GROUP ULJANIK PLOVIDBA

CONSOLIDATED AUDITED FINANCIAL STATEMENTS

FOR THE PERIOD

JANUARY - DECEMBER 2018

Pula, April 2019

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ULJANIK PLOVIDBA d.d., Pula

ANNUAL CONSOLIDATED REPORT AS AT 31 DECEMBER 2018

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

Content

ULJANIK PLOVIDBA

Management's responsibility for the preparation of the consolidated financial statements

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards („IFRS") as adopted by the European Union ('EU') which give a true and fair view of the financial position and results of the company Uljanik plovidba d.d. ("the Company") and its subsidiaries ("Group") for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing its consolidated financial statements.

In preparing those consolidated financial statements, the responsibilities of the Management Board include ensuring that:

- Suitable accounting policies are selected and then applied consistently;
- Judgements and estimates are reasonable and prudent;
- Applicable accounting standards are followed; and
- The consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the group and must also ensure that the consolidated financial statements comply with the Croatian Accounting Law in force. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is also responsible for preparing annual consolidated management report in accordance with applicable laws and regulations and for submitting it to the Supervisory Board together with annual consolidated financial statements. The Supervisory Board is responsible for approving annual consolidated management report together with annual consolidated financial statements before their submission to the General Assembly of the Company.

The accompanying consolidated financial statements were approved for issuance by the Management Board and authorized for issuing on 29th April 2019.

Igor Budisavljević, Director

ULJANIK PLOVIDBA d.d.
Carrarina 6
52 100 Pula
Croatia

INDEPENDENT AUDITOR'S REPORT

To the owners of ULJANIK PLOVIDBA d.d.

Report on the audit of annual consolidated financial statements

Opinion

We have audited the accompanying annual consolidated financial statements of Uljanik plovidba d.d. ("the Company") and its subsidiaries (together "Group"), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income for the year then ended, the consolidated cash flow statement, the consolidated statement of changes in equity for the year then ended and notes to the consolidated financial statements which include a summary of significant accounting policies.

In our opinion, except for effects of the matter described in the Basis for qualified opinion paragraph, the annual consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the Accounting Act and International Financial Reporting Standards ("IFRS") as adopted by the European Commission and published in official gazette ('EU') and published in the Official Journal of the European Union.

Basis for Qualified Opinion

1. Correction of prior period error

As described in Note 12, during 2018 the Group corrected prior period error in total amount of HRK 10,150,090. The stated correction of prior period error relates to inadequately calculated foreign exchange difference which arose from recalculation of monetary items in foreign currencies using the closing middle exchange rate.

Described correction of prior period error was made by retrospective application in shareholders' equity, however the adjustment, in total amount of HRK 10,150,090, was not made in accordance with International Accounting Standard 8 - Accounting Policies, Changes in Accounting Estimates and Errors which requires restating the comparative amounts for the prior period presented in which the error occurred. Consequentially, profit for the prior period in comparative amounts for financial year 2017, in consolidated financial statements of the Group is overstated by HRK 10,150,090.
Correction of the described prior period error did not affect calculation of corporate income tax since transactions that relate to ship management activities are accounted for by the Company in the tonnage tax regime.

Report on the audit of annual financial statements (continued)

Basis for Qualified Opinion

2. Recognition of gain realized on sale of vessel

As described in Note 18, during 2017 the Group signed contract for sale of the vessel Levan and based on this agreement with a customer the Group recognized, in the consolidated statement of comprehensive income for 2017, gain on sale of tangible assets in amount of HRK 17,655,310 although the vessel was delivered to the customer in 2018, when the customer gained control over the mentioned asset. Described recognition of realized gain was not made in accordance with International Accounting Standard 15 – Revenue from contracts with customers which requires that revenue is recognized when a performance obligation is satisfied by transferring to a customer a promised good or service (asset) is transferred to a customer. This happens when control over the asset is passed.

Following the above described, the Group did not recognize in adequate period gain on sale of the vessel and consequentially other gains and net profit for 2018 are understated by HRK 17,655,310. Other income in the prior period of 2017, net profit for the year then ended and other receivables as at 31 December 2017 are overstated by HRK 17,655,310.

3. Impairment of vessels

As described in Note 6, based on the valuation performed by independent valuators, during 2018, the Group performed impairment of carrying value of tangible assets (vessels) in total amount of HRK 237,473,121. The total impairment loss was recognized by the Group in loss for 2018 although performed analysis revealed that in prior periods there were also indicators that described assets might be impaired.

Consequentially, when recognizing impairment loss in the consolidated financial statements for 2018, the Group should have determined, in accordance with International Accounting Standard 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the part of impairment loss which relates to the current period, prior period and earliest reporting period. Therefore, instead of recognizing impairment of assets entirely as at 31 December 2018 and recognizing entire impairment loss in the loss for 2018, the Group should have performed retrospective application and restatement of carrying value of assets, retained earnings and profits for the prior and earliest reporting period in consolidated financial statements for 2018.

Based on the received information and available records of the Group we were not able to determine the value in use and part of the impairment loss recognized in 2018 that relate to the prior and to the earliest reporting period.

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

Report on the audit of annual consolidated financial statements (continued)

Emphasis of matter

Significant doubt as to the Group's ability to continue as a going concern

We draw attention to note 2.2 to financial statements which describes 2018 financial performance and position according to which the Group realized loss of HRK 268,175,946 with the Group's current liabilities exceeding its current assets by HRK 270,696,579 and increased gearing ratio which, as at 31 December 2018, amounts to 136.46%. Additionally, as at 31 December the Group's net assets are negative in amount of HRK 264,530,077 and in 2019 the Group should repay HRK 166,126,546 of current portion of long-term borrowings from banks and companies.

As it has been described in note 2.2 these events, together with any other possible reasons which may prevent realization of the restructuring plan, indicate the existence of a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Contingent liabilities, contingent assets and events after the reporting period

We draw attention to note 27 to financial statements which describes that on 3rd April 2019 the Company received Decision on the commencement of the investigation proceedings against the Company due to alleged misconduct of the former Managing Director arising out of the Cooperation Agreement on Mutual Execution of the Project for Building 4 Ships at 3. MAJ Shipyard for Domestic Buyers. The allegation is that the Company potentially wrongfully benefited in the amount of HRK 57,960,520.

The Company is expressly denying any and all allegations that it potentially wrongfully benefited as alleged and points out that, in fact, it is the Company that has a claim for compensation arising out of very same above-mentioned Cooperation Agreement in the amount of HRK 80,082,182. The Company filed a request for a mediation with the County General Attorney Office in Rijeka on 07 March 2019 in accordance with the Article 186.a of the Civil Procedure Act, as a mandatory procedure before filing the claim for compensation against The Republic of Croatia in the stated amount.

Since described events and conditions indicate that the results of the initiated investigation proceeding should still confirm whether the Company has a present obligation which has arisen as a result of past events and which is expected to result in an outflow of resources, the Management Board concluded, in accordance with International Accounting Standard 10 - Events After the Reporting Period, that described event does not require adjustment in financial statements for 2018 since, in accordance, with International Accounting Standard 37 - Provisions, Contingent Liabilities and Contingent Assets it has been recognised as a contingent liability for which still needs to be confirmed whether the Company has present obligation.

Following guidance of International Accounting Standard 37 - Provisions, Contingent Liabilities and Contingent Assets, which stipulates that contingent assets are not recognised in financial statements as such transaction could result in recognition of revenues which will never be realized, the Management Board concluded, in accordance with International Accounting Standard 10 - Events After the Reporting Period, that described event of filled request for a mediation with the Company's claim, which occurred after the reporting period, does not require adjustment in financial statements as at 31 December 2018. Our opinion is not qualified in respect of described post balance sheet events relating to contingent liability and contingent asset.

Report on the audit of annual financial statements (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Except for the matter described in the Basis for qualified opinion paragraph we have determined that the below described matters will be key audit matters which we have to communicate in our Independent Auditor's Report.

Impairment of tangible assets - vessels

As at 31 December 2018 the Company owns vessels with the carrying amount of HRK 807,651,381 (2017: HRK 1,102,965,687).
For more information in relation to the key audit matter see notes 4 and 6 to the financial statements.

Key audit matter description	Audit approach
As at 31 December 2018 the Group owns tangible assets - vessels which have the carrying value of HRK 807,651,381 (2017: HRK 1,102,965,687). Since the carrying value of vessels represents 95% of total assets of the group, the assessment of impairment indicators represents significant area of management's judgement. In accordance with relevant standards of financial reporting, tangible assets are measured annually to check whether there are events or changed circumstances which indicate that the carrying value might not be recoverable. Any such impairment is recognised in the amount for which the carrying value of investments exceeds its recoverable amount. Assessment of recoverable amount of vessels is based on the value in use calculation which reflects an estimate of future cash flows derived from financial plans which cover period of five years, changes in environment and changes in interest rates. Due to the range of judgements and assessments and significant amount of carrying value of investments in subsidiaries, this area was considered to be a key audit matter.	Our audit procedures in this area, among others, included: - understanding of the impairment process relating to carrying value of vessels, - analysis of the methodology used to assess the recoverable value of vessels, - assessment of used methodology compliance with IFRSs adopted by EU - evaluation of assets allocation to cash generating units and evaluation of future cash flows of subsidiaries and the process used to prepare those, - critical assessment of assumptions and judgements used by the Group in the process of determining the recoverable amount of vessels (used long-term business growth rates, residual growth rates, appropriateness of used discount rates), - review of mathematical integrity of the impairment model and results of sensitivity analysis on changes in key assumptions, - assessment of adequacy of disclosures in financial statements

Report on the audit of annual financial statements (continued)

Key audit matters (continued)

Going concern

For more information in relation to the key audit matter see note 2.2.

Key audit matter description	Audit approach
As at 31 December 2018 the Group's current liabilities exceed its current assets by HRK 270,696,579 while the gearing ratio amounts to 136.46%. The Company realized net loss of HRK 268,175,946 and in period of 12 months after the reporting date the Group should repay HRK 166,126,546 of current portion of long-term borrowings from banks and companies. Additionally, as at 31 December the Group's net assets are negative in amount of HRK 264,530,077. The management Board of the Group recognised described circumstances and other events which individually or as a whole may create the existence of a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern. As a result of the described conditions the Management Board developed a restructuring plan in order to restructure existing liabilities and to ensure the existence of adequate cash levels and availability of financial resources required to settle all liabilities of the Group. Due to the nature of assessments and used assumptions in the restructuring plan this area was considered to be a key audit matter.	Our audit procedures in this area, among others, included: - understanding of the process of identification and managing business risks relevant for financial reporting, which, among others, include risks connected with going concern assumption in the preparation of the Group's financial statements, - critical evaluation of the preliminary assessment of the Group's ability to continue as a going concern, - analysis of recognised events or conditions which, individually or jointly, may cast significant doubt as to the Group's ability to continue as a going concern. - analysis and critical assessment of the plan developed by Management Board to address recognised events and conditions (assessment of relevant information, assessment of reasonableness, reliability and feasibility of assumptions used to develop the plan) - analysis of financial statements of the Group for the period after the date of the financial statements for which the Management Board assessed the ability of the Group to continue as a going concern and analysis of events and conditions after the reporting period, - assessment of the Group's ability to fulfil its contractual obligations after the reporting date, - assessment of adequacy of disclosures in financial statements.

Report on the audit of annual financial statements (continued)

Other matters

Financial statements of the Group, for year ended on 31 December 2017, were audited by another audit company which issued unqualified audit opinion on 30 March 2018.

Other Information in Annual Report

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group, but does not include the annual financial statements and our independent auditor's report thereon.

Our opinion on the financial statements does not cover the other information, except in proportion, in which it is explicitly stated in the part of our Independent Auditor's Report under the heading Report on Other Legal and Regulatory Requirements and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the other information.

As it has been described in the basis for qualified opinion paragraph, net profit of the Group, in the comparative prior period, was not presented in the Group's balance sheet and statement of comprehensive income in accordance with IFRS. We concluded that, due to this reason, other information in the Management report, which relate to amounts and items affected by the wrong application of the accounting policy related to the correction of prior period error, are materially misstated.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Report on the audit of annual financial statements (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 the audit of annual financial statements (continued)

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Report required by provisions of Regulation (EU) No. 537/2014

1. We were appointed for the first time as auditors of the Company's financial statements for 2018 on 28th August 2018 by the General Assembly of Shareholders, based on the proposal made by the Supervisory Board.

2. We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company issued on 28th April 2019. in accordance with Article 11 of Regulation (EU) No. 537/2014.

3. We declare that in the period between the beginning of the period audited and the issuing of the audit report, no prohibited non-audit services were provided by us to the Company and in the financial year immediately preceding the period earlier mentioned, we declare that no designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems were provided by us to the Company. In the process of conducting the audit we remained independent of the audited Group.

Report on the audit of annual financial statements (continued)

Report required by provisions of the Accounting Act

1. In our opinion, based on the procedures performed in the course of the audit, the information given in the enclosed Management report for the 2018 financial year are consistent, in all material respects, with the enclosed financial statements of the Group for 2018.

2. In our opinion, based on the procedures performed in the course of the audit, the enclosed Management report for 2018 financial year is prepared in accordance with requirements of the Accounting Act.

3. In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we identified that there are materially misstated items in the Management report due to the wrong application of provisions of International Accounting Standard 8 - Accounting Policies, Changes in Accounting Estimates and Errors, as described in the basis for qualified opinion paragraph.

4. In our opinion, based on the procedures performed in the course of the audit, the Corporate Governance Statement included in the Annual report of the Group for 2018, is prepared in accordance with requirements referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act.

4. The Corporate Governance Statement included in the Annual report of the Group for 2018, includes information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act.

The partner in charge of the audit resulting in this independent auditor's report is Boris Vidas.

