

PLINACRO
Limited Liability Company,
Zagreb
The Annual Financial Statements and
Independent Auditor's Report
for the Year Ended 31 December 2018

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RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Management Board of **Plinacro Ltd.**, Zagreb, Savska cesta 88a ("the Company") is responsible for ensuring that the annual financial statements of the Company for the year 2018 are prepared in accordance with the Accounting Act (Official Gazette 78/15, 134/15, 120/16, 116/18) and the International Financial Reporting Standards to give a true and objective view of the financial position, the financial performance, the changes of equity and the cash flows of the Company for that period.


Based on performed enquiries, the Management Board reasonably expects the Company to have adequate resources to continue to operate in the foreseeable future. Accordingly, the Management Board prepared the annual financial statements using the going concern basis of accounting.


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

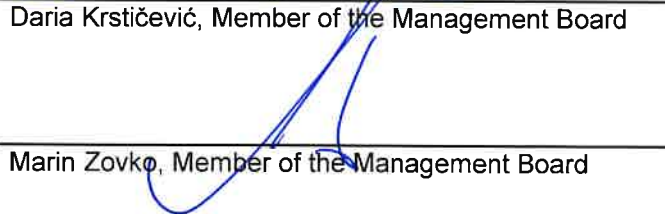
- selection and consistent application of appropriate accounting policies in accordance with the applicable financial reporting standards;
- giving reasonable and prudent judgments and estimates;
- drawing up of annual financial statement with the assumption of the going concern, unless the assumption is inappropriate.

The Management Board is responsible for keeping the proper accounting records, which at any time with reasonable certainty present the financial position, the financial performance, the changes of equity and the cash flows of the Company, and also their compliance with the Accounting Act and the International Financial Reporting Standards. The Management Board is also responsible for safe keeping the assets of the Company and also for taking reasonable steps for prevention and detection of fraud and other irregularities.

Signed on behalf of the Board:


Ivica Arar, President of the Management Board


Daria Krstičević, Member of the Management Board


Marin Zovko, Member of the Management Board

PLINACRO Ltd, Zagreb
Savska cesta 88a
10 000 Zagreb


1 d.o.o. • Zagreb

Zagreb, 18 April 2019

INDEPENDENT AUDITOR'S REPORT

To the owner of the company PLINACRO Ltd., Zagreb,

Report on the audit of annual financial statements

Opinion

We have audited the accompanying separate annual financial statements of the company PLINACRO Ltd, Zagreb, Savska cesta 88a ("the Company") for the year ended 31 December 2018, which comprise the Statement of Financial Position / Balance Sheet as at 31 December 2018, Profit and Loss Statement, Statement of Comprehensive Income; Statement of Changes in Equity and the Cash Flow Statement for the year ended; and the accompanying Notes to the Financial Statements which concisely set out the significant accounting policies and other explanations.

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

Basis for Opinion

We conducted our audit in accordance with the Accounting Act, Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Annual Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements of the current period, and they include identified most significant risks of material misstatement due to error or fraud and they include recognized most significant risks of significant misstatement due to error or fraud and which had the greatest impact on the audit strategy, resources required and the work of the engagement team. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Investment in the company LNG Hrvatska d.o.o	
Description	How we audited key audit matters
<p>As noted in Note 20 to the Financial Statements, the Company in the Statement of Financial Position / Balance Sheet at 31.12.2018. stated the shares in LNG Hrvatska d.o.o. ("LNG") in the amount of HRK 18,408,096. LNG was established with the aim of developing the LNG terminal project. In its annual financial statements for 2018, the company LNG stated capital and reserves in the amount of HRK 19,405,102. Pursuant to the Decision of the Government of the Republic of Croatia to amend the Decision on designation of the LNG terminal project by the strategic investment project of the Republic of Croatia (NN 11/2018), the project will be implemented in two phases (floating and land terminal), and it was declared as a strategic investment project of the Republic of Croatia at all stages of development. On 30 January 2019, the Government adopted a Decision on Financing the First Phase of the Floating Natural Gas Terminal (UPP) Project on the Island of Krk with the aim of ensuring the energy independence of the Republic of Croatia and other EU Member States. The estimated value of the first phase of the project investment is EUR 234 million. For the realization of the first phase of the terminal project for LNG, the European Commission has approved to the company LNG grants for the construction of a floating terminal in the amount of EUR 101,4 million. On 18 February 2019. Assembly of LNG Hrvatska d.o.o. has made a decision to increase its share capital. On 22 February 2019. Plinacro d.o.o. made the payment which increased share capital LNG Hrvatska d.o.o. by the amount of HRK 22,270,000. By this payment, the nominal share of Plinacro d.o.o. in share capital of LNG decreased to 15.82%. (on 31 December 2018: 46.34%). By the new Articles of Association the voting rights of Plinacro d.o.o. also changed to the amount of 15.82% (on 31 December 2018: 50%). According to Government decision as well as the Final investment decision as of 30 January 2019, the Management Board estimates that there are currently no indicators for reducing the value of LNG shares.</p>	<p>Our audit procedures included an overview of the presented documentation including:</p> <ul style="list-style-type: none"> • LNG financial statements, • Decisions of the Government of the Republic of Croatia, • minutes from LNG Assembly Meetings, plans • investment plan for the construction of a floating terminal on the island of Krk from 2019 to 2020 • the decision to procure the FSRU ship. <p>We also took into consideration:</p> <ul style="list-style-type: none"> - in 2018 a decision to increase of LNG's share capital by HRK 26 million by another member of LNG, HEP d.d. - after the increase of share capital in 2019 by payment both members of LNG, HEP d.d. and Plinacro d.o.o. the share capital of the company increased by HRK 238,376,800 and amounted to HRK 289,018,600. <p>We have talked with responsible persons, who had relevant information on this issue. On the basis of the conducted procedures, we have concluded that at the moment of the determining of financial statements for 2018 the Company has no indicators indicating the need to reduce the value of LNG shares.</p>

Value adjustment of property	
Description	How we audited key audit matters
<p>On 7 December 2018, the Croatian Energy Regulatory Agency (hereinafter referred to as "HERA") issued a Decision on the amount of tariff items for gas transport for the years of the second regulatory period 2019-2021 without VAT (OG 111/2018). By the mentioned Decision, the amount of tariff items, in the relation to the tariff items that should have been applied for the same period based on the HERA decision of 2017 (NN 127/2017), is reduced by approximately 20%, which will significantly affect the future business income Plinacro d.o.o., Zagreb (hereinafter: "Company"). As a consequence of these changes, and in accordance with paragraph 12 of the International Accounting Standard 36 Impairment of Assets (IAS 36), this situation represents an indicator that there are external sources of information that may affect the asset value - gas pipeline. Based on these changes, the Company conducted an indicative analysis of the impact of reduced tariff items on the value of gas pipeline assets and associated facilities, which, according to IAS 36, represent the cash generating unit (hereinafter referred to as "gas pipeline"). Based on the conducted analysis, the Company has determined that it is realistic to expect that the return of this asset by generating cash flows will be in the period until the end of the estimated useful life of the asset / gas pipeline. This approach is in accordance with paragraph 36 of IAS 36 and the above analysis shows that at 31 December 2018 the carrying amount of this asset is not higher than its recoverable amount.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • analysis of HERA's decision on the amount of tariff items • analysis of the Company's procedures with regard to the assessment of the impact of reduced tariff items on the value of gas pipeline assets • verification of an indicative estimate of the recoverable value of the pipeline that the Company has made in order to analyse the impact of the reduction of tariff items with the emphasis on: <ul style="list-style-type: none"> - the amount of planned free cash flow - selected period of planned free cash flow, i.e. the end of the depreciation period of the gas pipeline - selected WACC • verification of the compliance of the analysis of the indicator analysis for any reduction with the requirements of IAS 36 • We have talked with responsible asset managers

Other Information in the Annual Report

The Company management is responsible for the other presented information. Other information contains the information included in the Annual Report, but does not include the annual financial statements and our Independent Auditor's Report on these statements.

Our opinion on the annual financial statements does not include any other information, except as clearly stated in a part of our Independent Auditor's Report under the title Report on other legal requirements, and we do not express any form of assurance conclusion thereon.

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

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

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with IFRSs, and for establishing internal control, as necessary, to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

The Management is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Annual Financial Statements

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

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

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls 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 controls
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with the Company 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 in view of requirements of Regulation (EU) No. 537/2014

1. On 26 September 2018 we have been appointed by the Assembly of the Company based on the proposal of the Supervisory Board to carry out an audit of the annual financial statements for 2018.
2. As at the date of this report, we have been continuously engaged in carrying out the Company's statutory audits, from the audit of the Company's annual financial statements for 2017, which is a total of 2 year.
3. Besides issues that our independent auditor's report identified as key audit matters within the subsection Report on the audit of annual financial statements, we have nothing to report regarding Article 10 item (c) of Regulation (EU) No. 537/2014.
4. By our statutory audit of the Company's annual financial statements for the year 2018, we are able to detect irregularities, including fraud in accordance with Section 225 of the IESBA Code, Responding to Non-Compliance with Laws and Regulations, which requires us, in carrying out our audit engagement, to establish whether the Company 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 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 financial statements, but where observing them may be crucial for operational aspects of the Company's business, its ability to continue as a going concern or its avoidance of significant penalties.

Except where we encounter or become aware of disrespect of any of the aforementioned laws or regulations which is considered insignificant according to our judgment of its content and its influence, financial or otherwise, regarding the Company, its stakeholders and the wider public, we are obliged to inform the Company thereof and seek to investigate such case, as well as take appropriate measures to resolve irregularities and prevent the occurrence of such irregularities in the future. Should the Company fail to correct irregularities at the date of audited balance sheet which arise from incorrect disclosures in audited annual financial statements that are cumulatively equal to or greater than the amount of significance for financial statements as a whole, we are required to modify our opinion in an independent auditor's report.

