

HŽ INFRASTRUKTURA d.o.o., Zagreb

**Annual consolidated financial statements
and Independent Auditor's Report
for the year 2016**

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RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of HŽ INFRASTRUKTURA d.o.o., Zagreb, (hereinafter: "the Company") is responsible for ensuring that the annual consolidated financial statements for the year 2016, are prepared in accordance with the Accounting Act (Official Gazette No. 109/07, 54/13 and 121/14) and International Financial Reporting Standards, to give a true and fair view of the consolidated financial position, the consolidated results of operations, the consolidated changes in equity and the consolidated cash flows of the Company for that period.

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

In preparing these consolidated financial statements, the Board is responsible that:

- Selection and consistent application of suitable accounting policies in accordance with the applicable financial reporting framework;
- Giving reasonable and prudent judgements and estimates; and
- Using the going concern basis of accounting, unless it is inappropriate to presume so

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the consolidated financial position, the consolidated results of operations, the changes in equity and the cash flows of the Company and their compliance with the Accounting Act (Official Gazette No 109/07, 54/13 and 121/14) and the International Financial Reporting Standards. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

Ivan Kršić,

Member of the Management Board

HŽ INFRASTRUKTURA d.o.o.
Mihanovićeve 12
10 000 Zagreb
Croatia

20 September 2017

INDEPENDENT AUDITOR'S REPORT

To the Owner of company HŽ INFRASTRUKTURA d.o.o., Zagreb

Report on the Audit of Annual Consolidated Financial Statements

Qualified opinion

We have audited the enclosed annual consolidated financial statements of HŽ INFRASTRUKTURA d.o.o., Zagreb, Mihanovićeveva 12, (hereinafter "the Company") for the year ended 31 December 2016, which comprise of the consolidated Statement of financial position (Balance Sheet) as at 31 December 2016, the consolidated income Statement, the consolidated Statement of other comprehensive income, the consolidated Statement of changes in equity and the Consolidated Statement of cash flow for the year then ended, and Notes to the Consolidated financial statements including a summary of significant accounting policies and other explanations.

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion, the accompanying annual consolidated financial statements, give a true and fair view of the consolidated financial position of the Company at 31 December 2016 and of the consolidated financial performance and the consolidated cash flows of the Company for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards (the "IFRS").

Basis for qualified opinion

1. The Company's Consolidated Statement of financial position (Balance Sheet) at 31 December 2016 has receivables from companies of the railway business reported in the amount of HRK 150,418 thousand and liabilities to companies of the railway business reported in the amount of HRK 11,498 thousand which have not been reconciled on the basis of confirmations received. Consequently, compared to the confirmations received, receivables from companies of the railway business were higher in the amount of HRK 41,046 thousand, and liabilities to companies of the railway business were lower in the amount of HRK 22,005 thousand. As a result, we are unable to determine the effects of the company's consolidated financial statements for 2016.

2. In the consolidated Statement of financial position (Balance Sheet) at 31 December 2016, inventories without movement in 2016 amounting to HRK 332,102 thousand were subject to review for the purpose of their possible impairment which would be debited to the Income statement. As a result of the impairment review, no adjustments were made to the value of the inventories. Since the amount of HRK 288,774 thousand was related to the project and equipment related to Lika railway project, we were not able to extend our audit procedures in order to determine whether impairment is necessary and to determine the effects of the corrections on the Company's consolidated financial statements for 2016.

3. In the Consolidated Statement of Financial Position (Balance Sheet) at 31 December 2016, the assets under construction include investments older than 3 years in the amount of HRK 1,091,661 thousand, of which the most significant project is Lika railway project in the amount of HRK 546,226 thousand. Although there are indications of the impairment, the Company did not test the impairment of the asset as at 31 December 2016. We were unable to determine the effects of the corrections on the Company's consolidated financial statements for 2016.

4. In the Consolidated Statement of financial position (Balance Sheet) at 31 December 2016, the Company has no regulated ownership in the land registry over a significant number of properties recorded in the business books. Resolution of the property rights is in the process. As a result, we are unable to determine the effects of corrections on the Company's consolidated financial statements for 2016.

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

Emphasis of the matter

We draw attention to Note 38 of the annual consolidated financial statements due to the uncertainty regarding the legal disputes filed against the Company. Our opinion has not been modified in this regard.

Other information in the Annual Report

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

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

In connection with our audit of the annual consolidated financial statements, it is our responsibility to read the other information and consider whether other information have significant contradictions to annual financial statements or our knowledge gained while performing the audit, or otherwise appear to be materially misstated. If, based on the work we have done performed, we conclude that there is material misstatement of these other information, we are required to report this fact. In this sense, except notified in section Basis for qualified opinion, we have nothing to report.

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

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

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

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

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

Our objectives are to obtain reasonable assurance whether the annual consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Independent Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not 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 aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these annual consolidated financial statements.

As a part of an audit in accordance with ISAs, we exercise professional judgments and maintain professional scepticism during the audit.

We also:

- Identify and assess the risks of material misstatement of annual consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher for one resulting from error, as fraud may involve collusion, forgery, intentional omissions misrepresentation, 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures created by the Management Board.
- Conclude on the appropriateness of the Management's Board 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 Independent Auditor's Report to the related disclosures in the annual consolidated 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 Independent 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 consolidated financial statements, including disclosures, as well as whether the annual consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We collect sufficient audit evidence relating to financial information of entities or business activities within the Group to express an opinion on the consolidated annual financial statements. We are responsible for the organization, supervision and implementation of the Group's audit. We are solely responsible for expressing our opinion.

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

Report on Compliance with Other Legal or Regulatory Requirements

The Management Board is responsible for the preparation of the Management Report as part of the Company's Annual Report. We are obliged to express an opinion on the compliance of the Management Report as part of the Company's Annual Report with the Company's Annual Financial Statements. In our opinion, based on the work we performed during the audit, the information in the Management Report as part of the Company's Annual Report for the year ended 31 December 2016, are in accordance with the financial information stated in the Company's annual financial statements set out on pages 6 to 55 on which we expressed our opinion as stated in the Qualified opinion section above.

In our opinion, based on the work that we performed during the audit, the Company's Management Report for 2016, which is an integral part of the Company's Annual Report for 2016, is prepared in accordance with the Accounting Act.

Based on the knowledge and understanding of the Company and its environment obtained while performing the audit, except notified in sections Basis for qualified opinion, we have not found that there are material misstatements in the Company's Management Report for 2016, which is an integral part of the Company's Annual Report for 2016.

The Management Board is responsible for preparation of annual consolidated financial statements (Official Gazette 95/16), and in accordance with other regulations governing the operations of the Company ("Standard annual consolidated financial statements"). Financial information presented in the Company's standard annual financial statements are in accordance with the information presented in the Company's annual financial statements set out on pages 6 to 55 on which we expressed our opinion as stated in the Qualified Opinion section above.

In Zagreb, 21 September 2017

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



Zdenko Balen, Management Board
member



BDO Croatia d.o.o.
društvo revizorskih, konzalting
i posredstvenih usluga
Kennedy 6/b



Ivan Čajko, certified auditor

HŽ INFRASTRUKTURA d.o.o., ZAGREB
CONSOLIDATED PROFIT AND LOSS ACCOUNT AND STATEMENT OF OTHER COMPREHENSIVE
INCOME
For the year ended 31 December 2016

P O S I T I O N	Note	2016	2015
		HRK'000	HRK'000 restated
Sales revenue	3	259,146	409,111
Other operating revenues	4	<u>1,022,497</u>	<u>1,150,395</u>
Operating revenues		1,281,643	1,559,506
Raw material and material costs	5	(116,666)	(191,809)
Costs of goods sold	6	(10,050)	(13,571)
Costs of services	7	(109,360)	(168,880)
Staff costs	8	(791,376)	(835,041)
Depreciation	9	(74,002)	(70,896)
Impairment	10	(12,072)	(30,928)
Provisions	11	(11,343)	(45,080)
Other costs	12	<u>(173,747)</u>	<u>(215,467)</u>
Operating expenses		<u>(1,298,616)</u>	<u>(1,571,672)</u>
Finance income	13	6,490	4,911
Finance expense	13	(17,619)	(22,849)
TOTAL INCOME		1,288,133	1,564,417
TOTAL EXPENSE		(1,316,235)	(1,594,521)
PROFIT BEFORE TAX		(28,102)	(30,104)
Income tax	14	<u>3,090</u>	<u>2,775</u>
LOSS FOR THE PERIOD		<u>(25,012)</u>	<u>(27,329)</u>
OTHER COMPREHENSIVE INCOME		<u>2,439</u>	<u>0</u>
COMPREHENSIVE PROFIT FOR THE PERIOD		<u>(22,573)</u>	<u>(27,329)</u>

The accompanying notes from 1 to 42, set out below, form an inseparable part of these consolidated financial statements.

HŽ INFRASTRUKTURA d.o.o., ZAGREB
CONSOLIDATED BALANCE SHEET / CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

P O S I T I O N	Note	31 December	31 December	1 January
		2016	2015	2015
		HRK'000	HRK'000 restated	HRK'000 restated
ASSETS				
Intangible assets	15	61,208	75,206	55,371
Property, plant and equipment	16	12,129,794	12,050,012	11,844,731
Financial assets	17	1,223	1,184	1,478
Long term receivables	18	23,990	31,303	38,575
LONG-TERM ASSETS		12,216,215	12,157,705	11,940,155
Inventories	19	479,992	502,278	587,820
Trade receivables	20	174,032	134,748	243,177
Receivables from employees		6,469	6,171	6,225
Receivables from the state and other institutions	21	85,068	41,123	37,179
Other receivables	22	14,016	16,029	87,541
Financial assets	23	6,314	10,145	3,264
Cash and cash equivalents	24	496,200	395,057	288,651
Prepayments and accrued income	25	10,743	10,220	16,372
SHORT-TERM ASSETS		1,272,834	1,115,771	1,270,229
TOTAL ASSETS		13,489,049	13,273,476	13,210,384

HŽ INFRASTRUKTURA d.o.o., ZAGREB
CONSOLIDATED BALANCE SHEET / CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016 - continued

P O S I T I O N	Note	31 December 2016	31 December 2015	1 January 2015
		HRK'000	HRK'000 restated	HRK'000 restated
CAPITAL AND RESERVES	26			
Share (subscribed) capital		224,188	224,188	224,188
Capital reserves		10,254,923	9,032,201	8,312,334
Retained earnings		99,998	109,918	121,091
Accumulated loss		(208,612)	(158,390)	(70,640)
Profit/(Loss) for the period		<u>(25,012)</u>	<u>(27,329)</u>	<u>(119,374)</u>
Capital and reserves		10,345,485	9,180,588	8,467,599
Provisions	27	106,715	126,449	123,531
Borrowings	28	<u>861,151</u>	<u>1,894,449</u>	<u>2,211,424</u>
Long-term liabilities		967,866	2,020,898	2,334,955
Liabilities for loans, deposits, etc.	29	132,969	133,298	142,539
Borrowings from banks and other financial institutions	30	214,754	319,876	287,284
Prepayments received	31	9,660	12,408	11,240
Trade payables	32	136,928	165,032	407,337
Liabilities for securities		0	0	110
Liabilities due to employees	33	41,208	56,453	44,995
Liabilities for taxes, contributions and similar fees	34	25,993	27,513	48,144
Other liabilities	35	456,979	269,852	228,385
Accrued expenses and deferred income	36	<u>1,157,207</u>	<u>1,087,558</u>	<u>1,237,796</u>
Short-term liabilities		2,175,698	2,071,990	2,407,830
TOTAL CAPITAL AND LIABILITIES		<u>13,489,049</u>	<u>13,273,476</u>	<u>13,210,384</u>

