRS 9. The Standard introduces new requirements for classification, measurement, impairment and hedge accounting. The Management Board adopted this standard with the effective date and its application did not have a significant impact on the Group's financial statements.

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

The Standard is effective for annual periods beginning on or after 1 January 2018. The standard introduces a five-step model that will apply to revenues generated under customer contracts (with limited exceptions), regardless of the type of income transaction or industry. The Standard requirements will also apply to the recognition and measurement of gains and losses on the disposal of some non-financial assets that are not part of the Group's regular activities (for example, the sale of property, plant and equipment or intangible assets). Extensive disclosures will be required, including disaggregation of total revenue; information on the obligations execution; changes in the amount of contract assets and liabilities between periods and key estimates and judgments. The Management Board adopted a standard with the effective date and its application did not have a significant impact on the Group's financial statements.

- **IFRS 15 Revenue from contracts with customers (clarification)**

The Clarification is in effect for the annual periods beginning on or after January 1, 2018, with earlier implementation permitted. The purpose of the Clarification is to clarify the intent of the Board when defining the requirements of IFRS 15 Revenues from contracts with customers, in particular accounting treatment of identified performance obligations by supplementing the definition of a "separately recognizable" principle, application guidance on principal versus agent considerations including an assessment of whether the Group is principal or agent in the transaction as well as application of access control and licensing by providing additional instructions for accounting for intellectual property and royalties. Clarification also provides additional practical expedients for companies applying IFRS 15 using a fully retrospective approach or for those who opt for the use of a modified retroactive approach. The Clarification has not yet been adopted in the European Union.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES - continued

2.5 Adoption of new and revised international financial reporting standards (IFRS) - continued

Standards and interpretations effective in the current period - continued

- **Amendments and supplement to IAS 40: Transfer of Investment property**

Amendments shall be effective for annual periods beginning on or after 1 January 2018, with earlier implementation permitted. Supplements clarify at which point the Group should transfer real estate, including real estate under construction to or from investment property. Amendments state that change in the manner of use arises when the property meets or ceases to meet the definition of investment property and there is an evidence of a change. The change of the management's intention to use the property itself does not give evidence of manner of use. These Amendments have not yet been adopted in the European Union.

- **Amendments to IFRS 2: Classification and measurement of share-based payment**

The Amendments are in effect for the annual periods beginning on or after January 1, 2018, with earlier implementation permitted. Amendments have defined the accounting treatment of the impact of performance and non-performance measures on cash-settled share-based payments, share-based payments with the option of net settlement of a withholding tax liability and changes in share-based payment conditions that change the transaction's classification from the one settled in cash to the one settled by equity instruments.

- **IFRIC 22: Foreign currency transactions and prepayments**

The Interpretation is in effect for the annual periods beginning on or after January 1, 2018, with earlier implementation permitted. The Interpretation clarifies the accounting treatment of transactions involving the receipt or payment of the prepayments in the foreign currency. The Interpretation applies to foreign currency transactions in which a company recognizes a non-cash asset or a non-cash obligation arising out of the payment or receipt of prepayments before the company recognizes the relevant assets, expenses or income. The Interpretation states that the transaction date for the purpose of determining the exchange rate takes the date of initial recognition of non-monetary assets (prepayments) or deferred income (liabilities). In cases where there are multiple payments or the receipt of prepayments, the company must determine the date of the transaction for each payment.

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 in effect for the annual periods beginning on or after January 1, 2019. IFRS 16 defines the rules for recognition, measurement, presentation and disclosure for the leases from the aspects of both parties, i.e. the buyer (the "lessee") and the supplier (the "lessor"). In accordance with the new standard, the lessees need to recognize most of the leases in their financial statements. A single accounting model will be applied to all leases, with certain exceptions. Accounting treatment of leases by the lessor will not be significantly altered. 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.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES - continued

2.5. Adoption of new and revised international financial reporting standards (IFRS) - continued

- **IFRS 16 Leases (continued)**

Based on the current management estimate, the Company expects that the transition to the new standard as of 1 January 1 2019 will have the following effects:

- Increase of assets with right of use for approximately HRK 1,088 thousand
- Increase of liabilities by approximately HRK 1,088 thousand

- **Long-term interests in associates and joint ventures (Amendments to the IAS 28)**

The Amendments shall be in effect for the annual periods beginning on or after January 1 2019, with earlier implementation permitted. The Amendment clarifies that an entity applies IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments have not yet been adopted in the European Union.

- **IFRS 17: Insurance contracts**

The Standard is effective for annual periods beginning on or after 1 January 2021. Earlier application is permitted if IFRS 15 Revenues from Customer Agreement and IFRS 9 Financial Instruments have been applied. IFRS 17 Insurance contracts establish principles for recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The purpose of IFRS 17 is to ensure that the entity provides relevant information that faithfully represents such contracts. These data provide the basis for the users of the financial statements to assess the effect of the insurance contract on the financial position, financial result and the cash flows of the entity. This interpretation has not yet been adopted in the European Union.

- **Prepayment features with negative compensation (Amendments to the IFRS 9)**

The Amendments shall enter into force for annual periods commencing on or after 1 January 2019 with earlier implementation permitted. Existing requirements in IFRS 9 related to cancellation rights to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negligence.

- **Long-term interests in associates and joint ventures (Amendments to the IAS 28)**

The Amendments shall be in effect for the annual periods beginning on or after 1 January 2019 with earlier implementation permitted. The Amendment clarifies that an entity applies IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments have not yet been adopted in the European Union.

2.6. Use of estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the applied policies and disclosed amount of assets and liabilities, revenue and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are considered to be reasonable in the circumstances, the results of which is starting point for estimating the carrying values of assets and liabilities that can't be obtained from other sources. Actual results may differ from these estimates.

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

Judgments made by Management in the application of IFRS that have significant effect on the consolidated financial statements and estimates with a high risk of materially significant corrections in the next periods are disclosed in Note 2.25. Key accounting estimates and judgments.

2.7. Revenue recognition

a) *Revenue from the passenger tickets sale*

Revenues realized in the Group relate to the services provided to the passenger and other services related to railway traffic. Revenue recognition in accordance with IFRS 15 is based on the principle of recognition of revenue when control over a product or service is transferred to customers. Revenue generated by providing services is recognized in the amount expected as a fee as soon as the transfer of control over the services is performed.

Passenger services provided by the Group are typically executed within a few hours / days. Revenues from the passenger tickets sale are recorded as income in the period of the transport service.

The transaction price is the amount of contractual remuneration that the Group expects to be entitled to in return for the promised merchandise or customer service.

Revenues are stated in amounts deducted for value added tax, estimated returns, rebates and discounts.

According to the above, revenue recognition takes place at the same time as IAS 18 - Revenue was effective and no significant impact of IFRS 15 Revenue from contract with customers is determined.

b) *Income from state aid*

Government grants in the form of direct financial support under public service contracts (PSOs) for services of general economic interest in public rail transport without any additional related conditions, are recognized as part of other income in the statement of comprehensive income for the period in which they were received.

State aid is recognized when there is sufficient assurance that the Group will meet the conditions and that the aid will be received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Revenue recognition (continued)

State aids are recognized in the income statement on a systematic basis over the period in which the Group's related costs are recognized as expense for which the coverage of the aid is intended.

Government grants associated with tangible assets which is being amortized are recognized in profit or loss in the periods and in amount of the depreciation charge is recognized.

Government grants associated with non-amortized assets are recognized in profit or loss over the periods in which they are incurred, i.e. the expected useful lives of such assets.

Claims for state support to offset expenditures or losses already incurred or to provide current financial support to the Group without future related costs are recognized as revenue for the period in which the claim arises.

c) *Revenues from the sale of services*

If the conditions that the amount of revenues can be measured reliably and there is possibility that Group will receive a fee are met the service revenues are recognized in the period in which they are provided.