In the audit of the Company's annual financial statements for the year 2018, we determined the materiality for financial statements as a whole in the amount of HRK 9,500,000, representing approximately 2% of income, because income represent a stable business indicator that reflects the continuity of the Company's growth.

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

6. During the period between the initial date of the Company's audited annual financial statements for the year 2018 and the date of this report, we have not provided the Company with any prohibited non-audit services. In the business year before that period, we did not provide services regarding the design and implementation of internal control and risk management procedures related to the preparation and/or control of financial information or the design and implementation of technological systems for financial information. Moreover, we have maintained our independence in the performance of the audit in relation to the Company.

Report in view of requirements of the Accounting Act

1. In our opinion, based on activities we have carried out during the audit, the data contained in the accompanying management report of the Company for 2018 have been aligned with the accompanying annual financial statements of the Company for 2018.

2. In our opinion, based on activities we have carried out during the audit, the accompanying management report of the Company for 2018 was prepared in accordance with the Accounting Act

3. Based on our knowledge and understanding of the Company's business and its environment gained within the scope of our audit, we have not established any significant misstatements in the accompanying management report of the Company.

In Zagreb, 18 April 2019

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



Darko Karić, director, certified auditor



PLINACRO Ltd., Zagreb
INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018

DESCRIPTION	Note	2018	2017
		HRK	HRK
OPERATING INCOME			
Sales income	4.	443,481,988	547,818,895
Other operating income	5.	11,861,562	22,489,636
Total operating income		455,343,550	570,308,531
OPERATING EXPENSES			
Cost of raw materials and materials	6.	(14,920,802)	(13,219,901)
Cost of sold goods	7.	(141,796)	(74,617)
Other external costs	8.	(79,834,120)	(71,350,749)
Cost of employees	9.	(60,483,428)	(58,165,028)
Depreciation	10.	(129,205,005)	(127,300,773)
Other costs	11.	(18,058,280)	(16,285,088)
Value adjustment of short-term assets	12.	(282,400)	(2,736,199)
Provisions	13.	(2,109,574)	(5,717,506)
Other operating expenses	14.	(22,045,073)	(27,513,284)
Total operating expenses		(327,080,478)	(322,363,145)
OPERATING PROFIT		128,263,072	247,945,386
FINANCIAL INCOME	15.	22,153,191	85,591,329
FINANCIAL EXPENSES	16.	(55,068,059)	(62,182,710)
(LOSS)/GAIN FROM FINANCIAL ACTIVITIES		(32,914,868)	23,408,619
TOTAL INCOME		477,496,741	655,899,860
TOTAL EXPENSES		(382,148,537)	(384,545,855)
Profit before taxation		95,348,204	271,354,005
Corporate income tax	17.	(17,501,351)	(36,368,537)
PROFIT FOR THE CURRENT YEAR		77,846,853	234,985,468
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		77,846,853	234,985,468

The accompanying notes below are an integral part of these financial statements.

PLINACRO Ltd., Zagreb
STATEMENT OF FINANCIAL POSITION / BALANCE SHEET
as at 31 December 2018

DESCRIPTION	Note	31 Dec 2018	31 Dec 2017
		HRK	HRK
ASSETS			
Long-term assets			
Intangible assets	18.	23,393,190	19,940,167
Property, plant and equipment	19.	3,106,583,590	3,080,808,041
Financial assets	20.	595,823,357	555,397,613
Deferred tax assets	21.	2,348,246	1,941,312
Total long-term assets		3,728,148,383	3,658,087,133
Short-term assets			
Inventories	22.	25,641,825	28,645,215
Trade receivables	23.	54,383,337	61,097,844
Receivables from related companies	40.	189,931	95,933
Receivables from employees	24.	3,157	-
Receivables from the State	25.	17,855,853	190,977
Other short-term receivables	26.	1,210,440	1,769,211
Investment in securities	27.	219,122	130,329
Given deposits	27.	5,839,709	2,045,738
Cash at the bank and in treasury	28.	718,684,703	819,508,204
Prepaid expenses and accrued income	29.	1,606,345	1,201,642
Total short-term assets		825,634,422	914,685,093
TOTAL ASSETS		4,553,782,805	4,572,772,226

The accompanying notes below are an integral part of these financial statements.

PLINACRO Ltd., Zagreb
STATEMENT OF FINANCIAL POSITION / BALANCE SHEET
as at 31 December 2018 - continued

DESCRIPTION	<i>Note</i>	31 Dec 2018	31 Dec 2017
		HRK	HRK
CAPITAL AND LIABILITIES			
Capital	30.		
Subscribed capital		912,022,000	912,022,000
Profit reserves		2,065,726,261	1,830,740,793
Capital reserves		789	789
Profit for the current year		77,846,853	234,985,468
Total capital		3,055,595,903	2,977,749,050
Provisions	31.	10,023,602	8,894,989
Long-term liabilities	32.	1,138,367,153	1,290,699,372
Short-term liabilities			
Liabilities to banks	33.	135,829,357	137,588,630
Trade payables	34.	62,991,597	37,362,103
Liabilities to related companies	40.	138,687	140,667
Liabilities for taxes and contributions	35.	6,691,802	18,503,564
Liabilities to employees	36.	2,972,230	2,950,768
Other short-term liabilities	37.	61,458,618	67,582,763
Accrued expenses and deferred income	38.	79,713,856	31,300,320
Total short-term liabilities		349,796,147	295,428,815
TOTAL CAPITAL AND LIABILITIES		4,553,782,805	4,572,772,226

The accompanying notes below are an integral part of these financial statements.

PLINACRO Ltd., Zagreb
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

DESCRIPTION	Subscribed capital		Profit reserves		Capital reserves		Profit for the current year		TOTAL
	HRK		HRK		HRK		HRK		HRK
Balance at 1 January 2017, as previously published	912,022,000	-	1,641,609,266	-	789	-	188,869,930	-	2,742,501,985
Effects of restatements of the errors of the previous period							261,597		261,597
Balance at 1 January 2017, after restatement	912,022,000	-	1,641,609,266	-	789	-	189,131,527	-	2,742,763,582
Allocation of profit from 2016 to reserves			189,131,527				(189,131,527)		-
Comprehensive profit of the current year							234,985,468		234,985,468
Balance at 31 December 2017	912,022,000	-	1,830,740,793	-	789	-	234,985,468	-	2,977,749,050
Allocation of profit from 2017 to reserves			234,985,468				(234,985,468)		-
Comprehensive profit of the current year							77,846,853		77,846,853
Balance at 31 December 2018	912,022,000	-	2,065,726,261	-	789	-	77,846,853	-	3,055,595,903

The accompanying notes below are an integral part of these financial statements.

PLINACRO Ltd. , Zagreb
CASH FLOW STATEMENT
For the year ended 31 December 2018 - direct method

DESCRIPTION	2018	2017
	HRK	HRK
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows from receivables	559,658,707	701,610,253
Cash inflows from insurance for damages	1,619,767	3,195,339
Total cash inflows from operating activities	561,278,474	704,805,592
Cash outflows from payables	(123,019,251)	(122,706,235)
Cash outflows for employees	(64,251,684)	(61,761,484)
Cash outflows for insurance compensations	(1,988,494)	(1,861,707)
Cash outflows for interest	(21,820)	(9,553)
Cash outflows for income tax	(44,476,841)	(45,257,434)
Other cash outflows	(73,758,270)	(57,875,422)
Total cash outflows from operating activities	(307,516,360)	(289,471,835)
NET INCREASE OF CASH FLOWS FROM OPERATING ACTIVITIES	253,762,114	415,333,757
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Cash inflows from sale of long-term tangibles and intangibles	1,490	6,910
Cash inflows from dividends	-	66,603,901
Received non-refundable funds from CEF	48,587,424	-
Total cash inflows from investment activities	48,588,914	66,610,811
Cash outflows for the purchase of long-term tangibles and intangibles	(173,259,201)	(94,793,462)
Cash outflows for securities	(30,000,000)	-
Cash outflows for loans and saving deposits	(9,122,000)	(18,565,000)
Total cash outflows from investment activities	(212,381,201)	(113,358,462)
NET DECREASE OF CASH FLOWS FROM INVESTMENT ACTIVITIES	(163,792,287)	(46,747,651)
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Other cash inflows from financial activities	3,217,644	83,638,737
Total cash inflows from financial activities	3,217,644	83,638,737
Cash outflows for repayments of loan principals and bonds	(135,173,913)	(136,873,708)
Cash outflows for repayments of interest	(53,664,174)	(59,712,502)
Other cash outflows from financial activities	(5,090,854)	(1,212,505)
Total cash outflows from financial activities	(193,928,941)	(197,798,715)
NET DECREASE OF CASH FLOWS FROM FINANCIAL ACTIVITIES	(190,711,297)	(114,159,978)
Unrealized exchange differences related to cash and cash equivalents	(82,031)	(168,032)
Total (decrease) / increase of cash flows	(100,823,501)	254,258,096
Cash and cash equivalents at the beginning of the period	819,508,204	565,250,108
(Decrease) / Increase in cash and cash equivalents	(100,823,501)	254,258,096
Cash and cash equivalents at the end of the period	718,684,703	819,508,204

The accompanying notes below are an integral part of these financial statements.

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. GENERAL INFORMATION ABOUT THE COMPANY

1.1. Legal framework, activities and employees

The PLINACRO Limited Liability Company ("Company") is registered in the Commercial Court in Zagreb under Register Number: 080304171, OIB: 69401829750. The Company is headquartered in Zagreb, Savska cesta 88/a, Zagreb.

The Company's subscribed capital amounts to HRK 912,022,000 and is founded by the Republic of Croatia.

The Company performs energy activity of gas transmission as its main activity. It is the Republic of Croatia national operator of the gas transmission system and it manages the development, construction, maintenance and supervision of the gas transmission system.

As at 31 December 2018 the Company employed **278** employees (31 December 2017: **273** employees).