The accompanying notes from 1 to 42, set out below, form an inseparable part of these consolidated financial statements

HŽ INFRASTRUKTURA d.o.o., ZAGREB
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

P O S I T I O N	Share capital	Capital reserves	Public good	Revaluation reserves	Accumulated loss	Profit/loss for the current year	TOTAL
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance on 31 December 2014 - restated	224,188	391,118	7,921,217	121,091	(70,640)	(119,374)	8,467,599
Loss allocation for 2013	0	0	0	0	(119,374)	119,374	0
Investments from borrowings	0	0	289,909	0	0	0	289,909
Capital IPA	0	19,644	0	0	0	0	19,644
Transfer of public good	0	0	(16,670)	0	0	0	(16,670)
Realized retained earnings	0	0	0	(11,173)	11,173	0	0
Property, plant and equipment activated from the budget	0	0	785,974	0	0	0	785,974
Depreciation of property, plant and equipment	0	0	(322,111)	0	0	0	(322,111)
Net book value of disposed assets	0	0	(16,428)	0	0	0	(16,428)
Coverage on equity of public good	0	0	(20,451)	0	20,451	0	0
Loss for the current year	0	0	0	0	0	(27,329)	(27,329)
Balance on 31 December 2015 - restated	224,188	410,762	8,621,439	109,918	(158,390)	(27,329)	9,180,588
Loss allocation for 2015	0	0	35,252	0	(62,581)	27,329	0
Coverage on equity of public good	0	0	13,295	0	0	0	13,295
Investments from borrowings	0	0	225,960	0	0	0	225,960
Capital IPA	0	203,995	0	0	0	0	203,995
Transfer of public good	0	0	1,086	0	0	0	1,086
Realized retained earnings	0	0	0	(11,099)	11,099	0	0
Property, plant and equipment activated from the budget	0	0	1,144,669	0	0	0	1,144,669
Depreciation of property, plant and equipment	0	0	(399,656)	0	0	0	(399,656)
Net book value of disposed assets	0	0	(1,879)	0	0	0	(1,879)
Profit for the current year	0	0	0	0	0	(25,012)	25,012
Decrease of revaluation reserves	0	0	0	(1,260)	1,260	0	0
Other comprehensive income	0	0	0	2,439	0	0	2,439
Balance on 31 December 2016	224,188	614,757	9,640,166	99,998	(208,612)	(25,012)	10,345,485

The accompanying notes from 1 to 42, set out below, form an inseparable part of these consolidated financial statements.

HŽ INFRASTRUKTURA d.o.o., ZAGREB
CONSOLIDATED STATEMENT OF CASH FLOWS
As at 31 December 2016 - indirect method

P O S I T I O N	2016 HRK'000	2015 HRK'000
<u>Cash flow from operating activities</u>		
Profit((Loss) before tax	(28,102)	(30,104)
Depreciation	74,002	70,896
Impairment	12,072	30,928
Interest income	(2,207)	(2,659)
Interest expense	13,083	21,871
Dividend income	6	(6)
Gain on disposal of fixed assets	(14)	(30,717)
Income from reversal of provisions	(31,018)	(29,940)
Change in inventories	22,286	84,627
Change in trade receivables	(39,284)	78,420
Change in receivables from the employees	(298)	54
Change in receivables from the state and other institutions	5,171	(3,944)
Change in other receivables	2,013	3,434
Change in prepayments and accrued income	(523)	6,152
Use of provisions	11,284	32,858
Change in prepayments received	(2,812)	1,168
Change in trade payables	(28,104)	(242,305)
Change in liabilities to the employees	(15,244)	11,458
Change in liabilities for taxes and contributions	(1,519)	(20,631)
Change in other liabilities	337,565	110,893
Change in accrued expenses and deferred income	35,186	389,660
Interests received	2,207	2,659
Interests paid	(13,083)	(21,871)
Dividend receipts	(6)	6
Net cash flow from operating activities	352,661	462,907
Cash flow from investing activities		
Proceeds from sale of long term assets	14	30,931
Proceeds from sale of financial assets	3,832	1,315
Purchase of tangible and intangible assets	(302,258)	(732,093)
Investments in financial assets	(38)	(7,053)
Net cash flows from investing activities	(298,450)	(706,900)
Cash flow from financing activities		
Proceeds from loans	39,620	887,491
Proceeds from collection of long term receivables	7,312	7,274
Repayment of loans	-	(544,366)
Net cash flows from financing activities	46,932	350,399
NET INCREASE IN CASH AND CASH EQUIVALENTS	101,143	106,406
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	395,057	288,651
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	496,200	395,057

The accompanying notes from 1 to 42, set out below, form an inseparable part of these consolidated financial statements

1. GENERAL

1.1. Legal framework, activity and employees

HŽ INFRASTRUKTURA d.o.o., Zagreb, Mihanovićeveva 12, ("the Company") is engaged in managing, maintenance and building of railroad infrastructure as its basic activity.

1.2. Employees

The number of staff employed by the Company at 31 December 2016 was 6,142 employees (31 December 2015: 6,254 employees).

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

P O S I T I O N	31 December 2016	31 December 2015
Doctor's degree	2	2
Master's degree	24	59
University degree	721	706
Two-year post secondary diploma	525	536
Secondary school certificate	3,160	3,243
Skilled workers	168	127
Unskilled workers	371	350
High skilled workers	123	153
Low-skilled qualification	203	205
Semi-skilled workers	845	873
Total	6,142	6,254

1.3. The Supervisory and Management Board of the Company

Members of the Supervisory Board of the Company are as follows:

Ivan Miloš	president
Tomislav Jukić	member
Slavko Proleta	member

Members of the Management Board are as follows:

Ivan Kršić	member of the Management Board - director
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The amount of compensation to members of the Management Board of the Company is stated in Note 8 to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the principal accounting policies.

2.1. Statement of compliance and basis of presentation

The consolidated financial statements of the Company for 2016 are prepared in accordance with the Accounting Act (Official gazette No 78/15, 120/16) and the International Financial Reporting Standards (“IFRS”), and in accordance with the Regulation on the Structure and Content of Annual financial statements (Official gazette No 95/16).

Consolidated financial statements are prepared with the application of the basic accounting assumption of the occurrence of a business event upon which the effects of operations are recognized when arisen and are shown in the consolidated financial statements for the period to which they relate and with the application of the basic accounting assumption of the concept of going concern.

The consolidated financial statements of the Company are prepared in the Croatian kuna (“HRK”) as functional and reporting currency of the Company. The consolidated financial statements are presented in thousands of Croatian kuna (HRK ‘000). On 31 December 2016 the official exchange rate was 7.56 HRK for 1 EUR (31 December 2015: 7.64 HRK), HRK 7.17 for 1 USD (31 December 2015: HRK 6.99) and HRK 7.04 for 1 CHF (31 December 2015: HRK 7.06).

On 18 July 2013 new Law on railway came into force, in which the railway infrastructure is defined as the assets owned by the Republic of Croatia which is accounted for separately in the business records of the company which operates the railway infrastructure. This asset owned by the Republic of Croatia is disclosed in these consolidated financial statements as the public good, or the public capital. In accordance with the Law on railway it is regulated that the accumulated losses and the difference between the income and expenses in the current year are covered from the public capital.

2.2. Key estimates and uncertainty of estimates

Certain estimates are used during the preparation of the consolidated financial statements which have inflow to the statement of property and liabilities of the Group, income and expenses of the Group and the disclosure of potential liabilities of the Group.

Future events and their effects cannot be predicted with certainty, thus the real results may differ from those estimated. The estimates used during the preparation of the consolidated financial statements are subject to changes from the occurrence of new events, by gaining additional experience, obtaining additional information and comprehensions and by the change in the environment in which the Group operates.

Key estimates used by the application of accounting policies during the preparation of the consolidated financial statements relate to the calculation of depreciation of the long-term intangible and tangible assets, impairment provision of assets, impairment provision of inventories, impairment provision of receivables, provisions and the disclosure of potential liabilities.

Consolidated financial statements include financial statements of the company and financial statements of companies controlled by the Company (subsidiary companies). The Company has the control in those companies in which it has the power to manage financial and operating policies of the company in which the investment was made in order to make profit from the operating of this very company.

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

Standards and Interpretations effective in the current period

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions - IAS 19 requires employee or third party contributions to be taken into account when calculating.
- Annual Improvements IFRS from 2012 to 2014 Cycle include:
 - IFRS 5 Non-current assets held for sale and discontinued operations
 - IFRS 7 Financial Instruments: Disclosure (with subsequent amendments to IFRS 1)
 - IAS 19 Employee Benefits
 - IAS 34 Financial Statements for the Year Periods

These amendments became effective on 1 January 2016. Earlier application is permitted.

- Annual Improvements from the 2010 to 2012 Cycle, as changes and amendments, are effective in the EU for accounting periods beginning on or after 1 February 2015, with earlier application permitted. They include:
 - IFRS 2 Share-based Payment,
 - IFRS 3 Business Combinations,
 - IFRS 8 Operating Segments,
 - IFRS 13 Fair Value Measurement
 - IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets
 - IAS 24 Related Party Disclosures
- Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment entities: application of the exemption from consolidation obligations (issued in December 2014)
- Amendments to IFRS 11 - Accounting for shares in joint operations (issued in May 2014)
- Amendments to IAS 1 - Disclosures (issued in December 2014)
- Amendments to IAS 16 and IAS 38 - Explanation of eligible depreciation methods (issued in May 2014)
- Amendments to IAS 16 and IAS 41 - Agriculture: perennial plants (issued in June 2014)
- Amendments to IAS 27 - Shareholding method in separate financial statements (issued in August 2014)

The application of the above mentioned standards did not have an impact on the consolidated financial statements of the Company for 2016.

New and revised IFRSs adopted by the EU in issue but not yet effective

- IFRS 9 Financial Instruments - in July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which contains complete project of the financial instruments replacing IAS 39 Financial Instruments: Recognition and measurement, and all other preceding versions of IFRS 9. IFRS 9 is effective for the annual period beginning on or after 1 January 2018; earlier applications is permitted. The application of this standard will not have a significant impact on the classification and measurement of financial instruments.