The revenues from service contract is recognized in relation to the level of performance of a contract. The levels of performance of a contract are as follows:

- the services performed are recognized in relation to the level of execution, determined as a percentage of the time spent over the balance sheet date, in relation to the total planned time;
- maintenance fees included in the price of the sold product are recognized in proportion to the share in the total cost of maintaining the sold product, taking into account the number of previous maintenance services for previously sold products; and
- contract revenue based on time and material expense is recognized at agreed prices in the period in which the hours worked and in which direct costs were incurred.

d) *Interest Income*

Interest income is deferred on a timely basis, on the basis of unpaid principal and at the applicable effective interest rate, which accurately discounts estimated future cash receipts through the expected life of the financial instrument or the net book amount of financial assets. Interest income is recognized as a financial income in the income statement.

e) *Lease income*

Income from operating leases is calculated on a straight-line basis over the lease term.

f) *Dividend income and profit share*

Dividend income and profit share are recognized when the right to dividend and profit is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Operating expenses

Operating expenses are recognized in profit or loss on the basis of the direct link between the costs incurred and the specific income item. Confronting revenue expenditures involves simultaneous or combined recognition of revenue and expense arising directly or jointly from the same transactions or other events.

Expense is recognized immediately in the income statement when an expenditure does not generate future economic benefits or in proportion and which future economic benefits are not such that they qualify for recognition in the balance sheet as assets.

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

2.9. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and items that are measured based on historical cost in a foreign currency are not translated using new exchange rates. Non-monetary assets and liabilities that are measured based on a historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

2.10. Intangible assets

Non-current intangible assets include software and leasehold improvements regarding rights of usage and are capitalized to the extent that future economic benefits are probable and will flow to the Group. Subsequent expenditure on capitalized intangible assets is capitalized only if it is probable that it increases the future economic benefits embodied in the specific asset to which it relates and those benefits will flow to the Group. All other expenditure is recognized in the profit or loss as an expense as incurred.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date on which they are available for use.

The estimated useful lives of intangible assets are as follows:

Software	5 years
Leasehold improvements regarding rights of usage	5 -10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Property, plant and equipment

Property, plant and equipment are stated at cost less for accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use.

Assets under construction are not depreciated. Depreciation of the property, plant and equipment is calculated using a straight-line method for the purpose of allocating the cost of that asset over its estimated useful life as follows:

	2018.	2017.
Buildings	10 - 50 years	10 - 50 years
Plant and equipment	2 - 20 years	2 - 20 years
Transport vehicles	20 - 50 years	20 - 50 years
Tools and plant inventory	4 -10 years	4 -10 years
Other tangible assets	10 years	10 years

The estimated useful life is reviewed at each reporting date and adjusted if appropriate. If the carrying amount of the asset exceeds the estimated recoverable amount, the difference is written off to the recoverable amount.

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

Subsequent expenditure is included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Statement of comprehensive income during the financial period in which they are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalized as an additional cost of property, plant and equipment. Costs eligible for capitalization include costs of periodic, pre-planned significant inspections and overhauls necessary for further operation.

2.12. Investment property

Property investments include properties that is held for rent by renting or increasing their market value or for both purposes. Built-in equipment is considered to be an integral part of investment property. The cost of the purchase includes all costs directly linked to the acquisition of that property. Investments in real estate, i.e. construction, are classified as fixed assets until they are ready to be used. The Group uses a cost model for all investments property when re-measuring investment properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12. Investment property (continued)

Amortization is calculated using the straight-line method for the purpose of allocating the cost of that asset over its estimated useful life as follows:

	Estimated useful life of use (years)	
	2018.	2017.
Investment property	10 – 50	10 – 50

Subsequent expenditure for investment property is capitalized only if it is probable that it increases the future economic benefits embodied in the specific asset to which it relates and it can be reliably measured. Regular maintenance expenditure is recognized in income statement as an expense as incurred. Costs of replacing an item of property investment are recognized in the carrying amount of this asset if it is probable that the future economic benefits included in that item will flow to the Group and their value can be measured reliably. The costs of regular maintenance of real estate investments are recognized in the income statement as they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use as well as when no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

2.13. Impairment of non - financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Investments in related companies

(i) Subsidiaries

Subsidiaries are all related companies over which the Group has control over financial and business policies, which usually includes more than half of the voting rights. The existence and effect of potential voting rights that can be used or exchanged, are considered when assessing whether the Group has control over other business. Investments in subsidiaries are initially recognized at cost, and subsequently at cost less impairment. Investments in subsidiaries for impairment are carried out on an annual basis.

(ii) Associated companies

Associated companies are those in which the Group has significant influence, but has no control, which usually includes 20% to 50% of the voting rights. Investments in associates are initially recognized at cost and at cost less impairment. Testing of investments in associates for impairment is carried out on an annual basis.

2.15. Financial assets

The Group has adopted IFRS 9 - Financial Instruments as at 1 January 2018 and its application has not had a significant impact on the Group's annual financial statements.

The Group 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 of financial flows, the Group measures financial assets at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

The Group classifies assets as shown below:

DESCRIPTION	Classification / measurement
Non - current assets	
Financial assets at fair value through profit or loss	Equity instruments / fair value through profit or loss
Current assets	
Cash and cash equivalents (deposits)	Hold to collect / amortized cost
Receivables from customers and other receivables	Hold to collect / amortized cost

The business model reflects the way in which the Group manages assets to realize cash flows - whether the Group's objective is (i) solely the collection of contractual cash flows from assets ('holding due to contractual cash flows') or (ii) cash flows and cash flows arising from the sale of assets ("hold due to contractual cash flows and sales"), and if none of the points above are applicable, financial assets are classified as part of another business model and are measured at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. Financial assets (continued)

i) Financial assets through profit or loss

Initial recognition

The Group recognizes a financial asset or liability when and only when it becomes a party to the contractual provisions of the instrument.

Instruments are classified at fair value through profit or loss if the Group holds them for trading or are designated as such at initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages these investments and makes decisions about their purchase and sale on the basis of their fair value. At initial recognition, direct transaction costs are recognized in profit or loss at the time they arise.

Subsequent measurement

Financial instruments classified at fair value through profit or loss are measured at fair value and changes are recognized in profit or loss. With the application of the new IFRS 9 standard, all investments in equity instruments are presented at fair value through profit or loss.

ii) Loans

The Group loans are held within a business model whose purpose is to hold a financial asset in order to charge contractual cash flows. Contractual terms at a particular date are cash flows that represent only payments of principal and interest. At that, the principal is the fair value of the asset at initial recognition.

Based on the above, the given loans are measured at amortized cost.

Measurement at amortized cost implies that interest income is calculated using the effective interest rate and applied to the gross book value of the asset at the calculation.

iii) Trade receivables

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

iv) Impairment

The Group recognizes a loss allowance for expected credit losses. At each reporting date, the Group measures expected credit losses and recognizes the same in the financial statements. Expected credit losses from financial instruments are measured in a manner that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- Time value of money
- Reasonable and supportable information about past events, current conditions and forecasts of future economic conditions

Regarding trade receivables, the Group applies a simplified approach allowed by IFRS 9 to measure expected credit losses by using expected provisions for credit losses. To measure anticipated trade receivables losses, the Group has by analyzing the age structure and historical data determined potential future losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. Financial assets (continued)

v) Derecognition of financial assets

The Group ceases to recognize financial assets when;

- Contractual rights has been expired
- It transfers financial assets and the transfer is subject to conditions for termination of recognition

The Group transfers financial assets if and only if, or:

(a) transferring contractual rights

(b) retain 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 Group 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 Group 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 Group continues to recognize financial assets.

vi) Derecognition of financial assets (continued)

If the Group neither transfers nor retains all the risks and rewards of ownership of financial assets, the Group determines whether it has retained control of the financial asset or not. If no control over financial assets is retained, the Group derecognizes financial assets and recognizes separately as assets or liabilities all rights and obligations that have arisen or are retained in the transfer.