The structure of the employees is presented as follows:

Structure of qualifications	Number of employees at 31 December 2018	Portion (%)	Number of employees at 31 December 2017	Portion (%)
Ph. D.	1	0,36%	1	0,36%
M.Sc.	4	1,44%	4	1,47%
UNIV.SPEC.	1	0,36%	-	0,00%
Masters	15	5,40%	9	3,30%
Professional expert	11	3,96%	10	3,66%
University degree	83	29,86%	87	31,87%
BACC	17	6,11%	19	6,96%
Higher education	18	6,47%	17	6,23%
Highly qualified worker	11	3,95%	14	5,13%
Secondary education	99	35,61%	94	34,43%
Qualified worker	17	6,12%	17	6,23%
Lower qualification	1	0,36%	1	0,36%
Total	278	100,00%	273	100,00%

1.2. Company profile

The Company comprises the Assembly, Supervisory Board and Management Board.

The Republic of Croatia as the founder exercises its rights in the Assembly through the Croatian Government.

The Supervisory Board consists of five members and the Management Board consists of three members.

1.2. Company profil -continued

Supervisory Board

Drago Jakovčević	President of the Supervisory Board from 30 January 2017
Ilijana Krešić Rajič	Member of the Supervisory Board from 30 January 2017
Dražen Arnold	Member of the Supervisory Board from 30 May 2018
Tomislav Barada	Member of the Supervisory Board from 30 May 2018
Antonio Sesvečan	Member of the Supervisory Board from 18 March 2019
Krešimir Gomboc	Member of the Supervisory Board from 14 March 2018 until 18 March 2019
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Dean Sinković	Vice President from 30 January 2017 until 30 May 2018
Antonio Sesvečan	Member of the Supervisory Board from 26 April 2017 until 14 March 2018

Management Board

Ivica Arar	President of the Management Board from 30 January 2017
Marin Zovko	Member of the Management Board from 30 May 2018
Daria Krstičević	Member of the Management Board from 01 October 2017
Vedran Špehar	Member of the Management Board from 30 January 2017 until 30 May 2018
<hr/>	
Marin Zovko	President of the Management Board until 30 January 2017
Ratimir Orešković	Member of the Management Board until 30 January 2017
Radovan Cvek	Member of the Management Board until 30 January 2017

Audit Committee

Audit Committee performs activities under the jurisdiction of Article 28 of the Audit Act. Appointed members of the Company's Audit Committee are:

Ivica Smiljan	President of the Audit Committee
Lajoš Žager	Member of the Audit Committee
Mihovil Anđelinović	Member of the Audit Committee
Ilijana Krešić Rajič	Member of the Audit Committee
Drago Jakovčević	Member of the Audit Committee

II. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

2.1. Statement on Compliance and the Basis of Presentation

The Company's Annual Financial Statements for 2018 have been prepared in accordance with the Accounting Act (Official Gazette No. 78/15,134/15,120/16,116/18) and International Financial Reporting Standards ("IFRS") and in accordance with the Rulebook on the structure and content of the annual financial statements (Official Gazette No. 95/16).

Annual financial statements are prepared by applying the basic accounting assumption of the occurrence of a business event upon which the effects of operations are recognized when occurred and are presented in the financial statements for the period that they relate to, and also by applying of the basic accounting assumption of the going concern.

The Company's annual financial statements are prepared in Croatian Kuna (HRK) as a functional, that is, reporting currency of the Company.

2.2. Adoption of New and Revised International Financial Reporting Standards

Standards and Interpretations effective for the current period

The following standards, amendments to existing standards and interpretations, which are issued by the International Accounting Standards Board and adopted for implementation in the EU and are in effect for the current period, are the following:

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

The standard is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Final version of IFRS 9 Financial instruments reflects all phases of the project on financial instruments and modifies IAS 39 Financial instruments: Recognition and measurement as well as all other previous versions of IFRS 9. This standard introduces new requirements concerning classification and measurement, value reduction and accounting protection.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: (Amendments to IFRS 4)

The overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual

periods beginning on or after 1 January 2018 and only available for three years after that date.

Amends IFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

The adoption of these amendments and amendments to the standard did not significantly affect the financial statements of the Company.

2.2. Adoption of New and Revised International Financial Reporting Standards (continued)

Standards and Interpretations effective for the current period (continued)

- **IFRS 15 Revenue from Contracts with Customers**

The standard is effective for annual periods beginning on or after 1 January 2018. Within the standard a five-step model framework is introduced to be applied to income achieved based on contracts with customers (with limited exceptions), regardless of the type of income transaction or industry. Standard requirements will also apply to recognition and measurement of gains and losses from sale of some non-financial assets that are not part of Company's regular activities (sale of property, plant and equipment or intangible assets). Extensive disclosures will be requested, including also disaggregation of total revenue; information on performance; changes in the amounts of the contracted assets and liabilities between the period and the key evaluation and audit. Adoption of this changes did not have significant impact on financial statements of the Company.

- **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 purpose 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 Company 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.

- **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 is currently evaluating the impact of this standard on the financial reporting and as a result the assets and liabilities would be higher by the amount of approximately HRK 4,900,000

- **IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

- **IFRIC 23: Uncertainty over Income Tax Treatments**

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. This Interpretation has not yet been endorsed by the European Union.

2.2. Adoption of New and Revised International Financial Reporting Standards (continued)

Standards and Interpretations effective for the current period (continued)

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

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.

- **Amendments to IAS 40: Transfer of investment properties**

The Amendments are effective for annual periods beginning on or after 1 January 2018. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. The overview of IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle is presented below:

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Standards and Interpretations issued by IASB issued but not yet effective and not early adopted by the Company

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 17: Insurance contracts**

The standard is effective for annual periods beginning on or after 1 January 2021. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. This Interpretation has not yet been endorsed by the European Union.

2.2 Adoption of New and Revised International Financial Reporting Standards (continued)

Standards and Interpretations issued by IASB issued but not yet effective and not early adopted by the Company

- **IFRIC 23: Uncertainty over Income Tax Treatments**

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. This Interpretation has not yet been endorsed by the European Union.

- **Prepayment Features with Negative Compensation (Amendments to IFRS 9)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

- **Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Clarifies that an entity applies IFRS 9 Financial Instruments 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 endorsed by the European Union.

- **The IASB has issued the Annual Improvements to IFRS Standards 2015–2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019.

These annual improvements have not yet been endorsed by the European Union. The overview of the Annual Improvements to IFRSs 2015 – 2017 Cycle issued by the IASB is presented below:

- **IFRS 3 and IFRS 11:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12:** The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- **IAS 23:** The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments are in cases when plan amendment, curtailment or settlement occurs, it is then mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

2.2. Adoption of New and Revised International Financial Reporting Standards (continued)

Standards and Interpretations issued by IASB issued but not yet effective and not early adopted by the Company

- **Amendments to References to the Conceptual Framework in IFRS Standards**

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

- **IFRS 3: Definition of a Business (Amendments to IFRS 3)**

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted, these amendments are not yet been endorsed by the European Union.

These amendments clarify;

- that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

- **AS 1, IAS 8: Definition of Material (Amendments to IAS 1 and IAS 8)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The amendments clarifies the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

2.3. Key estimates and the uncertainty of estimates

During the preparation of the annual financial statements certain estimates are used that influence the Company's statement of assets and liabilities, income and expenses and the disclosure of the Company's potential liabilities.

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

Key estimates used in the application of accounting policies during the preparation of the annual financial statements relate to the depreciation count of long-term tangible and intangible assets, impairment of assets, value adjustments of inventories, value adjustment of receivables and provisions and the disclosure of potential liabilities.

III. SUMMARY OF ACCOUNTING POLICIES

Within the process of updating the adopted Accounting policies and estimates, the Company adopted modifications of accounting estimates to be applied as of 01 January 2018.

By these modifications the Company changed accounting estimates referring to the provisions for legal disputes that is presented below in note 3.16. Pursuant to IAS 8 Accounting policies, changes in accounting estimates and errors, the effect of a change in estimates is presented in the current and future reporting periods.

A summary of significant accounting policies adopted for the preparation of annual financial statements and the effect of changes in accounting estimates is presented below. Policies have been consistently applied to all the periods presented, unless otherwise stated.

3.1. Recognition of income

Revenue is recognized at the fair value of the received fees or receivables for executed services or sold products during the Company's regular activities. Revenue is expressed in the amounts reduced for value added tax, estimated customer returns, rebates and discounts. The Company recognizes income from sale of products and goods when all significant risks and rewards of ownership of the products or goods are transferred to a buyer, the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control sale of the goods, the amount of revenue can be measured reliably, it is probable that all sold products/goods will be charged and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

a) Income from the sale of services

The Company concludes contracts on natural gas transmission with buyers and based on the contracts generates income calculated pursuant to the level of completeness. Invoices are issued on a monthly basis and income is recognized at the moment the service has been performed. Income from contracts based on time and material spent is recognized according to contracted prices in the period the working hours were carried out and the direct costs were incurred, that is, upon the fulfillment of contract obligation and when the buyer acquires control over the assets.

b) Interest income

Interest income represents a reimbursement for the use of cash and/or cash equivalents. It is accrued on a time basis, using the applicable effective interest rate. Interest income is expressed as financial income in the Income statement.

c) Dividend income

Income from dividends and profit shares are recognized when the rights to receive dividends and profit shares are determined.

3.2. Operating expenses

Operating expenses represent all expenses in respect to invoiced revenue from sales of goods and services. Purchase value of sold goods are all dependant costs of purchase of sold goods.

3.3. Maintenance costs

Current and investment maintenance costs are recorded in the accounting period in which they are incurred.

3.4. Borrowing costs – interest costs

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 the purchase of these assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized as expense in the accounting period in which they are incurred.