- IFRS 15 Revenue from Contracts with Customers - IFRS 15 was issued in May 2014 and represents a new model in five steps that relate to revenues from contracts with customers. The Standard replaces IAS 11 and IAS 18. The Standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard permits a modified transition model that does not require retroactive redrawing. The Management Board is performing a detailed analysis regarding possible effects of the mentioned standard on the Company's consolidated financial statements.
New and revised IFRSs issued by the IASB but not yet adopted by the EU

The following standards and amendments to existing standards have not yet been adopted in the EU:

- IFRS 14 Regulatory Deferral Accounts - this standard relates to subjects that operate on regulated markets and are applying the IFRS for the first time. IFRS 14 is effective for the annual period beginning on or after 1 January 2016. The European Commission has decided not to implement this standard due to the fact that few companies are within the scope of the standard.
- IFRS 16 Leases - The Standard introduces a new comprehensive model of lease arrangement identification as well as their accounting treatment on the lessor and lessee side. The standard will replace existing IAS 17 and interpretations IFRIC 4, SIC 15 and SIC 27. IFRS 16 is effective for periods beginning on or after 1 January 2019 and thereafter.
Earlier application is permitted, but it is also conditioned by simultaneous adoption of IFRS 15 unless it has already been adopted. This standard brings significant changes to the accounting model with the lessee. Consequently, there will be recognition of assets and liabilities in the financial statements of the lessee for most contracts currently recognized as operating leases. The result of this will be an increase in the Company's assets and liabilities. Management plans in the following periods to conduct detailed analysis of the effects on the consolidated financial statements of the Company.
- Amendments to IFRS 2 - Classification and measurement of share-based payment (issued in June 2016)
- Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments to IFRS 4 Insurance Contracts (issued in September 2016)
- Amendments to IFRS 10 and IAS 28 - Sale or entry of assets between investor and associate or joint venture (issued in September 2014)
- Amendments to IFRS 15 - Clarifications to IFRS 15 Customer Income (issued in April 2016)
- Amendments to IAS 7 - Publication Initiative (issued in January 2016)
- Amendments to IAS 12 - Recognition of deferred tax assets for unrealized losses (issued in January 2016)
- Amendments to IAS 40 - Transfer of Property Investments (issued in December 2016)
- Annual Improvements from the 2014-2016 Cycle (issued in December 2016) include:
 - IFRS 1 First-time Adoption of IFRS
 - IFRS 12 Disclosures of Shares in Other Entities
 - IAS 28 Shares in Associates and Joint Ventures

Amendments relating to IFRS 12 become effective for periods beginning on 1 January 2017, while amendments to IFRS 1 and IAS 28 become effective from 1 January 2018 and thereafter.

- IFRIC Interpretation 22 Foreign currency transactions and prepayments (issued in December 2016)

The Management Board of the Company predicts that the application of these standards, amendments and interpretations, with the exception of IFRS 16 as stated above, will not materially affect the Company's consolidated financial statements for the period of their first application.

2.4. Reporting currency

The consolidated financial statements are prepared in the Croatian kuna ("HRK"), which is a measuring and reporting currency of the Company rounded to the closest thousand.

2.5. Foreign currency transactions

Transactions in currencies other than Croatian kuna are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies at the date of preparation of the Consolidated Balance Sheet are retranslated at the rates prevailing at the day of preparation of the Consolidated Balance Sheet. Foreign currency exchange gains and losses which occur on settlement of such transactions, and on conversion of monetary assets and liabilities are included in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated at the rate valid on the date of the transaction.

Non-monetary items and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

2.6. Revenue recognition

Revenue is recognized at the fair value of the compensation received or receivables for products and services sold during Group's regular activities. Revenue is reduced for value added tax, estimated customer returns, rebates and discounts. The Group recognizes revenue when it can be reliably measured, and if the Group will have the economic benefits and when specific criteria for the entire Group's activities are met.

a) Revenue from sale of services

Revenue from the sales of services is recognized on that date it incurred, respectively in the moment railway has been used. The moment when revenue have been incurred is the period in which the user has left the railway managed by the Company, without taking into account the moment in which the user started to use the railway. Revenue from these services represents the revenue which is being charged to the user of the public good.

Revenue from rendering services, except revenue from the usage of the railway, is recognised in accordance with the percentage of completion of the services. Percentage of completion is measured by the proportion of the incurred expenses in total estimated expenses needed for the completion of the service. If it is difficult to estimate the final outcome (e.g. due to uncertainty of collection) the revenue is recognised up to the amount

which is expected to be collected, but not more than total incurred expenses per such agreement.

2.6. Percentage of transaction completion of the service of maintaining railway infrastructure is determined based on the level of its physical completion at the end of the period.

b) Revenue from sale of goods

Revenue from sale of goods is recognised when the Group has transferred significant risks and benefits of the ownership of the goods to the buyer and if it is probable that the Group will receive the previously agreed payments. These criteria are considered to be met when the goods are delivered to the buyer, respectively when the adequate invoices are issued. When the buyer has a right for the return, the Group defers recognition of revenue until the right to return has lapsed. However, where the Group retains only insignificant risks of ownership due to the right of return, revenue is not deferred.

c) Interest income

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

d) State subsidies

State subsidies for maintenance of the railway infrastructure are recognised in the Statement of comprehensive income on the consistent basis in the period in the Company recognises expenses for whose coverage subsidies are being given.

Receivables for state subsidies for recovery of expenses or losses which have already incurred, or for the purpose of immediate financial support to the Company with no future related expenses, are recognised as income in the period in which receivable was initially recognised.

2.7. Operating expenses

Operating expenses comprise of material cost, small inventory and service cost, maintenance cost, staff cost, depreciation of property, plant and equipment, depreciation of the public good (railway infrastructure) and other operating expenses covered directly by the operating income.

Recognition of expenses is postponed for future periods if recognition of revenues is expected in future periods.

2.8. Borrowing costs

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

Borrowing costs include interest on bank overdrafts, short-term and long-term borrowings, and foreign exchange effects of borrowings in foreign currency, in the amount which is considered as adjustment of the interest expense.

2.9. Income tax

The income tax liability for the current year is determined on the basis of the accounting profit adjusted for the prescribed alignment items. Income tax is calculated using tax rates that were valid on the date of the consolidated Balance Sheet.

Deferred tax assets and deferred tax liability arise from temporary differences between the value of assets and liabilities stated in the consolidated financial statements and the values used for the income tax calculation. Deferred tax assets and deferred tax liabilities are calculated using the income tax rates applicable to the future period when temporary differences are expected to be recovered or settled; usually income tax rates used are those prevailing on the consolidated Balance Sheet dates.

Deferred tax assets are recognized up to the amount for which it is probable that in the future there would be a sufficient net taxable income against which deferred tax assets could be recovered. Deferred tax assets are assessed for the recoverability at each consolidated Balance sheet date.

2.10. Long-term intangible and tangible assets

Long-term intangible and tangible assets are carried at historic acquisition cost which comprises purchase price, import duties and non-refundable sales taxes, after the deduction of commercial discounts and rebates, as well as all other costs directly attributable to bringing the asset to its working condition for its intended use.

Long-term intangible and tangible assets are recognized if it is likely that future economic benefits attributable to the assets will inflow to the Group, and if the cost of the acquisition of an asset can be reliably measured, and if a single purchase value of property exceeds HRK 3,500.

After the first recognition, the property is carried at historic acquisition cost minus the accumulated depreciation and any accumulated impairment losses.

Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Where it is obvious that the expenses incurred resulted in an increase of the expected future economic benefits to be derived from the use of an item of long-term intangible or tangible property in excess of the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of long-term intangible and tangible asset are included in the Comprehensive Income Statement in the period in which they occur.

2.10 Long-term intangible and tangible assets (continued)

Depreciation is charged so as to write-off the cost or valuation of each asset, other than land and long-term intangible and tangible property under construction, over their estimated useful lives, using the straight-line method, on the following basis:

	2016	2015
Concessions, patents, licenses, trade and service brands, software and other rights	5 years	5 years
Buildings	10 - 100 years	10 - 100 years
Plant and equipment	2 - 14 years	2 - 14 years
Tools, plant inventories and transportation assets	4 - 20 years	4 - 20 years
Other material assets	10 - 50 years	10 - 50 years

2.11. Financial assets

Financial assets represents the cash, the investments in cash, objects and the cession of rights with an intention of securing income and is classified on the date of the consolidated Balance Sheet, as follows:

- financial assets intended for trade whose change in the fair value is recognized in the Comprehensive Income Statement;
- investments held to the maturity date;
- loans and receivables.

2.12. Investments in subsidiaries and associates

Subsidiary companies are the companies where the Company has a control over making and implementing financial and business policies.

Associated companies are the companies where the Company has significant influence, but not a control over making and implementing financial and business policies.

2.13. Inventories

Inventories are stated at the lower of cost and net realizable value. They include the following:

- Cost of raw material and material inventory include purchase price, import customs and other expenses which can be directly ascribed to supply of raw material and material; commercial discounts and similar items are subtracted when determining purchase expenses.
- Cost of inventories of merchandise is recognized at the weighted average cost method.
- Small inventory include tools, operative and office inventory as similar working assets with intended use up to one year and assets that are not considered long-term.
- By putting small inventories and car-tires in use as well as spare parts, they are included in expenses through a one-time w

2.13. Inventories (continued)

After the sale, the Group recognizes the carrying value of inventories as an expense in the period in which respective income is recognized. Also the amount of any write-off of inventories up to the net marketable value, and all shortages of inventories are recognized as an expense in the period of write-off or the occurrence of the shortage. The amount of any cancellation of inventory write-off as a result of the increase in net marketable value is recognized as the increase in value of inventories in a period in which the cancellation occurred.

2.14. Receivables

Receivables are initially measured at fair value. At each consolidated Balance Sheet date, receivables, whose collection is expected in a period longer than a year, are stated at depreciated cost by the application of the effective interest rate method less impairment provision. Short-term receivables are stated at the initially recognized amount less the corresponding amount of impairment provision for the estimated uncollectable amounts.

The value of receivables is impaired and impairment losses arise if objective evidence exists in respect of a value decrease resulted from one or more events which occurred after the initial recognition of property, when such an event has the impact on the estimated future cash flows from receivables which can be reliably determined. On each Balance Sheet date, it is estimated whether there is an objective evidence of the impairment of a single receivable. If objective evidence of the impairment of the receivable exists, then the amount of loss is measured as a difference between the net book value and the estimated future cash flows. The amount of a loss is recognized by charging the Comprehensive Income Statement for the current year.

2.15. Cash and cash equivalents

Cash consists of consolidated Balances with banks and cash in hand, demand deposits and securities payable at call or with maturities of up to three months.

2.16. Impairment

On each Consolidated Balance Sheet date, the Company reviews the carrying amounts of its assets to determine whether there are any indications that these assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Loss from the impairment in value of the assets is recognized as an expense.

2.17. Financial instruments

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

Investments are recognized on the date of trading.

2.17. Financial instruments (continued)

Liabilities are initially recognised at fair value plus transaction cost, and subsequently measured at amortised cost.

Interest-bearing bank borrowings and overdrafts are disclosed in the amount of funds received and to the extent of approved overdrafts facility.

