

SUNCE KONCERN d.d.

ANNUAL REPORT FOR THE YEAR 2018

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MANAGEMENT RESPONSIBILITY FOR THE PREPARATION AND AUTHORIZATION OF ANNUAL FINANCIAL STATEMENTS

Based on the Accounting Act of the Republic of Croatia, the Management Board is required to ensure that the financial statements for each financial year are prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union, so as to provide a true and fair view of the financial position and business results of Sunce Koncern d.d. ("Company") for that period.

After making inquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue its operations for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

When preparing the financial statements, the Management Board is responsible for:

- selection and consistent application of appropriate accounting policies;
- reasonable and prudent judgment and assessment;
- application of the applicable accounting standards and
- preparation of financial statements on the principle of continuing operations, unless it is inappropriate to assume that the Company will continue its business activities.

Management is responsible for keeping proper accounting records, which will reflect at any time with reasonable accuracy the financial position of the Company and comply with the Croatian Accounting Law. Management is also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Financial Statements are authorized by the Management Board on 25 April 2019 for submission to the Assembly of the Company at its acceptance, which is confirmed by a signature.

President of the Management Board

Tonči Božas



Member

Kristijan Gagulić



Member

Ivan Potkrajčić



Zagreb, 25 April 2019

Sunce Koncern d.d.
Trpinjska 9
Zagreb

MANAGEMENT RESPONSIBILITY FOR THE PREPARATION AND AUTHORIZATION OF ANNUAL FINANCIAL STATEMENTS

In accordance with provisions of Law on Capital Markets, Ivan Potkrajčić Management Board member responsible for finance and Ivan Franić, Director of department of Accounting and Finance together as persons responsible for the preparation of annual reports of the company Sunce Koncern d.d. Zagreb, Trpinjska 9, OIB 06916431329 (hereinafter: Company), hereby make the following

STATEMENT

According to our best knowledge the annual audited separate financial statements for 2018, are prepared in accordance with applicable standards of financial reporting and give true and fair view of the assets and liabilities, profit and loss, financial position and operations of the Company.

Report of the Company's Management board for the period from 1 January to 31 December 2018 contains the true presentation of development, results and position of the Company, with description of significant risks and uncertainties which the Company is exposed.

In Zagreb, 25 April 2019

CFO
Ivan Potkrajčić



Director of Accounting and Finance
Ivan Franić



To the Shareholders of Sunce Konzern d.d.:

Report on the audit of the financial statements

Qualified Opinion

We have audited the financial statements of Sunce Konzern d.d. (the Company), which comprise the statement of financial position as at 31 December 2018, income statement and the statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the paragraph 1 of Basis for Qualified Opinion section and except for the effects on the corresponding figures of the matter described in the paragraph 2 of Basis for Qualified Opinion section, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for Qualified Opinion

1. During 2018, the Company has value adjusted the given loan to Sunce Global d.o.o. in the total amount of HRK 9,745 thousand for which collectability is not probable. As at 31 December 2017 balance of outstanding loan amounted to HRK 9,745 thousand.

Considering cumulative negative operative results of the Sunce Global d.o.o. and the fact that it has significant losses carried forward which cast significant doubt on the company's ability to continue as a going concern we have identified clear indicators of impairment as at 31 Dec 2018 and previous periods. Accordingly, if any such indication exists, the Company shall estimate the recoverable amount of the loan given. The Company has estimated that the loan is not recoverable and has carried out value adjustment during 2018,

Given that financial assets related to a given loan to a subsidiary was not value adjusted in previous periods when indicators existed, the given loan as at 31 December 2017 is overstated by HRK 9,745 thousand, the retained earnings at 31 December 2017 are overstated by HRK 8,672 thousand, loss for the year 2017 is understated by HRK 1,073 thousand and the loss for the year 2018 is overstated by HRK 9,745 thousand.

2. The Company has value adjusted the receivables of related parties of Salve Regina during 2017 in the amount of HRK 4,497 thousand. Due to the fact that majority of the receivables were overdue in prior years when there was already indication that they will not be recovered, recognition of the value adjustment of related party receivables through the prior year (2017) income statement is not in accordance with IAS 8 which requires the correction of material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery.

As the financial assets relating to related party receivables were not value adjusted in previous periods when indicators existed but in 2017, the loss for the year 2017 was overstated by HRK 4,497 thousand. Our audit opinion on the financial statements for the period ended 31 December 2017 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.