Interest costs are recognized in the accounting period on which interest relate.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 - continued

3.5. Foreign currencies

Business transactions denominated in foreign currencies are converted in functional currency of the Company (HRK-Croatian Kuna) by applying the exchange rate valid at the date of the transaction. Financial assets and liabilities denominated in foreign currencies at the date of balance sheet are converted in HRK (Croatian kuna) by applying the middle foreign exchange rate of Croatian National Bank valid on that date. Profits or losses incurred due to the foreign exchange differences are recognized in net profit or loss of the period. At 31 December 2018 middle foreign exchange rate of Croatian National Bank is 7.417 HRK for 1 EUR (31 December 2017; 7.513 HRK/EUR).

3.6. Leases

Leases are classified as finance leases whenever the major part of all risks and rewards related to the ownership of the asset are transferred to the lessee during the lease. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is calculated on a straight-line basis over the term of the relevant lease.

The Company as lessee

The amounts paid by the Company based on the operating lease are debited to the Profit and loss account evenly during the lease term.

3.7. Taxation

The income tax liabilities for the current year is determined based on the accounting profit, adjusted for the prescribed adjustments. Income tax is calculated by applying the tax rate valid at the balance sheet date.

Deferred income taxes arise from temporary differences between the accounting value of the assets and liabilities in financial statements and value stated for the purpose of profit tax calculation. Deferred taxes are calculated by applying the tax rate expected to be applied in the years in which temporary differences are expected to be offset or settled, all based on tax law valid or essentially valid at the balance sheet date.

Deferred tax assets is recognized up the amount for which it is probably that will sufficient taxable profit for which the deferred tax assets may be used. Accounting value of deferred tax assets is audit on each balance sheet date and it is reduced for the amount for which it is not probable that it will be used.

3.8. Property, plant and equipment

Property, plant and equipment are initially recognized at cost and represent tangible assets whose useful life is longer than one year. The cost includes the purchase price after deductions of any discounts and rebates, customs and import charges, non-refundable taxes, the cost of spare parts of the plant and equipment, borrowing costs, and other dependent costs that can be directly attributed to bringing the asset to the site and in working condition for intended use, and the estimated value of the future removal costs if recognition conditions for the same are met.

Subsequent measurement of the property, plant and equipment is expressed in cost reduced by accumulated depreciation and impairment loss.

Subsequent costs referring to the existing material asset increase the value of the asset if the estimated useful life is expanded, capacity increased and/or quality of service significantly improved, that is, cost of conducting business is significantly reduced. All other repair and maintenance costs are recognized in the Income statement as incurred.

If significant component parts of property, plant and equipment are replaced, the Company recognizes such parts as assets with specific useful life, if they satisfy the definition of an asset.

Gas reserves that are required for initial filling of transmission system and operational reserves are expressed within the property, plant and equipment. This amount is not depreciated but is tested for reduction. However, in cases of overhauls and other events which result in the consumption of a portion of reserves, the consumed portion is recognized as an expense which is measured by average weighted value.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 - continued

3.8. Property, plant and equipment (continued)

The supplemented quantity is recognized at the purchase prices, valid at the moment when a part of the reserve is consumed and when it requires supplementing.

Depreciation is calculated by deducting the purchase value of the assets, except land, initial filling of gas pipelines with gas, operational reserves, art works and investments in progress, on a straight line basis over the estimated useful life of the assets:

Description	2018	2017
	Useful life time	Useful life time
Facilities – pipelines	35	35
Facilities – buildings	35	35
Other facilities	10	10
Plants and equipment	4 - 10	4 - 10
Tools, inventory and transport vehicles	4 - 10	4 - 10

Property, plant and equipment and all their significant parts cease to be recognized at the moment they are disposed of, or when it is not expected any future economic benefit from usage of it.

Any gains or losses arising from writing off or disposal of certain asset are determined as difference between sale revenue and carrying amount of that asset and are recognized in the Income statement pursuant to net principle.

Residual (current) value, useful lifetime and methods of depreciation are reviewed at the end of each financial year and adjusted respectively, or if there is a need for review.

3.9. Intangible assets

Intangible assets are rights, software investments and licenses.

Intangible assets are initially recognized at purchase cost which includes invoiced value and all costs which can be directly attributed to bringing the assets in working condition for its intended use, and which occurred until it is activated.

Intangible assets with finite lifetimes are depreciated over the estimated useful economic lifetime and assessed whenever there is indication that it may be impaired. Changes in the expected useful lifetime are treated as changes in accounting estimates.

The estimated useful lifetime is reviewed annually.

The cost of depreciation of intangible assets with a finite useful lifetime is recognized in the Income statement as an expense consistent over their useful lifetime.

3.10. Financial assets

The Company is applying IFRS – 9 Financial instruments since 01 January 2018 and that does not have significant impact on the Company's financial statements. Financial assets is recognized when the Company becomes a party to the contractual provisions of the instrument and it is classified according to the characteristics of contracted cash flows and business models as follows:

- financial assets-fair value through profit or loss;
- financial assets-fair value through other comprehensive income;
- given loans – is held to hold in order to collect contractual cash flows/ amortized cost

Shares in subsidiary companies represent long-term financial investments with voting shares over 50% in which the Company has a control over adopting and implementing financial policies, and they are consolidated on the level of the Group. Participating interest, that is, investments in associated companies represent long-term financial investments with a significant influence, but without of control over adopting and implementing financial and business policies. Investments into subsidiaries and associated companies in financial statements are stated at cost method.

3.10. Financial assets (continued)

Short-term financial assets include investments aimed at gaining income expected to be cashed within 12 months from the date of balance (loans, deposits and similar, investments in securities). Short-term financial assets is stated by the cost method reduced for value adjustments.

3.11. Inventories

Inventories are stated at the acquisition cost or net realizable value, depending on which is lower. The acquisition costs of inventories comprise the purchase price and associated costs that can be directly attributed to the acquisition of the inventory. Trade discounts and similar items are deducted in determining the acquisition cost.

Inventories present raw materials and materials, spare parts, small inventory, packaging and tires and similarly assets that is expected to be used within one year.

Consumption of inventories of raw materials and materials is calculated using the weighted average cost method, and it is recognized as the expense of the period in which it is used.

Impairment of the inventories, as the accounting estimate, is recognized as expense of the period, based on the estimate of deterioration, overage and similarly, when the realizable value (a value that can be realized by sale or use of these inventories) is smaller than the acquisition value.

Estimate of the usage and the recoverability of inventories value is performed annually by individual analyze of the usability for each inventory, or group of inventories which did not have a turnover for at least two years.

3.12. Short-term receivables

Short-term receivables represent receivables up to one year and include trade receivables, receivables from employees, state and other receivables. Mentioned assets are stated at their nominal value. Impairment of receivables is recognized as loss in income statement on the basis of the best estimate of the impossibility of charging.

3.13. Impairments

Net carrying value of the Company is reviewed at each balance sheet date to determine whether there is any indication of assets impairment. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized in the in income statement in all cases when the net carrying value is greater than their recoverable amount.

The recoverable amount of receivables is calculated as the present value of expected future cash flows, discounted at the effective interest rate.

3.14. Cash and cash equivalents

Cash and cash equivalents comprise cash on bank accounts and in treasury, short-term deposits with a contracted maturity of up to three months and other short-term investments of high liquidity that can be converted quickly into cash and are not under a significant impact of value change risk.

3.15. Contingent liabilities/Contingent assets

Contingent liabilities are not recognized in the financial statements. They are disclosed, unless there is a small probability for outflow of accompanying economic benefits from the Company.

Contingent assets are not recognized in the financial statements but are disclosed when inflow of economic benefits is probable.

3.16. Long-term provisions

Provisions are recognized when the Company has a present liability (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the liability and a reliable estimate can be made of the amount of the liability.

Provisions are reviewed at each balance sheet date and adjusted according to the latest estimates. In the event that the Company expects compensation for the reserved amount, such compensation is recognized as a separate assets item, but only when such compensation becomes certain.

Provisions are established for the costs of legal proceedings and the cost of awards to employees for long term employment and retirement (regular jubilee awards and severance payments).

In 2018 the Company modified accounting estimates for provisions for legal proceedings, based on the best estimate of their outcome. Applied from 1 January 2018 in addition to the provision for principal amount of the suit, the costs of provisions include estimated costs of penalty interests and costs of court proceeding. Financial effect of this change of accounting estimates are recognized in income statement of current period in the amount of HRK 1,820,125.

Provisions for awards to employees for long term employment and retirement (regular jubilee awards and severance payments) are determined as the present value of future cash flows using a discount rate equal to the interest rate on government bonds.

3.17. Government grants

The Company recognized monetary and non-monetary assets received without or with partial compensation of the state, state bodies (either on a local or international level) in compliance with IAS-20 Accounting for Government Grants and Disclosure of Government Assistance.

Government monetary and non-monetary grants are shown in nominal value together with all expenditures directly attributable to them.

From an accounting approach government grants are shown as deferred income recognized in profit on a systematic basis over the periods in which the company recognises expenses or the costs for which the grants are intended to compensate (income approach).

The grants referring to long-term assets are recognized as an income during their useful lifetime over the periods and in the proportions in which depreciation expense on those assets is recognized.

3.18. Employment benefits

Other employees` benefits

The expected cost of other employee benefits after termination of employment and jubilee awards are calculated during employment, estimating the amount of future benefits that employees earned as a refund for services rendered in the current and previous periods. Benefits are discounted to determine their present value. Discount rates are based on interest rates on government bonds. Labour costs are allocated through the average period until they expire. Costs related to jubilee awards and severance payments are debited to the costs of employees. Valuation of these liabilities is carried out annually.

Severance payments

Severance payment liability arises when employment is terminated before the normal retirement date or when an employee accepts voluntary retirement in lieu of severance payment.

Short-term employees' benefit

The Company recognizes accruals for unused annual leave when the employees render services that increase their entitlement for future compensated absences, and for severance payment when retiring according to the plan for the next tax period.

The Company has no specific retirement plans for employees. All employees are included in pension plans at the state level. The liability of the company is reduced to the payment of statutory contributions on employee benefits.