2.18. Leases

Leases are classified as business/operating leases if almost of the risks and economic benefits connected with ownership are not transferred from the lessor to the lessee.

A business/operative lease is recognized as an expense in the Comprehensive Income Statement of the lessee on the straight-line basis during the period of lease.

Payments made under operating leases (net of incentives received by the lessor) are charged to profit or loss on a straight-line basis over the lease period. Leases of property, plant and in which the Group bears all the risks and economic benefits are classified as financial leases.

Finance leases are initially recognised at the beginning of the lease at the fair value of the leased assets or the present value of the minimum lease payments, whichever is lower.

Lease payments are deployed between finance costs and impairment charges to make a constant interest rate on the remaining amount of the liability. Potential leases are charged at the time when they are incurred.

2.19. Provisions

A provision is recognized only when the Group has a present obligation as a result of a past event and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made as to the amount of the obligation. Provisions are reviewed on each Consolidated Balance Sheet date and adjusted to reflect the current best estimate.

The Group recognizes provisions based on court disputes and restructuring in the part related to employee severance payments.

2.20. Employee benefits

The Group has no defined post-retirement benefits for its employees or the Management, except related to the Republic of Croatia pension fund.

Obligations of the Group relate to payment of contributions in accordance with the laws in force. These contributions are disclosed within staff costs in the Statement of comprehensive income.

The Group pays employees jubilee awards and one-time severance payments upon retirement. The liabilities and expenses for these payments are determined with the application of the projected unit credit method. By using projected unit credit method, each period of seniority is observed as the basis for additional units of eligibility to allowances and each unit is measured separately until the realization of final liabilities. This liability is determined at the present value of projected future cash outflow with the application of the discount rate which is similar to the interest rate of State bonds in Croatia.

2.21. Contingent liabilities and assets

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

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

2.22. Events after the Consolidated Balance Sheet

Events which occur after the Consolidated Balance Sheet date are those favorable and adverse events that occurred between the date of the Consolidated Balance Sheet and the date on which the report was approved. The Company adjusts the amounts recognized in its consolidated financial statements for events after the balance sheet date that requires adjustment.

2.23. Comparative data

Comparative information was restated due to correction of an error, as described in the following paragraph.

Adjustments referring to earlier years - restatement of the consolidated financial statements for 2015 and earlier

During 2016, the Group adjusted certain positions of financial statements referring to earlier years. Adjustments were made retroactively by restating the financial statements for earlier comparative periods and their effects are stated below.

CONSOLIDATED STATEMENT ON COMPREHENSIVE INCOME

POSITION	2015	2015	Effects of the restatement
	HRK'000 restated	HRK'000 posted	HRK'000
LOSS BEFORE TAXATION	(30,104)	(29,937)	(167)
Profit tax	2,775	6,973	(4,198)
LOSS FOR THE PERIOD	(27,329)	(22,964)	(4,365)
Other comprehensive profits			
COMPREHENSIVE LOSS FOR THE PERIOD	(27,329)	(22,964)	(4,365)

Adjustments referring to earlier years - restatement of the consolidated financial statements for 2015 and earlier (continued)

CONSOLIDATED BALANCE SHEET

P O S I T I O N	31 December 2015	31 December 2015	Effects of the restatement
	HRK'000 restated	HRK'000 posted	HRK'000
Deferred tax assets	0	5,813	(5,813)
FIXED ASSETS	0	5,813	(5,813)
Inventories	502,278	502,445	(167)
CURRENT ASSETS	502,278	502,445	(167)
TOTAL ASSETS	502,278	508,258	(5,980)
CAPITAL AND RESERVES			
Losses carried forward	(158,390)	(156,775)	(1,615)
Profit / (loss) of the business year	(27,329)	(22,964)	(4,365)
Capital and reserves	(185,719)	(179,739)	(5,980)

Deferred tax assets

In the financial statements for 2014 and 2015, the Group has recorded deferred tax assets totalling HRK 7,428 thousand arising from temporary non-deductible costs of long-term employee benefits related to jubilee awards, retirement benefits, and temporary non-recurring costs of value adjustment of inventories and tax losses.

Due to the uncertainty of achieving conditions for its future use, the Company has made a decision on its termination. The result of the error correction is the lower retained earnings on 1 January 2015 in the amount of HRK 1,615 thousand.

The reversal of the remaining amount of deferred tax assets in the amount of HRK 5,813 thousand was recorded in the profit and loss account for 2015.

NOTES TO THE CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

3. SALES REVENUES

P O S I T I O N	2016	2015
	HRK'000	HRK'000
Income from fees for access to railway infrastructure	105,658	109,918
Income from the construction and maintaining of the railway infrastructure	60,874	197,908
Income from formation and deformation of the train composition	17,848	33,087
Income from the use of passenger terminals	9,810	7,607
Income from IT services	6,879	7,736
Income from rent	3,227	3,551
Income from sale of tickets	1,699	1,770
Income from using the garage track	1,266	666
Revenue from other services and works	768	7,555
Optical Equipment rent income	540	415
Income from fee for capacity booking	516	1,241
Income from secondary activities	194	134
Revenue from the sale of material	114	338
Income from renting machinery and equipment	0	4,436
<i>Revenues from sales made with railway companies</i>	<i>209,393</i>	<i>376,362</i>
Revenue from other services and works	13,651	275
Revenues from rent	13,288	11,982
Income from fees for access to railway infrastructure	6,983	641
Revenue from the sale of material	6,719	12,400
Revenues from rent - the rest	4,269	3,774
Optical Equipment rent income	2,416	2,441
Income from secondary activities	1,711	1,207
Income from formation and deformation of the train composition	599	15
Income from fee for capacity booking	82	4
Income from using the garage track	35	10
<i>Income from sales in the country</i>	<i>49,753</i>	<i>32,750</i>
TOTAL	259,146	409,111

4. OTHER OPERATING INCOME

P O S I T I O N	2016	2015
	HRK'000	HRK'000
Income from reimbursement of damages	5,277	317
Income from telecommunication services	1,107	110
Income from cost reversal	137	1,045
Penalty income	27	0
Real estate income	0	30,501
Other income	421	2,001
<i>Other revenues realized with railway companies</i>	<i>6,968</i>	<i>33,974</i>
Income from the Budget of the Republic of Croatia for the railroad infrastructure - excise	454,000	440,000
Income from the Budget of the Republic of Croatia for the railroad infrastructure	450,000	516,000
Income from the Budget of the Republic of Croatia at the level of proportional part of depreciation	34,463	34,518
Income from termination of provisions	31,018	29,940
Income from cassation	9,735	28,430
Income from collection of impaired receivables	5,734	42,248
Income from the sale of flats (35%)	3,395	3,620
Income from co-financing	3,148	1,619
Income from rent of official flats	2,824	2,873
Revenue from auxiliary and non-industrial activities	1,413	4,600
Income from sale of fixed assets	1,326	0
Income from reimbursement of damages	1,171	1,729
Penalty income	551	1,107
Fundamental resources expense	367	620
Revenue from Cost Conversion - Affiliated Companies	164	27
Real estate income	14	216
Correction of impairment of non-current stock	0	134
Write down the obligations towards the suppliers	0	2,112
Other income - affiliated companies	16,206	6,628
<i>Other business income in the country</i>	<i>1,015,529</i>	<i>1,116,421</i>
TOTAL	1,022,497	1,150,395

5. COST OF RAW MATERIAL AND SUPPLIES

P O S I T I O N	2016	2015
	HRK'000	HRK'000
Cost of raw material and supplies	55,140	110,482
Spare parts	13,030	21,702
Cost of small inventory	5,358	10,841
Energy	43,138	48,784
TOTAL	116,666	191,809

6. COSTS OF GOODS SOLD

Costs of goods sold in the amount of HRK 10,050 thousand (2015: HRK 13,571 thousand) relate to the purchase value of goods sold.

7. OTHER EXTERNAL CHARGES

P O S I T I O N	2016	2015
	HRK'000	HRK'000
Maintenance	54,400	89,650
Other external costs	15,266	19,268
Rental costs and lease	15,222	17,911
Cleaning services	10,616	11,075
Telephone, postal services and transport costs	9,698	12,246
External charges of making and selling goods and services	3,841	18,327
Other costs	317	403
TOTAL	109,360	168,880

8. STAFF COSTS

P O S I T I O N	2016	2015
	HRK'000	HRK'000
Net salaries and wages	485,034	512,266
Taxes and contributions from salaries	183,077	192,401
Contributions on salaries	123,265	130,374
TOTAL	791,376	835,041

Total staff costs also include compensations for employee expenses as well as their material rights (Note 12) and for 2016 amount HRK 907,345 thousand (2015: HRK 1,005,031 thousand). Compensations for employee expenses cover incentive severance payments, severance payments for technical surpluses, commemorative aids, awards and gifts, while other employee's material rights include work-related costs, daily allowances, fieldwork and travel expenses.

Net salaries also include the Company's Board of Directors' income amounted to HRK 946 thousand (2015: HRK 1,278 thousand).

9. DEPRECIATION

P O S I T I O N	2016	2015
	HRK'000	HRK'000
Depreciation of intangible assets	23,296	19,212
Depreciation of property, plant and equipment	50,706	51,684
TOTAL	74,002	70,896

10. IMPAIRMENT

P O S I T I O N	2016	2015
	HRK'000	HRK'000
Value adjustments of short-term receivables	12,072	30,180
Value adjustments of inventories	0	748
TOTAL	12,072	30,928

11. PROVISIONS

P O S I T I O N	2016	2015
	HRK'000	HRK'000
Provisions for incentive severance pays and jubilee awards	2,621	12,726
Provisions for legal proceedings	8,722	32,354
TOTAL	11,343	45,080

12. OTHER COSTS

P O S I T I O N	2016	2015
	HRK'000	HRK'000
Compensation of costs to employees, grants and subventions	58,534	113,093
Contributions, memberships and similar fees	41,907	42,014
Compensation of costs to employees (transportation)	15,528	8,530
Intellectual services	4,943	3,686
Other costs	37,159	22,635
Damages, court expenses and similar	8,496	7,237
Value of Cracked and Disposed Materials	3,056	2,895
Undiscounted value of depreciated assets	1,197	233
Inventory shortages	688	2,068
Value adjustment of obsolete inventories	0	8,243
Other operating costs	2,239	4,833
TOTAL	173,747	215,467

13. FINANCIAL INCOME AND EXPENSES

/i/ Financial income is shown in the table below:

P O S I T I O N	2016	2015
	HRK'000	HRK'000
<u>From related parties</u>		
Interest income	407	177
	<u>407</u>	<u>177</u>
<u>From non-related parties and other entities</u>		
Interest income	1,800	2,482
Foreign exchange gains	4,278	2,246
Dividend income and a share in the profit	5	6
	<u>6,083</u>	<u>4,734</u>
TOTAL	6,490	4,911

/ii/ Financial expenses are shown in the table below:

P O S I T I O N	2016	2015
	HRK'000	HRK'000
<u>From related parties</u>		
Interest income	694	2,088
	<u>694</u>	<u>2,088</u>
<u>From non-related parties and other entities</u>		
Interest income	12,389	19,783
Foreign exchange losses	2,189	0
	<u>14,578</u>	<u>19,783</u>
<u>Other financial expenses</u>		
Other financial expenses	2,347	974
	<u>2,347</u>	<u>973</u>
TOTAL	17,619	22,849

14. CORPORATE INCOME TAX

The Company is a taxpayer, in accordance with the tax laws and regulations of the Republic of Croatia. The tax base is determined as the difference between the income and the expense of the period and is increased for expenditures that are not tax deductible. The profit tax rate is 20% (2015: 20%). From January 1, 2017, the tax rate is 18%.