IAUDIT d.o.o. za reviziju, Rijeka
Jelačićev trg 7/I, Rijeka

Rijeka, 29th April 2019

IAUDIT d.o.o.
RIJEKA

Nenad Mutić
Member of the Management Board

Boris Vidas
Certified auditor

ULJANIK PLOVIDBA d.d., Pula

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

CONSOLIDATED BALANCE SHEET **ULJANIK PLOVIDBA d.d., Pula**

As at 31 December 2018

(all amounts are expresses in HRK)	**Note**	*Restated* **31 December 2017**	**31 December 2018**
Non-current assets			
Intangible assets	5	9,752	4,664
Property, plant and equipment	6	1,109,149,443	813,744,027
Investments in subsidiaries and associates	7	3,605,133	3,430,748
Financial assets through OCI	9	139,497	181,750
Trade and other receivables	10	16,586,187	16,805,826
		1,129,490,012	**834,167,015**
Current assets			
Inventories		1,530,306	1,721,899
Trade and other receivables	10	26,963,081	5,627,375
Prepaid income tax and tonnage tax		126,300	84,637
Cash and cash equivalents	11	4,320,376	3,552,088
		32,940,063	**10,985,999**
Total assets		**1,162,430,075**	**845,153,014**
Capital and reserves	12		
Share capital		232,000,000	232,000,000
Share premium		(22,705,367)	-
Legal reserves		19,079,004	19,337,676
Reserves for treasury shares		36,382,812	11,184,568
Treasury shares		(12,006,420)	(11,184,568)
Fair value reserves		86,154,621	80,413,049
Retained earnings or carried forward losses		(480,055,815)	(474,019,487)
Profit or loss for the year		4,360,079	(241,470,387)
		(136,791,086)	(383,739,149)
Non-controlling interests		142,202,269	119,209,072
Total capital and reserves		**5,411,183**	**(264,530,077)**
Non-current liabilities			
Borrowings	15	907,511,855	827,399,440
Provisions	14	1,738,293	601,073
		909,250,148	**828,000,513**
Current liabilities			
Borrowings	15	128,171,102	166,126,546
Trade and other payables	16	119,597,642	115,556,032
		247,768,744	**281,682,578**
Total liabilities		**1,157,018,892**	**1,109,683,091**
Total equity and liabilities		**1,162,430,075**	**845,153,014**

The accompanying accounting policies and notes are an integral part of this consolidated balance sheet.

Approved and signed on behalf of the Group on 29th April 2019:

Igor Budisavljević, Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

ULJANIK PLOVIDBA d.d., Pula

For the year ended 31 December 2018

(all amounts are expressed in HRK)	Note	2017	2018
Sales revenue	17	179,545,925	153,407,536
Other income	18	24,649,890	19,234,494
Operating revenue		**204,195,815**	**172,642,030**
Costs of material and services	19	(27,195,559)	(27,180,674)
Staff costs	20	(58,340,081)	(51,263,243)
Depreciation	5,6	(52,772,171)	(47,843,257)
Other operating costs	21	(14,544,862)	(15,419,418)
Other gains / (losses) - net	22	349,361	(237,259,884)
Operating costs		**(152,503,312)**	**(378,966,476)**
Operating profit / (loss)		**51,692,503**	**(206,324,446)**
Finance income	23	37,395,589	46,573,228
Finance costs	23	(89,000,737)	(108,305,296)
Finance costs - net	23	(51,605,148)	(61,732,068)
Profit before tax		**87,355**	**(268,056,514)**
Income tax expense	24	(71,190)	(119,432)
Profit for the year		**16,165**	**(268,175,946)**
Earnings per share for profit attributable to the equity holders of the Company	13		
Basic		7,73	(444,30)
Diluted		7,73	(444,30)
Other comprehensive gain / (loss)			
Items that may be subsequently reclassified to profit of loss			
Financial assets through OCI			
- Gain / (loss) for the year		(683,680)	42,240
Recognition of share in associates		1,915,198	-
Currency translation differences relating to foreign operations		(32,968,099)	(2,071,450)
		(31,736,581)	**(2,029,210)**
Other comprehensive (loss)/ gain for the year, net of tax		**(31,720,416)**	**(270,205,156)**

The accompanying accounting policies and notes are an integral part of this consolidated statement of comprehensive income. Approved and signed on behalf of the Group on 29th April 2019

Igor Budisavljević, Director

For the year ended 31 December 2018

(all amounts are expressed in HRK)	**Share capital**	**Share premium**	**Legal reserves**	**Reserves for treasury shares**	**Treasury shares**	**Fair value reserves**	**Retained earnings**	**Non-controlling interests**	**Total**
Balance at 1 January 2017	**232,000,000**	**(21,979,230)**	**18,666,126**	**36,382,812**	**(13,348,739)**	**166,964,163**	**(549,459,663)**	**167,289,948**	**36,515,417**
Comprehensive income:									
Correction of prior period accounting error (Note 12)	-	-	-	-	-	10,150,090	(10,150,090)	-	-
Net profit for the year	-	-	-	-	-	-	4,360,079	**(4,343,914)**	**16,165**
Currency translation differences	-	-	-	-	-	(90,275,952)	78,051,618	**(20,743,765)**	**(32,968,099)**
Adjustment for share in associates (equity method)	-	-	-	-	-	-	1,915,198	-	**1,915,198**
Other comprehensive (loss) / income	-	-	-	-	-	(683,680)	-	-	**(683,680)**
Total comprehensive income for the year	**232,000,000**	**(21,979,230)**	**18,666,126**	**36,382,812**	**(13,348,739)**	**86,154,621**	**(475,282,858)**	**142,202,269**	**4,795,001**
Transactions with owners:									
Transfer (Note 12)	-	-	412,878	-	-	-	(412,878)	-	-
Share based payment (Note 12)	-	(726,137)	-	-	1,342,319	-	-	-	616,182
Balance at 31 December 2017 (Restated)	**232,000,000**	**(22,705,367)**	**19,079,004**	**36,382,812**	**(12,006,420)**	**86,154,621**	**(475,695,736)**	**142,202,269**	**5,411,183**

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

(all amounts are expressed in HRK)	Share capital	Share premium	Legal reserves	Reserves for treasury shares	Treasury shares	Fair value reserves	Retained earnings	Non-controlling interests	Total
Balance at 1 January 2018	**232,000,000**	**(22,705,367)**	**19,079,004**	**36,382,812**	**(12,006,420)**	**86,154,621**	**(475,695,736)**	**142,202,269**	**5,411,183**
Comprehensive income:									
Net profit for the year	-	-	-	-	-	-	(241,470,388)	(26,705,558)	**(268,175,946)**
Other comprehensive (loss) / income	-	-	-	-	-	(5,741,571)	-	3,712,361	**(2,029,210)**
Total comprehensive income for the year	**232,000,000**	**(22,705,367)**	**19,079,004**	**36,382,812**	**(12,006,420)**	**80,413,050**	**(717,166,124)**	**119,209,072**	**(264,793,973)**
Transactions with owners:									
Transfer (Note 12)	-	-	258,672	-	-	-	(258,672)	-	-
Purchase of treasury shares (Note 12)	-	-	-	-	(51,612)	-	-	-	**(51,612)**
Share based payment (Note 12)	-	(557,956)	-	-	873,464	-	-	-	**315,508**
Coverage of losses arising on treasury shares release	-	23,263,323	-	(25,198,244)	-	-	1,934,921	-	-
Balance at 31 December 2018	**232,000,000**	**-**	**19,337,676**	**11,184,568**	**(11,184,568)**	**80,413,050**	**(715,489,875)**	**119,209,072**	**(264,530,077)**

CONSOLIDATED CASH FLOW STATEMENT
ULJANIK PLOVIDBA d.d., Pula
For the year ended 31 December 2018

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2017	2018
Profit / (loss) before tax	24	87,355	(268,056,514)
Adjustments			
Depreciation	5,6	52,772,171	47,843,257
(Gains) / losses from fair value valuation of financial assets	9	683,680	(42,253)
Interest income		-	238,459,855
Interest expense		(1,856,262)	(234,128)
Provisions	14	52,121,017	60,373,003
Share based payments	12	(56,424)	(1,137,220)
Other non-cash items - net		616,182	315,508
		(9,241,908)	(2,600,557)
Changes in working capital			
(Increase) or decrease of inventories		4,244,766	(191,593)
Increase or (decrease) of current liabilities		(19,417,604)	(27,713,714)
(Increase) or decrease of current assets		(7,231,947)	21,377,369
Cash generated from operations		**(22,404,785)**	**(6,527,938)**
Interest paid		(48,701,667)	(36,700,899)
Income tax paid		(71,190)	(119,432)
Net cash flows from operating activities		**23,948,169**	**31,572,682**
CASH FLOWS (USED IN) / FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangibles	5,6	(43,597)	(42,709)
Interest received		1,856,262	234,127
Collection of loans and deposits		25,845,348	-
Net cash flows (used in)/from investing activities		**27,658,013**	**191,418**
CASH FLOWS USED IN FINANCIG ACTIVITIES			
Proceeds from borrowings,		-	325,767,990
Repayments of borrowings		(61,452,183)	(358,248,766)
Purchase of treasury shares	12	-	(51,612)
Net cash flows used in financing activities		**(61,452,183)**	**(32,532,388)**
Net (decrease)/increase in cash and cash equivalents		**(9,846,001)**	**(768,288)**
Cash and cash equivalents at beginning of year	11	**14,166,377**	**4,320,376**
Cash and cash equivalents at end of year	11	**4,320,376**	**3,552,088**

NOTE 1 – GENERAL INFORMATION

ULJANIK PLOVIDBA, maritime transportation, d.d. with headquarters in Pula, Carrarina 6, is registered as a joint stock company at the Commercial court in Rijeka – permanent office in Pazin under number 040010793.

Companies United Shipping Services One and Real d.o.o. together with the Company form Group Uljanik plovidba. Apart from the above-mentioned companies, related parties which are owned by United Shipping Services One - United Shipping Services Three, United Shipping Services Ten, United Shipping Services Eleven, United Shipping Services Twelve, United Shipping Services Thirteen, United Shipping Services Fourteen, United Shipping Services Seventeen, Uljanik Tanker Management, Uljanik Shipmanagement and Uljanik Shipmanagement Services, are also part of the Group.

Principal activities of the Company include international sea transport, providing services in sea transport and travel agency activities.

Share capital of the Company as at 31 December 2018 amounts to HRK 232,000,000 (2017: HRK 232,000,000).

At the reporting date, as at 31 December 2018, the Company had 30 employees (2017: 35).

The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in Note 12.

Management Board:

The members of the Management Board who served during 2018 and subsequently up to the date of approval of these financial statements are as follows:

Name	Function	Period
Igor Budisavljević	Director, represents the Company solely and independently	From 27th March 2019
Dragutin Pavletić	Director, represents the Company solely and independently	From 2nd November 1993 up to 27th March 2019
Darko Šorc	Procurator	From 22nd December 2015

Supervisory Board:

The members of the Supervisory Board who served during 2018 and subsequently up to the date of approval of these financial statements are as follows:

Ime	Pozicija	Razdoblje
Amra Pende	President of the Supervisory Board	From 3rd May 1995
Anton Brajković	Deputy president of the Supervisory Board	From 3rd May 2015 up to 27th March 2019
Robert Banko	Member of the Supervisory Board	From 28th August 2014
Dubravko Kušeta	Member of the Supervisory Board	From 23rd April 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) which were endorsed by the European Union (EU) under the historical cost convention, as modified by the revaluation of financial assets that have been measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Accounting estimates and related assumptions are continuously reviewed. The effect of accounting estimate change is recognized in the period in which the estimate is changed and in the future periods, if the change affects future periods.

Adopted principal accounting policies are consistent with prior period, unless otherwise stated.

(a) Changes in accounting policies and disclosures

The Group applied IFRS 15 and IFRS 9 for the first time in 2018. The nature and effects of the changes as a result of adoption of these new accounting standards are described below.

Apart from these two new standards, several other amendments and interpretations were applied for the first time in 2018, but those do not have any impact on the consolidated financial statements of the Group.

Furthermore, in 2018 the Group changed its accounting policy relating to investments in subsidiaries in order to align it with provisions of IAS 21. Consequentially, the Group made prior period adjustment to the earliest affected period. The nature and effect of changes which are result of the described retrospective application of the new accounting policy have been described later (Note 12).

(b) New and amended standards and interpretations adopted by the Group

Following standards and amendments have been applied by the Group for the first time in the reporting period starting on 1 January 2018:

- <u>IFRS 9 Financial instruments</u>
  Standard introduces a new view of the classification and measurement of financial instruments and it is replacing IAS 39. The Group adopted IFRS 9 Financial instruments on 1 January 2018. The first and continuous application of the standard did not have significant impact on consolidated financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- IFRS 15 Revenues from contracts with customers
  Adoption of the standard is mandatory for reporting periods starting from or after 1 January 2018. The new standard replaces IAS 18 which covers revenue from sales of goods and services and IAS 11 which covers construction contracts. This standard is mandatory for financial years starting on or after 1 January 2018. For the Group the first and continuous application of the standard did not have significant impact on financial statements.
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- Transfers of investment property – Amendments to IAS 40
- IFRIC 22 - Foreign currency transactions and advance considerations
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

As it has been stated above after adoption of IFRS 9 and IFRS 15 the Group did not have to significantly change its accounting policies.

Majority of the above described amendments did not significantly affect amounts recognized in previous periods and it is not expected that it will affect current and future periods.

The Group did not early adopt any new standard, interpretation or amendment of the existing standard which have been published by the Board for International Financial Reporting Standards but are not yet effective.

(c) New and amended standards and interpretations adopted by the Group

At the date of authorization of these consolidated financial statements the following standards, amendments and interpretations adopted by the EU were in issue but not yet effective:

- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)
  IFRS 16 will not have a significant impact on financial statements of the Group. It replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.The standard includes two recognition exemptions for lessees – lease of „low-value“ e.g. personal computers) and short-term leases i.e., leases with a lease term of 12 months or less. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) New and amended standards and interpretations adopted by the Group (continued)

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary, the impact of IFRS 16 adoption for FY 2019 is expected to be as follows:

	(in HRK)
Right-of-use assets	461,900
Lease liabilities	(334,116)
Net impact on capital and reserves	127,784
Increase of depreciation	(888,788)
Decrease of rental costs	1,016,572
Operating profit	127,784

- Amendments to IFRS 9: Prepayment features with negative compensation
  Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) New and amended standards and interpretations adopted by the Company (continued)

- IFRS 17 Insurance contracts
  Issued in May 2017 as a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. This standard is not applicable to the Group.

(d) Standards, amendments and interpretations issued but not yet adopted by the EU

At the date of approval of these financial statements several standards, amendments and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU. The Management Board of the Group does not expect that these standards and interpretations will have significant impact on financial statements of the Group.

2.2 Going concern

In the year which ended on 31 December 2018 the Group realized loss of HRK 268,175,946 (2017: net profit of HRK 16,165). As at 31 December 2018 the Group's current liabilities exceed its current assets by HRK 270,696,579 (2017: HRK 214,828,681) while the gearing ratio (Note 3.2) increased from 99.48% at the end of 2017 to 136.46% at the end of 2018. In period of 12 months after the reporting date the Group should repay HRK 166,126,546 (2017: HRK 128,171,102) of current portion of long-term borrowings from banks and companies.