3.19. Environmental protection policy

The Company's environmental protection policy is such that its employees are constantly aware of environment protection and that they ensure a constant contribution to its protection and improvement as well as to their working environment.

3.20. Financial instruments

Financial instruments are classified as assets, liabilities or equity instruments in accordance with applicable contracts. Interest, gains and losses on financial instruments classified as assets or liabilities are recognized as income or expense when they arise.

Financial assets and financial liabilities are recognized in the balance sheet of the Company once the Company becomes the part of contractual provisions of the financial instrument.

Receivables are stated at their nominal value decreased by the appropriate allowances for estimated irrecoverable amounts.

Liabilities are stated at their nominal amounts.

Investments are recognized on a trade-date basis of accounting and initially are measured at cost, which includes transaction costs. Investments are classified as investments held for trading for which changes in fair value are recognized in the Profit and loss account or as investments available for sale for which changes in fair value are recognized in capital as revaluation reserve.

Interest-bearing bank loans are recorded in the amount of the proceeds received.

The Management Board believes that the fair value of all assets and liabilities stated in the balance sheet do not materially differ from their carrying amounts.

3.21. Events after the balance sheet date

Subsequent events which provide additional information on the position of the Company on a date of balance (events which result in adjustments) are stated in the financial statements. Events which do not result in adjustments are stated in the Notes to the financial statements if they are of any material significance.

3.22. Financial instruments and risk management

Fair value of the financial instruments

Fair value is determined as the amount by which the informed and willing parties can exchange means in the conditioned transaction, except in the event of forced sale or liquidation. Fair value of the financial instrument is the one quoted on the market or calculated using the discounted cash flow method.

At 31 December 2018 the carrying amounts of cash, short-term deposits, receivables, short-term liabilities and accrued expenses and short-term received loans approximate their fair values due to the short-term maturity of these financial instruments

The Company is exposed to the following financial risks derived from its activities:

- Market risk
- Fair cash flow value or interest risk
- Credit risk
- Foreign currency risk
- Liquidity risk

a) Market risk

The Company operates in the Croatian market as a subject for natural gas transmission and is the gas transmission system operator in the energy sector in the Republic of Croatia. There were no significant changes to the possible impact of market risk to the Company's operations.

b) Interest rate risk

Interest rate risk is a risk that the value of financial instruments will change due to change of market interest rates in relation to interest rates applied to the financial instruments. Cash flow interest rate risk is a risk that interest expenses on financial instruments are variable during the period. The Company has significant amounts of long-term loans which exposes it to the cash flow risk.

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 - continued

3.22. Financial instruments and risk management (continued)

c) Credit risk

Assets that can potentially lead the Company in credit risk consist mainly from cash, cash equivalents and trade receivables. The Company has no other significant concentrations of credit risk

d) Foreign currency risk

Management of foreign currency risk

Official and functional currency of the Company is Croatian kuna (HRK) and transactions determined in foreign currency are converted in HRK by applying exchange rate valid on the balance sheet date, and therefore the Company is potentially exposed to the risk of changes in foreign exchange rates.

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange. Most of the transactions are denominated Euros.

The carrying amounts of monetary assets and liabilities of the Company denominated in Euros as at the reporting date are as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
EUR	11,456,745	5,121,052	171,774,194	190,086,021
HRK	84,981,265	38,477,782	1,274,147,964	1,428,239,455

Foreign currency sensitivity analysis

The Company is primarily exposed to the foreign exchange rate risk in case of change of the exchange rate of euro (EUR). The following table details the Company's sensitivity to a 1% increase and decrease in the HRK against foreign currency. 1% is the sensitivity rate used when reporting foreign currency risk internally to the Board and represents Board's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only foreign currency denominated receivables and liabilities and represents adjustments of their values at the period end for a 1% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

A (negative) / positive amount below indicates a net (decrease) / increase in profit before tax in HRK where HRK weakens / strengthens 1% against the EUR:

	Effects of the changes in the EUR exchange rate	
	2018	2017
Profit / (Loss)	+/- 11,891,667	+/- 13,897,617

e) Liquidity risk

Management of the liquidity risk

Liquidity risk is a risk that the Company will not be able to meet its financial liabilities to another contracting party. The Company manages solvency risk in the way that it continuously observes and analyses expected and actual cash flow on the basis of maturity of financial assets and liabilities.

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 - continued

3.22. Financial instruments and risk management (continued)

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to make payment.

Maturity of non-derivative financial liabilities

LIABILITIES	Up to 1 month	1 month to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2018						
European Investment Bank, Luxemburg (interest 3.95% - 5.054%)	-	-	135,829	679,147	459,172	1,274,148
Other liabilities	74,506	-	59,748	-	48	134,302
Total	74,506	-	195,577	679,147	459,220	1,408,450
31 December 2017						
European Investment Bank, Luxemburg (interest 3.95% - 5.054%)	-	-	137,589	687,943	602,708	1,428,240
Other liabilities	40,934	18,504	67,102	-	48	126,588
Total	40,934	18,504	204,691	687,943	602,756	1,554,828

The Company expects to meet its obligations out of operating cash flows and proceeds from maturing financial assets.

3.23. Comparative information

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 - continued

IV NOTES TO THE INCOME STATEMENT

4. Sales income

DESCRIPTION	2018	2017
	HRK	HRK
Interconnection entry fee	163,426,210	209,995,723
Fee for exit in Croatia	139,056,591	166,704,713
Production entry fee	67,728,552	87,851,563
Gas volume fee	45,916,027	54,295,483
Gas warehousing entry fee	14,726,427	16,124,930
Excess fees	10,643,356	11,510,189
Non-standard services	67,560	689,391
Deviations from nominations / correction	1,917,265	631,986
Connection fee	-	14,917
TOTAL	443,481,988	547,818,895

Income from sale is realized from energy activity of gas transmission based on a tariff system for gas transmission and is prescribed by valid regulations and supervised by the state regulator – Croatian Energy Regulatory Agency (HERA).

5. Other operating income

DESCRIPTION	2018	2017
	HRK	HRK
Subsequently collected impaired receivables	5,641,644	4,135
Compensation for damages and other compensations	1,865,125	3,702,767
Lease income /i/	1,792,339	1,823,773
Income from penalties, fines, payments in kind, waste materials	1,560,392	1,086,803
Other operating income – related company Podzemno skladište plina Ltd.	380,823	439,953
Income from release of provision for unused vacations	184,890	80,886
Income from sale of materials	141,796	74,617
Income from release of long-term provisions	139,576	206,430
Other operating income – company with participating interests-LNG Hrvatska Ltd.	39,873	100,617
Other operating income	60,018	139,046
Income from release of provisions for severance payments– connection note 31 i 38 /ii/	39,748	-
Income from received grants – IAS 20 – connection note 38	11,268	-
Income from sale of fixed assets	4,070	19,720
Income from reduced impairment of inventories	-	14,810,890
TOTAL	11,861,562	22,489,636

/i/ Lease income stated for 2018 in amount of HRK 1,792,339 (2017: HRK 1,823,773) relates to rental of pipelines, telecommunications infrastructure and compensation easements and right of construction.

/ii/ According to calculation of provisions for severance payments and jubilee awards (IAS-19) as at 31 December 2018 short-term provisions for severance payments recorded growth in amount of HRK 801,637 (Note 38) and long-term provisions are reduced in amount of HRK 841,385 (Note 31).

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 - continued

6. Cost of raw materials and materials

DESCRIPTION	2018	2017
	HRK	HRK
Cost of energy	9,264,861	7,103,443
Cost of raw material and materials	3,231,957	2,985,359
Costs of spare parts	1,785,791	2,448,492
Costs of small inventory	638,193	682,607
TOTAL	14,920,802	13,219,901

7. Cost of sold goods

DESCRIPTION	2018	2017
	HRK	HRK
Cost of sold material and waste	141.796	74.617
TOTAL	141.796	74.617

8. Other external costs

DESCRIPTION	2018	2017
	HRK	HRK
Maintenance services /i/	55,183,705	47,052,721
Rental costs an lease /ii/	5,178,865	5,026,017
IT services	4,656,657	4,331,421
Legal services /iii/	3,603,887	3,203,952
Safe-keeping of property services	2,733,915	2,381,351
Utilities	2,077,074	1,687,538
Maintenance of business information system	1,058,136	1,791,367
Transport and telecommunication services	711,661	664,544
Promotion and sponsorship	676,872	552,898
Services of designing and consulting	623,570	786,407
Compensations	324,511	371,622
Advisory and consulting services	264,100	861,000
Geodetic services	228,720	104,180
Costs of administrative ads	217,078	201,582
Vehicle registration costs	108,086	87,762
Labor cost expenses	93,326	121,789
Tax consulting services	51,300	58,800
Other external services (intellectual, graphic,etc) /iv/	2,042,657	2,065,798
TOTAL	79,834,120	71,350,749

/i/ Maintenance services stated in income statement for 2018 in amount of HRK 55,183,705 (2017: HRK 47,052,721) relate mainly to the current maintenance of transmission system in amount of HRK 44,559,550 and investment maintenance of transmission system in amount of HRK 7,152,377 which include maintaining and sanitation of pipelines - regular servicing of gas pipelines and accompanying equipment, interventions and repairs and an annual inspection of gas pipelines and accompanying systems, maintenance of remote reading system, setting parameters and monitoring custody meters and data processing, detailed inspection of cathode protection of gas pipeline and corrective maintenance of cathode protection, clearing shrubs and mowing grass on gas pipeline routes in gas

8. Other external costs (continued)

transmission regions, periodical inspection and maintenance of equipment, installations and objects of electricity plants, mechanical maintenance of pipelines, inspection of gas pipeline wall thickness, annual service checks and maintenance of processing computers and accompanying uninterruptible power supply systems, general work over of boiler rooms, maintenance of SUKAP system, maintenance of hardware and software of the SCADA system, replacement of electric drives and etc. Maintenance costs are increasing comparing to the previous year mainly because of activation of new equipment in scheduled maintenance and system repair in order to maintain its safety and availability.