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We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matters described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How we addressed Key Audit Matter
<p><u>Investment in subsidiaries</u></p> <p>The Company has a significant amount of investments in subsidiaries with carrying amount of HRK 595,008 thousand as at 31 December 2018 (it represents 93% of the total assets). The assessment of the impairment indicators involves management judgement. Because of the significant amount of investment in subsidiaries and judgement involved in impairment assessment, this matter was noted as a key audit matter.</p>	<p>Audit procedures included understanding of the process and the controls designed by the Company relating to the assessment of the carrying value of respective investments.</p> <p>We performed procedures relating to testing of recoverable amounts of investments by reviewing the latest financial data of subsidiaries and analyzing financial indicators in order to identify potential impairment indicators.</p> <p>We also assessed the adequacy of disclosures included in Note 13 <i>Investment into subsidiaries</i> in the financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>

Other information included in The Company's Annual Report

Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report and Corporate Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2018 financial year are consistent, in all material respects, with the enclosed financial statements;
2. the enclosed Management report for 2018 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;
3. Corporate Governance Statement, included in the Company's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and
4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Company's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed financial statements;

In addition, in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and Annual report. As described in the Basis for Qualified Opinion section above, the Company should have accounted for the value adjustment of the financial assets in the previous periods and not during 2018 in respect of issue mentioned in paragraph 1 of Basis for qualified opinion and not during 2017 in respect of issue mentioned in paragraph 2 of Basis for qualified opinion. We have concluded that the other information is materially misstated for the same reason with respect to the amounts of the respective items in the Annual report.

Responsibilities of management and Audit Committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by EU, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Company's financial reporting process.



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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 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:

1. 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.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. 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 Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide Audit Committee 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 Audit Committee, 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.



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Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as the auditors of the Company by the General Meeting of Shareholders on 31 August 2017 and our uninterrupted engagement has lasted for 2 years.

Consistence with Additional Report to Audit Committee

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, which we issued on 18 April 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

Zvonimir Madunić
Member of the Board and certified auditor

Ernst & Young d.o.o.
Radnička cesta 50
Zagreb, Croatia
25 April 2019

SUNCE KONCERN d.d.

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR
ENDED 31 DECEMBER 2018

(in thousands of HRK)

	Note	2018	2017
OPERATING INCOME			
Sales	4	21,977	21,373
Other operating income	5	1,470	1,238
		23,447	22,611
OPERATING EXPENSES			
Material expenses	6	(7,565)	(7,466)
Personnel expenses	7	(17,137)	(15,217)
Amortization and depreciation	11, 12	(695)	(406)
Other expenses	8	(14,041)	(8,751)
		(39,438)	(31,840)
Net operating profit		(15,991)	(9,229)
Financial income		1,940	911
Financial expenses		(1,378)	(2,096)
Net financial loss	9	562	(1,185)
Loss before tax		(15,429)	(10,414)
Corporate income tax	10	-	-
Loss for the year		(15,429)	(10,414)
Other comprehensive income		-	-
Comprehensive profit for the year		(15,429)	(10,414)
Earnings per share	17	(3.03)	(2.13)

The notes to the financial statements are an integral part of these financial statements

SUNCE KONCERN d.d.**STATEMENT OF FINANCIAL POSITION****AS OF 31 DECEMBER 2018***(in thousands of HRK)*

	<u>Note</u>	<u>31.12.2018.</u>	<u>31.12.2017.</u>
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	11	75	171
Property, plant and equipment	12	2,391	1,442
Investments in subsidiaries	13	595,008	473,284
Given loans	14	6,506	-
Other receivables		161	91
		<u>604,141</u>	<u>474,988</u>
CURRENT ASSETS			
Receivables from related parties	15	20,323	11,449
Trade receivables	15	538	471
Other receivables	16	953	699
Given loans	14	10,299	33,668
Cash and cash equivalents		3,480	6,536
		<u>35,593</u>	<u>52,823</u>
TOTAL ASSETS		<u>639,734</u>	<u>527,811</u>

The notes to the financial statements are an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2018

<i>(in thousands of HRK)</i>	Note	31.12.2018.	31.12.2017.
EQUITY AND LIABILITIES			
Capital and reserves			
Share (subscribed) capital	17	539,385	488,706
Share premium		83,266	24,420
Other reserves		497	720
Loss carried forward		-	(1,999)
Loss for the year		(15,429)	(10,414)
		607,719	501,433
NON-CURRENT LIABILITIES			
Liabilities to banks	19	14,530	6,830
Liabilities to related parties	18	-	1,207
		14,530	8,037
CURRENT LIABILITIES			
Liabilities to banks	19	1,751	7,266
Liabilities to related parties	18	10,207	6,748
Trade payables	20	1,208	1,336
Liabilities to employees		808	731
Tax, contributions and similar liabilities	21	2,833	1,425
Other current liabilities	22	678	835
		17,485	18,341
TOTAL EQUITY AND LIABILITIES		639,734	527,811