Taking into account described ratios and worsening liquidity, in order to adjust financial conditions of the business to unfavourable circumstances on the global maritime transport market which was, at the beginning of 2016, characterised by extremely low freight rates in corresponding segment and by market rates in 2018 which were still at levels that do not allow full coverage of operating costs and financing costs, the Group, during 2018, started new negotiations with commercial banks which have provided financing for purchase of vessels in the fleet, in a way to ensure more favourable repayment schedule of current liabilities with additional decrease of financial costs of borrowings (interests).
In this context, besides measurements of cost cutting and strict cost control, majority of measurements which are being undertaken relate to negotiating better conditions which have been agreed with banks which already for a longer period of time participate in the process of restructuring financial liabilities of the Company and the Group.

According to the restructuring plan the loan which was used to finance the purchase of vessels Kastav and Pomer should be fully repaid, with a significant discount on loan principal in the amount up to USD 15 million. This should be achieved by selling vessel Kastav and by refinancing liabilities relating to vessel Pomer with a new loan from foreign creditor (the contract has already been signed).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Going concern (continued)

Furthermore, the Company is currently in the process of splitting loans taken for financing the purchase of vessels Veruda and Stoja, which were granted through HBOR's model of splitting risks, with the aim of purchasing the borrowing which relates to vessel Stoja by using the remaining part of a credit arrangement agreed with a new foreign creditor. Described transactions should result in a significant decrease of Company's exposure. For the other part of the existing loan, for the vessel Veruda, the Company is trying to agree a new repayment schedule which should, together with a decrease of interest cost, allow the Company to return in a normal repayment regime.

At the beginning of 2018 the Company signed a new credit arrangement according to which existing loan, received for purchasing the vessel Champion Istra, was amended by a new loan received through a process of refinancing the vessel Verige, which was in previous arrangement included in syndicate of foreign banks. Although during the whole 2018 the loan was repaid in accordance with the agreed repayment schedule, at the beginning of 2019 the repayment quotes increased and current cash flows of vessels that were financed by this loan do not allow repayment in accordance with the agreed schedule. Therefore, the Company started negotiations with creditors about the principal repayment conditions and decrease of interest costs and this was well accepted by the corresponding banks and the Company is expecting that very soon current repayment schedule should be amended.

Besides described refinancing of existing credit arrangements used for purchase of vessels, the Company also requested refinancing of loans received through the Economy Development Programme in accordance with the existing and future repayment plan and decision of the Supervisory Board of the bank is expected by the beginning of May 2019.

Apart from the measurements that relate to refinancing of financial liabilities, the Company continued with the application of a number of additional procedures relating to increased cost control in order to achieve savings in various business segments.

Following the above mentioned, the Management Board expects soon completion of negotiations with creditors which would enable full implementation of the restructuring plan. The Management Board considers that the realization of the restructuring plan together with improved conditions on the world market of freight rates should allow the Company to ensure adequate resources in foreseeable future and to continue as a going concern.

If the process of implementation of the restructuring plan that is currently underway would be from any reason stopped there is a significant doubt as to the Group's ability to continue as a going concern.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control, which generally includes more than half of the voting rights. Existence and effect of potential voting rights which can be exercised or exchanged are evaluated during the estimation whether the Group has a control over another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

The acquisition method of accounting is used to account for business combinations entered into by the Group. The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the consideration transferred is lower than the fair value of the acquiree's identifiable net assets, the difference is reported directly in the income statement.

Intercompany transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Consolidation (continued)

(b) Transactions and non-controlling interests (continued)

In addition, any amounts previously recognised in the income statement of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss.

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

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

2.4 Foreign currencies

(a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian Kuna (HRK) which is the Group's functional and presentation currency.

(b) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies (continued)

(b) Foreign currency transactions and balances (continued)

Foreign exchange gains and losses related to borrowings, cash and cash equivalents are presented in the statement of comprehensive income within 'finance cost - net'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains/(losses) net'.

The exchange rate used for the translation of positions in the balance sheet denominated in foreign currencies at the balance sheet date is as follows:

	31 December 2018	31 December 2017
1 EUR	HRK 7.417575	HRK 7.513648
1 USD	HRK 6.469192	HRK 6.269733

(b) Members of the Group

The results and financial position of all Group entities with a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken into other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are reclassified from other comprehensive income to the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board. Since the business of the Group relates to its principal activity, management in the international sea transport, the Management Board considers that the Group has only one operating segment.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Tangible assets

Tangible assets are included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation is calculated from the beginning of its use by applying a straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Vessels	*25 years*
Biological assets	*10 years*
Buildings	*100 years*
Plant and equipment	*10 – 28 years*
Tools, inventory and transportation equipment	*2 – 10 years*

Depreciation is calculated for each asset until the asset is fully depreciated or to their residual value, if it is material. The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

If the asset's carrying amount is greater than its estimated recoverable amount, it is written off to its recoverable amount (note 2.9). Gains and losses on disposals are determined by comparing the proceeds with carrying amount, and are recognized within other gains / (losses) – net in the statement of comprehensive income.

2.7 Intangible assets

Intangible assets are included in the balance sheet at historical cost less accumulated amortization and accumulated losses from impairment. Subsequent costs related to capitalized intangible assets are recognized only when it is probable that future economic benefits associated with the item will flow to the Group. All other expenses are recognized in the statement of comprehensive income in the period in which those are incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

Intangible assets are amortized on a straight-line basis over the best estimate of their useful life. The estimated useful life and amortization method are reviewed annually at each balance sheet date, where the effects of any changes are applied prospectively. Intangible assets are amortized from the date when they are available for use. These costs are amortized over their estimated useful lives.

Intangible assets are comprised of computer software and which is recognized at historical cost and amortized by applying a straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Computer software	*2 years*

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life and are not subject to amortization are tested at least annually for impairment. Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

The Group classifies its financial assets in the following categories: financial assets at amortized cost, financial assets at fair value through profit or loss and financial asset at fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and revalues this designation at each reporting date.

Financial assets at amortized costs

The Group measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.
Financial assets at amortized cost include trade receivables and loans and deposits given.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial assets (continued)

Financial assets at fair value through profit or loss

This category includes financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term or if so designated by the Management. Assets in this category are classified as current assets except derivative financial instruments.

Financial assets at fair value through other comprehensive income
The Group measures financial assets at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model with the objective of holding the financial assets to collect and selling contractual cash flows,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of comprehensive income and computed in the same manner as for the financial assets measured at amortized cost. The remaining fair value changes are recognized in other comprehensive income. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to profit or loss.

Financial assets at fair value through other comprehensive income are included in non-current assets unless management intends to dispose the investment within 12 months of the balance sheet date. Financial assets at fair value through other comprehensive income are carried at fair value, except investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, consequently, these are carried at cost.

Acquisition and sales of financial assets are recognized on trade-date the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as financial assets at fair value through other comprehensive income are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security.

Interest income and the translation differences are recognized in the income statement, whereas other changes in carrying amount are recognized in other comprehensive income. Changes in the fair value of other monetary securities and non-monetary securities that are available for sale are recognized in other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transaction and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group recognizes an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due, in accordance with the contract, and all the cash flows that the Group expects to receive.

In case of trade receivables and contractual assets, the Group applies simplified approach in calculation of expected credit losses and instead of recording changes in credit risk it recognizes value adjustment based on expected life-time credit loss at the end of every reporting period.

Financial assets are written off when there is no reasonable expectation regarding assets' collection. Value adjustments and subsequently collected amounts are recognized in income statement in Other operating costs.

2.10 Leases

The Group leases certain buildings, vehicles and equipment. Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges in order to achieve a constant rate on the balance outstanding.

The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the lesser retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Assets that are leased are depreciated over their estimated useful lives in the same way as other similar assets. Revenue from leased assets is recognized on a straight-line basis over the lease period, even if inflows are not on a straight-line basis, except if there is another systematic approach which, in better way, represents a time frame in which benefits from the lease are matched with depreciation of assets that are leased.

2.11 Inventories

Inventories are carried at the lower of acquisition costs, which include the purchase price and all directly related costs which are necessary to bring inventories in certain state or on certain location, or net realizable value. Acquisition of inventories and materials is carried at actual acquisition costs while the cost of inventories is determined on the basis of weighted average cost. Small inventory and tools are expensed 100% when put in use.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Trade and other receivables

Trade and other receivables refer to all claims which arose from sold services in normal course of business. If the collection is expected within one year, receivable is recognized as current asset, and if not, then it is recognized as non-current asset.

Receivables are recognized initially at fair value and subsequently are measured at amortized cost using the effective interest method, less provision for impairment for expected credit losses, as it is described in Note 2.10.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, resources at bank accounts, on-demand deposits and other short-term highly liquid instruments with payment term being three months or less.

2.14 Deferrals and accruals

Deferred expenses are recognized as assets when expense deferral involves a payment that was paid in advance of the accounting period in which it will become an expense. Accrued expenses are initially recognized at fair value of the expected payment or liability and are recognized as a liability when they relate to an accounting period that is prior to the period when the amount will be paid. Subsequently, accruals and deferrals are recognized in the balance sheet in the amount which was initially recognized less part charged to income statement as revenue/cost of the current period.

2.15 Equity

Equity is comprised of registered share capital, capital gains, legal reserves, treasury shares reserves, treasury shares, fair value reserves, retained earnings or carried forward losses.

Share capital
Share capital represents nominal value of issued shares. Capital gain includes any excess of the fair value of the consideration received over the par value of the shares issued. Any transaction costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Purchase of share capital
Consideration paid for purchases the Group's share capital (treasury shares), including all directly attributable transaction costs, is deducted from equity. Purchased own shares are classified as treasury shares and are shown in equity as a deduction.

2.16 Earnings per share

The Group is disclosing information about earnings per share. Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Borrowings

Loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue cost associated with the borrowing. After initial recognition, borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of the borrowings are recognized as transaction costs of the loan to the extent that it is probable that some or all of the loan will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

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

2.18 Trade payables

Trade payables relate to liabilities for purchased goods and services in ordinary course of business. If it is expected that the payment will be made within 1 year, the liability is recognized as a current and, if not, then it is recognized as non-current. Trade payables are initially measured at fair value and subsequently are measured at amortized cost using the effective interest rate method.

2.19 Provisions

Provisions for court cases, termination benefits and long-term employee benefits and restructuring costs are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is likely that an outflow of resources will be required to settle the obligation and when the amount can be reliably estimated.

At each balance sheet date provisions are reviewed and when it is not likely that an outflow of resources will be required to settle the obligation, the provision is reversed and it is recognized as income.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Contingent assets and contingent liabilities

Contingent liability is a possible obligation which arises as a result of past events and which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent liabilities are not recognized in financial reports. They are disclosed in the notes to the consolidated financial statements unless it is not likely that an outflow of resources will be required.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Contingent assets and contingent liabilities (continued)

In case when it is likely that an outflow of resources will occur and when the amount of a liability can be estimated reliably, the liability is recognized as a provision (in case when maturity and exact amount can not be determined) or as a liability item in other positions of the balance sheet.

Contingent asset is possible asset which arises as a result of past events and which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets is not recognized in consolidated financial statements, it is disclosed in the notes to consolidated financial statements, however only in case when inflow of economic benefits is probable.

2.21 Current and deferred income tax

The tax expense for the period comprises of current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The current tax charge is calculated on the basis of the tax law enacted or substantively enacted at the balance sheet date in Croatia.

According to the laws of the Republic of Croatia tax base is calculated as a difference between revenues and costs which are determined in accordance with the law. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Starting from 1 January 2014, the Group entered into the tonnage tax regime. Companies which fulfill conditions laid down in Maritime law and which chose option to enter the tonnage tax regime must remain in the system during the period of ten years.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Value added tax (VAT)

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognized and disclosed in the balance sheet on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.23 Employee benefits

Pension obligations and post-employment benefits

In the ordinary course of its business the Group makes payments to mandatory pension funds on behalf of its employees in the ordinary course of business through salary deductions, as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group has no other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits except for the one-off retirement payment as prescribed by local legislation or internal rulebook. The liability recognized in the balance sheet in respect of one-off retirement payment is the present value of the defined benefit obligation at the end of the reporting period.

Long-term employee benefits

The Group recognizes a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually, using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.
The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

Short-term employee benefits

The Group recognizes a provision for bonuses and accumulated days of unused vacation where contractually obliged or where past practice creates a constructive obligation.

2.24 Government grants

Government grant is recognized in statement of comprehensive income on a systematic basis over the periods in which the entity recognizes expenses for the related costs for which the grants are intended to compensate. Grants related to tangible assets are recognized in the statement of comprehensive income in ratios in which the Company recognized depreciation costs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Government grants (continued)

In cases when government grants are received in connection to tangible assets owned by the company's subsidiaries (vessels), the grant is recognized in full amount in the statement of comprehensive income of the Group in the period in which it has been received. In the consolidated financial statements grant is reclassified from the position of retained earnings to the position of deferred income and are recognized in the statement of comprehensive income in ratios in which the Group recognized depreciation costs.

2.25 Revenue recognition

The Group recognizes revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, rebates and discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below.

Revenue from sales of ship management services

Revenues from sales of ship management services include revenues from providing technical and commercial management services, crew management services, insurance management, fuel delivery and other management services which the Group provides based on signed contracts for ship management.

Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When the carrying value of receivables is impaired, the Group decreases carrying value to the recoverable amount, which represents estimation of expected future cash flows discounted to present value using effective interest rate of the instrument. Proportional reversal of discount in future periods is recognized as interest income. Interest income on loans which collection is uncertain are recognized using the method of effective interest rate.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in financial statements in the period in which the payment has been approved by the shareholders.

2.27 Events after the reporting date

Events after the reporting date are events, which could be favorable or unfavorable, that occur between the end of the reporting period and the date that the financial statements are authorized for issue.
Events after the reporting date which provide additional information about financial position of the Group at the reporting date (adjusting events) are reflected in financial statements.

Examples of events which require adjustments in financial statements at the reporting date are court decisions if those affect provisions, financial position of customer which confirms impairment of receivables, sales of inventories if it confirms net realizable value.
Events after the reporting date which are considered as non-adjusting are disclosed in notes to financial statements when those are significant. Examples of such events are announcements or commencements of restructuring plans, purchase or sales of assets, liabilities take over. The Group explains the nature of such events and estimation of the effect on financial position or statement that such estimation is not possible.