/ii/ Rental costs and lease stated in income statement for 2018 in amount of HRK 5,178,865 (2017: HRK 5,026,017) mainly relate to rental of warehousing space for operating stock in amount of HRK 1,331,771, rental related to the function of the transmission system in amount of HRK 1,205,520 which mostly include rental of space for placing the devices or base station, rent of pipeline and the lease of electronic communication network and its parts, lease of web booking platforms in amount of HRK 1,716,307, leasing of vehicles in amount of HRK 832,174 and rent of business premises in amount of HRK 93,093.

/iii/ Legal services stated in the Income statement for 2018 in amount of HRK 3,603,887 (2017: HRK 3,203,952) is related to the legal services provided by three law firms that represent the Company in lawsuits and land registry procedures relating to resolving legal property issues.

/iv/ Other external services costs stated in Income statement for 2018 in amount of HRK 2,042,656 (2017: HRK 2,065,798) mainly relate to the services of expertise in amount of HRK 349,761, intellectual services in amount of HRK 225,327, collecting meteorological data in amount of HRK 339,136, analysis of gas samples in amount of HRK 360,070, audit services in amount of HRK 184,300, services of external staff in amount of HRK 195,600, services of analysis work spaces and other human resources services in amount of HRK 112,100, services of translation in amount of HRK 39,765 and other external services.

9. Cost of employees

DESCRIPTION	2018	2017
	HRK	HRK
Net salaries	34,756,794	33,590,639
Taxes and contributions from salaries	16,875,779	16,038,186
Contributions on salaries	8,850,855	8,536,203
TOTAL	60,483,428	58,165,028

The total income of the Management Board for 2018 amounts to HRK 1,749,372 of which the salary amounts to HRK 1,610,093, benefit in kind amounts to HRK 108,950, deductible fees amounts to HRK 12,500, other undeductible material benefits amounts to HRK 17,829 (2017: total income HRK 1,242,079 from which the salary amounts to HRK 1,176,544, salary in kind amounts to HRK 52,885 deductible fees amounts to HRK 12,650).

10. Depreciation

DESCRIPTION	2018	2017
	HRK	HRK
Depreciation of intangible assets	4,317,122	3,747,587
Depreciation of tangible assets	124,887,883	123,553,186
TOTAL	129,205,005	127,300,773

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 - continued

11. Other costs

DESCRIPTION	2018	2017
	HRK	HRK
Various fees and contributions	4,340,803	4,285,598
Allowance to the employees <i>/i/</i>	3,821,554	3,480,277
Administrative and legal costs	2,275,820	846,738
Insurance premiums	1,933,995	1,984,413
Memberships in expert and other associations	1,835,460	1,653,833
Business travel costs	1,282,913	1,160,630
Cost of professional training	577,913	504,216
Representation	488,768	436,575
Remuneration to the members of Supervisory Board and Audit Committee	357,081	290,911
Donations	349,000	238,603
Taxes and contributions independent from business result	341,035	569,165
Services contract, royalties and other compensations	189,212	294,586
Bank services and fees	133,678	128,239
Other operating expenses	131,048	411,304
TOTAL	18,058,280	16,285,088

/i/ Allowance to the employees are stated as follows:

DESCRIPTION	2018	2017
	HRK	HRK
Travel allowance	2,397,339	2,288,030
Travel expenses for field work	25,173	70,937
Jubilee awards	202,000	87,000
Severance payment	103,690	48,000
Other allowances	1,093,352	986,310
TOTAL	3,821,554	3,480,277

12. Value adjustment of short-term assets

DESCRIPTION	2018	2017
	HRK	HRK
Value adjustment of inventories of materials and spare parts	151,337	105,944
Value adjustment of receivables	131,063	2,630,255
TOTAL	282,400	2,736,199

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 - continued

13. Provisions

DESCRIPTION	2018	2017
	HRK	HRK
Provisions for legal disputes	2,109,574	-
Provisions for severance payments and jubilee awards	-	5,717,506
TOTAL	2,109,574	5,717,506

In 2018 the Company modified accounting estimates for provisions for legal proceedings, as it is stated in note 3.16. According to this modification provisions include estimated values of penalty interest and court procedure cost in amount of HRK 1,820,125 (penalty interest: HRK 1,758,103). The remaining part of provisions for 2018, in the amount of HRK 289,449, refers to additional provisions for the principal of a legal dispute for which a negative outcome is anticipated according to the latest estimates.

The Company recognise long-term provisions for severance payments for retirement and jubilee awards based on IAS – 19 Employee benefits. Calculations are based on the terms of the valid Collective Agreement, and the total gross payments including the prescribed taxes and contributions.

14. Other operating expenses

DESCRIPTION	2018	2017
	HRK	HRK
Operational losses of gas and differences in measurement <i>/i/</i>	19,970,339	15,788,983
Current value of sold and disposed assets	2,074,734	11,724,047
Write-off receivables	-	254
TOTAL	22,045,073	27,513,284

/i/ Operational losses of gas and differences in measurement is stated for 2018 in amount of HRK 19,970,339 (2017: HRK 15,788,983). According to the Rules of organization of the gas market which are valid from 1 January 2015 and Network Code of the transmission system valid from 1 January 2015 and its amendments from 1 October 2015 responsibility for the losses and the differences in the measurement was transferred to the operator. Differences in measurement are determined as the difference between the entry and exit of gas to system users plus the difference between the operating balance accounts minus the difference between the total stocks of the Company at the end and at the beginning of the year plus the amount of gas purchased by the Company to compensate for losses of gas in 2018. The company had differences in measurement 2018 in amount of kWh 104,297,838.

15. Financial income

DESCRIPTION	2018	2017
	HRK	HRK
Foreign exchange gains	19,263,284	12,255,993
Interest income	2,801,114	6,601,106
Non-realized gains from financial assets	88,793	130,329
Income from profit share	-	66,603,901
TOTAL	22,153,191	85,591,329

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 - continued

16. Financial expenses

DESCRIPTION	2018	2017
	HRK	HRK
Interest expenses	53,420,230	59,468,394
Foreign exchange losses	1,647,829	2,714,316
TOTAL	55,068,059	62,182,710

17. Corporate income tax

POSITION	2018	2017
	HRK	HRK
Profit of the current year before taxation	95,348,204	271,354,005
Increase of tax base	5,232,096	16,105,100
Decrease of tax base	(1,089,825)	(80,098,881)
Tax base	99,490,475	207,360,224
Corporate income tax rate	18%	18%
Tax liability	17,908,285	37,324,840
Deferred tax concerning the temporary differences	(406,934)	(956,303)
Corporate income tax (effective rate 18.355%)	17,501,351	36,368,537

Deferred tax assets for the current and preceding year incurred due to tax non-deductible impairment of financial assets, provisions for liabilities based on previous labour and costs of long-term provisions (Note 21 to the financial statements).

Effective corporate income tax rate is 18.355 % (13.403% in 2017).

Value adjustment of deferred tax assets are stated as follows:

	2018	2017
Balance at 1 January	1,941,312	985,009
Reversal of deferred tax assets	(230,655)	(37,157)
Forming of deferred tax assets	637,589	993,460
Balance at 31 December	2,348,246	1,941,312

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 - continued

V NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET

18. Intangible assets

DESCRIPTION	Concessions, patents, licenses, software and other rights	Intangible assets in preparation	Intangible assets
	HRK	HRK	HRK
PURCHASE VALUE			
Balance at 1 January 2017	441,828,555	-	441,828,555
Purchase during the year	9,274,002	9,274,002	18,548,004
Transfer-projects	-	(8,506,188)	(8,506,188)
Transfer-other	-	(767,814)	(767,814)
Disposal and write-off	(1,220)	-	(1,220)
Balance at 31 December 2017	451,101,337	-	451,101,337
Purchase during the year	7,770,145	7,770,145	15,540,290
Transfer-projects	-	(5,847,351)	(5,847,351)
Transfer-other	-	(1,922,794)	(1,922,794)
Disposal and write-off	(19,691,158)	-	(19,691,158)
Balance at 31 December 2018	439,180,324	-	439,180,324
ACCUMULATED DEPRECIATION			
Balance at 1 January 2017	427,414,803	-	427,414,803
Depreciation in 2017	3,747,587	-	3,747,587
Disposal and write-off	(1,220)	-	(1,220)
Balance at 31 December 2017	431,161,170	-	431,161,170
Depreciation in 2018	4,317,122	-	4,317,122
Disposal and write-off	(19,691,158)	-	(19,691,158)
Balance at 31 December 2018	415,787,134	-	415,787,134
CURRENT VALUE			
BALANCE AT 01 JANUARY 2017	14,413,752	-	14,413,752
BALANCE AT 31 DECEMBER 2017	19,940,167	-	19,940,167
BALANCE AT 31 DECEMBER 2018	23,393,190	-	23,393,190

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year that ended 31 December 2018 - continued