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

2.16. Financial obligations

Initial Recognition and Measurement

Financial liabilities are classified as financial liabilities that are measured at amortized cost. All financial liabilities are initially recognized at fair value plus the associated transaction costs. The Group's financial liabilities include liabilities to suppliers and other liabilities, overdrafts and loans.

Subsequent measurement

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

Borrowing costs that can be directly linked to the acquisition, construction or production of a qualifying asset, a means that necessarily requires a considerable amount of time to be ready for intended use or sale, are attributed to the cost of purchasing that asset until the asset is largely available intended use or sale.

Borrowings are classified as short-term liabilities unless the Group has the unconditional right to postpone the obligation to pay at least 12 months after the reporting date. Short-term lending and supplier loans are shown on the original borrowed amount deducted by repayments. The interest expense is charged to the profit and loss account for the period in which the interest relates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Financial obligations (continued)

Derecognition

The Group 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 the existing obligations have changed significantly, such change or modification is treated as termination of the original obligation and recognition of the new liability, and the difference in the corresponding carrying amounts is recognized in the profit and loss account.

2.17. Inventories

Inventories are stated per cost and net realizable value, depending on which is lower. The cost of inventories comprises all purchase costs, the cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition.

The net realizable value represents the estimated selling price during the normal course of operations minus all estimated costs of completion and necessary costs to be incurred in selling.

If the value of inventories is higher than the estimated net selling price, an allowance is created and charged to the Comprehensive Income Statement for the current year.

Small inventories, packing and car tires are written off by 100% at the moment they are put into use.

2.18. Cash and cash equivalents

Cash and cash equivalents include cash on account and in cash register and they are stated in the balance sheet. The book values of cash and cash equivalents are generally approximate to their fair values.

For the purpose of reporting cash flows, cash and cash equivalents comprise cash and deposits with banks with maturities up to three months.

2.19. Accounting lease of leases - the lessee is the Group

Leased assets, where the Group accepts almost all the benefits and risks of ownership are classified as finance leases. Financial leases are capitalized on the estimated current value of the corresponding lease payments. Each lease payment is classified in the liabilities and financial expenses in order to obtain a constant rate on the remaining financial condition. The related lending obligation, less any financial expense, is recognized as a liability for long-term liabilities. The interest component of financial expense is charged to profit or loss during the lease period. Assets acquired under a finance lease are amortized over the useful life of the asset.

Leases of property in which the benefits and risks of ownership are retained by the lessor are classified as operating leases. Payments based on operating leases are charged to profit or loss on a straight-line basis over the lease term. If a business lease expires prior to the expiry of the lease term, all payments to the lessor in the form of a penalty are recognized as an expense within profit or loss for the period in which the lease expires.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Employee benefits

(i) Pensions obligations and post-employment benefits

In the normal course of business through salary deductions, the Group makes payments to the mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group is not obliged to provide any other post-employment benefits with respect to these pension schemes. This obligation applies to all staff hired on the basis of employment contract. The contributions are paid at a certain percentage determined on the basis of gross salary.

Contributions on behalf of the employees and the employer are accounted for as the expense for the period in which they arise.

	2018.	2017.
Contribution to pension insurance	20%	20%
Contribution to health insurance	15%	15%
Employment fund contributions	1,7%	1,7%
Occupational injury	0,5%	0,5%

(ii) Termination benefits

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

(iii) Regular retirement benefits

Retirement benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate which is determined as average expected rate of return on investment in government bonds of the Republic of Croatia which are quoted on the market and their currency and maturity dates are in accordance with currency and estimated duration of liabilities for the benefit payment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in profit or loss. Based on the currently valid collective agreement, retired workers are entitled to a regular severance pay in the amount of HRK 8,000.

(iv) Long-term employee benefits

The Group recognizes the obligation to long-term employee benefits (jubilee awards) equally in the period in which the award was made based on the actual number of years of service. The reward for long-term work is from 1.500 to 5.000 HRK net for working in the Group from 10 to 40 years of continuous employment with the employer. The long-term employee benefit obligation is measured by an independent actuary at the end of each reporting period using the assumptions on the number of employees to which benefits should be paid, the estimated cost of benefits and the discount rate as the average expected return on investment in government bonds. Actuarial gains and losses arising from compliance and changes based on experience in actuarial assumptions are immediately recognized in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Provision

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Provisions are made for litigations, regular retirement benefits and jubilee awards and termination benefits.

2.22. Taxation

(i) Income Tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(ii) Value Added Tax (VAT)

The Tax Authorities requires VAT settlement on a net basis. VAT resulting from sales and purchase transactions is recognized and reported in the statement of financial position on a net basis. In the case of impairment of receivables, the impairment loss is recognized in the gross amount of receivables, including VAT.

2.23. Contingent liabilities and assets

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

Potential assets are not recognized in the annual financial statements, yet are recognized at the time when inflow of economic benefits becomes probable.

2.24. Events after the Date of the Consolidated Statement of financial position / Consolidated Balance sheet

Events which occur after the date of consolidated Statement of financial position / consolidated Balance sheet that provide additional information about the Group's position on the date of consolidated Statement of financial position / consolidated Balance sheet (adjusting events) are reflected in the annual consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the annual consolidated financial statements when material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25. Key accounting judgement and estimates

During the preparation of the Group's consolidated annual financial statements, the Board used certain estimates and assumptions that affect disclosed income, expense, assets and liabilities and disclosure of contingent liabilities during and on the reporting date. However, the uncertainty associated with these assumptions and estimates can result in significant changes in the carrying amount of the related assets or liability in future periods. Key assumptions related to the future and other key sources of uncertainty on the date of the consolidated Statement of financial position that bear significant risk of significant changes in the carrying amounts of assets and liabilities in the following financial years are as follows:

The preparation of consolidated financial statements in accordance with IFRS requires the Management to make judgments, estimates and assumptions that affect the application of policies and amounts disclosed for assets, liabilities, income and expenses and disclosure of contingent liabilities. Actual results may differ from such estimates.

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

(i) Useful lives of property, plant and equipment

Determining the useful life of an asset is based on historical experience with similar assets as well as anticipated technological development. The suitability of the estimated useful life is considered annually, or whenever there are indications of significant changes in assumptions. We believe that this is an important accounting estimate, as it includes the assumptions about technological development and significantly depends on the Group's investment plans. Furthermore, given the significant share of Group's depreciable assets in total Group's assets, the impact of major changes in these assumptions could be significant for the financial position and results of the Group's business. In the course of 2018, there was no change in the estimated life of the property, plant and equipment or depreciation rate.

(ii) The recoverability of trade and other receivables

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

(iii) Recoverability of inventories

The Group performs a value adjustment of inventory by age structure. In the year 2018 due to sales of slow moving and obsolete inventory, the Group reduced the value adjustment of inventories by HRK 13,391 thousands.

(iv) Actuarial estimates used for calculation of retirement benefits

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued))

2.25. Key accounting judgement and estimates *(continued)*

(v) Consequences of certain court disputes

The Group is a party to numerous court disputes arising from regular business. Provisions are recorded if there is a present obligation as a result of the past event (taking into account all available evidence including the opinion of legal experts) where it is likely that settlement of the obligation would require a resource outflow and if the amount of the liability can be reliably estimated (see notes 12 and 29).