2.28 Comparative data

Where needed, comparative data were reclassified to achieve a better view of financial information. Net profits or total assets and liabilities were not subject to these changes. The changes are as follows:

Description	In HRK	Previous classification December 31st, 2017	New classification December 31st, 2017
Tonnage tax	728,361	Income tax	Other operating cost
Dividend income	780	Financial income	Other income
Gains from exchange differences - net	517,564	Financial income	Other gains / (losses) - net

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to various financial risks: market risk (including currency risk, cash flow interest rate and fair value risk, and price risk), credit risk and liquidity risk. The Group does not have a formal programme of risk management and the whole process of risk management is governed by the Management Board.

(a) Market risk

(i) Foreign currency exchange risk

The Group operates internationally and is exposed to foreign currency exchange risk arising from various currency exposures, primarily with respect to the American dollar (USD) and Euro (EUR). Foreign currency exchange risk arises from future commercial transactions and from recognized assets and liabilities.

Majority of sales revenues on foreign markets is earned in American dollars and part of non-current and current debt is recognized in American dollars and Euros (Notes 15 and 16). Movements in exchange rates between the above-mentioned currencies and Croatian Kuna (HRK) may have an impact on the results of future operations and future cash flow.

	EUR	USD
As at 31 December 2018		
Placed loans and deposits	-	14,425,522
Trade and other receivables	215,110	1,346,533
Cash and cash equivalents	5	3,529,616
Borrowings	(47,249,783)	(857,803,659)
Trade and other payables	(960,844)	(55,027,486)
Net exposure of the balance sheet	**(47,995,512)**	**(893,529,474)**
As at 31 December 2018		
Placed loans and deposits	-	14,315,055
Trade and other receivables	-	20,220,029
Cash and cash equivalents	2	4,301,248
Borrowings	(55,418,886)	(876,603,466)
Trade and other payables	(617,683)	(51,614,067)
Net exposure of the balance sheet	**(56,036,567)**	**(889,381,201)**

As at 31 December 2018, in the event of a rise of 1% in American dollar against Croatian Kuna, assuming all other variables remain constant, the loss for the year would have been higher by HRK 8,935,295 (2017: HRK 8,893,812 lower net profit), mainly as a result of foreign currency exchange differences arising on translation of trade receivables, borrowings, trade and other payables and cash and cash equivalent denominated in American dollars.

As at 31 December 2018, in the event of a rise of 1% in Euro against Croatian Kuna, assuming all other variables remain constant, the loss for the year would have been higher by HRK 479,955 (2017: HRK 560,366 lower net profit), mainly as a result of foreign currency exchange differences arising on translation of trade receivables, borrowings, trade and other payables and cash and cash equivalent denominated in Euros.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

(ii) Equity securities risk (fair value risk, and price risk)

As at 31 December 2018 and 2017, the Group has investments in equity instruments which are listed and investments in equity instruments which are not listed which expose the Group to equity securities fair value and price risk because investments held by the Group are classified on the balance sheet as fair value through other comprehensive income. To manage its fair value and price risk arising from investments in equity securities, the Group monitors market transactions and performance of entities.

For equity instruments that are listed the Group is using market values. When calculating fair value of other equity instruments which are not listed the Group is using estimations of financial position of entities in which it holds shares, meaning estimations of expected free cash flows discounted to present value.

(iii) Cash flow interest rate and interest rate fair value risk

Interest rate risk is a risk of change in value of the financial instrument due to changes in interest rates on the market.

Since the Group has significant assets which earns interest income, the Group's revenues and cash flow from operating activities are substantially dependent of changes in market interest rates.

The Group is not using derivative financial instruments to actively protect itself from the exposure to cash flow interest rate risk and interest rate fair value risk.

Furthermore, interest rate risk arises from borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed interest rate expose the Group to interest rate fair value risk.

As at 31 December 2018, if the effective interest rate on borrowings with variable interest rates, had been 1% higher/lower on an annual level, assuming all other variables remain constant, result for the year would have been HRK 9,688,433 higher/lower, mainly as a result of higher/lower cost of interest on borrowings with variable interest rates.

As at 31 December 2017, if the effective interest rate on borrowings with variable interest rates, had been 1% higher/lower on an annual level, assuming all other variables remain constant, result for the year would have been HRK 9,313,459 higher/lower, mainly as a result of higher/lower cost of interest on borrowings with variable interest rates.

(iii) Price risk
The Group's business is exposed to the risk connected with changes in freight fees. Daily freight fees are denominated in American dollars per day and historically, these fees are very variable. The Group is trying to lower its exposure to changes in price risk of freight fees in a way that business activity is spread on more different customers.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

(b) Credit risk

The Group has significant concentration of credit risk. Credit risk arises on placed loans, cash and cash equivalents and trade receivables. The Group has policies that limit the amount of credit exposure in a way that the Group is selling its services to customers which have adequate credit history. Provisions for impairment of trade receivables, loans and other receivables are made based on evaluation of credit risk. The Management Board is monitoring collection of receivables through weekly reports on individual balances. Value adjustment of trade receivables is recognized when there are evidences that the Group will not be able to collect its receivables in accordance with agreed terms and conditions. The carrying value of trade and other receivables is decreased to value which is considered to be collectable. The Group applies policies which limit the amount of maximum credit risk exposure to any financial institution. Cash transactions are carried at high quality Croatian commercial banks. See Notes 8a, 8b and 10 for further description of the credit risk.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash (Note 11), the availability of funding through an adequate amount of committed credit facilities (Note 15) and the ability to meet all obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available. The Management Board is monitoring on a daily basis the level of available sources of cash and cash equivalents through reports on cash and liabilities position.

The next table analyses financial liabilities of Group according to contracted maturities. The amounts stated below represent undiscounted cash flows.
Amounts due within 12 months do not differ from carrying value since discounting them does not have significant effect.

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 2 years	Between 2 and 5 years	Above 5 years
As at 31 December 2018					
Trade and other payables	61,575,820	-	-	-	-
Borrowings	20,279,040	145,847,506	337,345,331	365,741,056	124,313,054
Total liabilities (contracted maturity)	**81,854,860**	**145,847,506**	**337,345,331**	**365,741,056**	**124,313,054**
As at 31 December 2017					
Trade and other payables	61,062,301	-	-	-	-
Borrowings	14,975,954	113,195,147	107,469,530	761,141,332	38,900,995
Total liabilities (contracted maturity)	**76,038,255**	**113,195,147**	**107,469,530**	**761,141,332**	**38,900,995**

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group 's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings (including long-term and short-term borrowings from the balance sheet) less cash and cash equivalents. Total capital is calculated as equity increased by net debt, as presented in the balance sheet.

The gearing ratios were as follows:

	2017	2018
	(in HRK)	
Total borrowings (Note 15)	1,035,682,957	993,525,986
Less: Cash and cash equivalents (Note 11)	(4,320,376)	(3,552,088)
Net debt	1,031,362,581	989,973,898
Capital and reserves	5,411,183	(264,530,077)
Total capital and net debt	1,036,773,764	725,443,821
Gearing ratio	**99,48%**	**136,46%**

3.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. Quoted market price which is used for determining financial assets' fair value represents current bid price.

The fair value of financial instruments that are not traded in active markets is based on valuation technics. The Group is using various techniques and is determining assumptions based on market conditions at the balance sheet date.

Carrying value of trade receivables and loans decreased by value adjustment and trade payables are mostly equal to their fair value.

For long-term debt the Group is using market prices of similar instruments in active markets. For the disclosure purposes, the fair value of financial liabilities is estimated by discounting future cash flows using the market interest rate which is available to Group for similar financial instruments.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Fair value estimation (continued)

Fair value hierarchy

IFRS 7 defines the hierarchy of fair value valuation techniques based on observability of inputs. Observable inputs represent market information from independent sources; unobservable inputs represent assumptions of the Group. These two types of inputs create the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs which do not represent quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTE 4 – KEY ACCOUNTING ESTIMATES

Estimates are continuously evaluated and are based on experience and other conditions, including expectations of future events which are considered acceptable at the existing circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. Below are described estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

a) Impairment test of financial assets which the Group carries at historical cost – vessels

The Group performs annual impairment tests of tangible assets carried at historical cost (vessels in the fleet), in accordance with the accounting policy disclosed in Note 2.6.

Financial assets which the Group carries at historical costs are allocated at cash generating units in a way that every vessel, legal entity which owns a vessel, forms a separate cash generating unit.

Recoverable value of vessels is determined by calculation of the value in use which reflects an estimate of future cash flows derived from financial plans which cover period of five years.

Assumption about the growth rate is based on historical information and the Management board's expectations about market development. Estimated future cash flows are based on five years business plan, which assumes annual growth rate of 1.5% in next five years. Terminal growth rate, in period after five years, amounts to 1.5% and is based on Management's expectation about market development.
The Group calculated value in use by discounting estimated cash flows using discount rate of 7.3%.

Based on the performed analysis the Group determined that the carrying value of vessels, as at 31 December 2018, after performed impairment based on valuation performed by independent valuators, is lower than its value in use and therefore there was no need to perform impairment of described assets.

Sensitivity analysis of assumptions shows that, in case of discount rate increase (with unchanged terminal period growth rate) or in case of terminal growth rate decrease (with unchanged discount rate) by 0.5%, there would be no need for recognizing impairment of the carrying value of vessels.

NOTE 4 – KEY ACCOUNTING ESTIMATES

b) Impairment of financial assets

In case of trade receivables and contractual assets (loans), since those almost fully relate to loans from related parties and since there is no available information about the credit risk, the Group applies simplified approach in calculation of expected credit losses and therefore it does not monitor changes in credit loss. The Group recognizes impairment loss based on expected loss at the end of every reporting period.

Estimation of recoverable amount of sold services, the Management Board of the Group monitors based on estimated probability of collection of doubtful trade receivables. Recoverable amount of trade receivables is estimated individually, depending on current status.

c) Provisions for long-term employee benefits

The Group grants right to its employees to receive jubilee awards and termination benefits. For the purpose of present value calculation of described benefits, the company estimates fluctuation of employees based on historical trends and it estimates adequate discount rate based on current market conditions.

d) Provisions for contingent liabilities

Provisions for lawsuits and court cases are recognized based on the management Board's assessment of losses after counselling with a lawyer. Based on the existing knowledge in reasonable measure it is possible that the outcome of court cases will differ from estimated potential losses.

NOTE 5 – INTANGIBLE ASSETS

(all amounts are expressed in HRK)	**Software**	**Total**
At 31 December 2016		
Cost	171,078	171,078
Accumulated depreciation	(171,078)	(171,078)
Net book value	**-**	**-**
At 1 January 2017		
Opening net book value	-	-
Additions	10,176	10,176
Amortization	(424)	(424)
Closing net book value	**9,752**	**9,752**
At 31 December 2017		
Cost	164,856	164,856
Accumulated depreciation	(155,104)	(155,104)
Net book value	**9,752**	**9,752**
At 1 January 2018		
Opening net book value	9,752	9,752
Amortization	(5,088)	(5,088)
Closing net book value	**4,664**	**4,664**
At 31 December 2018		
Cost	164,856	164,856
Accumulated depreciation	(160,192)	(160,192)
Net book value	**4,664**	**4,664**

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

(all amounts are expressed in HRK)	Land	Biological assets	Buildings	*Restated* Vessels	Equipment	Total
At 31 December 2016 (as previously reported)						
Cost	2,974,665	651,378	5,064,749	2,035,555,723	1,338,868	2,045,585,383
Accumulated depreciation	-	(331,509)	(2,180,361)	(754,848,023)	(1,232,978)	(758,592,871)
Net book value	**2,974,665**	**319,869**	**2,884,388**	**1,280,707,700**	**105,890**	**1,286,992,512**
Correction of prior period error /i/	-	-	-	32,669,420	-	32,669,420
Net book value (restated)	**2,974,665**	**319,869**	**2,884,388**	**1,313,377,120**	**105,890**	**1,319,661,932**
At 1 January 2017 (restated)						
Opening net book value	2,974,665	319,869	2,884,388	1,313,377,120	105,890	1,319,661,932
Additions	-	-	-	-	33,421	33,421
Depreciation	-	(41,930)	(50,647)	(52,637,270)	(41,900)	(52,771,747)
Effect of change in foreign currency rate - net	-	-	-	(157,774,163)	-	(157,774,163)
Closing net book value	**2,974,665**	**277,939**	**2,833,741**	**1,102,965,687**	**97,411**	**1,109,149,443**
At 31 December 2017						
Cost	2,974,665	651,378	5,064,749	1,813,003,772	1,372,289	1,823,066,853
Accumulated depreciation	-	(373,439)	(2,231,008)	(710,038,085)	(1,274,878)	(713,917,410)
Net book value	**2,974,665**	**277,939**	**2,833,741**	**1,102,965,687**	**97,411**	**1,109,149,443**

/i/ During 2018 the Group performed correction of prior period accounting error by retroactive application in a way that the cost of vessels has been increased by HRK 32,669,420. In prior periods, based on the bareboat charter agreement, the Group received an upfront payment for the vessel Champion Istra for which, at the date of transaction the Group decreased carrying value of the vessel. In order to correct the prior period accounting error, the Group increased the carrying value of the vessel on the earliest reporting period in total amount of HRK 32,669,420 and at the same time it increased liabilities for received deposits (Note 15).

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT (continued)

(all amounts are expressed in HRK)	Land	Biological assets	Buildings	Vessels	Equipment	Total
At 1 January 2018						
Opening net book value	2,974,665	277,939	2,833,741	1,102,965,687	97,411	1,109,149,44
Additions	-	-	-	-	42,709	42,709
Disposals	-	-	-	(33,106,370)	-	(33,106,370)
Impairment /ii/	-	-	-	(237,473,121)	-	(237,473,121)
Depreciation	-	(36,399)	(50,647)	(47,704,350)	(46,773)	(47,838,169)
Effect of change in foreign currency rate - net	-	-	-	22,969,535	-	22,969,535
Closing net book value	**2,974,665**	**241,540**	**2,783,094**	**807,651,381**	**93,347**	**813,744,027**
At 31 December 2018						
Cost	2,974,665	651,378	5,064,749	1,601,170,075	1,372,664	1,611,233,53
Impairment	-	-	-	(237,473,121)	-	(237,473,121)
Accumulated depreciation	-	(409,838)	(2,281,655)	(556,045,573)	(1,279,317)	(560,016,383)
Net book value	**2,974,665**	**241,540**	**2,783,094**	**807,651,381**	**93,347**	**813,744,027**

/ii/ During 2018, based on the performed valuation of vessels by independent valuators, the Group performed impairment of carrying value of vessels in total amount of HRK 237,473,121.