19. Property, plant and equipment

DESCRIPTION	Land		Buildings		Plant and equipment		Tools, plant, inventory, transport vehicles		Other tangible assets		Assets in preparation		Advances for tangible assets		Total property, plant and equipment	
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
PURCHASE VALUE																
Balance at 1 January 2017	77,134,568	4,611,933,920	328,891,704	15,630,069	1,014,000	109,032,823	-	-	5,143,637,084							
Purchase during the year-projects	-	-	-	-	-	-	-	-	49,016,026	-	-	-	-	-	-	49,016,026
Purchase during the year- other	-	-	22,716	-	-	-	-	-	22,626,945	-	-	-	-	-	-	22,649,661
Transfer from investments in progress-projects	813,516	4,662,327	21,067,566	84,226	-	(26,627,635)	-	-	-	-	-	-	-	-	-	-
Transfer from investments in progress-other	-	3,077,693	2,525,581	155,522	-	(5,758,796)	-	-	-	-	-	-	-	-	-	-
Natural gas for compensation of differences in measurement	-	-	19,951,281	-	-	(19,951,281)	-	-	-	-	-	-	-	-	-	-
Investment material inventories	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating losses in measurement	-	-	(15,788,983)	-	-	-	-	-	-	-	-	-	-	-	-	(15,788,983)
Disposal and write-off	-	(4,094,388)	(5,709,336)	(246,100)	-	(9,076,881)	-	-	-	-	-	-	-	-	-	(19,126,705)
Balance at 31 December 2017	77,948,084	4,615,579,552	350,960,529	15,623,717	1,014,000	119,261,201	-	-	5,180,387,083							
Purchase during the year-projects	-	-	-	-	-	-	-	-	116,566,728	-	-	-	-	-	-	116,566,728
Purchase during the year- other	-	-	-	-	-	-	-	-	37,024,697	-	-	-	-	-	-	37,024,697
Transfer from investments in progress-projects	6,330	1,345,295	15,588,587	-	-	(16,940,212)	-	-	-	-	-	-	-	-	-	-
Transfer from investments in progress-other	-	6,453,399	9,809,909	1,227,829	-	(17,491,137)	-	-	-	-	-	-	-	-	-	-
Natural gas for compensation of differences in measurement	-	-	19,645,877	-	-	(19,645,877)	-	-	-	-	-	-	-	-	-	-
Investment material inventories	-	-	-	-	-	-	-	-	9,178,990	-	-	-	-	-	-	9,178,990
Operating losses in measurement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal and write-off	-	-	(19,970,339)	-	-	-	-	-	-	-	-	-	-	-	-	(19,970,339)
Purchase during the year-projects	-	(2,458,615)	(7,708,268)	(164,941)	-	(262,644)	-	-	-	-	-	-	-	-	-	(10,594,468)
Balance at 31 December 2018	77,954,414	4,620,919,631	368,326,295	16,666,605	1,014,000	227,691,746	-	-	9,625,045	9,625,045	9,625,045	9,625,045	9,625,045	9,625,045	9,625,045	5,322,217,736

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year that ended 31 December 2018 - continued

19. Property, plant and equipment (continued)

DESCRIPTION	Land	Buildings	Plant and equipment	Tools, plant, inventory, transport vehicles	Other tangible assets	Assets in preparation	Advances for tangible assets	Total property, plant and equipment
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
ACCUMULATED DEPRECIATION								
Balance at 1 January 2017	-	1,734,129,767	236,523,869	13,061,406	-	-	-	1,983,715,042
Depreciation in 2017	-	109,178,138	13,630,317	744,731	-	-	-	123,553,186
Disposal and write-off	-	(1,913,384)	(5,543,628)	(246,100)	-	-	-	(7,703,112)
Other changes	-	-	13,926	-	-	-	-	13,926
Balance at 31 December 2017	-	1,841,394,521	244,624,484	13,560,037	-	-	-	2,099,579,042
Depreciation in 2018	-	109,220,784	14,792,961	874,138	-	-	-	124,887,883
Disposal and write-off	-	(1,035,243)	(7,632,595)	(164,941)	-	-	-	(8,832,779)
Balance at 31 December 2018	-	1,949,580,062	251,784,850	14,269,234	-	-	-	2,215,634,146
CURRENT VALUE								
BALANCE AT 1 JANUARY 2017	77,134,568	2,877,804,153	92,367,835	2,568,663	1,014,000	109,032,823	-	3,159,922,042
BALANCE AT 31 DECEMBER 2017	77,948,084	2,774,185,031	106,336,045	2,063,680	1,014,000	119,261,201	-	3,080,808,041
BALANCE AT 31 DECEMBER 2018	77,954,414	2,671,339,569	116,541,445	2,417,371	1,014,000	227,691,746	9,625,045	3,106,583,590

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year that ended 31 December 2018 - continued

20. Long-term financial assets

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Share in Podzemno skladište plina Ltd. (100% share)	518,385,666	518,385,666
Share in LNG Hrvatska Ltd. – share in voting rights 50%, and in equity 46.34 %	23,465,900	23,465,900
Value adjustment of investment in LNG Hrvatska Ltd.	(5,057,804)	(5,057,804)
Total shares in the related companies	536,793,762	536,793,762
Investment in stocks of Petrokemija Plc., Fertilizer Company – share of 5.45 % in capital and voting rights	30,000,000	-
Given loans to Company with participating interest - LNG Hrvatska Ltd. (interest = 4.97%)	29,029,595	18,570,056
Deposit at Privredna banka Plc.	-	33,795
Total loans, deposits and similar	59,029,595	18,603,851
TOTAL	595,823,357	555,397,613

The Company stated value of shares in LNG Hrvatska Ltd. („LNG“) as at 31 December 2018 in amount of HRK 18,408,096. LNG was established to develop the LNG terminal project. Based on the „Decision of the Croatian Government on Modification of the Decision on declaration of LNG terminal project (construction of the receiving LNG terminal for liquefied natural gas on the island of Krk) strategic investment project for the Republic of Croatia“ (OG 11/2018), the project will be implemented in two phases (a floating and an onshore terminal), and it has been declared strategic investment project of the Republic of Croatia in all phases of its development.

At 26 March 2018 Assembly of the Company LNG made a decision about increasing the subscribed capital, changing the subject of business and social contract of the company LNG Hrvatska Ltd. (Number of the decision: SK-05/2018). Based on this decision capital of LNG increased and the nominal share of HEP Plc. in capital is increased from 3.56% to 53.66%. The share of Plinacro Ltd. decreased from 96.44% to 46.34 %. Voting rights of the owners of the LNG remain unchanged.

At 30 January 2019 Croatian Government made a „Decision about financing first phase of project floating terminal for liquefied natural gas on island Krk „ (OG 12/2019).

At 31 October 2018 based on decision of Assembly of the Company (number: SD 16/2018) the Company made payment for stock of the company Petrokemija Plc., Fertilizer Company, 3 mil stocks with unit value of 10 HRK. Based on solution of the Trade court in Zagreb dated 5 November 2018 about the increase of the subscribed capital of the Petrokemija Plc., the Company acquired the share of 5.45 % in nominal capital, as well as in voting rights.

21. Deferred tax assets

Deferred tax assets stated at 31 December 2018 in amount of HRK 2,348,246 (at 31 December 2017 HRK 1,941,312) is formed from temporary differences from value adjustments of the financial assets, provisions for liabilities based on previous labour and long-term provisions for severance payments and jubilee awards (Note 17 to the financial statements).

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year that ended 31 December 2018 - continued

22. Inventories

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Raw materials and materials	18,400,012	20,269,367
Spare parts in warehouses	7,116,960	7,790,664
Small inventory, packaging and car tires in warehouses	382,135	691,128
Small inventory, packaging and care tires in use	2,658,420	2,792,645
Value adjustment for raw materials and materials, spare parts and small inventories and packaging	(2,915,702)	(2,898,589)
TOTAL	25,641,825	28,645,215

23. Trade receivables

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Trade receivables for services	67,636,603	79,975,750
Receivables from accrued interest	73,567	70,304
Impairment of receivables	(13,326,833)	(18,948,210)
TOTAL	54,383,337	61,097,844

24. Receivables from the employees

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Receivables for advance payments for business travel	392	-
Other receivables from the employees	2,765	-
TOTAL	3,157	-

25. Receivables from the State

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Receivables from prepaid corporate tax	17,753,654	-
Receivables from VAT	51,243	144,160
Other receivables from the State	50,956	46,817
TOTAL	17,855,853	190,977

26. Other short-term receivables

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Receivables from advance payments	604,136	1,081,594
Other receivables	900,866	871,384
Impairment of the other receivables	(294,562)	(183,767)
TOTAL	1,210,440	1,769,211

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year that ended 31 December 2018 - continued

27. Financial assets

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Bank deposits /i/	5,839,709	2,045,738
Receivables from investment in bonds and shares	1,693,379	1,701,619
Impairment of value of securities	(1,474,257)	(1,571,290)
TOTAL	6,058,831	2,176,067

/i/ Bank deposits stated at 31 December 2018 in amount of HRK 5,839,709 (31 December 2017: HRK 2,045,738) relate in total to deposit at Hrvatska poštanska banka Plc.

28. Cash at the bank and in treasury

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Cash on accounts - HRK	173,154,244	114,239,703
Separate cash accounts and letters of credit /i/	59,537,141	66,777,193
Cash in foreign currency accounts	84,982,889	38,483,794
Cash on hand -HRK	2,908	1,925
Foreign currency on hand	7,521	5,589
Deposits	401,000,000	600,000,000
TOTAL	718,684,703	819,508,204

/i/ Separate cash accounts stated as at 31 December 2018 in amount of HRK 59,537,141 (31 December 2017: HRK 66,777,193) relate mainly to guarantees in the form of cash deposits for providing collection of receivables based on commercial contracts.

29. Prepaid expenses and accrued income

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Prepaid expenses for the following year	1,565,904	704,211
Accrued income	40,441	497,431
TOTAL	1,606,345	1,201,642

Accrued income stated as at 31 December 2018 in amount of HRK 40,441 (31 December 2017: HRK 497,431) relate on income from undue interests on bank deposits.

30. Capital

Subscribed capital of the Company is stated as at 31 December 2018 in amount of HRK 912,022,000 (31 December 2017 in the same amount). The sole owner of the Company is Republic of Croatia.

Changes in equity are described on page 11 of the financial statement.