Adjustments to the income statement and profit and loss account presented in the Consolidated Income Statement are as follows:

P O S I T I O N	2016	2015
	HRK'000	HRK'000
Accounting profit/(loss)	(25,012)	(29,937)
Profit increase / Loss decrease	30,937	91,622
Profit decrease / Loss increase	(12,989)	(33,276)
Tax loss	(9,005)	28,409
Tax losses to carry forward	(1,160,442)	(1,151,436)

The Company is able to convey tax losses in future periods for the purpose of impairing taxable profits over the next five years. At 31 December 2016, the total transferred tax losses were determined in the amount of HRK 1,160,442 thousand.

The amount of tax losses in the amount of HRK 1,160,442 thousand available for transfer can be utilized as follows:

Description	HRK'000
31 December 2017	3,606
31 December 2018	342,386
31 December 2019	776,267
31 December 2020	21,890
31 December 2021	16,293
TOTAL	1,160,442

Deferred tax assets on the basis of transferred tax losses are not recognized in the consolidated financial statements due to the uncertainty of achieving the conditions for their future use.

NOTES TO THE CONSOLIDATED BALANCE SHEET / STATEMENT OF FINANCIAL POSITION

15. INTANGIBLE ASSETS

	Intangible assets
<u>PURCHASE VALUE</u>	HRK'000
1 January 2015	179,927
New purchases and investments	520
Transfer from assets in preparation	38,523
31 December 2015	218,970
New purchases and investments	192
Transfer from assets in preparation	8,082
Correction (wrong postings)	1,003
Disposals or retirements	(31)
31 December 2016	228,216
<u>Accumulated depreciation</u>	
1 January 2015	124,555
Depreciation during year	19,212
Disposals or retirements	(3)
31 December 2015	143,764
Depreciation during year	23,296
Correction (wrong postings)	(84)
Disposals or retirements	(26)
31 December 2016	167,008
<u>Net carrying amount</u>	
1 January 2015	55,372
31 December 2015	75,206
31 December 2016	61,208

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
For the year ended 31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT

Description	Land	Buildings	Plant and equipment	Tools, plant inventory, transport vehicles	Other	Assets in preparation	Prepayments	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Cost								
1 January 2015	1,736,315	19,230,959	805,333	700,464	171,889	2,906,158	191,964	25,743,082
Increase	166,460	744,737	30,287	13,849	0	616,782	40,215	1,612,330
Reclassification	0	(204,146)	(12,812)	(11,166)	231,073	0	0	2,949
Decreases	0	(373)	0	0	0	(982,677)	0	(983,050)
Disposals or retirements	(2,945)	(54,977)	(70)	(1,596)	(223,632)	0	(23,887)	(307,107)
31 December 2015	1,899,830	19,716,200	822,738	701,551	179,330	2,540,263	208,292	26,068,204
Increase	52,103	1,053,936	42,656	2,229	868	455,411	83,295	1,690,499
Reclassification	0	(68,820)	(9,517)	(5,378)	82,716	(1,156,961)	0	(1,157,960)
Excess and free property received	0	1,961	0	5	125	0	0	2,091
Lack and free property	0	(3,958)	0	(544)	0	0	0	(4,502)
Disposals or retirements	0	(4,180)	(447)	(2,421)	(93,942)	0	0	(100,991)
31 December 2016	1,951,933	20,695,139	855,430	695,442	169,097	1,838,713	291,587	26,497,341
Accumulated depreciation								
1 January 2015	0	12,689,623	524,623	561,338	121,861	0	906	13,898,351
Depreciation for 2015	0	307,984	38,305	26,707	860	0	0	373,856
Reclassification	0	(176,581)	(20,191)	(10,995)	204,539	0	0	(3,228)
Disposals or retirements	0	(40,394)	(62)	(1,531)	(208,800)	0	0	(250,787)
31 December 2015	0	12,780,632	542,675	575,519	118,460	0	906	14,018,192
Depreciation for 2016	0	372,979	51,380	25,771	826	0	0	450,956
Reclassification	0	0	(68,171)	(9,413)	(3,181)	80,855	0	90
Lack and free property	0	(3,693)	0	(342)	0	0	0	(4,035)
Disposals or retirements	0	(2,598)	(1,043)	(1,922)	(92,093)	0	0	(97,656)
31 December 2016	0	13,147,320	524,841	589,613	24,012	80,855	906	14,367,547

HŽ INFRASTRUKTURA d.o.o., ZAGREB
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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16. PROPERTY, PLANT AND EQUIPMENT (continued)

Description	Land	Buildings	Plant and equipment	Tools, plant inventory, transport vehicles	Other	Assets in preparation	Prepayments	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Net carrying amount								
1 January 2015	1,736,315	6,541,336	280,710	139,126	50,028	2,906,158	191,058	11,844,731
31 December 2015	1,899,830	6,935,568	280,063	126,032	60,870	2,540,263	207,386	12,050,012
31 December 2016	1,951,933	7,547,819	330,589	105,829	145,085	1,757,858	290,681	12,129,794

/i/ As at 31 December 2016 a significant number of properties were recorded into the ledger for which the Group has not regulated its ownership in the land register. The procedure for settlement of the ownership rights' relations is pending.

/ii/ As at 31 December 2016 assets under construction includes assets older than 3 years or more in the amount of HRK 1,091,661 thousand out of which the amount of HRK 546,782 thousand relates to the project of Lika railway line.

HŽ INFRASTRUKTURA d.o.o., ZAGREB
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
 For the year ended 31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT (Public Domain)

Description	Land	Buildings	Plant and equipment	Tools, plant inventory, transport vehicles	Other	Assets in preparation	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Cost							
1 January 2015	1,702,704	18,711,828	452,366	276	83,248	-	20,950,422
New purchases and investments	0	6,167	421	0	0	768,756	775,344
Transfer from assets under construction	6,710	735,936	26,110	0	0	(768,756)	0
Reclassification	0	(185,971)	(9,602)	23	198,346	0	2,796
Transfer from the Company onto the Public Domain	(13,729)	0	0	0	0	0	(13,729)
Disposals or retirements	(2,941)	(21,641)	0	0	(195,566)	0	(220,148)
31 December 2015	1,692,744	19,246,319	469,294	298	86,028	0	21,494,683
New purchases and investments	52,103	1,050,934	41,623	9	0	0	1,144,669
Transfer from assets under construction	0	0	0	0	0	(1,145)	0
Reclassification	0	(68,795)	(7,971)	0	77,592	0	826
Transfer from the Company onto the Public Domain	0	0	0	0	0	1,145	0
Excess and free property received	0	1,961	0	0	0	0	1,961
Lack and free property	0	(3,958)	0	0	0	0	(3,958)
Disposals or retirements	0	(2,521)	(1)	0	(88,872)	0	(91,394)
31 December 2016	1,744,847	20,223,940	502,945	308	74,748	-	22,546,787

HŽ INFRASTRUKTURA d.o.o., ZAGREB
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
 For the year ended 31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT (Public Domain) (continued)

Accumulated depreciation	Land	Buildings	Plant and equipment	Tools, plant inventory, transport vehicles	Other	Assets in preparation	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
1 January 2015	-	12,364,975	299,169	3	81,380	-	12,745,527
Depreciation during year	0	303,664	18,412	35	0	0	322,111
Reclassification	0	(164,322)	(16,990)	7	178,073	0	(3,232)
Disposals or retirements	0	(18,548)	0	0	(185,173)	0	(203,721)
31 December 2015	0	12,485,770	300,591	46	74,280	0	12,860,686
Depreciation during year	0	366,661	32,958	38	0	0	399,656
Correction (wrong postings)	0	(68,147)	(7,869)	0	75,756	0	(260)
Lack and free property	0	(3,693)	0	0	0	0	(3,693)
Disposals or retirements	0	(2,498)	(1)	0	(87,016)	0	(89,515)
31 December 2016	0	12,778,092	325,678	84	63,020	0	13,166,874
Net carrying amount							
1 January 2015	1,702,704	6,346,853	153,197	273	1,868	-	8,204,895
31 December 2015	1,692,744	6,760,549	168,703	253	11,748	-	8,633,997
31 December 2016	1,744,847	7,445,847	177,267	224	11,728	-	9,379,913

HŽ INFRASTRUKTURA d.o.o., ZAGREB
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
 For the year ended 31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT (The Group)

Description	Land	Buildings	Plant and equipment	Tools, plant inventory, transport vehicles	Other	Assets in preparation	Prepayments	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Cost								
1 January 2015	33,611	519,131	352,967	700,188	88,639	2,906,158	191,964	4,792,658
Increase	159,750	2,261	3,756	13,849	0	616,782	40,215	836,613
Reclassification	0	(18,175)	(3,210)	(11,189)	32,727	0	0	153
Transfer from tangible assets in preparation	0	0	0	0	0	(213,921)	0	(213,921)
Transfer from the Group onto the Public Domain	13,729	0	0	0	0	(768,756)	0	(755,027)
Disposals or retirements	(4)	(33,336)	(70)	(1,596)	(28,067)	0	(23,887)	(86,960)
31 December 2015	207,086	469,881	353,443	701,252	93,299	2,540,263	208,292	4,573,516
Increase	0	779	534	732	868	455,411	83,295	541,620
Reclassification	0	(25)	(1,545)	(5,378)	5,124	0	0	(1,824)
Transfer from tangible assets in preparation	0	2,223	499	1,488	0	(12,292)	0	(8,082)
Transfer from the Group onto the Public Domain	0	0	0	0	0	(1,144,669)	0	(1,144,669)
Excess and free property received	0	0	0	5	125	0	0	130
Lack and free property	0	0	0	(544)	0	0	0	(544)
Disposals or retirements	0	(1,659)	(446)	(2,421)	(5,070)	0	0	(9,597)
31 December 2016	207,086	471,199	352,485	695,134	94,346	1,838,713	291,587	3,950,550

HŽ INFRASTRUKTURA d.o.o., ZAGREB
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
 For the year ended 31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT (The Group) (continued)