SUNCE KONCERN d.d.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)

For the year ended 31 December 2017

As at 1 January 2017

Share capital increase

Loss for the year

As at 31 December 2017

For the year ended 31 December 2018

As at 1 January 2018

Share capital increase

Transfer to prior year losses

Loss for the year

As at 31 December 2018

	Share capital	Share premium	Other reserves	Loss carried forward	Total
As at 1 January 2017	444,306	-	720	(1,999)	443,027
Share capital increase	44,400	24,420	-	-	68,820
Loss for the year	-	-	-	(10,414)	(10,414)
As at 31 December 2017	488,706	24,420	720	(12,413)	501,433
As at 1 January 2018	488,706	24,420	720	(12,413)	501,433
Share capital increase	50,679	71,036	-	-	121,715
Transfer to prior year losses	-	(12,190)	(223)	12,413	-
Loss for the year	-	-	-	(15,429)	(15,429)
As at 31 December 2018	539,385	83,266	497	(15,429)	607,719

The notes to the financial statements are an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)

	Note	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		(15,429)	(10,414)
<i>Adjustments:</i>			
Amortization and depreciation	11,12	695	406
Interest income	9	(1,741)	706
Interest expenses	9	1,026	2,079
Value adjustment of given loans	8	10,640	-
Unrealised foreign currency exchange differences (loss)		15	(206)
Total adjustments		10,635	2,985
Cash flow from operations before changes in working capital		(4,794)	(7,429)
Changes in working capital (excluding the effect on the acquisition and disposal):			
- trade receivables		(7,636)	659
- other receivables		1,420	(1,561)
- liabilities		(541)	4,067
Total cash flow from operating activities		(6,757)	3,165
Cash generated from operations		(11,551)	(4,264)
Interest paid		(1,186)	(2,307)
Tax paid		-	-
Net cash flow from operating activities		(12,737)	(6,571)
Purchase of property, plant and equipment			
		(1,601)	(1,404)
Proceeds from sale of property, plant and equipment			
		53	411
Establishment of subsidiary			
		(10)	-
Interest received			
		-	452
Loans to related and third parties			
		(13,690)	(26,091)
Proceeds from loans from related and third parties			
		19,791	1,295
Net cash flow used in investing activities		4,543	(25,337)
Proceeds from borrowings			
		30,556	4,656
Proceeds from issuance of new shares			
		-	68,820
Repayments of borrowings			
		(25,418)	(35,042)
Net cash flow used in financial activities		5,138	38,434
Net increase / (decrease) in cash and cash equivalents		(3,056)	6,526
At the beginning of the year			
		6,536	10
At the end of the year			
		3,480	6,536
Net increase / (decrease)		(3,056)	6,526

The notes to the financial statements are an integral part of these financial statements

NOTE 1 – GENERAL INFORMATION

Sunce Koncern d.d. (the "Company") is a holding Company managing operations for the following subsidiaries: Hoteli Zlatni rat d.d., Hoteli Tučepi d.d., Hoteli Brela d.d. Hotel Alan d.d., Sunce Global d.o.o. (tourist agency), and Sunce Vital d.o.o., representing the Group and third-party hotel companies. The Company manages hotels and provides various advisory services in connection with the management and operations of the companies including advertisement and marketing services, real estate operations, procurement processes, providing services in nautical, rural, health, congress, sport and other forms of tourism.

The Company has been established as a private limited liability Company on 11 October 2004. The General Assembly agreed at its meeting held on 4 April 2007 to transform the Company from a limited Company to a public limited Company. Shares in the private limited Company in the amount of HRK 222,806,200 thousand have been transformed into 2,268,062 shares with HRK 100 par value per share.