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year that ended 31 December 2018 - continued

31. Long-term provisions

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Provisions for severance payments	5,801,479	6,642,864
Provisions for costs of legal disputes	4,153,665	2,044,091
Provisions for previous labour	68,458	208,034
TOTAL	10,023,602	8,894,989

Changes of provisions are stated as follows:

DESCRIPTION	Provisions for costs of legal disputes	Provisions for the severance payments and jubilee awards	Provisions for previous labour
	HRK	HRK	HRK
1 December 2018	2,044,091	6,642,864	208,034
Additional provisions (Note 13)	2,109,574	-	-
Reversal of provisions based on estimation (Note 5)	-	(841,385)	(887)
Reversal based on payment	-	-	(138,689)
31 December 2018	4,153,665	5,801,479	68,458

32. Long-term liabilities

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
European Investment Bank, Luxemburg (interest 3.95% - 5.054%)	1,274,147,964	1,428,239,456
Current portion of long-term loans	(135,829,357)	(137,588,630)
Total long-term financial liabilities	1,138,318,607	1,290,650,826
Other long-term liabilities - Ina Plc.	48,546	48,546
TOTAL	1,138,367,153	1,290,699,372

Maturity of principal of long-term loans per year is stated as follows:

LOAN MATURITY PER YEAR	EUR		Total	Total
	EIB I	EIB II	EUR	HRK
2019	6,000,000	12,311,828	18,311,828	135,829,357
2020	6,000,000	12,311,828	18,311,828	135,829,357
2021	6,000,000	12,311,828	18,311,828	135,829,357
2022	6,000,000	12,311,828	18,311,828	135,829,357
after 2023*	19,333,333	79,193,548	98,526,881	730,830,536
TOTAL	43,333,333	128,440,860	171,774,193	1,274,147,964

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year that ended 31 December 2018 - continued

33. Short-term liabilities to banks

Short-term liabilities to banks stated as at 31 December 2018 in amount of HRK 135,829,357 (31 December 2017: HRK 137,588,630) relate to current portion of long-term loans in 2019 (Note 32 to the financial statements).

34. Trade payables

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Domestic trade payables	47,341,354	31,288,818
Trade-payables - deposits	15,501,892	5,947,356
Foreign trade payables	148,351	125,929
TOTAL	62,991,597	37,362,103

35. Liabilities for taxes and contributions

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
VAT liabilities	4,695,638	7,118,891
Liabilities for contributions on salaries and other contributions	691,920	708,298
Taxes and surtaxes from salaries	496,066	503,540
Contributions from salaries	808,178	803,633
Corporate income tax liabilities	-	9,369,202
TOTAL	6,691,802	18,503,564

36. Liabilities to employees

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Liabilities for salaries and benefits	2,738,841	2,717,615
Other liabilities to employees	233,389	233,153
TOTAL	2,972,230	2,950,768

37. Other short-term liabilities

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Cash deposits – provisions of security (note 28)	59,295,847	66,622,218
Liabilities for cessations and assignments	1,662,538	461,484
Tender securities – received funds	451,897	480,236
Other short-term liabilities	48,336	18,825
TOTAL	61,458,618	67,582,763

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year that ended 31 December 2018 - continued

38. Accrued expenses and deferred income

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Deferred income – non-refundable funds IAS 20 /i/	68,191,084	19,696,976
Accrued expenses /ii/	3,428,731	3,624,001
Other deferred income /iii/	3,099,571	3,361,167
Other accruals /iv/	4,994,470	4,618,176
TOTAL	79,713,856	31,300,320

/i/ Deferred income for non- refundable funds stated as at 31 December 2018 relate to funds received from Innovation and Networks Executive Agency (INEA), CEF (Connecting Europe Facility) for projects :

- pre-investment phase of the project of the main transit gas pipeline Zlobin-Bosiljevo-Sisak-Slobodnica for the gas transmission from the LNG terminal in amount of HRK 5,168,622
- activity on project "Interconnection Croatia – Slovenia (Bosiljevo – Karlovac – Lučko – Zabok – Rogatec (SI) – studies for phase I" in amount of HRK 14,289,627
- activity " Construction works for the LNG Evacuation Gas Pipeline section Omišalj-Zlobin" in amount of HRK 48,732,835

/ii/ Accrued expenses stated as at 31 December 2018 in amount of HRK 3,428,732 (31 December 2017: HRK 3,624,001) relate to undue interest on long-term bank loan for period of 2018 in amount of HRK 2,128,361 and short-term accruals for expenses of severance payments for in amount of HRK 1,300,370 (Note 5)

/iii/ Other deferred income stated as at 31 December 2018 in amount of HRK 3,099,571 (31 December 2017: HRK 3,361,167) relate to advance invoiced income for the service of the future period.

/iv/ Other accruals stated as at 31 December 2018 in amount of HRK 4,994,470 (31 December 2017: HRK 4,618,176) relate mainly to provisions for unused vacations in amount of HRK 1,875,011, and prepayment of corporate income tax for December 2018 in amount of HRK 3,110,403.

39. Off-balance sheet notes

DESCRIPTION	31 Dec 2018	31 Dec 2017
	HRK	HRK
Issued collaterals	238,656,944	240,839,697
EIB long-term loan interests	251,069,606	308,937,451
Funds in circulation and gas not owned by Plinacro	5,448,924	4,765,812
Receivable for penalty interests reported in bankruptcy	1,123,497	1,123,497
TOTAL	496,298,971	555,666,457

Issued collateral carried in off-balance sheet in amount of HRK 238,656,944 mainly relate to given promissory note based on Guarantee agreement of a solidary guarantor payer for the fulfillment of entire financial liabilities of the borrower Podzemno skladište plina Ltd. (31 December 2017: HRK 222,670,572).

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year that ended 31 December 2018 - continued

40. Transaction with associated parties

	31 Dec 2018	31 Dec 2018	31 Dec 2018	2018	2018
	Loan receivables	Trade receivables	Trade payables	Income	Expenses
DESCRIPTION	HRK	HRK	HRK	HRK	HRK
Podzemno skladište plina Ltd., Zagreb	-	185,777	138,687	380,823	1,331,771
LNG Hrvatska Ltd., Zagreb	29,029,595	4,154	-	1,377,412	-
TOTAL		189,931	138,687	1,758,235	1,331,771

	31 Dec 2017	31 Dec 2017	31 Dec 2017	2017	2017
	Loan receivables	Trade receivables	Trade payables	Income	Expenses
DESCRIPTION	HRK	HRK	HRK	HRK	HRK
Podzemno skladište plina Ltd., Zagreb	-	91,723	140,667	67,043,854	1,346,445
LNG Hrvatska Ltd., Zagreb	18,570,056	4,210	-	105,673	-
TOTAL	18,570,056	95,933	140,667	67,149,527	1,346,445

41. Legal disputes and contingent liabilities

In time of preparing these financial statements, there are several pending legal claims against the Company. In the opinion of the Management Board the resolution of these lawsuits will not have a significant negative effect on the financial position of the Company except for certain legal claims for which provisions have been made (Note 31 to the financial statements).

42. Events after the date of the Statement of financial position / Balance sheet

- On 18 February 2019 the Management Board took a decision for issuing the corporative guarantee for the company LNG Hrvatska Ltd., for needs of approving non-refundable grants from Innovation and Networks Executive Agency (INEA) in amount of EUR 22,623,236
- On 26 February 2019 the Management Board of the Company took a decision about conclusion of the contract for corporative guarantee with company LNG Hrvatska Ltd. for fulfilling the conditions of the LNG Hrvatska Ltd. according to concession agreement with The Ministry of the Sea, Transport and Infrastructure, in amount of EUR 2,000,000;
- On 21 February 2019 Croatian Government took a decision (Official Gazette No. 18/2019) on granting a concession to the Company for use of the maritime good for the construction and use of the main gas pipeline Zlobin-Omišalj DN 1000/100, in the area of Kraljevica and Omišalj municipality
- According to the point IX. of the decision of Croatian Government from 21 February 2019 (Official Gazette No. 18/2019) – „Decision on granting a concession for the special use of maritime goods for the purpose of construction and use of the main gas pipeline Zlobin - Omišalj DN 1000, in the area of Kraljevica and Omišalj municipality“, the Company issued promissory note No. OV-1490/2019 in favor of The Ministry of the Sea, Transport and Infrastructure in amount of HRK 179,060;
- On 18 February 2019 Assembly of the company LNG Hrvatska Ltd. made a decision to increase the subscribed capital;

On 22 February 2019 the Company made payment of the capital share in LNG Hrvatska Ltd. in amount of HRK 22,270,000. By this increase of the capital of LNG Hrvatska Ltd. nominal share of the Plinacro Ltd. in subscribed capital of LNG Hrvatska Ltd. decreased and now amounts to 15,82% (31 December 2018 = 46,34%).

PLINACRO Ltd., Zagreb
NOTES TO THE FINANCIAL STATEMENTS
For the year that ended 31 December 2018 - continued

By the new Articles of Association also changed the voting rights of Plinacro d.o.o. also changed that now belong to Plinacro d.o.o. also to the amounts of 15.82% (on 31 December 2018: 50%) (31 December 2018 = 50%)

- By the decisions of the Workers' Council on 18 March 2019 Krešimir Gomboc was dismissed from the position of workers representative in the Supervisory Board, and Antonio Sesvečan was appointed as the new representative (Note 1.2)

In addition, there were no other events after the date of the Statement of financial position / Balance sheet that would have a significant impact on annual financial statements of the Company for 2018 and which should consequently be disclosed or financial statements should be restated.

43. Approval of the annual financial statements

The annual financial statements were adopted and authorised for issuing by the Management Board on 18 April 2019.

For the Management Board of PLINACRO Ltd., Zagreb

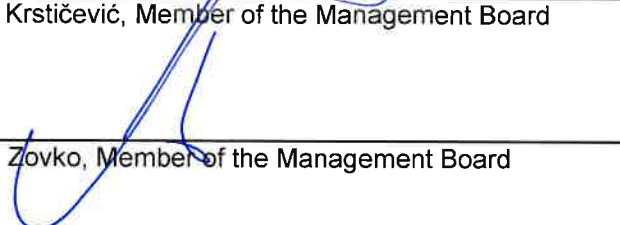

plinacro

d.o.o. - Zagreb

Ivica Arar, President of the Management Board



Daria Krstičević, Member of the Management Board


Marin Zovko, Member of the Management Board