(vi) Ownership of land and buildings

The Group has recorded real estate for which the process of determining and registering ownership rights has not been fully resolved. The Group acquired the majority of real estate in the division process of the Hrvatske željeznice d.o.o. With this division, the Hrvatske željeznice d.o.o. was divided into 5 companies: HŽ Holding d.o.o., HŽ Vuča vlakova d.o.o., HŽ Infrastruktura d.o.o., HŽ Putnički priejvoz d.o.o. and HŽ Cargo d.o.o. Later the company HŽ Holding d.o.o. merged with the company HŽ Infrastruktura d.o.o., and the company HŽ Vuča vlakova d.o.o. was divided and merged with the companies HŽ Cargo d.o.o. and HŽ Putnički prijevoz d.o.o. The division plan also divides assets into companies. Issues related to the real estate status of companies HŽ Putnički prijevoz d.o.o., HŽ Infrastruktura d.o.o. and HŽ Cargo d.o.o. is not entirely solved until today.

2.26. Comparative data

During 2018, the Group has adjusted the individual positions of the consolidated financial statements relating to the previous periods. The adjustments were made retroactively by restating the annual consolidated financial statements for the previous comparative periods, and the effects are shown below:

	Consolidated statement of financial position / Consolidated balance sheet		
	Previous condition	Change	Restated
HRK'000	1 January 2017		1 January 2017
Intangible assets - goodwill	13.322	(8.634)	4.688
Transfer losses	(88.349)	(8.634)	(96.983)

An impairment loss of HRK 8,634 thousand was carried out at the expense of the loss incurred.

3. SALES REVENUE

DESCRIPTION	2018. HRK '000	2017. HRK '000
Revenue from domestic passenger transportation	172.857	168.905
Revenue from international passenger transportation	33.769	32.774
Revenue from suburban passengers transportation (ZET- HŽPP)	52.733	56.536
Revenue from passenger transportation - specific trains	766	729
Revenue from the sale of goods and material	8.273	9.762
Revenue from the sale of wagon and locomotive maintenance products and services	44.482	49.995
Other sales revenue	197	224
TOTAL	**313.077**	**318.925**

4. OTHER OPERATING INCOME

DESCRIPTION	2018. HRK '000	2017. HRK '000
Income from passenger transport incentives	461.700	441.667
Income from the state grants for the modernization of railway vehicles	76.043	75.788
Income from previously adjusted inventories	13.391	894
Income from cancellation of long-term provisions	8.174	19.529
Proceeds from the lease of wagons and locomotives	2.222	1.316
Cost calculation revenue	2.003	1.392
Collected Revenue by Solutions	1.667	101
Income from collection of receivables written off	1.021	1.508
Revenue from damages	924	884
Revenue from fees due to traffic delays	897	532
Income from sale of tangible fixed assets	620	760
Form Revenue	508	2.034
Business premises lease income	419	419
Revenue from the leasing of advertising space	394	224
Other operating income	9.543	3.798
Total	**579.526**	**550.846**

5. COST OF RAW MATERIAL

DESCRIPTION	2018. HRK '000	2017. HRK '000
Cost of raw material and material	4.326	10.650
Cost of spare parts	47.485	37.079
Cost of small inventory	2.336	3.012
Energy cost	105.437	101.377
Total	**159.584**	**152.118**

6. COST OF GOODS SOLD

Costs of goods sold in the amount of HRK 16.187 thousand (2017. in the amount of HRK 10.371 thousand) relate to the purchase value of goods sold.

7. OTHER EXTERNAL EXPENDITURE

DESCRIPTION	2018. HRK '000	2017. HRK '000
Towing, telephone, postal services and transport cost	13.086	10.282
Outside services in the production and sale of goods and services	10.908	4.152
Ongoing maintenance services	1.640	898
Maintenance Services	25.739	34.093
Rental and leasing services	5.040	6.271
Maneuver and TPV services	7.113	9.944
Route Rental Services (HŽ Infrastruktura)	74.191	77.504
Ticket sales services	1.047	1.546
Expenses of propaganda, advertisements, fairs	299	467
Property security services	454	276
Intellectual services	145	236
Utilities	237	1.726
Other external costs	2.760	1.711
Total	**142.659**	**149.106**

8. STAFF COSTS

DESCRIPTION	2018. HRK '000	2017. HRK '000
Net salaries and wages	189.564	198.900
Taxes and contributions from salaries	69.434	69.804
Contributions on salaries	59.190	59.883
Total	**318.188**	**328.587**

Total staff costs including employee benefits and employee rights (Note 10) and for the year 2018 amounts to HRK 356,257 thousand (2017: HRK 359,037 thousand). Employee reimbursements consists of transportation costs to and from work, per diems and travel expenses and employee's material rights, of assistance, rewards, gifts, and unused vacation expenses.

The Management Board remunerations are as follows:

DESCRIPTION	2018. HRK '000	2017. HRK '000
Net salaries and wages	808	398
Taxes and contributions from salaries	618	278
Contributions on salaries	245	113
Total	**1.671**	**789**

9. DEPRECIATION AND AMORTISATION

DESCRIPTION	2018. HRK '000	2017. HRK '000
Amortization of the intangible assets (Note 15)	2.528	1.684
Depreciation of property, plant and equipment (Note 16)	131.820	133.056
Depreciation of the investments property (Note 17)	1.911	1.911
Total	**136.259**	**136.651**

10. OTHER EXPENSES

DESCRIPTION	2018. HRK '000	2017. HRK '000
Reimbursement of cost to the employees	2.808	2.866
Employees material rights	24.467	16.697
Mileage	10.794	10.887
Fines, penalties, compensations and similar	9.873	13.775
IT services - SAP	8.267	7.920
Value of abolished material and inventories write-off	5.156	580
Intellectual services	2.288	6.924
Insurance premiums	1.835	2.265
Travel agency commissions	1.496	1.615
Banking services and payment system costs	1.330	930
IT Services of HŽ Infrastruktura d.o.o., Zagreb	717	1.078
Taxes not depending on income and fees	655	758
Scholarship fees	249	330
Compensations to members of the Supervisory Board and Audit Committee	244	380
Representation costs	232	184
Scholarship costs	219	285
Other operating expenses	2.034	3.023
Total	**72.664**	**70.497**

11. IMPAIRMENT

DESCRIPTION	2018. HRK '000	2017. HRK '000
Impairment of long-term tangible assets (Note 16)	18.714	689
Impairment of inventories	20	435
Impairment of short-term receivables	1.598	511
Total	**20.332**	**1.635**

12. PROVISIONS

DESCRIPTION	2018.	2017.
	HRK '000	HRK '000
Provisions for incentive severance payments	10.041	1.474
Provisions for legal proceedings	13.486	5.652
Provisions for jubilee awards	977	674
Other provisions	0	2.173
Total	**24.504**	**9.973**

13. NET FINANCIAL RESULT

DESCRIPTION	2018.	2017.
	HRK '000	HRK '000
Financial income		
Interest income	1.666	3.026
Foreign exchange gains	5.404	1.033
Total financial revenue	**7.070**	**4.059**
Financial expenses		
Other financial expenses	0	(195)
Interest expense	(11.329)	(16.800)
Total financial expenses	**(11.329)**	**(16.995)**
Net financial result	**(4.259)**	**(12.936)**

14. INCOME TAX

The Group is a taxpayer, in accordance with the tax laws and regulations of the Republic of Croatia. The tax base is defined as the difference between the income and the expense of the period, increased by tax non-deductible expenditures. The profit tax rate is 18% (2017: 18%).