Description	Land	Buildings	Plant and equipment	Tools, plant inventory, transport vehicles	Other	Assets in preparation	Prepayments	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Accumulated depreciation								
1 January 2015	0	324,647	225,454	561,335	40,481	0	906	1,152,823
Depreciation for 2015	0	4,320	19,893	26,672	860	0	0	51,745
Reclassification	0	(12,259)	(3,201)	(11,002)	26,462	0	0	0
Disposals or retirements	0	(21,846)	(62)	(1,531)	(23,628)	0	0	(47,067)
31 December 2015	0	294,862	242,084	575,474	44,175	0	906	1,157,501
Depreciation for 2016	0	8,413	16,330	25,733	826	0	0	51,301
Reclassification	0	(25)	(1,544)	(3,181)	5,099	0	0	349
Lack and free property	0	0	0	(342)	0	0	0	(342)
Disposals or retirements	0	(99)	(1,042)	(1,922)	(5,077)	0	0	(8,140)
31 December 2016		303,151	255,828	595,762	45,023	0	906	1,200,669
Net carrying amount								
1 January 2015	33,611	194,484	127,513	138,853	48,158	2,906,158	191,058	3,639,835
31 December 2015	207,086	175,019	111,359	125,778	49,124	2,540,263	207,386	3,416,015
31 December 2016	207,086	168,048	96,657	99,372	49,323	1,838,713	290,681	2,749,881

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17. LONG-TERM FINANCIAL ASSETS

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
<u>Subsidiary companies</u>		
Proizvodnja-regeneracija d.o.o, Zagreb	4,522	4,522
Less: value adjustment	(4,522)	(4,522)
	0	0
<u>Investments in securities</u>		
Industrogradnja d.d., Zagreb	95	95
Industrogradnja grupa d.d., Zagreb	133	133
Končar-Elektroindustrija d.d., Zagreb	320	310
OT-Optima telekom	100	76
Other investments in securities	56	56
Dalekovod d.d., Zagreb	0	0
Đuro Đaković d.d., Slavonski Brod	11	6
Željezara Sisak d.d., Sisak	31	31
Salonit Vranjic, Vranjic	3,866	3,866
Less: value adjustment	(3,898)	(3,898)
	714	675
<u>Other long-term financial assets</u>		
Receivables for given guarantees	477	477
Assets invested for the composition of conceptual design	32	32
	509	509
TOTAL	1,223	1,184

18. LONG-TERM RECEIVABLES

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
<u>Receivables for the flats sold</u>		
Receivables for the flats sold	21,504	27,901
Minus: Current portion (see Note 20)	(8,340)	(8,889)
	13,164	19,012
<u>Other receivables</u>		
Housing loans to employees	5,064	6,529
Bonds of the Republic of Croatia	5,762	5,762
	10,826	12,291
TOTAL	23,990	31,303

19. INVENTORIES

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Raw material and supplies	119,632	142,185
Spare parts	355,045	363,145
Small inventory and packing	71,747	75,381
Minus: Value adjustment of raw material and supplies, spare parts and small inventory and packing	(69,468)	(82,177)
Finished products	1,894	2,088
Production in progress	846	839
Advances given in the country	296	817
TOTAL	479,992	502,278

Inventories without turnover in 2016 in the amount of HRK 332,102 thousand were subject of examination with the purpose of potential adjustments debited to the Comprehensive income statement. In accordance with the assessment of their usability no corrections were made.

20. TRADE RECEIVABLES

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Domestic trade receivables	222,594	190,839
Foreign trade receivables	470	514
Other trade receivables	553	0
Minus: value adjustment	(49,585)	(56,605)
TOTAL	174,032	134,748

Trade receivables uncertain in terms of billing were subject to review, with a view to their possible correction at the expense of profit or loss. Consequently, the amount of trade receivables in the amount of HRK 12,072 thousand was settled.

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21. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Receivables from the state on the remission of debt to related companies	300,923	300,923
Receivables for VAT	3,823	5,346
Receivables from the budget for unpaid excise taxes	2,246	2,246
Receivables for prepaid profit tax	55	3,950
Other receivables	78,944	29,581
Less: value adjustment - receivables from the state	(300,923)	(300,923)
TOTAL	85,068	41,123

22. OTHER RECEIVABLES

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Prepayments made to related companies	299	299
Domestic prepayments made	2,841	3,015
Value adjustments of prepayments	(994)	(994)
Other short-term receivables	3,530	4,820
Plus: Current portion (see Note 16)	8,340	8,889
TOTAL	14,016	16,029

23. SHORT-TERM FINANCIAL ASSETS

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
<u>Loans given to related parties</u>		
Proizvodnja-regeneracija d.o.o., Zagreb	14,234	14,234
Less: value adjustment	(14,234)	(14,234)
	<u>0</u>	<u>0</u>
<u>Given loans, deposits, etc.</u>		
Deposits	6,174	10,005
Guarantees given	140	140
Other	6,314	10,145
	<u>6,314</u>	<u>10,145</u>
TOTAL		

24. CASH AND CASH EQUIVALENTS

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Gyro account Balance	117,172	349,097
Foreign currency account Balance	10,722	9,024
Cash in hand	44	5
Tied foreign currency assets	368,262	36,931
TOTAL	496,200	395,057

25. PREPAID EXPENSES AND ACCRUED INCOME

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Prepaid expenses for the future period	9,832	9,179
Accrued income for the future period	911	1,041
TOTAL	10,743	10,220

26. CAPITAL

/i/ The subscribed capital of the Company amounts to HRK 224,188 thousand and represents permanent own sources for Company`s operating and the share principal registered at the Commercial Court in Zagreb. The only member of the Company is the Republic of Croatia.

/ii/ Capital reserves in the amount of HRK 10,254,923 thousand (31 December 2015: HRK 9,032,200 thousand) refer to Public good equity for the Public good assets in common use in the ownership of the Republic of Croatia in the amount of HRK 9,640,166 thousand (31 December 2015: HRK 8,621,439 thousand) and to the reserves of the Company in the amount of HRK 614,757 thousand (31 December 2015: HRK 410,762 thousand). Movements in capital reserves are as follows:

	Public Domain	HRK'000
Consolidated Balance on 1 January 2016		8,621,439
Activated fixed assets from the Budget of the Republic of Croatia		1,144,669
Depreciation of the Public good assets		(399,656)
Net book value of the written-off Public good assets		(1,879)
Surplus of fixed assets		1,960
Deficit of fixed assets		(265)
The coverage of accumulated loss from 2014		(9,710)
Increase of public capital for the profit from 2015		10,925
Transfer of retained profit to public capital from 2014		45,637
Loan and interest write-off (Decree of the Croatian Government) - Erste and Sberbank (see Note 29. /iv/)		1,005,300
Financial investments from the loan for which the public good capital was increased		(779,340)
Transfer from Infrastruktura to the Public Domain		1,086
Balance on 31 December 2016		9,640,166

/iii/ On 31 December 2016, revaluation reserves are stated in the amount of HRK 99,998 thousand (31 December 2015: HRK 109,918 thousand)

/iv/ Retained profit stated on 31 December 2016 in the amount of HRK 208,612 thousand (31 December 2015: HRK 158,390 thousand)

/v/ Current year loss was stated on 31 December 2016 in the amount of HRK 25,012 thousand (31 December 2015: loss in the amount of HRK 27,329 thousand).

27. PROVISIONS

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Provisions for jubilee awards and retirement benefits	35,345	33,255
Restructuring expenses - incentive severance payments	10,575	26,590
Provisions for court litigations	60,795	66,604
TOTAL	106,715	126,449

Movements in provisions are shown in the table below:

P O S I T I O N	31 December 2015	New provisions	Used provisions	31 December 2016
	HRK'000	HRK'000	HRK'000	HRK'000
Provisions for jubilee awards and retirement benefits	33,255	2,268	(178)	35,345
Restructuring expenses - incentive severance payments	26,590	0	(16,015)	10,575
Provisions for court litigations	66,604	8,721	(14,530)	60,795
TOTAL	126,449	10,989	(30,723)	106,715

28. LONG-TERM LIABILITIES

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
<u>Liabilities to banks and other financial institutions</u>		
European Bank for Reconstruction and Development (EBRD)	124,140	114,526
International Bank (IBRD)	160,382	138,544
Privredna banka Zagreb d.d., Istarska banka Umag d.d. i OTP banka d.d.	101,572	136,192
Erste & Steiermärkische Bank d.d., SG-Splitska banka d.d. i OTP banka d.d.	625,938	783,542
Erste & Steiermärkische Bank d.d., Rijeka i Sberbank d.d., Zagreb	0	951,351
Hypo Alpe Adria Bank d.d. Zagreb	19,105	32,169
	<u>1,031,137</u>	<u>2,156,324</u>
Less: Current portion (see Note 37)	<u>(213,884)</u>	<u>(318,694)</u>
	<u>817,254</u>	<u>1,837,630</u>
Liabilities for financial leasing	1,318	2,627
Less: Current portion	(870)	(1,182)
	<u>448</u>	<u>1,445</u>
<u>Other long-term liabilities</u>		
Liabilities for sold flats	21,499	27,895
Liabilities to the Tax Authority	0	0
Deferred tax liability	21,951	27,479
	<u>43,450</u>	<u>55,374</u>
TOTAL	861,151	1,894,449

/i/ In accordance with the Railways Act, Republic of Croatia took over the repayment of long-term loan and related interests liabilities concluded until 1 January 2006 and the liabilities for loans are removed from the records in favour of state aid. The capital of the Public Property will be increased by the activation of the fixed assets of the public property acquired from the loan. Depreciation of public good fixed assets is not recognized as an expense and it is charged to Public good equity.

/ii/ On 27 December 2013, the Government of the Republic of Croatia gave consent to the Ministry of finances to take over loan and interest liabilities to Privredna banka Zagreb d.d., Zagreb and Zagrebačka banka d.d., Zagreb from the Company by increasing the public good equity. According to the stated, the Company wrote off the loan liabilities to foreign banks by increasing the Public good equity, given that the Company is no longer obligated to monitor these loan debts.

/iii/ Foreign exchange differences and interest upon long-term loan liabilities are stated by charging / crediting state subventions.

/iv/ Domestic long-term borrowings are ascertained with an interest rate of 6 M EURIBOR + margin.

28. LONG-TERM LIABILITIES (continued)

/v/ On 23 December 2014, the Croatian Government brought a Decision on the approval of the take-over of Company's debt on the basis of given and unpaid mandatory payments of debtors with the increase of public good capital and to reduce indebtedness and financial consolidation of the railway infrastructure managers in the amount of HRK 1,915,791 thousand (HRK 1,770,962 thousand as principal, HRK 63,902 thousand as regular interest, HRK 73,386 thousand paid principal and 7,539 thousand as accrued interest on arrears). The given approval refers to take-over of the long-term loan at Erste & Steiermarkische bank d.d, Erste & Steiermarkische bank d.d. and Sberbank d.d. and short-term loan at OTP Bank d.d. Upon signing the Contract on debt take-over between the Republic of Croatia, HŽ Infrastruktura d.o.o. and the banks, the Company wrote-off from its operating records long-term loan liabilities at Erste & Steiermarkische Bank d.d. (December 2015) and Sberbank d.d. (September 2016) and short-term loan liability at OTP bank d.d. (March 2015).