In 2017 the Group changed accounting estimate relating to the useful life of vessels and it increased it from 20 to 25 years. Described change in the accounting estimate of useful life of vessels, for the financial year 2017 and future periods, results in lower depreciation cost of HRK 24,008,045 and higher carrying value of vessels in the same amount.

The carrying value of the property plant and equipment of the Company which have been pledged as a security for borrowings of the Company amounts to HRK 813,650,680 (2017: HRK 1,109,052,032) (Note 15).

NOTE 7 – INVESTMENTS IN ASSOCIATES

Investments in associates

The overview of shares which the Company owns in associates as at 31 December 2018 is as follows:

Associate	Amount (in HRK)		% of share	
	2017	2018	2017	2018
Istarska autocesta d.o.o.	3,597,711	3,423,669	23.43%	23.43%
Uljanik plovidba LNG d.o.o.	7,422	7,079	50.00%	50.00%
	3,605,133	**3,430,748**		

Changes in investments in associates are as follows:

	2017	2018
	(in HRK)	
Beginning of year	**3,763,336**	**3,605,133**
Decrease in investment /i/	(168,203)	(174,385)
Increase in investment /ii/	10,000	-
End of year	**3,605,133**	**3,430,748**

/i/ In accordance with the accounting policy of the Group, share in profit or loss in associates, after acquisition, is recognized in the statement of comprehensive income.

/ii/ In April 2017 the company Uljanik Plovidba LNG d.o.o., Pula has been set up with a share capital of HRK 20,000. The Company owns 50% of shares and the remaining 50% are owned by the company Ecta Caspian Limited from Cyprus.

As at 31 December 2018 the Group recognized in the statement of comprehensive income amount of HRK 1,740,813 (2017: 1,915,198) relating to share in profit of associates.

NOTE 8a – FINANCIAL INSTRUMENTS BY CATEGORIES

Accounting policies for financial instruments apply to following items:

	2017	2018
	(in HRK)	
Financial assets at amortised cost		
Loans and deposits	16,595,014	16,058,240
Trade receivables	2,515,053	415,453
Other financial assets	23,005,545	4,215,751
Cash and cash equivalents	4,320,376	3,552,088
	46,435,988	24,241,532
Financial assets at fair value through OCI		
Financial assets at fair value through OCI	139,497	181,750
Total financial assets	**46,575,485**	**24,423,282**
Total current	29,849,801	7,435,706
Total non-current	16,725,684	16,987,576
Financial liabilities		
Borrowings	1,035,682,957	993,525,986
Trade payables and other liabilities	59,461,967	59,187,017
	1,095,144,924	1,052,713,003
Total financial liabilities	**1,095,144,924**	**1,052,713,003**
Total non-current	907,511,855	827,399,440
Total current	187,633,069	225,313,563

NOTE 8b – CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to independent credit rating (if available) or to historical information about counterparty:

	31 December 2017	31 December 2018
Trade receivables	*(in HRK)*	
Customers paying on time	190,650	146,214
Customers paying with delay	2,324,403	269,239
	2,515,053	**415,453**

NOTE 9 – FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

Investments in financial assets at fair value through other comprehensive income relate to listed equity interests and unlisted equity interests which are carried at cost since they do not have a quoted market price and fair value cannot be reliably measured.

	31 December 2017	31 December 2018
	(in HRK)	
Investments in listed equity instruments	1,440,000	1,440,000
Investments in unlisted equity instruments	8,937	8,950
Impairment of investments in equity instruments	(1,309,440)	(1,267,200)
	139,497	**181,750**

During 2018 the value of financial assets at fair value through OCI increased by HRK 42,240 (2017: decrease in amount of HRK 683,680).

NOTE 10 – TRADE AND OTHER RECEIVABLES

	31 December 2017	31 December 2018
	(in HRK)	
Non-current receivables		
Loans and deposits /i/	15,914,092	15,875,131
Other non-current receivables /iii/	672,095	930,695
	16,586,187	16,805,826
Current receivables		
Loans and deposits /i/	680,922	183,109
Trade receivables /ii/	2,515,053	415,453
Other non-current receivables /iii/	23,767,106	5,028,813
	26,963,081	5,627,375

	43,549,268	**22,433,201**

NOTE 10 – TRADE AND OTHER RECEIVABLES (continued)

	31 December 2017	31 December 2018
	(in HRK)	
Financial assets		
Category: Trade and other receivables		
Loans and deposits	16,595,014	16,058,240
Trade receivables	2,515,053	415,453
Other receivables	23,005,545	4,215,751
	42,115,612	**20,689,444**

/i/ Receivables from loans and deposits are as follows:

	31 December 2017	31 December 2018
	(in HRK)	
Non-current receivables		
Loans to employees	13,645,196	13,497,063
Loans to comapnies	1,600,000	1,600,000
Deposits for operating lease	668,896	778,068
	15.914.092	15,875,131
Current receivables		
Loans to employees	680,922	183,109
	16,595,014	**16,058,240**

The fair value of placed loans and deposits approximates their carrying value since the contracted interest rates approximate market rates.

Loans to employees as at 31 December 2018 relate to current loans given to employees of the Company (Note 26).

/ii/ Trade receivables are as follows:

	31 December 2017	31 December 2018
	(in HRK)	
Current receivables		
Trade receivables from domestic customers – gross	498,226	325,709
Trade receivables from foreign customers – gross	2,016,827	89,744
Impairment of trade receivables	-	-
	2,515,053	**415,453**

NOTE 10 – TRADE AND OTHER RECEIVABLES (continued)

/iii/ Other receivables are as follows:

	31 December 2017	31 December 2018
	(in HRK)	
Non-current receivables		
Receivables from employees	672,095	930,695
	672,095	930,695
Current receivables		
Receivables from insurers and agents	320,604	1,316,935
Receivables for advance payments	333,213	389,171
Receivables for advance payments to the crew	355,911	202,958
Prepaid expenses	5,801,942	3,000,702
Receivables from the state	35,437	47,098
Receivables from sale of the vessel	16,888,120	-
Interest receivables	-	23
Other	31,879	71,926
	23,767,106	5,028,813
	24,439,201	**5,959,508**

Receivables from employees relate to non-current loans given to employees of the Company (Note 26).

Movements on the provisions for impairment of trade receivables, loans and other receivables are as follows:

	31 December 2017	31 December 2018
	(in HRK)	
Beginning of year	-	-
Impairment	805	14,397
Write-off of impaired trade receivables	(805)	(14,397)
Collected previously impaired trade receivables	-	-
End of year	-	-

31 December 2017	31 December 2018
(in HRK)	

Trade receivables - gross		
Undue and not impaired	190,650	146,214
Receivables that are past due but not impaired	2,324,403	269,239
Receivables that are past due and impaired	-	-
	2,515,053	**415,453**

NOTE 10 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2018, the Group has HRK 269,239 (2017: HRK 2,324,403) of trade receivables which are past due but not impaired.

Aging structure of those receivables is as follows:

	31 December 2017	**31 December 2018**
	(in HRK)	
up to 30 days	147,655	15,684
up to 60 days	2,012,086	3,970
up to 90 days	48,797	-
above 90 days	115,865	249,585
	2,324,403	**269,239**

Receivables which are past due by more than 90 days are being considered for the possible impairment. Based on the historical information it has been estimated that the above receivables will be collected since those, almost entirely, relate to trade receivables from related parties within the Group Uljanik plovidba d.d..

The fair value of trade receivables approximates their carrying value.

The carrying value of financial assets are denominated in the following currencies:

	31 December 2017	**31 December 2018**
	(in HRK)	
USD	34,535,084	15,772,055
Kune	6,243,578	5,537,296
EUR	2	215,115
	40,778,664	**21,524,466**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

NOTE 11 – CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2018
	(in HRK)	
Current account in HRK	15,567	13,225
Foreign currency account	4,301,250	3,529,621
Cash on hand	3,559	9,242
	4,320,376	**3,552,088**

Cash and cash equivalents are denominated in the following currencies:

	31 December 2017	31 December 2018
	(in HRK)	
HRK	19,126	22,467
USD	4,301,248	3,529,616
EUR	2	5
	4,320,376	**3,552,088**

NOTE 12 – CAPITAL AND RESERVES

Share capital
As at 31 December 2018 the subscribed share capital of the Company amounts to HRK 232,000,000 (2017: 232,000,000) and it consists of 546,955 (2017: 564,239) of ordinary shares with a nominal value of HRK 400 and 33,045 (2017: 35,761) of treasury shares.

All shares issued are ordinary shares, including all relevant rights. All shares have the right to vote at the Company's General Assembly, as well as the right to dividend payment.

The ownership structure of the Company is as follows:

	2017		2018	
Owners	**Number of shares**	**Ownership (%)**	**Number of shares**	**Ownership (%)**
Dragutin Pavletić	36,375	6.27%	36,394	6.27%
Darko Šorc	31,905	5.50%	31,924	5.50%
RCS Trading Corporation Limited	24,911	4.30%	24,911	4.30%
Martina Floričić	23,117	3.99%	23,159	3.99%
Igor Budisavljević	25,447	4.39%	23,116	3.99%
Anton Brajković	22,445	3.87%	22,445	3.87%
Janez Zevnik	21,840	3.77%	22,180	3.82%
Karlo Radolović	20,004	3.45%	20,105	3.47%
Champion Shipping AS	10,000	1.72%	11,320	1.95%
Vlastite dionice	35,761	6.17%	33,045	5.70%
Ostali dioničari	328,195	56.57%	331,401	57.14%
Ukupno	**580,000**	**100%**	**580,000**	**100%**

Dividend distribution
During 2018 and 2017 the General Assembly of the Company did not adopt decisions about dividend payments.

Legal reserves
In accordance with Croatian legislation, legal reserves are formed by transfer of 5% of annual profit up to the moment in which the total amount of legal reserves together with the share premium reach 5% of the subscribed share capital of the company. Legal reserves are undistributable. During 2018 the Company transferred out of retained earnings realized in 2017 additional HRK 258,672 (2017: 412,878) to legal reserves.

NOTE 12 – CAPITAL AND RESERVES (continued)

Fair value reserves

Correction of prior period error

Foreign currency exchange loss

In 2018 the Company recorded a prior period correction by retrospective application of adjustment to the earliest affected period in total amount of HRK 10,150,090. Described correction of prior period error relates to wrong calculation of foreign exchange loss arising on translation of monetary items in foreign currencies to HRK at closing rate.

The Group performed translation of monetary assets and liabilities denominated in foreign currencies to reporting currency using the closing rate at the balance sheet date, it recorded foreign exchange loss in amount of HRK 10,150,090, in financial statements for 2017, within the statement of comprehensive income, under fair value reserves. In order to record described transaction in accordance with IAS 21 - The Effects of Changes in Foreign Exchange Rates, which requires foreign exchanges gains and losses to be recognized in profit or loss in the period in which those occurred, in 2018, the Group recorded a prior period correction by retrospective application of adjustment to the earliest affected period in equity by increasing fair value reserves in amount of HRK 10,150,090 and decreasing retained earnings for the same amount.

Correction of the described prior period errors did not affect calculation of corporate income tax since transactions that relate to ship management activities are accounted for by the Company in the tonnage tax regime (Note 24).

Share premium and treasury shares

In accordance with the Company's share awards programme for the period between 2017 and 2020, shares are granted to employees of the Company in order to compensate for the Company's liabilities to employees. The fair value of granted shares is determined at the date when shares have been granted based on the quoted market price of shares.

In 2018 the Company released total amount of 3,256 of treasury shares (2017: 3,766), which were granted to employees, and it acquired 540 treasury shares (2017: 0). In 2017 the Company released total amount of 150 shares which were sold on the market through a registered broker.

NOTE 13 – EARNINGS PER SHARE

Basic earnings per share
Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	31 December 2017	31 December 2018
Net profit / (loss) attributable to shareholders of the Company	4,360,079	(241,470,388)
Weighted average number of ordinary shares in issue	564,239	543.483
Basic earnings / (loss) per share (in HRK)	**7.73**	**(444.30)**

Diluted earnings per share
Diluted earnings per share are the same as basic earnings per share since there were no convertible potentially dilutive ordinary shares.

NOTE 14 – PROVISIONS

(in HRK)	Employee benefits /i/
At 1 January 2017	**1,794,717**
Additions	-
Decreased during the year	56,424
At 3 December 2017	**1,738,293**
At 1 January 2018	**1,738,293**
Additions	-
Decreased during the year	1,137,220
At 3 December 2018	**601,073**

/i/ Employee benefits relate to non-current and current benefits (retirement benefits and jubilee awards). During 2018, based on the assumptions relating to the number of employees which have the right to receive described benefits, the Company calculated present value of long-term provisions and it recorded decrease in total amount of HRK 1,137,220.

NOTE 15 – BORROWINGS AND DEPOSITS

Long-term deposits and borrowings:

	31 December 2017	31 December 2018
	(in HRK)	
Long-term deposits	32,669,420	32,669,420
Long-term loans from banks /i/	933,523,124	901,894,644
Current portion of long-term loans from banks	(107,540,710)	(147,829,778)
	825,982,414	754,064,866
Long-term loans from entrepreneurs	53,916,863	49,280,022
Current portion of long-term loans from entrepreneurs	(5,056,842)	(8,614,868)
	48,860,021	40,665,154
	907,511,855	**827,399,440**

/i/ During 2018 the Group performed correction of prior period accounting error by retrospective application to Long-term deposits which have been increased by HRK 32,669,420 for which, at the moment of transaction, the Group inadequately decreased carrying value of the vessel in charter (Note 6).

Short-term borrowings:

	31 December 2017	31 December 2018
	(in HRK)	
Liabilities for overdrafts on current accounts	15,573,550	9,681,900
Current portion of short-term loans from banks	107,540,710	147,829,778
Current portion of short-term loans from entrepreneurs	5,056,842	8,614,868
	128,171,102	**166,126,546**

/i/ During 2018 the Group signed contract for a long-term club loan facility with Privredna Bank Zagreb and Croatian Bank for Restruction and Development in total amount of USD 54,189,772 with an annual variable interest rate equal to 3M LIBOR + 3.00%. The last instalment of the loan falls due in 2026. By described loan facility the Group refinanced existing borrowing from Privredna Bank Zagreb and part of the existing borrowing from Credit Suisse AG.

Borrowings from banks are secured by pledges over property and vessels owned by the Group (Note 6).