The reconciliation of the income tax is shown as follows:

DESCRIPTION	2018.	2017.
	HRK '000	HRK '000
Consolidation profit before tax	4.487	5.526
Consolidation postings	683	(4.927)
Accounting profit before tax	5.170	599
Tax deductible expenses	44.154	13.840
Tax incentives	(13.581)	(128)
Profit after increase / decrease	35.743	14.311
Tax losses transferred from the previous periods	(350.292)	(364.603)
Tax losses that can not be brought forward	313.046	0
Tax loss to be transferred	**(1.503)**	**(350.292)**

The Group is able to transfer tax losses to future periods for the purpose of reducing taxable profit for the next five (5) years. As of December 31, 2018, the total carry forward losses were determined to be HRK 1,503 thousand and could be redeemed until December 31, 2022.

In accordance with the tax regulations, the Tax Authorities may at any time inspect the books and the records of the Group within a period of three years after the expiration of the year in which the tax liability is reported and may impose additional tax liabilities and penalties. The Management Board of the Group is not aware of any circumstances that could result in a significant potential liability in this respect.

15. INTANGIBLE ASSETS - restated

DESCRIPTION	Concessions, patents, licenses, software and other rights	Goodwill	TOTAL
	HRK '000	HRK '000	HRK '000
Purchase value			
31 December 2016 (restated)	**39.513**	**0**	**39.513**
Additions	564	0	564
Transfer from tangible assets under construction	892	0	892
Sales or expenditures	(5)	0	(5)
31 December 2017	**40.964**	**0**	**40.964**
Additions	157	0	157
Transfer from tangible assets under construction	11.585	0	11.585
Sales or expenditures	(422)		(422)
31 December 2018	**52.284**	**0**	**52.284**
Accumulated amortization			
31 December 2016 (restated)	**34.825**	**0**	**34.825**
Amortization for 2017	1.684	0	1.684
Transfers	361	0	361
Sales or expenditures	(3)	0	(3)
31 December 2017	**36.867**	**0**	**36.867**
Amortization for the year 2018	2.528	0	2.528
Sales or expenditures	(399)	0	(399)
31 December 2018	**38.996**	**0**	**38.996**
Net book value			**0**
31 December 2016	**4.688**	**0**	**4.688**
31 December 2017	**4.097**	**0**	**4.097**
31 December 2018	**13.288**	**0**	**13.288**

16. PROPERTY, PLANT AND EQUIPMENT

DESCRIPTION (HRK '000)	Buildings	Plant and equipment	Tools, plant inventories and transportation assets	Other	Assets under construction	Prepayments	Total
Purchase value							
1 January 2017	**84.222**	**61.298**	**5.838.827**	**3.185**	**11.498**	**6.737**	**6.005.767**
Additions	22	1.665	1.697	0	50.875	5.312	59.571
Transfer from assets under construction	998	0	50.889	0	(54.169)	0	(2.282)
Reductions	0	(35)	(49)	0	(114)	(9.221)	(9.419)
Sale or disposal	0	(3)	(224.795)	0	0	0	(224.798)
31 December 2017	**85.242**	**62.925**	**5.666.569**	**3.185**	**8.090**	**2.828**	**5.828.839**
Additions	0	614	1.075	0	95.647	61.518	158.854
Transfer from assets under construction	101	0	83.371	0	(83.472)	0	0
Transfer from / to	154	0	(154)	0	0	0	0
Transfer to the intangible assets	0	0	0	0	(11.585)	0	(11.585)
Sale or disposal	(39)	(905)	(264.845)	0	(1.198)	(24.958)	(291.945)
31 December 2018	**85.458**	**62.634**	**5.486.016**	**3.185**	**7.482**	**39.388**	**5.684.163**
Accumulated depreciation / impairment							
1 January 2017	**53.545**	**57.779**	**3.985.228**	**2.805**	**0**	**0**	**4.099.357**
Depreciation for the year 2017	1.589	1.294	130.127	0	0	0	133.010
Reduction of value	0	(35)	(49)	0	0	0	(84)
Transfer from / to	22	716	1.165	0	0	0	1.903
Sale or disposal	0	(3)	(223.793)	0	0	0	(23.796)
31 December 2017	**55.156**	**59.751**	**3.892.678**	**2.805**	**0**	**0**	**4.010.390**
Depreciation for the year 2018	1.588	1.118	129.114	0	0	0	131.820
Transfer from / to	154	0	(154)	0	0	0	0
Impairment	0	0	18.714	0	0	0	18.714
Sale or disposal	(39)	(904)	(264.845)	0	0	0	(265.788)
31 December 2018	**56.859**	**59.965**	**3.775.507**	**2.805**	**0**	**0**	**3.895.136**
Carrying amount							
1 January 2017	**30.677**	**3.519**	**1.853.599**	**380**	**11.498**	**6.737**	**1.906.410**
31 December 2017	**30.086**	**3.174**	**1.773.891**	**380**	**8.090**	**2.828**	**1.818.449**
31 December 2018	**28.599**	**2.669**	**1.710.509**	**380**	**7.482**	**39.388**	**1.789.027**

/i/ At 31 December 2018, over a significant number of real estates recorded in the business books, the Group does not have a regulated ownership by entering into land registers. The procedure for settlement of the ownership rights is in progress.

17. INVESTMENT PROPERTY

DESCRIPTION	Investment property HRK '000
Purchase value	
1 January 2017	**108.170**
31 December 2017	**108.170**
31 December 2018	**108.170**
Accumulated depreciation	
1 January 2017	**69.278**
Amortization for the year 2017	1.911
31 December 2017	**71.189**
Amortization for the year 2018	1.911
31. December 2018	**73.100**
Carrying amount	
1 January 2017	**38.892**
31 December 2017	**36.981**
31 December 2018	**35.070**

18. LONG-TERM FINANCIAL ASSETS

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Financial assets at fair value through profit or loss		
Eurofima	27.960	27.297
BCC	2	2
	27.962	**27.299**
Other long term Financial assets		
Tvornica željezničkih vozila Gredelj d.o.o. in bankcrupcy , Zagreb	536.749	536.749
Proizvodnja-Regeneracija d.o.o. in bankcrupcy , Zagreb	15.099	15.099
Minus: Value adjustments	(551.848)	(551.848)
	0	**0**
Total	**27.962**	**27.299**

19. INVENTORIES

DESCRIPTION	31.12.2018.	31.12.2017.
	HRK '000	HRK '000
Raw materials	7.552	7.245
Spare parts	83.046	106.079
Minus: Impairment of obsolete inventories of raw materials and spare parts	(48.352)	(61.743)
	42.246	51.581
Small inventory and packing	16.023	14.838
Minus: Impairment of small inventory and packing	(14.431)	(13.716)
	1.592	1.122
Finished goods	523	526
Long term assets held for sale	11	15
Advances given	1.085	752
Total	**45.457**	**53.996**

20. TRADE RECEIVABLES

DESCRIPTION	31.12.2018.	31.12.2017.
	HRK '000	HRK '000
Domestic trade receivables	131.977	131.419
Foreign trade receivables	270	914
Minus: Impairment	(88.602)	(87.963)
Total	**43.645**	**44.370**

Movements in the impairment allowance of trade receivables are shown as follows:

DESCRIPTION	2018.	2017.
	HRK '000	HRK '000
Balance at 1 January	**(87.963)**	**(89.268)**
New impairment	(1.660)	(510)
Collection	1.021	1.508
Write-off during the year	0	307
Balance at 31 December	**(88.602)**	**(87.963)**

Age analysis (structure) of the trade receivables is as follows:

		Due					
	Undue	< 30 days	30-60 days	60-90 days	90-120 days	> 120 days	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31.12.2018	18.387	8.970	6.096	997	6.371	2.824	43.645
31.12.2017	16.077	6.605	5.649	472	6.097	9.470	44.370

21. RECEIVABLES FROM EMPLOYEES

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Short-term receivables from employees for shortages and damage	5.489	5.492
Other receivables from employees	64	70
Total	**5.553**	**5.562**

22. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
VAT receivables	9.714	10.258
Receivables from the Croatian Health Insurance Institute	1.551	1.019
Receivables for prepaid corporate income tax	417	1.474
Other receivables	587	18
Total	**12.269**	**12.769**

23. OTHER RECEIVABLES

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Prepayments in the country	268	109
Receivables based on court rulings	637	0
Total	**905**	**109**

24. CASH AND CASH EQUIVALENTS

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Gyro account balances	41.544	55.024
Foreign currency account balances	38.370	25.690
Cash in hands – Croatian kuna	5.793	7.049
Deposits with a maturity of up to three months	0	45
Total	**85.707**	**87.808**

25. PREPAID EXPENSES AND ACCRUED INCOME

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Prepayments for the accident in Rudine	3.534	3.534
Other paid future expenses	536	976
Total	**4.070**	**4.510**

Costs related to the accident in Rudine, which are charged to the Group until the final verdict, include damages costs and cost of out of court settlements in the amount of HRK 2,543 thousand, as well as the costs of substitution of transportation with buses because of the impassability of railway track in the amount of HRK 970 thousand and the cost of treating injured passengers in the amount of HRK 21 thousand.

26. CAPITAL NAD RESERVES

/i/ The subscribed capital of the Group amounts to HRK 872,367 thousand (31 December 2017: same amount) and represents own permanent sources for the Group's operations as well as share capital registered at the Commercial Court in Zagreb. The sole member of the Group is the Republic of Croatia.

On 24 September 2015, the Government of the Republic of Croatia adopted a decision on granting the consent for the conversion of receivables from the debt assumption on the basis of given guarantees and unpaid compulsory contributions to the Group's equity in the total amount of HRK 796,740 thousand. The share capital increase was registered at the Commercial Court in Zagreb on 19 January 2016.

/ii/ The accumulated losses are stated as at 31 December 2018 in the amount of HRK 91.252 thousand (31 December 2017 in the amount of HRK 96.710 thousand).

/iii/ Profit for the current year is stated as at 31 December 2018 in the amount of HRK 4.487 thousand (31 December 2017 in the amount of HRK 5.526 thousand).

27. PROVISIONS

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Provisions for jubilee awards and retirement benefits	11.421	11.948
Provisions of incentive severance payments	10.041	7.194
Provisions for court litigations	86.365	81.282
Provision for repair costs during the warranty period	378	378
Total	**108.205**	**100.802**

27. PROVISIONS (continued)

Movements in provisions are shown as follows:

DESCRIPTION	Provisions for jubilee awards and retirement benefits	Provisions of incentive severance payments	Provisions for court litigations	Provisions for expenses within warranty periods	TOTAL
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2017	**11.948**	**7.195**	**81.281**	**378**	**100.802**
New provisions	977	10.041	13.485	0	24.503
Used provisions	(1.470)	(5.400)	(2.056)	0	(8.926)
Cancellations of provisions	(34)	(1.795)	(6.345)	0	(8.174)
31 December 2018	**11.421**	**10.041**	**86.365**	**378**	**108.205**

According to the Collective agreements the Group has an obligation to pay jubilee awards, regular retirement benefits and other benefits to its employees. In accordance with the respective agreements, when employees leaving to regular retirement, they are entitled to a regular retirement benefit of HRK 8 thousand. The provision for regular retirement benefits and jubilee awards are calculation by authorized actuary.

The calculation of the jubilee awards was made according to the following amounts:

Number of years	Amount in HRK
10	1.500
15	2.000
20	2.500
25	3.000
30	3.500
35	4.000
40	5.000

Actuary estimates are based on the following main assumptions:

	Estimate	
	2018.	2017.
Fluctuation rate	5,3%	5,3%
Discount rate	2,4%	2,2%

28. LONG-TERM LIABILITIES

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Liabilities to banks and other financial institutions /i/	448.387	409.965
Minus: current portion (Note 32.)	(22.474)	(21.148)
Total	**425.913**	**388.817**

/i/ Liabilities to the banks and other financial institutions are stated as follows:

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Croatian Bank for Reconstruction and Development,	285.655	289.355
International Bank for Reconstruction and Development	162.732	105.973
Hrvatska Poštanska Banka d.d., Zagreb	0	14.637
Minus: current portion (Note 32.)	(22.474)	(21.148)
Total	**425.913**	**388.817**

Liabilities to the banks on 31 December 2018 are stated as follows:

Creditor	Contract date	Interest rate	Debt balance as at 31 Dec 2018 (HRK '000)	Due date and repayment	Collateral
HBOR	28.01.2014	3%	285.655	2020-2030. quarterly	Ministry of finance guarantee, HŽPP bills of exchange and promissory notes
IBRD	06.05.2015.	variable margin + 6M EURIBOR	162.732	2018 -2032, half-yearly	Ministry of finance guarantee
Total			**448.387**		

/i/ As at 28 January 2014, the Group signed a loan agreement with Croatian Bank for Reconstruction and Development, in the amount of EUR 38,510,629 for the purchase of new trains. As at 31 December 2018, the amount of debt outstanding amounts to HRK 285,655 thousand. Loan repayment begins on 30 September 2020.

/ii/ As at 6 May 2015, the Group signed a loan agreement with the International Bank for Reconstruction and Development (IBRD) in the amount of EUR 43,000,000 to help finance the Sustainable Croatian Railways Project in Europe. As of 31 December 2018 the amount of withdrawn funds amounts to HRK 162,732 thousand. Loan repayment started as of 15 June 2018.

The movements in liabilities to the banks and other financial institutions during the year may be summarized as follows:

DESCRIPTION	2018. HRK '000	2017. HRK '000
1 January	**409.965**	**491.659**
New borrowings	67.732	42.740
Amounts repaid (own assets)	(24.183)	(119.742)
Foreign exchange differences	(5.127)	(4.692)
31 December	**448.387**	**409.965**

The long-term liabilities to the banks and other financial institutions become due for the repayment as follows:

DESCRIPTION	31.12.2018.	31.12.2017.
	HRK '000	HRK '000
Maturity up to one year	22.474	21.148
Due in one to two years	37.913	26.959
Due in two to three years	51.018	37.982
Due in three to four years	51.018	51.110
Due in four to five years	51.018	51.110
Due in over five years	234.946	221.656
Total	**448.387**	**409.965**

29. LIABILITIES FOR LOANS, DEPOSITS ETC.

DESCRIPTION	31.12.2018.	31.12.2017.
	HRK '000	HRK '000
Liabilities for deposits - reconciliation	770	1.066
Total	**770**	**1.066**

30. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

DESCRIPTION	31.12.2018.	31.12.2017.
	HRK '000	HRK '000
Current portion of the long-term liabilities to banks (see Note 30)	22.474	21.148
Total	**22.474**	**21.148**

31. TRADE PAYABLES

DESCRIPTION	31.12.2018.	31.12.2017.
	HRK '000	HRK '000
Domestic trade payables	89.400	97.426
Foreign trade payables	1525	664
Total	**90.925**	**98.090**

Age analysis (structure) of trade payables is as follows:

		Due					
	Undue	< 30 days	30-60 days	60-90 days	90-120 days	> 120 days	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31.12.2018	85.099	3909	1039	335	282	261	90.925
31.12.2017	93.755	3459	155	31	61	629	98.090

32. LIABILITIES TO EMPLOYEES

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Liabilities for net salaries and contributions	18.316	15.184
Other liabilities to employees	1.224	1.263
Total	**19.540**	**16.447**

33. LIABILITIES FOR TAXES, CONTRIBUTIONS AND SIMILAR FEES

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Liabilities for taxes and contributions from salaries	7.785	7.832
Liabilities for contributions on salaries	2.880	2.933
Liabilities for VAT	1.669	1.714
Other liabilities	12	8
Total	**12.346**	**12.487**

34. OTHER LIABILITIES

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Liabilities to the Ministry of Finance for activated guarantees /i/	30.823	29.288
Other short-term liabilities	316	11.613
Total	**31.139**	**40.901**

/i/ Liabilities to the Ministry of Finance of the Republic of Croatia relate to regressive rights claims of the Ministry of Finance due payments per activated guarantees based on which the Ministry of Finance has settled part of the due liabilities to the commercial banks instead of the Company. Namely, in the past years, the Ministry of Finance has issued several guarantees to commercial banks as a guarantee for the repayment of the lending obligations of the Company. The Guarantee Issuance Agreement between the Republic of Croatia and the Company for the settlement of long-term obligations states that if the guarantee is paid out of the State Budget funds, the amount paid is considered to be due receivable of the Ministry of Finance. The loan beneficiary is obliged immediately after the payment was made by the Ministry of Finance to allocate amount of the repaid funds increased by the statutory default interest with all the relevant costs.