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

P O S I T I O N	2016 HRK '000
1 January	2,144,454
New borrowings	39,620
Loans repaid	(248,815)
Debt take-over (Decree of the CG)	(887,675)
Foreign exchange differences	(15,576)
Current portion	(214,754)
31 December	817,254

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

P O S I T I O N	31 December 2016 HRK '000
Due in one to two years	222,668
Due in two to three years	216,956
Due in three to four years	184,248
Due in four to five years	50,431
Due in more than five years	142,951
TOTAL	817,254

Deferred tax liability in the amount of HRK 21,449 thousand (31 December 2015: HRK 27,895 thousand) was recorded in the process of revaluating the Company's assets.

29. SHORT-TERM BORROWINGS AND DEPOSITS

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Liabilities for deposits	3,627	3,956
Liabilities for financial lease	99	99
	3,726	4,055
<u>Public Good</u>		
Restructuring and Sale Center (CERP)	129,243	129,243
TOTAL	132,969	133,298

30. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Current portion (see Note 28)	214,754	319,876
TOTAL	214,754	319,876

31. LIABILITIES FOR RECEIVED PREPAYMENTS

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Domestic customers	9,545	12,236
Foreign customers	115	172
TOTAL	9,660	12,408

32. TRADE PAYABLES

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Domestic suppliers	135,122	158,621
Foreign suppliers	1,806	6,411
TOTAL	136,928	165,032

33. LIABILITIES TO EMPLOYEES

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Liabilities for net wages and salaries	35,720	36,516
Other liabilities	5,488	19,937
TOTAL	41,208	56,453

34. LIABILITIES FOR TAXES, CONTRIBUTIONS AND SIMILAR FEES

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Liabilities for taxes from and on salaries	21,792	23,471
Other liabilities	4,201	4,042
TOTAL	25,993	27,513

35. OTHER LIABILITIES

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
Liabilities toward the Ministry of finance /i/	366,298	227,570
Liabilities to infrastructure- IPA projects	78,409	29,265
Other deductions from wages and salaries	5,880	6,540
Liabilities on the basis of repurchase of flats	5,762	5,762
Liabilities for un-invoiced goods	601	646
Current portion (Note 30)	0	0
Other liabilities	29	69
TOTAL	456,979	269,852

/i/ Liabilities to the Ministry of Finance relate to interest and principal liabilities of the Company, which have been settled by the Ministry of Finance.

35. OTHER LIABILITIES (continued)

<u>Liabilities to the Ministry of Finance for credit obligations</u>	31 December 2016 HRK'000
<i>Borrowing at Erste & Steiermaerkische Bank d.d., SG - Splitska banka d.d. i OTP banka d.d.</i>	296,325
- principal	227,813
- overdue interest	65,158
- fee	3,354
<i>Borrowing at Privredna banka Zagreb d.d., Istarska kreditna banka Umag d.d. i OTP banka d.d.</i>	69,973
- principal	50,587
- overdue interest	19,371
- fee	15
TOTAL	366,298

36. ACCRUED EXPENSES AND DEFERRED INCOME

P O S I T I O N	31 December 2016	31 December 2015
	HRK'000	HRK'000
State subventions related to modernization of railways	609,573	875,097
Income for the future period	4,125	4,125
Dividends from assets available for sale	954	954
Accounted liabilities for the flats sold	123,038	116,732
Exchange gains/losses on loans	315	(13,024)
Co-financing of level crossings	0	400
Deferred payment of costs - IPA	12,995	4,522
Interest and expenses for public good loan	(7,776)	(12,801)
Non-repayable loans - CEF	375,054	26,092
Non-repayable loans - NAPA	14	47,177
Other	38,915	32,561
TOTAL	1,157,207	1,081,835

37. RELATED PARTY TRANSACTIONS

The party is related to the subject when directly or indirectly, through one or more mediators' controls, is controlled by or is under a joint control over the subject, has a share portion in the subject that gives it a significant influence over the subject and has a joint control over the subject. The total transaction amounts with related parties, receivables and liabilities at the end of the year as well as the related expenses and income for 2016 and 2015 are shown below:

HŽ INFRASTRUKTURA d.o.o., ZAGREB
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
 For the year ended 31 December 2016

37. RELATED PARTY TRANSACTIONS (continued)

Related party	Operating activities				Financial activities			
	Receivables	Liabilities	Income	Expenses	Receivables	Liabilities	Income	Expenses
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<u>2016</u>								
Proizvodnja i regeneracija u stečaju, Zagreb	0	103	628	1,314	0	0	0	0
HŽ Putnički prijevoz d.o.o., Zagreb	22,854	4,257	90,118	16,115	0	35	354	75
HŽ Cargo d.o.o., Zagreb	122,817	393	62,893	4,173	0	0	0	580
Agencija za integralni transport d.o.o., Zagreb	2	0	7	0	0	0	1	0
Tersus Eko d.o.o., Zagreb	326	501	328	9,672	0	0	1	0
Remont željezničkih vozila Čakovec d.o.o., Čakovec	0	1,670	0	3,545	0	0	0	0
Remont i proizvodnja željezničkih vozila d.o.o., Slavonski Brod	0	1,589	3	4,255	0	0	0	0
Tvornica željezničkih vozila Gredelj d.o.o., Zagreb	112	1,226	15	1,601	0	2	0	7
Održavanje vagona d.o.o., Zagreb	3,834	337	1,083	1,258	0	0	0	0
Tehnički servisi željezničkih vozila d.o.o., Zagreb	474	1,422	243	3,992	0	0	35	27
Odašiljači i veze d.o.o., Zagreb	0	0	554	0	0	0	0	0
Hrvatske šume d.o.o., Zagreb	0	0	126	0	0	0	0	0
Hrvatski operator prijenosnog sustava d.o.o., Zagreb	0	1,808	0	0	0	0	0	0
HEP Opskrba d.o.o., Zagreb	0	23,425	0	12,315	0	0	0	12
HEP ODS d.o.o., Zagreb	0	1,309	68	8,117	0	0	0	48
Hrvatske vode, Zagreb	0	89	0	4,703	0	0	0	0
HEP Toplinarstvo d.o.o., Zagreb	0	758	0	2,003	0	0	0	13
HP - Hrvatska pošta d.d., Zagreb	0	38	0	0	0	0	0	2
INA d.d., Zagreb	0	1,080	0	11,308	0	0	0	0
Narodne Novine d.d., Zagreb	0	42	0	194	0	0	0	5
INA maziva d.o.o., Zagreb	0	0	0	460	0	0	0	0
Hrvatske autoceste d.o.o., Zagreb	0	0	0	436	0	0	0	0
Autocesta Rijeka - Zagreb d.o.o., Zagreb	0	0	0	238	0	0	0	0
Total	150,418	40,047	156,066	85,699	0	37	391	769

HŽ INFRASTRUKTURA d.o.o., ZAGREB
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
 For the year ended 31 December 2016

37. RELATED PARTY TRANSACTIONS (continued)

Related party	Operating activities				Financial activities			
	Receivables	Liabilities	Income	Expenses	Receivables	Liabilities	Income	Expenses
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
2015								
Proizvodnja i regeneracija u stečaju d.o.o., Zagreb	30	2,849	0	2,102	0	0	0	0
HŽ Putnički prijevoz d.o.o., Zagreb	27,309	3,554	92,931	17,139	0	0	163	741
HŽ Cargo d.o.o., Zagreb	76,372	2,269	73,825	29,440	0	0	0	72
Agencija za integralni transport d.o.o., Zagreb	8	0	9	555	0	0	0	4
Tersus Eko d.o.o., Zagreb	144	2,485	423	11,359	0	0	11	0
Remont željezničkih vozila Čakovec d.o.o., Čakovec	74	13	117	1,372	0	0	0	0
Remont i proizvodnja željezničkih vozila d.o.o., Slavonski Brod	6	1,189	5	6,398	0	0	0	0
Tvornica željezničkih vozila Gredelj d.o.o. u stečaju, Zagreb	118	1,669	32	3,299	0	0	0	50
Održavanje vagona d.o.o., Zagreb	2,627	2	1,133	2,421	0	0	0	0
Tehnički servisi željezničkih vozila d.o.o., Zagreb	1,286	1,303	302	4,242	0	0	3	49
Odašiljači i veze d.o.o., Zagreb	(12)	0	329	0	0	0	0	0
Hrvatske šume d.o.o., Zagreb	10	0	14	0	0	0	0	0
Hrvatske autoceste d.o.o., Zagreb	14	0	116	0	0	0	0	0
Hrvatski operator prijenosnog sustava d.o.o., Zagreb	0	2,431	0	0	0	0	0	939
HEP Opskrba d.o.o., Zagreb	0	24,713	0	12,804	0	0	0	193
HEP ODS d.o.o., Zagreb	84	1,224	179	8,652	0	0	0	64
Hrvatske vode, Zagreb	0	167	0	6,129	0	0	0	0
HEP Toplinarstvo d.o.o., Zagreb	0	655	0	2,077	0	0	0	100
HP - Hrvatska pošta d.d., Zagreb	0	64	0	0	0	0	0	7
Narodne Novine d.d., Zagreb	0	87	0	258	0	0	0	2
Total	108,070	44,674	169,415	108,247	0	0	177	2,221

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital risk management

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

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

Debt ratio

The Management board reviews the capital structure on a quarterly basis. As part of this review, Management considers the cost of capital and the risks associated with each class of sources of funding. The debt ratio at the year's end is presented as follows:

P O S I T I O N	31 December 2016	31 December 2015
	HRK '000	HRK '000
Debt	1,075,970	2,213,143
Cash and cash equivalents	(496,200)	(395,057)
Net debt	579,770	1,818,086
Equity	10,343,396	9,186,568
Net debt to equity ratio	5.61%	20%

Categories of financial instruments

P O S I T I O N	31 December 2016	31 December 2015
	HRK '000	HRK '000
Financial assets		
Loans and receivables (including cash and cash equivalents)	792,842	671,350
Financial liabilities		
Depreciated cost	3,143,562	2,946,958

Managing financial risk objectives

The Company controls and manages financial risks which could have the influence on the operations of the Company by internal reports on risks where the exposures to risks are analysed on the basis of the degree and character of market risk, interest risk, credit risk, currency risk and solvency risk.

Market risk

The Group operates on the Croatian and international markets. The Company's Management determines the prices of its products and services separately for domestic and foreign markets. There were no significant changes to the influence of market risks to the operations of the Group.

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk

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

Due to the fact that The Group uses loans with changeable interest rates, it is exposed to the interest rate risk.

Sensitivity analysis on interest rates

Sensitivity analysis was performed only for the financial instruments with variable interest rates based on the exposure to interest rates at the end of the reporting period assuming that the outstanding amount at the end of the reporting period was unsettled during whole year.

If interest rates were 50 basis points higher, the consolidated Balance of loan indebtedness as at 31 December 2016 would be influenced by the increase of the interest rate expense in the amount of HRK 5,060 thousand (31 December 2015: HRK 10,621 thousand) based on exposure to the interest rate risk. This is mainly attributable to the Company's exposure to interest rates on loans with variable interest rates.