NOTE 15 – BORROWINGS AND DEPOSITS (continued)

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	31 December 2017	31 December 2018
	(in HRK)	
Fixed interest rate	34,170,194	29,510,622
From 1 to 6 months	968,843,345	931,345,945
	1,003,013,539	**960,856,567**

The carrying values of borrowings are denominated in following currencies:

	31 December 2017	31 December 2018
	(in HRK)	
- USD	876,603,466	857,803,659
- HRK	103,660,605	88,472,544
- EUR	55,418,886	47,249,783
	1,035,682,957	**993,525,986**

Effective interest rates at the balance sheet date are as follows:

	31 December 2017	31 December 2018
	(in HRK)	
- USD	5,00% - 5,69%	5,31% - 8,40%
- HRK	1,80% - 5,00%	1,80% - 4,65%
- EUR	4,90% - 5,40%	4,90% - 5,40%

NOTE 15 – BORROWINGS AND DEPOSITS (continued)

Repayment schedule of the long-term borrowings is as follows:

	31 December 2017	31 December 2018
	(in HRK)	
From 1 to 2 years	107,469,530	337,345,331
From 2 to 5 years	761,141,332	365,741,056
Above 5 years	38,900,993	124,313,053
	907,511,855	**827,399,440**

The carrying values and fair values of long-term loans from banks and others are as follows:

	31 December 2017		31 December 2018	
(in HRK)	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Long-term portion of loans from banks and others	907,511,855	815,310,298	827,399,440	716,811,967

The fair value of long-term portion of loans from banks and others has been calculated based on discounted cash flows using average annual effective interest rate on loans of 5.33% (2017: 4.81%).

NOTE 16 – TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2018
	(in HRK)	
Trade payables	20,139,703	22,143,948
Other payables /i/	99,457,939	93,412,084
	119,597,642	**115,556,032**

Other payables relate to:

	31 December 2017	31 December 2018
	(in HRK)	
Deferred revenues /i/	58,535,341	53,980,212
Liabilities to brokers and charters	12,808,186	7,517,757
Liabilities to vessel crew	10,608,831	8,427,579
Interest payable	9,744,319	13,293,883
Liabilities to agents and insurers	3,773,425	5,866,565
Liabilities to employees /i/	2,387,503	1,937,285
Dividend payable /ii/	1,324,750	1,324,589
Liabilities to state institutions	67,423	4,015
Received advance payments	147,582	1,000,677
Other	60,579	59,522
	99,457,939	**93,412,084**

/i/ Liabilities to employees relate to net salaries in total amount of HRK 394,647 (2017: HRK 390,081), taxes and contributions on salaries in amount of HRK 359,300 (2017: HRK 354,955) and other liabilities to employees in total amount of HRK 725,293 (2017: 723,566) which represent calculated liability for gross salary derived from capitalized insurance premium at the end of insurance period.

/ii/ Dividend payable relates to liability for dividend distribution from prior periods which has not yet been settled.

Financial liabilities are denominated in following currencies:

	31 December 2017	31 December 2018

	(in HRK)	
USD	51,614,067	55,027,486
Kune	7,230,217	3,198,687
EUR	617,683	960,844
	59,461,967	**59,187,017**

NOTE 17 – SALES REVENUE

	2017	2018
	(in HRK)	
Revenue from vessel traffic	168,857,990	146,617,133
Revenue from sale of services	10,687,935	6,790,403
	179,545,925	**153,407,536**

/i/ Revenue from sale of services, in amount of HRK 6.391.417 (2017: HRK 10.083.336), mainly relates to revenue from ship management services provided to companies outside the Group.

NOTE 18 – OTHER INCOME

	2017	2018
	(in HRK)	
Income from loan principal write-off	-	12,556,812
Income from grants	5,231,471	5,219,709
Income from reversal of unused provisions /i/	56,424	1,137,220
Income from written off liabilities /ii/	1,204,473	3,823
Gain on sale of the vessel /iii/	17,655,310	-
Dividend income	780	910
Other	501,432	316,020
	24,649,890	**19,234,494**

/i/ Income from reversal of unused provisions relate to reversal of long-term provisions for retirement benefits and jubilee awards (Note 14).

/ii/ Liabilities written-off have been recorded based on Management board decision in accordance with Civil Obligations Act and general periods under a statute of limitations.

/iii/ Gain on sale of vessel Levan was recognised based on the sale agreement signed on 28 November 2017.

NOTE 19 – COSTS OF MATERIAL AND SERVICES

	2017	2018
	(in HRK)	
Raw materials		
Consumed energy	113,756	162,595
Material costs	159,198	153,588
Small inventory, packaging, tyres	47,047	24,935
	320,001	341,118
Other external costs		
Vessel's operating and docking costs	19,828,731	18,280,771
Maintenance and repair costs	6,516,348	8,062,695
Lease expenses	265,983	232,188
Telecommunication services and transportation	217,341	227,335
Communal services	20,005	16,107
Marketing and sponsorship costs	17,070	13,675
Other external charges	10,080	6,785
	26,875,558	26,839,556
	27,195,559	**27,180,674**

NOTE 20 – STAFF COSTS

	2017	2018
	(in HRK)	
Salaries to vessels' crew	48,864,865	41,978,268
Net salaries	5,112,863	4,946,077
Taxes and contributions from salaries /i/	2,977,667	2,977,953
Contributions on salaries	1,384,686	1,360,945
	58,340,081	**51,263,243**

As at 31 December 2018 the Group had 30 employees (2017: 35 employees). Tax and contributions from salaries include HRK 1,404,440 (2017: HRK 1,432,519) of mandatory pension contributions paid to mandatory pension funds.

NOTE 21 – OTHER OPERATING COSTS

	2017	2018
	(in HRK)	
Administration and ship management fees	4,997,008	4,778,118
Insurance costs	6,997,090	5,798,046
Intellectual services	219,385	2,206,181
Daily allowances and travel expenses	775,699	847,970
Employee benefits	150,500	459,500
Entertainment costs	238,139	265,292
Bank charges and costs of payment operations	171,395	176,421
Taxes, contributions and similar charges	353,970	359,438
Costs of Supervisory Board members	147,019	147,018
Membership fees and similar charges	133,730	136,119
Brokerage fees	198,915	112,851
Trade receivables written-off	5,862	38,609
Other costs /ii/	156,150	93,855
	14,544,862	**15,419,418**

/i/ Within taxes, contributions and similar charges the Group recorded HRK 201,712 (2017: HRK 231,659) of tonnage tax (Note 24).

NOTE 22 – OTHER GAINS / (LOSSES) - NET

	2017	2018
	(in HRK)	
Impairment loss from vessels (Note 6)	-	(237,473,121)
Foreign exchange gains - net	517,564	1,374,356
Loss on sale of the vessel	-	(986,734)
Share in loss of associates	(168,203)	(174,385)
	349,361	**(237,259,884)**

NOTE 23 – FINANCE INCOME AND COSTS

	2017	2018
	(in HRK)	
Finance income		
Interest income	1,856,262	234,128
Foreign exchange gains on borrowings	35,539,327	46,339,100
	37,395,589	**46,573,228**
Finance costs		
Interest expense on borrowings	52,121,017	60,373,003
Foreign exchange loss on borrowings	36,879,720	47,932,293
	89,000,737	**108,305,296**

NOTE 24 – INCOME TAX AND TONNAGE TAX

The Company entered into the tonnage tax regime and instead of corporate income tax it accounts for tonnage tax on business result derived from maritime activities.

On all other activities the Company applies provisions of Corporate Income Tax Act.

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 18% as follows:

	2017	2018
	(in HRK)	
Profit/ (loss) before tax	**87,355**	**(268,056,514)**
Tax calculated at applicable rate	803,517	234,675
Expenses not deductible for tax purposes	2,905	12,712
Income not subject to tax	(11,989)	(205,758)
Effect of tax losses carried forward	(794,433)	(37,971)
Effect of tax paid by foreign subsidiary	71,190	115,774
Income tax expense	**71,190**	**119,432**
Tax losses carried forward	12,023,916	11,865,801

In the current and prior period, the Company did not recognize deferred tax assets based on the tax losses available for carry forward into the future periods due to Managements' estimation regarding uncertainty of future taxable profit. Tax losses carried forward may be utilized until 31 December 2021.

NOTE 24 – INCOME TAX AND TONNAGE TAX (continued)

In accordance with the regulations of the Republic of Croatia, the Tax authorities may at any time inspect the Company's books and records within 3 years following the end of the year in which the tax liability is reported, and may impose additional tax assessments and penalties. The Company's Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

Tonnage tax

In accordance with Maritime law, which lays down conditions of conducting business in international sea transport, companies which conduct maritime activities may, based on provisions in applicable legal framework, choose to pay tonnage tax instead of corporate income tax. Companies which fulfill conditions laid down in Maritime law and which chose option to enter the tonnage tax regime must remain in the system during the period of ten years. The condition required for entering tonnage tax regime is that the company which applies for it should manage ships which fulfill all laid down conditions and that it provides services of strategical and commercial ship management.

All other activities which the Company conducts are taxed in accordance with the Corporate Income Tax Act.

The Company is in the tonnage tax regime for the period of 10 years starting from 1 January 2014.

In accordance with the Resolution from Ministry of Maritime Affairs, Transport and Infrastructure the tonnage tax for vessels managed by the Company amounts to HRK 201,712 (2017: HRK 231,659) and it is accounted for under Company's liabilities and other operating costs (Note 21).

NOTE 25 – CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings

There are few ongoing lawsuits against the Company for claims arising in prior periods Based on the advice of legal counsel, no provision has been made in respect of this proceeding as Management believed it was unlikely that any loss will arise and those should not have significant impact on the Company's business.

Commitments

The future aggregate minimum lease payments under non-cancellable operating leases for vehicles are as follows:

	31 December 2017	31 December 2018
	(in HRK)	
Up to 1 year	261,168	260,920
From 1 to 5 years	436,411	175,492
	697,579	**436,412**

NOTE 26 – RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, parties are considered related if one of the parties has control over the other party, if they are controlled jointly, or if one party may considerable influence the other party in the financial or business decisions making process. When considering any possible relation between related parties, special attention should be given to the nature of their relation, rather than to the legal form alone.

Related parties of the Group are associates, Istarska autocesta d.o.o. and Uljanik plovidba LNG d.o.o..

Transactions with related parties as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2017	31 December 2018
Investments in associates		
Other related parties (Note 7)	3,605,133	3,430,748
	3,605,133	**3,430,748**
Loans and deposits (non-current)		
Other related parties	1,600,000	1,600,000
	1,600,000	**1,600,000**

Transactions with key management personnel:

	31 December 2017	31 December 2018
Loans and deposits (non-current)		
Key management personnel	14,315,055	14,425,522
	14,315,055	**14,425,522**
Loans and deposits (current)		
Key management personnel	580,000	100,000
	580,000	**100,000**

Compensations of key management personnel in 2018 amounted to HRK 2,419,825 (2017: HRK 2,941,482). Paid compensations relate to salaries and other current compensations.

During 2018. Compensations paid to members of the Supervisory Board amounted to HRK 147,019 (2017: HRK 147,019).

NOTE 27 – SUBSEQUENT EVENTS

After the balance sheet date on 31 December 2018 up to the date of approval of these financial statements by the management Board, following events occurred:

Increase of share capital by issuing preferred shares

On 28 January 2019. Director of the Company, with the consent of the Supervisory Board of the Company, determined that the issue of preferred shares of the Company was successful taking into account that the total amount of 77,212 preferred shares were subscribed and HRK9,265,440.00 was paid in within the prescribed deadline for subscription and payment, and which amounts represent more than 30% of the entire issue and thus the conditions for the successful capital increase were met. Share capital of the Company is increased by payments in cash, from the amount of HRK 232,000,000.00 by HRK 7,721,200.00, to the amount of HRK 239,721,200.00 by way of issue of the total amount of 77,212 registered preferred shares bearing no voting rights of nominal amount of HRK 100.00 each and which give to the holder the following preferential rights: (i) the right to annual dividend of 5% (five percent) of the nominal amount of share; (ii) the right to difference up the full amount of the dividend that the holders of ordinary shares are entitled to for the relative business year; (iii) the right to collect accumulated and outstanding dividends over a period of 3 (three) years prior to the payment of dividends to holders of ordinary shares; (iv) the right of priority at payment of the remaining liquidation or bankruptcy value.

Enforcement proceedings against funds of the Company initiated by Ministry of Finance – Tax administration with the aim of collecting debt from 3. Maj Brodogradilište d.d.

In period from 22 February to 14 March 2019 bank accounts of the Company were enforcement proceedings by Ministry of Finance – Tax administration for tax and other obligations of 3. Maj Brodogradilište d.d. Ministry of Finance – Tax administration initiated enforcement proceedings against the Company in its capacity as a debtor towards 3. Maj Brodogradilište d.d. for obligations which are subject of the court proceedings and which are yet to be determined. Upon receipt of decision about enforcement proceedings from Ministry of Finance – Tax administration, the Company took necessary legal actions to protect its interests. The Company promptly sent all applicable complaints and it initiated on the Municipal Court in Pula a process for adjournment of the enforcement proceedings and suspension of orders sent by Tax administration to banks for transfer of seized funds. On 8 March 2019 the Municipal Court in Pula brought decision to suspend orders for transfer of funds owned by Company and few days after, on 13 March 2019 it brought a decision according to which enforcement proceedings initiated by Ministry of Finance – Tax administration has been declared as not allowed. Based on such decision of the Court in Pula bank accounts of the Company were unblocked on 14 March 2019 due to the fact that there were no additional reasons for enforcement proceedings. Due to a short period in which bank accounts of the Company were blocked and due to legal actions taken by the Company, for which Company informed its creditors, the enforcement proceedings did not have significant impact on the Company's business. All existing contractual relationships with creditors and business partners have been maintained in this period and the Company was able to cover all operating costs even after the period in which bank accounts were blocked since the total amount of seized funds was immaterial compared to monthly revenues of the Company.

NOTE 27 – SUBSEQUENT EVENTS (continued)

Request for a mediation relating to the claim for damage compensation

On 07 March 2019, the Company filed a request for a mediation with the County General Attorney Office in Rijeka in accordance with the Article 186.a of the Civil Procedure Act relating to the claim for compensation in the amount of HRK 80.082.182,03, arising out of the Cooperation Agreement on Mutual Execution of the Project for Building 4 Ships at 3. MAJ Shipyard for Domestic Buyers dated on 21 January 2009 as amended by Addendum 1 dated 11 February 2009, concluded between Ministry of Economy, Labor and Entrepreneurship, Ministry of the Sea, Transport and Infrastructure, 3. MAJ Brodogradilište d.d. and Uljanik Plovidba d.d., according to which Cooperation Agreement as amended by the Addendum 1 the contractual parties have laid down and agreed the principles of cooperation, activities, measures and terms and conditions under which they are to be guided in the execution of the subject Project, all in order to overcome serious business difficulties at 3. MAJ Brodogradilište d.d. Currently negotiations about possible out of court settlement are in progress.