35. ACCRUED EXPENSES AND DEFERRED INCOME

DESCRIPTION	31.12.2018.	31.12.2017.
	HRK '000	HRK '000
State subsidies for purchase and modernization of fixed assets /i/	546.186	613.467
Deferred income	4.885	3.233
Accrued expenses for the current year	6.743	8.641
Accrued expenses for the unused vacation days	8.082	8.042
Total	**565.896**	**633.383**

/i/ State subsidies for the modernization of railway vehicles refer to funds provided by the Republic of Croatia for modernizing and regular maintaining of railway vehicles.

36. OFF BALANCE SHEET RECORDS

DESCRIPTION	31.12.2018.	31.12.2017.
	HRK '000	HRK '000
Received warranties	614.721	116.823
Given warranties	1.408.186	2.260.204
Actual costs for the utilization of space	819	819
Monoblocks in Goša	1.969	1.969
Locomotives in the ownership of railways of the former SFRY in Croatia	23.403	23.403
Receivables for the passenger wagons in the former Yugoslavia	74.692	74.692
Property in inaccessible area	13.458	13.458
Receivables from the Zajednica JŽ (Union of Yugoslav Railways)	74.251	71.358
Receivables from „HZHB"	42.540	42.540
Balance of cash registers	4.574	5.567
Other	7.034	7.035
Total	**2.265.647**	**2.617.868**

37. TRANSACTIONS WITH THE RELATED PARTIES

A party is associated with an entity when it is directly or indirectly controlled by one or more intermediaries, controlled by or under the control of a subject, has a share in a subject that gives it significant influence over that subject and has a common control over the subject. Total amounts of related party transactions, receivables and payables at year-end and associated expense and income for 2018 and 2017 are presented as follows:

37. TRANSACTIONS WITH THE RELATED PARTIES (continued)

Related party	Operating activities				Financial activities			
	Receivables	Liabilities	Income	Expense	Receivables	Liabilities	Income	Expense
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK	HRK '000
2018								
/i/ Subsidiary companies (Group)								
TŽV Gredelj d.o.o. u stečaju, Zagreb	13.259	15.961	629	7.793	0	12	0	12
Proizvodnja i regeneracija d.o.o. u stečaju, Zagreb	603	0	0	0	0	0	0	0
Minus: Value Adjustment	(13.742)	0	0	0	0	0	0	0
Total /i/	**120**	**15.961**	**629**	**7.793**	**0**	**12**	**0**	**12**
/ii/ Subsidiary over which the company has no control								
HŽ infrastruktura d.o.o., Zagreb	4.352	22.347	7.799	109.554	0	0	11	9
HŽ Cargo d.o.o., Zagreb	6.616	1.408	10.661	18.235	0	0	233	8
Agencija za integralni transport d.o.o., Zagreb	0	0	35	5	0	0	4	0
OV Održavanje vagona d.o.o., Zagreb	650	5.497	1.382	18.454	1	0	4	0
Radionica željezničkih vozila Čakovec d.o.o., Čakovec	0	0	143	147	0	0	1	0
Remont i proizvodnja željezničkih vozila Slavonski Brod	121	0	325	1	2	0	7	0
Croatia express putnička agencija d.o.o., Zagreb	1.202	6	625	208	2	0	125	0
Pružne građevine d.o.o., Zagreb	832	0	2.402	9	0	0	64	0
Less: value adjustment	(5.034)	0	0	0	0	0	0	0
Total /ii/	**8.739**	**29.258**	**23.372**	**146.613**	**5**	**0**	**449**	**17**
/iii/ Other railway business companies owned by the								
Hep Ods d.o.o. , Zagreb	91	36	0	290	0	0	0	0
Hep Opskrba d.o.o., Zagreb	0	133	0	461	0	0	0	0
Hep-Toplinarstvo d.o.o., Zagreb	0	210	0	1.043	0	0	0	3
HP-Hrvatska pošta d.d., Zagreb	0	19	0	123	0	0	0	0
HRT-Hrvatska radio televizija d.o.o., Zagreb	0	0	0	19	0	0	0	0
Hrvatske autoceste d.o.o., Zagreb	0	0	0	42	0	0	0	0
Narodne novine d.d.	0	11	0	75	0	0	0	0
FINA Zagreb	0	0	0	10	0	0	0	0
Less: value adjustment	(91)	0	0	0	0	0	0	0
Total /iii/	**0**	**409**	**0**	**2.064**	**0**	**0**	**0**	**3**
TOTAL	**8.859**	**45.628**	**24.001**	**156.469**	**5**	**12**	**449**	**32**

37. TRANSACTIONS WITH THE RELATED PARTIES (continued)

Related party	Operating activities				Financial activities			
	Receivables	Liabilities	Income	Expense	Receivables	Liabilities	Income	Expense
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK	HRK '000
2018								
/i/ Subsidiary companies (Group)								
TŽV Gredelj d.o.o. u stečaju, Zagreb	13.180	19.304	1.114	10.791	0	0	7	0
Proizvodnja i regeneracija d.o.o. u stečaju, Zagreb	603	0	0	0	0	0	0	0
Minus: Value Adjustment	(13.742)	0	0	0	0	0	0	0
Total /i/	**41**	**19.304**	**1.114**	**10.791**	**0**	**0**	**7**	**0**
/ii/ Subsidiary over which the company has no control								
HŽ infrastruktura d.o.o., Zagreb	3.108	20.653	5.310	115.881	2	0	38	102
HŽ Cargo d.o.o., Zagreb	6.873	2.459	13.750	12.149	1.021	0	1.240	636
Agencija za integralni transport d.o.o., Zagreb	91	0	141	0	0	0	0	0
OV Održavanje vagona d.o.o., Zagreb	257	7.151	1.529	21.991	0	0	2	0
Radionica željezničkih vozila Čakovec d.o.o., Čakovec	63	0	62	0	0	0	0	0
Remont i proizvodnja željezničkih vozila Slavonski Brod	142	0	303	0	0	0	12	0
Croatia express putnička agencija d.o.o., Zagreb	1.426	0	1.088	162	0	0	68	0
Pružne građevine d.o.o., Zagreb	1.214	0	2.119	0	0	0	37	0
Less: value adjustment	(3.473)	0	0	0	0	0	0	0
Total /ii/	**9.701**	**30.263**	**24.302**	**150.183**	**1.023**	**0**	**1.397**	**738**
/iii/ Other railway business companies owned by the								
Hep Ods d.o.o. , Zagreb	91	46	0	294	0	0	0	0
Hep Opskrba d.o.o., Zagreb	0	145	0	420	0	0	0	0
Hep-Toplinarstvo d.o.o., Zagreb	0	212	0	1.621	0	0	0	0
HP-Hrvatska pošta d.d., Zagreb	0	20	0	111	0	0	0	0
HRT-Hrvatska radio televizija d.o.o., Zagreb	0	0	0	21	0	0	0	0
Hrvatske vode d.o.o. , Zagreb	0	0	0	2	0	0	0	0
Hrvatske autoceste d.o.o., Zagreb	0	0	0	41	0	0	0	0
Narodne novine d.d.	0	5	0	76	0	0	0	0
FINA Zagreb	0	3	0	16	0	0	0	0
Other	48	4	42	0	0	0	0	0
Less: value adjustment	(139)	0	0	0	0	0	0	0
Total /iii/	**0**	**435**	**42**	**2.602**	**0**	**0**	**0**	**8**
TOTAL	**9.742**	**50.002**	**25.458**	**163.576**	**1.023**	**0**	**1.404**	**746**

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes credits, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, legal and other reserves and retained earnings/accumulated losses.