Credit risk management

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

Financial assets that potentially expose the Group to credit risk consist mainly of cash, money equivalents and trade receivables. Trade receivables have been adjusted to allow for bad and doubtful accounts.

There were no significant changes to the influence of credit risks to the Group's operations.

Currency risk

The official currency of the Company is the Croatian kuna ("HRK"). However, certain transactions denominated in foreign currencies are calculated in the Croatian kuna by applying the exchange rates in effect at the date of the consolidated Balance Sheet, and consequently, the Group is significantly exposed to the risks of changes in currency rates due to numerous loans containing a currency clause (mostly related to EUR). Net carrying amount of monetary assets and liabilities of the Group denominated in foreign currencies on the consolidated Balance Sheet date is shown in the Table below:

Balance on 31 December	Liabilities		Assets	
	2016	2015	2016	2015
	HRK '000	HRK '000	HRK '000	HRK '000
EUR	1,013,755	2,130,415	377,111	29,015

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Analysis of sensitivity to foreign currency risk

The Company is primarily exposed to the countries whose currency is EUR. The following table analyses the foreign currency risk of the Company in the event of a 1% increase in the value of Kuna against Euro. The 1% sensitivity rate is used in internal foreign currency risk reports to key managers and represents the Management's assessment of predictable changes in the exchange rates. The sensitivity analysis includes only open monetary items in foreign currency, and their translation at the end of the period is adjusted based on the 1-percent change in exchange rates. The influence of changes in the exchange rate is given in the following table:

P O S I T I O N	EUR influence			
	Decrease by 1%		Decrease by 1%	
	2016	2015	2016	2015
	HRK'000	HRK'000	HRK'000	HRK'000
Influence on the profit/loss for the period	1,001,911	2,102,913	1,022,152	2,145,396

Solvency risk

A solvency risk is a risk that the Group would not be able to fulfil its financial liabilities to the other contractual party. The Group manages solvency risk in a way that observes continuously and analyses expected and actual cash flow on the basis of maturity of financial assets and liabilities.

39. POTENTIAL LIABILITIES AND DISPUTES

/i/ At 31 December 2016 the Group determined a provision for contingent liabilities in the amount of principal and potential court and attorneys costs of HRK 60,795 thousand.

The court dispute in which the Company is a party to a claim on 31 December 2016 is as follows:

The Company as a defendant together with companies HŽ Cargo d.o.o., Zagreb and HŽ Putnički prijevoz d.o.o., Zagreb takes part in numerous legal proceedings in the total amount of HRK 114,304 thousand whose outcome is uncertain.

According to the Division Plan of the trade company HŽ Hrvatske željeznice d.o.o., Zagreb, newly established companies bear possible liabilities arising out of these conflicts on the basis of their participation in the capital.

The Company participates as a defendant in legal proceedings initiated in 2007, 2008, 2012, 2013, 2014, 2015 and 2016 in the amount of HRK 109,421 thousand.

/ii/ The Group is burdened with guarantees in the amount of HRK 50,000 thousand as shown below:

Related party	Amount HRK '000
HŽ Putnički prijevoz d.o.o.	50,000
Total	50,000

Court disputes in which the Company Pružne građevine d.o.o. is the respondent party with the status as at 31 December 2016 is as follows:

On 14 February 2013, the Croatian Ministry of Finances - Financial Police, Precinct Zagreb, based on the Resolution number: 07-01-13-6 and class: UP/I-215-02/13-01/1, determined the existence of a tax liability in the total amount of HRK 24,373 thousand, out of which the amount of HRK 17,076 thousand refers to the principal of this liability and the amount of HRK 7,297 thousand to interests. The Company filed a complaint on the mentioned decision as on 25 March 2013. On 31 December 2013, the Company determined the provision for potential liabilities in the amount of HRK 24,373 thousand.

On 28 February 2014, the complaint of the Company was apprehended by the second-instance administrative procedure and the case was returned for re-trial.

On November 18, 2014, the Ministry of Finance - Tax Administration, District Office of Zagreb issued the Resolution number: 513-07-01-14-21 class UP/I-215-02/13-01/1, which determines the existence of tax liabilities in the total amount of HRK 27,584 thousand, of which HRK 17,076 thousand relates to principal and HRK 10,508 thousand on interests. The Company filed complaint with the mentioned decision on 15 December 2014 and retained the amount of provisions in 2013 in the Balance Sheet / Statement of Financial Position as at 31 December 2014.

On 7 September 2015, the second instance administrative complaint procedure was dismissed and the case was returned for re-trial. As at 31 December 2015, for the part of the tax liability, the Company canceled the provision for 2013 and determined the provision for contingent liabilities in the amount of HRK 7,933 thousand as of 31 December 2015.

On 22 December 2016 the Ministry of Finance - Tax Administration, the regional office of Zagreb issued a Resolution number: 513-07-01-14-44 class: UP/I-215-02/13-01/1 in which it determines the existence of a tax liability in the total amount of HRK 19,004 thousand, of which HRK 10,322 thousand relates to principal and HRK 8,682 thousand on interest. The Company filed a complaint to the relevant ruling on 9 January 2017, stating the statutory limitation of part of the receivables related to the established debt for 2008 and 2009 and in the Balance Sheet on the financial position at 31 December 2016 the amount of provisions of HRK 819 thousand was retained.

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

After the date of the Consolidated Balance Sheet there were no events that would have a significant impact on the Company's annual consolidated financial statements for 2016, which should subsequently be disclosed.

41. CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY AND THE PUBLIC GOOD

As the Railway Act requires the existence of separate records of public goods and own revenues and expenditures as well as assets, liabilities and capital resulting from these changes, the Company's financial statements and the financial statements of the public property are presented below.

POSITION	The Company	Public Domain	Total
	HRK'000	HRK'000	HRK'000
ASSETS			
Intangible assets	61,208	0	61,208
Tangible assets	12,129,794	9,379,913	21,509,707
Financial assets	1,223	0	1,223
Long-term receivables	23,990	0	23,990
Deferred tax assets	0	0	0
LONG-TERM ASSETS	12,216,215	9,379,913	21,596,128
Inventories	479,992	0	479,992
Trade receivables	174,032	0	174,032
Receivables from employees	6,469	0	6,469
Receivables from the State and other institutions	85,068	0	85,068
Other receivables	14,016	0	14,016
Financial assets	6,314	0	6,314
Cash and cash equivalents	496,200	0	496,200
Prepaid expenses and accrued income	10,743	3,863,532	3,874,275
SHORT-TERM ASSETS	1,272,834	3,863,532	5,136,366
TOTAL ASSETS	13,489,049	13,243,445	26,732,494

41. CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY AND THE PUBLIC
 GOOD (continued)

P O S I T I O N	The Company	Public Domain	Total
	HRK'000	HRK'000	HRK'000
CAPITAL AND LIABILITIES			
Share (subscribed) capital	224,188	0	224,188
Capital reserves	10,254,923	9,640,166	19,895,089
Revaluation reserves	99,998	0	99,998
Accumulated loss	(208,612)	0	(208,612)
Profit/(Loss) for the current year	(25,012)	0	(25,012)
TOTAL CAPITAL	10,345,485	9,640,166	19,985,651
Provisions	106,715	0	106,715
Long-term liabilities	861,151	0	861,151
Liabilities for loans, deposits, etc.	132,969	129,243	262,212
Liabilities to banks and other financial institutions	214,819	0	214,819
Liabilities for received prepayments	9,595	0	9,595
Trade payables	136,928	0	136,928
Liabilities for securities	0	0	0
Liabilities due to employees	41,208	0	41,208
Liabilities for taxes, contributions and similar fees	25,993	0	25,993
Other liabilities	456,979	0	456,979
Accrued expenses and deferred income	1,157,207	3,474,036	4,631,243
Short-term liabilities	2,175,698	3,603,279	5,778,977
TOTAL CAPITAL AND LIABILITIES	13,489,049	13,243,445	26,732,494

41. CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY AND THE PUBLIC GOOD (continued)

Pursuant to the provisions of the Art.21, Paragraph 2 of the Railway Act, the Company charges the accumulated losses to the public good equity. Following the Decision of the Government of Republic of Croatia on granting consent for taking over the debt of the Company, the Company wrote off long term loan liabilities, interests and foreign exchange differences by increasing the Public good equity. The total effect of the aforementioned activities are changes to Public good equity (increase of capital in the amount of HRK 3,863,532 thousand and decrease of capital in the amount of HRK 2,093,324 thousand) which are reported in individual consolidated Balance sheets of the Company and of the Public good within the positions "Prepaid expenses" and "Accrued expenses and deferred income", while those changes were consolidated in the Total Consolidated Balance Sheet of the Company in the amount of HRK 5,956,856 thousand.

The positions "Prepaid expenses" and "Accrued expenses and deferred income" also include investments financed from the loan for which the capital of the public good was increased, which as at 31 December 2016 amount HRK 1,380,712 thousand.

In 2013 and 2014, the Croatian Government brought a Decision on the approval to take-over Company's debt on the basis of given and unpaid mandatory payments of debtors with capital increase of the public good with the objective to reduce indebtedness and financial consolidation of the railway infrastructure managers in the total amount of HRK 3,334,166 thousand (2013: HRK 1,418,375 thousand and in 2014: HRK 1,915,791 thousand). Given approval refers to the long-term loan take-over at Erste & Steirmarkische bank d.d and Sberbank d.d., Privredna banka Zagreb d.d., Zagrebačka banka d.d. and short-term loan at OTP Bank d.d.. Mentioned loans were used to finance public good investments. Upon taking over the loans, the Company increased the capital of the public good for the previously stated amount and the capital needed to be adjusted by the amount of activated investments.

The positions "Prepaid expenses" and "Accrued expenses and deferred income" also include investments financed from the loan for which the capital of the public good was increased, which as at 31 December 2016 amount HRK 601,372 thousand. In 2013 and 2014, the Croatian Government brought a Decision on the approval to take-over Company's debt on the basis of given and unpaid mandatory payments of debtors with capital increase of the public good with the objective to reduce indebtedness and financial consolidation of the railway infrastructure managers in the total amount of HRK 3,334,166 thousand (2013: HRK 1,418,375 thousand and in 2014: HRK 1,915,791 thousand). Given approval refers to the long-term loan take-over at Erste & Steirmarkische bank d.d and Sberbank d.d., Privredna banka Zagreb d.d., Zagrebačka banka d.d. and short-term loan at OTP Bank d.d.. Mentioned loans were used to finance public good investments. Upon taking over the loans, the Company increased the capital of the public good for the previously stated amount and the capital needed to be adjusted by the amount of activated investments.

42. PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements, set out on the previous pages, were prepared by the Management Board of the Company, and authorized for issue on 20 September 2017.

Signed on behalf of the Management Board:

Ivan Kršić,
member of the Management Board



HŽ INFRASTRUKTURA d.o.o.
Mihanovićeve 12
10 000 Zagreb
The Republic of Croatia