Resignation of Director and member of the Supervisory Board and appointment of Director

On 27 March 2019, Mr. Dragutin Pavletić, Director of the Company, tendered his resignation. Supervisory Board of the Company held its meeting on the same day in order to appoint new Director of the Company. Mr. Igor Budisavljević, lawyer, born on 07 May 1965, of Banjole, Volme 132, PIN: 58863771276, with 30 years of experience in the marine industry was appointed as a new Director of the Company for a period of 5 years and with authority to represent the Company individually and with sole signatory power. Mandate of the new Director commenced on the 27 March 2019.

Later on the same day the Company received resignation of Mr. Anton Brajković, member and deputy president of the Supervisory Board of Uljanik Plovidba d.d. The Company promptly took all statutory and regulatory activities in order to appoint new member of the Supervisory Board of the Company. On 23 April 2019, the Commercial Court in Pazin appointed Mr. Dubravko Kušeta, bacc. oec. from Veli Lošinj, Kaštel 28, PIN: 01763169344, as a new member of the Supervisory Board who will carry out his duties until the election of the missing member of the Supervisory Board by the General Assembly of the Company.

Decision on the commencement of the investigation proceedings against the Company

On the 03 April 2019 the Company received Decision on the commencement of the investigation proceedings against the Company due to alleged misconduct of the former Managing Director arising out of the „Cooperation Agreement on Mutual Execution of the Project for Building 4 Ships at 3. MAJ Shipyard). The allegation is that the Company potentially wrongfully benefited in the amount of HRK 57.960.520,00. The investigation against the Company is a direct and automatic consequence of the fact that the investigation is being conducted against former Managing Director as a responsible person within the Company. The Company is expressly denying any and all allegations that it potentially wrongfully benefited as alleged and points out that, in fact, it is the Company that has a claim for compensation arising out of very same above-mentioned Cooperation Agreement in the amount of HRK 80.082.182,03.

Apart from the described event in the paragraph above, there were no subsequent events since 31 December 2018 up to the date of approval of these financial statements by the management Board, that would have a material effect on the financial statements of the Company.

NOTE 28 – AUDITORS' FEES

The audit company iAudit d.o.o., Rijeka which performed the audit of financial statements of the Group provided services in amount of HRK 110,000. These services relate to statutory audit services fees.

MANAGEMENT REPORT FOR 2018

ULJANIK PLOVIDBA d.d. (hereinafter: the Company) with headquarters in Pula, Carrarina 6, is a joint stock company registered with the Commercial Court in Pazin, personal identification number: 49693360447, subject's registration number: 3292754. On 31st December 2018, the Company's share capital amounted to 232,000,000.00 Kuna and was divided into 580,000 ordinary registered shares, with nominal value of 400.00 Kuna each. The Company's ordinary shares are listed in the Official Market of the Zagreb Stock Exchange, under ticker ULPL-R-A. The consolidated financial statements of the ULJANIK PLOVDBA Group for the period from 1st January to 31st December 2018 represent the financial statements of the Company and its subsidiaries, the company United Shipping Services One and the company Real d.o.o. The Company's core business is international maritime transport in the sector of bulk cargo transport by Supramax vessels, and petroleum products, chemicals and oils by MR tankers.

The vessel fleet owned by the Company at the end of the reporting period consists of 4 MR tankers and 2 Supramax, with average vessel age of 8 years. In addition, the Company provides vessel management services for third parties, in relation to several vessels.

The Company's bodies are the General Meeting, the Supervisory Board and the Management. Members of the Supervisory Board are: Amra Pende, president, and Anton Brajković and Robert Banko, members. The Management of the Company consists of the Company's director Dragutin Pavletić. During 2018, there were no changes in the membership of the Supervisory Board or the Management. Upon expiration of their previous four-year term, the members of the Supervisory Board were elected to a new four-year term beginning on 29th August 2018, during the General Meeting session held on 28th August 2018, and the elections for the employee representative held on 20th August 2018.

The consolidated financial statements have been prepared in Kuna and according to the International Financial Reporting Standards.

The business activities of the Company and its foreign subsidiaries in the period from 1st January to 31st December 2018 were orderly, with the vessels fully employed and the management system highly functional. Unfortunately, the entire previous year was characterized by the instability connected to the introduction of customs barriers and additional levies, which directly influenced the global exchange of goods and the decrease of transport activities, particularly in the US, China, Canada and the EU. Although the freight rates in bulk cargo sector experienced a significant recovery, the beginning of 2019 entirely cancelled all of the positive effects. In the period of one month, the freight fees significantly decreased, by over 60% compared to the value in December 2018. The recovery of this market is expected only after the positive outcome of the trade negotiations between the US and China, which is expected in May or June 2019. The value of vessels decreased for about 10-20% at the end of the previous and the beginning of this year.

In relation to the transport of petroleum products, oil and chemicals, the observed period was characterized by the continued trend of decreased freight rates, primarily due to delivery of a higher number of tankers in the previous year. Unfortunately, the extremely low freight rates in 2018 have directly influenced the business results. Despite of the announcements, this sector did not experience a stable recovery and the strong growth of the spot market in the end of last year diminished quickly. It is encouraging that very few shipbuilding contracts for MR tankers were concluded this year, that the deadlines for delivery of newbuildings were delayed for later periods and that the "scrapping" activities of these type of vessels have increased. During March and April 2019, the freight rates in this sector have increased for time charters, and it is expected that the positive trend will continue during 2019 and 2020.

The business activities of the Company in 2018 were characterized by the following:

a) Positive consolidated EBITDA of the Group in the amount of 77.8 million Kuna;
b) Net consolidated loss of 241.5 million Kuna, unlike the net consolidated profit made in 2017 in the amount of 4.3 million Kuna, which is a consequence of the impairment of the vessels in the amount of 37.8 million USD;
c) Decrease of total revenue compared to the previous year as a result of a smaller volume of the realized freight revenue, due to the sale of the vessel Levan, as well as lower freight rates realized particularly in the tanker sector, despite of the revenue realized in the current period on the basis of loan debt discharge;
d) Increase of the total operating expenses as the consequence of adjustment (decrease) of vessel value on the day of 31st December 2018, with simultaneous increase of financial expenses;
e) Full employment of vessels with the continued trend of high efficiency of the Company's fleet,
f) Hindered solvency and liquidity and the related continued restructuring of loan obligations with banks;
g) Decrease of the total credit exposure, with settlement of all due loan obligations. In 2018, a total of 16 million USD of loan obligations was paid;
h) Sale of the oldest vessel in the bulk cargo fleet m/b Levan, with the complete write off of the vessel and settlement of all loan obligations for the vessel;
i) Conclusion of the long-term syndicated loan agreement with PBZ / HBOR in the total amount of 54 million USD for refinancing the loan obligations related to m/t Champion Istra and m/t Verige;
j) Conclusion of the Loan Agreement in the amount of 25 million USD with a foreign creditor, with intention to refinance a part of the current loan obligations related to the financing the acquisition of vessels;
k) Publishing the public invitation to subscribe a maximum of 250,000 new preferred shares of the Company, with recognition of pre-emptive rights of existing shareholders;
l) Withdrawal from the gas project in Iran, directly related to the declared sanctions;
m) Full implementation of the quality and safety system on vessels and in offices, with continued raising of quality and competence of employees and maintaining a high level of professionalism;
n) High efficient vessel management, including management for third parties;
o) Full performance of Charterers of all vessels with full collection of agreed freights.

An overview of individual functions is given hereinafter:

Pula, 29 April 2019

1. COMMERCIAL OVERVIEW

In the observed period, the total consolidated operating revenue of the Group amounted to 172.6 million Kuna, compared to 204.1 million Kuna realized in the observed period in 2017. The decrease in the revenue is a result of the decrease of the fleet, the extraordinary docking of the tanker Verige, the complex repair of oil leakage on propeller shaft of the tanker Pomer, as well as the lower freight revenue realized from vessels in both sectors, despite the full utilization and full collection of freights and the revenue achieved from providing vessel management services. The operating expenses have generally been decreased on all vessels, as the consequence of rigorous saving measures, while maintaining the high degree of utilization of vessels. However, the conducted adjustment of the vessel's book value to the market values on the day of 31st December 2018 resulted in the impairment of 237.4 million Kuna in total, increasing the operating expenses for the same amount. Total operating expenses for 2018 amount to 378.9 million Kuna compared to 152.5 million Kuna in 2017.

2. HUMAN RESOURCES OVERVIEW

On the day of 31st December 2018, the Company employed 30 employees, compared to 35 employees in 2017.

3. TECHNICAL OVERVIEW

During 2018, the tanker Verige was extraordinarily dry docked in Singapore and a complex repair consisting of replacing the stern tube seal was made on the tanker Pomer in the port of Gladstone. In addition to this, the only delays relate to the repairs on the Veruda and Stoja cranes. This period was also characterized by the continued trend of high utilization of the vessels from the Company' fleet. In the beginning of 2019, significant damage occurred on the Kastav vessel, which was caused by a strong storm en route to Rotterdam, and on the Pomer vessel in Suez.

4. ACQUISITION OF OWN SHARES

In the period from 1st January to 31st December 2018, the Company acquired treasury shares in the value of 51.6 thousand Kuna. In the said period, the Company disposed of its own shares in the value of 873,5 thousand Kuna.

5. BUSINESS EVENTS IN 2018

On the day of 26th February 2018, MB Levan, a bulk carrier built in 2006, the oldest vessel in the Company's fleet, was sold in the port of Zhoushan.

On the day of 26th March 2018, the company ULJANIK PLOVIDBA d.d. concluded a Long-term Foreign Currency Syndicated Loan Agreement on the basis of the Risk-Sharing Model, with Privredna banka Zagreb d.d. and the Croatian Bank for Reconstruction and Development, in the amount of 54 million USD. This loan was used to refinance the loans previously granted by Privredna banka Zagreb d.d. and a syndicate of foreign banks led by Credit Suisse AG respectively for acquisition of two oil and chemical tankers named

„Champion Istra“ and „Verige“, both built in 3. Maj Brodogradilište d.d., Rijeka, in 2010 and 2012. The loan was granted with a repayment period of 10 years, at a significantly lower interest rate and with annuities allowing for the orderly repayment of the loan, and is secured with the state guarantee in the amount of 43 million USD. Even though the loaned amount is high, the new loan arrangement did not increase the credit exposure of the Company.

On the day of 28th August 2018, the session of the Company's General Meeting was held during which resolutions were passed on the use of profits for 2017 and the election of the members of the Company's Supervisory Board. Pursuant to the mentioned resolution, the net profit in the amount of 5,173,440.17 Kuna was distributed as follows: the amount of 258,672.00 Kuna as the statutory reserves and the amount of 4,914,768.17 Kuna as retained profit. Ms. Amra Pende, bachelor of law, and Mr. Anton Brajković, bachelor of economics, were elected as members of the Company's Supervisory Board to the term of four years, with the beginning of 29th August 2018. Mr. Robert Banko was elected to the position of the member of the Company's Supervisory Board as the employee representative, to the same term, following the elections held on 20th August 2018.

In May of 2018, the Company submitted to the company 3. Maj Brodogradilište and to the competent ministries the request for indemnification for non-fulfillment of obligations to find an adequate model of financing the building of two tankers called Pomer and Champion Istra from the Cooperation Agreement on Mutual Execution of the Project for Building 4 Ships at 3. MAJ Shipyard for Domestic Buyers, concluded on 21st January 2009 and its later addendum. Even though it was expected that the submitted request will be resolved amicably and through a mutually acceptable solution, the consensual agreement was, however, not reached and the Company will seek the resolution of its request in court proceedings.

On the day of 30th November 2018, the meeting of the Company's Supervisory Board was held, at which consent was given to the Company's director to adopt a decision to increase the share capital of the Company from the amount of 232,000,000.00 Kuna, by a maximum amount of 25,000,000.00 Kuna, to the maximum amount of 257,000,000.00 Kuna, through issuing a maximum of 250,000 new preferred non-voting shares, with nominal value of 100.00 Kuna, for the amount of 120.00 Kuna, to obtain funds necessary to decrease the credit exposure of the Company and to create the conditions to increase the liquidity and strengthen the financial stability of the Company, while maintaining the desired debt-capital ratio. The decision of the Company's director was adopted on 30th November 2018 and published as a public invitation for subscription of at least 250,000 new preferred shares of the Company, with recognition of pre-emptive rights of existing shareholders.

Furthermore, on 13th December 2018, the Company disputed and rejected an unfounded and unlawful termination of the Agreement of 10th October 2016, with the addendum of 28th November 2016, under which on the day of this report the Company, as the debtor of the creditor 3. MAJ Brodogradilište d.d., owes to the latter a total of 46,948,021.61 Kuna as the principal amount, due in annual installments. The Company is fulfilling its obligations under the concluded Agreement in an orderly and timely manner and has no outstanding debts on the date of this report.

On 28th December 2018, the Company concluded a Loan Agreement with a foreign creditor in the amount of 25 million USD, by which a part of the current loan obligations related to the financing the acquisitions of the vessels will be refinanced.

6. BUSINESS EVENTS IN 2019

On 28th January 2019, the director of the Company, with consent of the Company's Supervisory Board determined that the issuing of the Company's preferred shares was successful, considering that 77,212 preferred shares were duly subscribed and the amount of 9,265,440.00 Kuna was paid within the prescribed dead-line for subscription and payment of new preferred shares. This represents more than 30% of the total amount of the issue, fulfilling the requirements to increase the share capital of the Company. The share capital of the Company was increased from the amount of 232,000,000.00 Kuna, for the amount of 7,721,200.00 Kuna, to the amount of 239,721,200.00 Kuna, by issuing a total of 77,212 preferred registered non-voting shares, with nominal value of 100.00 Kuna each, along with payment of shares in cash. These shares give the following preferred rights to the owners: (i) right to annual dividend in the amount of 5 % (five percent) of the nominal share value, (ii) right to the difference to the full amount of dividend belonging to the owners of ordinary shares for the individual financial year, (iii) right to collect cumulative outstanding dividends through a 3 (three) year period before the payment of dividends to the owners of ordinary shares, (iv) priority right related to the payment of the balance remaining from winding-up or insolvency.