The net debt to equity ratio is presented as follows:

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Liabilities to the bank and other financial institutions	448.387	409.966
Cash and cash equivalents	(85.707)	(87.808)
Net debt	362.680	322.158
Equity	785.602	781.183
Net debt to equity ratio	**0,46**	**0,41**

After the capital increase, "Capital and reserves" are positive in 2018 and on 31 December 2018 the ratio of debt and equity was 0.46.

Categories of financial instruments

DESCRIPTION	31.12.2018. HRK '000	31.12.2017. HRK '000
Financial assets		
Loans and receivables (including cash and cash equivalents)	148.140	150.760
Financial liabilities		
Amortized cost	603.311	580.724

Financial risk management objectives

The Group controls and manages financial risk which could affect the Group's operations through internal risk reports which analyze exposures by degree and magnitude of the market risk, interest rate risk, credit risk, currency risk and liquidity risk.

Market risk

The Group operates in Croatian and international markets. The Management Board determines the prices of its products and services, separately for domestic and international markets. There were no significant changes in the impact of market risk on the Group's business.

Interest rate risk

The interest rate risk is a risk that the value of a financial instrument will fluctuate due to changes in market rates relative to the interest rate applicable to the financial instrument. Interest rate cash flow risk is the risk that the interest cost of an instrument will fluctuate overtime. There were no significant changes of the influence of the credit risks on the Group's operations.

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

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

Financial assets that potentially expose the Group to credit risk consist mainly of cash, cash equivalents and trade receivables. Trade receivables have been adjusted for bad and doubtful receivables. There were no significant changes of the influence of the credit risks on the Group's operations.

Currency risk

The official currency of the Group is the Croatian Kuna ("HRK"). However, certain transactions denominated in foreign currencies are calculated in the Croatian Kuna by applying the exchange rates in effect at the date of Consolidated Statement of Financial Position / Consolidated Balance sheet, and consequently, the Group is potentially exposed to risks of changes in currency rates.

Net carrying amount of monetary assets and liabilities of the Group denominated in foreign currencies on the reporting date is shown as follows:

	Liabilities		Assets	
Balance on 31 December	2018.	2017.	2018.	2017.
	HRK '000	HRK '000	HRK '000	HRK '000
EUR	168.007	109.976	274	929
CHF	0	0	27.962	27.299

Liquidity risk

A liquidity risk is a risk that the Group would not be able to fulfill its financial liabilities to the other contractual party.

A Group manages liquidity risk in a way that observes continuously and analyses expected and actual cash flow on the basis of maturity of financial assets and liabilities.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on quoted market prices, if available. If market prices are not available, fair value is estimated using discounted cash flow models or other appropriate pricing techniques. Changes in the assumptions underlying the estimates, including discount rates and estimated future cash flows, significantly affect the estimates. For this reason, the estimated fair value cannot be obtained from the sale of a financial instrument at this point.

Valuation techniques and assumptions in determining the fair value

When calculating the fair value, the Group takes into account the rules of IFRS fair value hierarchy that reflects the significance of inputs used in the valuation process. Each instrument is individually assessed in detail. The levels of the fair value hierarchy is determined based on the lowest level and input data which are important for determining the fair value of the instrument.

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The Consolidated Balance sheet items that are measured at fair value are categorized into three levels of the IFRS fair value hierarchy, as follows:

- 1st level indicators – fair value indicators derived from (unadjusted) prices listed on active markets for identical assets and identical liabilities.
- 2nd level indicators – fair value indicators derived from other information, not the listed prices from the 1st level, and relating to observed asset or liability (i.e. their prices) or indirectly (derived from prices) and
- 3rd level indicators – indicators derived from valuation method in which used input data on assets or liabilities are not based on the available market information (unobservable inputs).

The Group's assets measured at fair value as at 31 December 2018 are shown in the following table:

	Level 1	Level 2	Level 3	Total
	u 000 HRK	u 000 HRK	u 000 HRK	u 000 HRK
Financial assets stated at fair value through profit or loss				
Investments in equity instruments	0	0	27.962	27.962
Total assets at fair value	0	0	**27.962**	**27.962**

The Group's assets measured at fair value as at 31 December 2017 are shown in the following table:

	Level 1	Level 2	Level 3	Total
	u 000 HRK	u 000 HRK	u 000 HRK	u 000 HRK
Financial assets stated at fair value through profit or loss				
Investments in securities	0	0	27.299	27.299
Total assets at fair value	0	0	27.299	**27.299**

The Group adopted IFRS 13 under which it is obliged to issue the hierarchy of fair value of financial assets which is not measured at fair value as well as the write-off of evaluation method and inputs used.

Loans and receivables (including deposits with banks) are stated at amortized cost less provision for impairment. Although the result of a variable/fixed interest rate, due to their specific nature, the Group's Management believes that the carrying amount of these instruments does not significantly differ from their fair value, under the assumption that all payments based on exposure, the value of which was not reduced, will be collected as contracted, not taking into account any future losses.

The fair value of loans is estimated based on inputs the price of which is not market available; therefore, they would be classified on level 2 on the fair value hierarchy list. Investments with available market price which are classified under the portfolio of investment held to maturity would be allocated on level 1.

39. COURT DISPUTES AND CONTIGENT LIABILITIES

/i/ The Group as a Defendant, together with the companies HŽ Infrastruktura d.o.o., Zagreb and HŽ Cargo d.o.o., Zagreb, participates in numerous court disputes. According to the plan of division of the company HŽ Hrvatske željeznice d.o.o., Zagreb, the eventual obligations incurred in these disputes are borne by newly founded companies based on their participation in the capital. As the legal successor of the merged company HŽ Vuča vlakova d.o.o., Zagreb, the Group inherited its court litigations. Furthermore, the Group is also the defendant in certain individual court litigations.

As at 31 December 2018, the Group made provision for the contingent liabilities arising from these legal proceedings in the amount of HRK 86.365 thousand (see Note 27).

/ii/ The Group is exposed to contingent liabilities in the amount of HRK 1,254,605 thousand (31 December 2017 in the amount of HRK 2,128,739 thousand) based on the guarantees given to subsidiaries.

40. EVENTS AFTER THE DATE OF CONSOLIDATED STATEMENT OF FINANCIAL POSTION / CONSOLIDATED BALANCE SHEET

After consolidated statement of financial position / consolidated balance sheet date there were no events that could significantly affect the annual consolidated financial statements for the year 2018 and consequently be published.

41. APROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual consolidated financial statements presented on the previous pages have been prepared and approved by the Group's Management Board on 6 September 2019.

Signed on behalf of the Management Board:

Željko Ukić, President of the Management Board	Mladen Lugarić, Member of the Management Board	Damir Rubčić, Member of the Management Board

HŽ PUTNIČKI PRIJEVOZ d.o.o.
Strojarska cesta 11
10 000 Zagreb