In the period from 22nd February to 14th March 2019, the business bank account of the Company was blocked for the amount owed by 3. MAJ Brodogradilište d.d. to the Ministry of Finance, Tax Administration for taxes and other public levies. The Ministry of Finance, Tax Administration, attempted to enforce the collection of the debt from the Company as the debtor of 3. MAJ Brodogradilište d.d., the existence and the maturity of which debt are the subject matter of the initiated court proceedings and are still to be determined. Immediately upon receipt of the decision on enforcement issued by the Ministry of Finance, Tax Administration, the Company has taken all necessary legal steps to protect its interests. All necessary appeals were promptly lodged and the proceedings were initiated to declare the seizure and the transfer ordered by the Ministry of Finance, Tax Administration, illegitimate, as well as the proceedings to postpone the implementation of the order to the banks to transfer the seized funds, in which legal matters the court has to act urgently. At first, the Municipal Court in Pula-Pola, on 8th March 2019 adopted a decision to postpone the implementation of the order to the banks to transfer the seized funds of the Company. Thereafter, on 13th March 2019, the same court declared the seizure and transfer of monetary funds of the Company attempted by the Ministry of Finance, Tax Administration, illegitimate. Pursuant to such decision of the court, the Company's account was deblocked on 14th March 2019, considering the absence of other reasons to block the Company's account. Due to the short period in which the account was blocked and prompt legal activities of which the Company notified its creditors, the blocked account had no significant influence on the business activities of the Company. Namely, all current contractual relations, both with creditors and with business partners, were maintained and are still in force, while the current expenses of the Company's business activities were settled in an orderly and timely matter after the account was deblocked, considering that the total amount of the seized funds was insignificant compared to the monthly revenue of the Company.

On 7th March 2019, in accordance with Article 186.a of the Civil Proceedings Act, a request was submitted to the County State Attorney's Office in Rijeka to settle the dispute related to the claim for compensation in the amount of 80,082,182.03 Kuna arising from the Cooperation Agreement on Mutual Execution of the Project for Building 4 Ships at 3. MAJ Shipyard for Domestic Buyers, concluded on 21st January 2009 and its Addendum 1 of 11th February 2009, concluded between the then Ministry of Economy, Labor and Entrepreneurship, Ministry of Sea, Transport and Infrastructure, 3. MAJ Brodogradilište d.d. and the Company. By this Agreement and its later Addendum 1, the parties to the agreement have determined the principles of cooperation, activities and measures, as well as conditions under which they are to be guided in the execution of the subject Project, all in order to overcome serious business difficulties at 3. MAJ Brodogradilište d.d. Currently, the negotiations regarding the amicable settlement of the dispute are ongoing.

On 27th March 2019, Mr. Dragutin Pavletić resigned the position of the Company's director. The Company's Supervisory Board, at the meeting held on the same day, decided to appoint a new director of the Company. Mr. Igor Budisavljević, bachelor of law, born on 7th May 1965, from Banjole, Volme 132, personal identification number: 58863771276, having a thirty-year experience in maritime transport, was appointed as the Company's director to a five-year term and was given the authority to represent the Company independently and individually. The term of the appointed Company' director started on 27th March 2019.

Later on the same day of 27th March 2019, the Company received the resignation of Mr. Anton Brajković, member and vice-president of the Supervisory Board. Within the shortest possible time-frame, the Company took all necessary steps to appoint a new member of the Company's Supervisory Board. On 23rd April 2019, Mr. Dubravko Kušeta, bachelor of economy from Veli Lošinj, Kaštel 28, personal identification number: 01763169344, was appointed by the court as a new member of the Company's Supervisory Board, and will perform the function until the election of the missing member of the Supervisory Board at the session of the Company's General Meeting.

On 3rd April 2019, the Company received the Decision regarding the investigation against the Company due to the alleged suspicion that the acts of the person who was previously acting as a responsible person in the Company, based on the concluded Cooperation Agreement on Mutual Execution of the Project for Building 4 Ships at 3. MAJ Shipyard for Domestic Buyers, resulted in the Company allegedly obtaining illegal proceeds in the total amount of 57,960,520.00 kn. The investigation was initiated against the Company as a legal person only for the reason that the same investigation was initiated against the person who was formerly acting as a responsible person in the Company, and it is the direct consequence of this. Any alleged illegal proceeds in any amount are explicitly disputed by the Company, considering that the Company is seeking damages in the amount of 80,082,182.03 Kuna based on the same above mentioned Agreement.

7. COMPANY DEVELOPMENT

The Development Strategy of ULJANIK PLOVIDBA d.d. until 2030 directed the Company to retain its core maritime activity in two sectors, in particular, the bulk cargo transport by Supramax-type vessels and petroleum products and chemicals transport by product carriers.

The intention of the Company is to continuously participate in the market of new and second hand vessels, with the goal to optimize the fleet and its efficiency. Even though the majority of business is going to be conducted by its own vessels, the development of the Company will additionally be directed to vessel management services for external clients.

8. COMPANY ACTIVITIES IN RESEARCH AND DEVELOPMENT AND ENVIRONMENTAL PROTECTION

As part of the business activities related to maritime transport, including the provision of vessel management services, research is continuously being conducted, in particular in relation to introducing new technical solutions and technologies connected with exploitation of vessels. Particular attention is directed at technical solutions enabling further savings in the consumption of motor fuel, decreasing pollution and enhancing environmental protection. On the other hand, by socially responsible business, through investing into the community, concern and care about the employees and their education, the Company endeavors to contribute to the continued economic and social development.

9. BUSINESS RISKS

The core activity of international maritime transport and the shipping activities are recognizable in the world as one of the riskier ventures and are as such directly connected to significant business risks, of which the most significant are singled out as follows:

- Global economic trends;
- Risk of interest rates increase;
- Volatility of the USD exchange rate in relation to other currencies;
- Significant oscillations in the value of vessels;
- Risk of strict business conditions;
- Long and uncertain term of return on capital;
- Volatility of basic operating expenses;
- Naval personnel fluctuations.

10. CORPORATE GOVERNANCE CODE

The Company adheres to the Corporate Governance Code of ULJANIK PLOVIDBA d.d. in its entirety.

In Pula, 29th April 2019.

Igor Budisavljević, director

ULJANIK PLOVIDBA

Pula, 29 April 2019

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The company ULJANIK PLOVIDBA d.d. (hereinafter: the Company) applies the Code of Corporate Governance published on the official website of the Zagreb Stock Exchange, www.zse.hr and in its regular business activities it has also adopted its own corporate governance code, which is in accordance with the recommendations and directives determined by the Code of the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange.

Through the regular completion of the Code of Corporate Governance Annual Questionnaire published on the website of the Zagreb Stock Exchange (www.zse.hr) and the Company (www.uljaniksm.com), the Company gives its detailed attestment of the dedication to the principles of corporate governance and social responsibility.

There were no significant deviations from the accepted recommendations of the Code of Corporate Governance of the Zagreb Stock Exchange in the reporting period, apart from smaller deviations from certain recommendations. Detailed explanation of these deviations was set forth in the Code of Corporate Governance Annual Questionnaire.

The Auditing Committee of the Company prepares and supervises the implementation of the decisions of the Supervisory Board related to the financial reporting system, the risks connected with financial reporting and supervises the controls and quality assurance mechanisms and the financial reporting process of the Company. Through the continued communication with the auditors of the Company, the Committee supervises the reporting process, discusses the key issues related to business, stated by the auditors, the management or the Supervisory Board, giving advice, recommendations or directives. The Auditing Committee is responsible for ensuring objectivity and the credibility of information and reports submitted to the Supervisory Board. Obligations and responsibilities of the Auditing Committee, among other, include the responsibility for monitoring and reviewing the completeness of the Company's financial reporting, the Company's internal system of financial control and the internal control of business activities and compliance of the Company. The Auditing Committee also supervises the external auditors (including the efficiency of external auditing processes and the auditor's appointment and fees) and evaluates the efficiency of the internal auditors' activities.

The ten most significant shareholders are listed in Note 12 of the annual financial statement under title Capital and Reserves. The Company does not have security holders with special controlling rights nor security holders with limitations to voting rights to a certain percentage or number of votes.

ULJANIK PLOVIDBA

Pula, 29 April 2019

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The bodies of the Company are the Management, the Supervisory Board and the General Meeting.

The Management of the Company is appointed and revoked by the Supervisory Board to a five-year term. The members of Management may then be reappointed. The Management consists of one member. The authorities of the member of Management are defined by the Companies Act and the Company's Articles of Association and include the management of business on the member's own responsibility, taking every action and adopting every decision that the member considers necessary for the successful management of the Company's business. In relation to certain decisions, the Management has to obtain consent of the Supervisory Board.

The Supervisory Board consists of three members, two of which are elected by the General Meeting of the Company, whereas one is elected by the Company's employees in accordance with the special law regulating labor and labor relations. The Supervisory Board is responsible for the appointment and revocation of the member of Management and for supervising the management of the Company's business. In accordance with the provisions of the Company's Articles of Association, the Supervisory Board gives preliminary consent to significant transactions and activities which cannot be implemented by the Management without such approval. On 30th November 2018, the Supervisory Board gave its consent to issuing of a maximum of 250,000 new preferred shares of the Company, with recognition of pre-emptive rights of existing shareholders.

Members of Management and the Supervisory Board are listed in Note 1 of the annual financial statement under title General Information.

The Auditing Committee was established by the Supervisory Board.

The procedure of the General Meeting is regulated by the Companies Act.

The diversity policy of the Company, which is applied in relation to the executive, management and supervisory bodies, has the goal of establishing the necessary standards ensuring the diversity of members. This enhances the quality of their work and adopting better management decisions.

The criteria for appointment are skills and experience of the candidates, knowledge in the field of industry, personal qualities and integrity, whereas the diversity criteria is also taken into account, such as gender, age, seniority, nationality and individual differences in professional and personal experiences.

Igor Budisavljević, director

STATEMENT OF THE PERSONS RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

According to the best of our knowledge:

The audited consolidated financial reports of GROUP ULJANIK PLOVIDBA for the period January – December 2018, have been prepared according to International Financial Reporting Standards and they provide an complete and true presentation of assets, liabilities, profit and loss, financial position and business activities of ULJANIK PLOVIDBA d.d. and the companies included in the consolidation.

The Management Report for the period January – December 2018 contains a true presentation of the development, operating results and the financial position of the Parent Company and the companies included in the consolidation as well as the description of major risks and uncertainties the Parent Company and the companies included in the consolidation are exposed to.

Accounting Manager | Director

Bojana Mihajlović | Igor Budisavljević

Pula, 29 April, 2019

ULJANIK PLOVIDBA

Supervisory Board

Pula, 29th April 2019

In accordance with the provisions of Article 300.c and Article 300.d of the Companies Act ("Official Gazette", Number 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15 and 40/19) and Article 37 of the Articles of Association of the company ULJANIK PLOVIDBA d.d. (full text of 25th January 2019), the Supervisory Board of the company ULJANIK PLOVIDBA Pomorski promet, dioničko društvo, Pula, Carrarina 6, registered in the court register of the Commercial Court in Pazin under number (subject registration number): 040010793, personal identification number: 49693360447, at the meeting held on 29th April 2019, passed the following

RESOLUTION
on determining annual financial statements

I. Consent is hereby given to the audited, non-consolidated and consolidated annual financial statements of the company ULJANIK PLOVIDBA d.d. and the ULJANIK PLOVIDBA Group for 2018 consisting of: Balance Sheet, Profit and Loss Account with the statement regarding overall profit, Statement of Changes in Equity, Cash Flow Statement, Notes to the Financial Statements.

II. Consent is hereby given to the Report of the independent auditor IAUDIT društvo s ograničenom odgovornošću za reviziju, Rijeka, Jelačićev trg 7/I, regarding the conducted audit of non-consolidated and consolidated annual financial statements of the company ULJANIK PLOVIDBA d.d. and the ULJANIK PLOVIDBA Group for 2018.

III. Consent is hereby given to the Management report regarding the state of the company ULJANIK PLOVIDBA d.d. and the ULJANIK PLOVIDBA Group for 2018.

IV. Profit and Loss Account of the company ULJANIK PLOVIDBA d.d. for 2018 is determined as follows:

	2017	2018
TOTAL REVENUE	73,659,150	95,651,861
TOTAL EXPENSES	68,485,710	95,046,270
PROFIT	5,173,440	605,591
TAX	-	-
NET PROFIT	5,173,440	605,591

V. Consolidated Profit and Loss Account of the ULJANIK PLOVIDBA Group for 2018 is determined as follows:

	2017	2018
TOTAL REVENUE	241,591,404	219,215,258
TOTAL EXPENSES	241,504,049	487,271,772
PROFIT/LOSS	87,355	-268,056,514
TAX	71,190	-119,432
LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	-4,343,914	-26,705,558
NET PROFIT/LOSS	4,360,079	-241,470,388

ULJANIK PLOVIDBA

Supervisory Board

Pula, 29th April 2019

VI. By giving consent referred to in previous Items of this Resolution, the audited non-consolidated and consolidated annual financial statements of the company ULJANIK PLOVIDBA d.d. and the ULJANIK PLOVIDBA Group for 2018 are considered determined by the Management and the Supervisory Board in accordance with Article 300.d of the Companies Act.

President of the Supervisory Board
Amra Pende

ULJANIK PLOVIDBA

Supervisory Board

Pula, 29th April 2019

In accordance with Article 300.c paragraph 1 and Article 280 paragraph 3 of the Companies Act ("Official Gazette", Number 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15 and 40/19) and Article 37 of the Articles of Association of the company ULJANIK PLOVIDBA d.d. (full text of 25th January 2019), the Supervisory Board of the company ULJANIK PLOVIDBA Pomorski promet, dioničko društvo, Pula, Carrarina 6, registered in the court register of the Commercial Court in Pazin under number (subject registration number): 040010793, personal identification number: 49693360447, at the meeting held on 29th April 2019, passed the following

RESOLUTION
about the proposal for the use of profit

I. Consent is hereby given to the proposal for the use of profit made in 2018, determined by the Director of the company ULJANIK PLOVIDBA Pomorski promet, dioničko društvo, Pula, Carrarina 6, registered in the court register of the Commercial Court in Pazin under number (subject registration number): 040010793, personal identification number: 49693360447 (the "Company") on the day of 29th April 2019.

II. The General Meeting is hereby given the proposal to adopt the Decision on the use of profit made in 2018, by which the profit of the Company made in 2018 in the amount of 605,591 Kuna will be distributed as retained profit.

President of the Supervisory Board
Amra Pende