According to the Resolution of the General Assembly dated 16 April 2010, the Company increased its share capital from the amount of HRK 222,806,200 by the amount of HRK 217,500,000 to the total amount of HRK 444,306,200. Increase of share capital was contributed in cash and other asset. Due to the increase, the Company issued 2,175,000 of new shares with HRK 100 per value per share. By the decision of the general assembly on the increase of share capital and issuance of shares and amendments of the Company's statute as of 31 August 2017, the decision of the management board on the final price for which new shares are issued, the rules for the allocation of new shares (allocation rules) and the mechanism for the allocation of new shares as of 11 September 2017 and the decision of the supervisory board as of 11 September 2017 on the approval of the aforementioned decision of the management board and the decision of the management board on the successful issuance, and the final number of new shares and the exact amount of the increase of the share capital as of 15 September 2017, and the decision of the supervisory board of 15 September 2017, the share capital of the Company was increased by the issue of new non-materializing regular shares for the purpose of cash payment and 444,000 new shares, each with a nominal value of HRK 100.00, so that the share capital from the previous 444,306,200.00 HRK increased for the amount of HRK 44,400,000.00 at the amount of HRK 488,706,200.00. On 10 August 2018, the general assembly of the Sunce koncern d.d. made a decision to increase the Company's share capital by investing in rights of 595,397 ordinary shares of the company HOTEL ALAN d.d. and issuing 506,788 new ordinary shares. The share capital of the Company increased by HRK 50,678,800 to HRK 539,385,000.

The ultimate majority owner of the Sunce Koncern d.d. is company Sunce Ulaganja d.o.o. (parent company).

Supervisory Board

Jako Andabak – President of the Supervisory Board (from 13 June 2017)

Sanja Gagulić – Deputy President of the Supervisory Board (from 13 June 2017)

Ružica Andabak – Member (from 13 June 2017)

Ivan Augustin – Member (from 13 June 2017)

Ana Volk – Member (from 13 June 2017)

Management Board

Tonči Boras – President of the Management Board (from 13 June 2017)

Kristijan Gagulić – Member (from 13 June 2017)

Ivan Polkrajčić – Member (from 13 June 2017)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations effective in the current period

The following new standards and amendments to the existing standards issued by the International Accounting Standards Board and the interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the European Union are effective for the current period:

IFRS 9: Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company adopted this standard on 1 January 2018 and did not restate comparative information. The Company performed an analysis of the effects of applying the listed standard and the Management concluded that its adoption does not have a material impact on the financial statements of the Company.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures

The Company adopted this standard on 1 January 2018 and did not restate comparative information. The Company performed an analysis of the effects of applying the listed standard and the Management concluded that its adoption does not have a material impact on the financial statements of the Company.

IFRS 2: Classification and Measurement of Share-Based Payment Transactions (Amendments)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company.

**1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS
(continued)**

Standards and Interpretations effective in the current period (continued)

IAS 40: Transfers to Investment Property (Amendments)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in the Management's intentions for the use of a property does not provide evidence of a change in use. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company.

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

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

IFRS 16: Leases

IFRS 16 was issued in January 2016 and 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 - leases of "low value" assets (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 recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure 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 recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

**1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS
(continued)**

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective (continued)

IFRS 16: Leases (continued)

Lessor accounting under IFRS 16 is substantially unchanged with regard to 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. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. 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.

In 2018, the Company made a preliminary estimate of the potential effect of adopting IFRS 16 on its financial statements. The Company estimates that the application of IFRS 16 will affect the financial statements by increasing the statement of financial position for the amount of HRK 5.9 million. The largest effect on the increase in amount of HRK 5 million is the lease of the office building while the remaining difference relates to vehicles lease.

In 2019, the Company expects, according to a preliminary estimate, increase in depreciation cost for the amount of HRK 1.8 million and increase in interest expense for the amount of HRK 316 thousand, and consequently lower rent expenses for the stated amounts.

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment is effective for the annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company.

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

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular the impairment requirements, of long-term interests in associates and joint ventures that, in substance, form a part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company.

**1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS
(continued)**

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective (continued)

IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support the transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop the accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020

IAS 1: Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

**1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS
(continued)**

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective (continued)

IAS 1: Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: (continued)

In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company.

- **IFRS 3: Business Combinations and IFRS 11 Joint Arrangements**

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that, when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- **IAS 12: Income tax**

The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits has been recognised.

- **IAS 23: Borrowing costs**

The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with the Croatian laws and regulations and International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements are prepared on a historical cost basis.

Accounting policies have been applied consistently, unless otherwise stated. The financial statements were prepared in according to the principle of occurrence, under the going concern assumption.

The Company's financial statements were prepared in Croatian kuna as reporting currency. As of 31 December 2018, the exchange rate for 1 EUR was 7.417575 HKR (31 December 2017: HRK 7.513648).

These financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Consolidated financial statements of the Company and its subsidiaries, which the Company also prepares, will be issued separately.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Foreign currencies***(a) Functional and presentation currency*

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

(b) 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 income statement within finance income/expense. Assets and liabilities presented in EUR are translated at the average exchange rate of the Croatian National Bank, which as at 31 December 2018 amounted to 7.417575 (31 December 2017: 7.513648).

2.3 Intangible assets

Intangible assets include software programs. Software licenses are capitalized according to their acquisition costs and costs incurred when being put to use. These costs are depreciated over their useful lives (4 years).

2.4 Property, plant and equipment

Property, plant and equipment include vehicles and office equipment. They are disclosed at historical acquisition costs reduced by accumulated depreciation and impairment, if necessary. Historical cost includes costs 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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part will not be recognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of vehicles and equipment is calculated on a straight-line basis to allocate their cost over their estimate useful lives. Depreciation is calculated for each asset until the asset is fully depreciated or to their residual value, if significant.

The estimated useful life of property, plant and equipment:

	2018	2017
Vehicles	5 years	5 years
Office equipment	2 to 4 years	2 to 4 years

The residual value of equipment represents the estimated amount that the Company would currently receive from the sale of equipment reduced by the estimated selling costs in case the equipment has reached the age and state expected at the end of its useful life. The residual value of the equipment is zero if the Company expects its usage until the end of its useful life.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment (continued)

The residual value of equipment and the useful life are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in line item "Other income" or "Other expenses" in the income statement.

2.5 Impairment of non-financial assets

Assets that have an indefinite useful life (for example land and goodwill) are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount 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 (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Investments in subsidiaries

Subsidiary is the company in which the Company has control, direct or indirect, over its business activities. Control exists when the Company has a power to govern the financial and operating activities of the subsidiary so as to obtain benefits from its business activities. Investments in subsidiaries are recognized at cost, adjusted for any impairment losses.

The Company prepares consolidated financial statements as separate document.

2.7 Financial asset

Classification

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, and financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. The Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) 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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial asset (continued)

Classification (continued)

(b) Financial assets at fair value through other comprehensive income (OCI)

The Company measures financial assets at fair value through OCI 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 OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for the financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

(c) Financial assets at amortised cost

The Company measures financial assets at amortised 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 amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. Financial assets at amortised cost included trade receivables.

Measurement and recognition

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company committed to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the statement of comprehensive income within “other (losses)/gains – net” in the period in which they arise.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial asset (continued)

Measurement and recognition (continued)

The interest on securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on equity instruments are recognised in the statement of comprehensive income as part of other income when the right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions 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.

Impairment of financial assets

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Financial assets are written off when there is no reasonable expectation of recovery.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities “at fair value through profit and loss”

Financial liabilities at fair value through profit and loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire.

2.9 Long-term deposits

Long term deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Long term deposits are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

2.10 Receivables

Receivables from customers and other receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method, less any impairment loss for expected credit losses as described in note 2.7.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Cash and cash equivalent

Cash and cash equivalents are stated in the statement of financial position at cost. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash in bank and cash in hand.

2.12 Borrowings

Borrowings are recognized initially at fair value less transaction costs. In future periods borrowings are disclosed at amortized cost; all differences between income (less transaction costs) and purchase value are recognized in the income statement during the borrowing period using the effective interest method.

2.13 Accruals

Accruals are items of receivables or liabilities for which the criteria of revenue or expense recognition in the accounting period have not been met but are expected to be met in future periods, or items of income or expenses recognized in the accounting period on the basis of event criteria for which the criteria of receivables and liabilities recognition have not been met in the same accounting period, but they are expected to be met in future periods.

Accruals include prepayments and accrued income and accruals and deferred income.

Prepayments and accrued income are prepaid costs referring to costs of future periods for which the criteria of cost recognition in the accounting period have not been met and to the collection of undue income referring to the income of the current period for which the criteria of receivables recognition have not been met. Prepaid costs are recognized to the extent of the amounts paid.

The collection of undue income is recognized at the fair value of the consideration which is expected to be received of the receivable which is expected to be recognized.

Accruals and deferred income are deferred payments of costs which refer to costs of future periods for which the criteria of liabilities recognition have not been met or to income of future periods which refers to income of future periods for which the criteria of income recognition in the accounting period have not been met.

Deferred payments of costs are recognized at the fair value of the expected expenditure or liability.

The income of future periods is recognized to the extent of the amounts received or to the extent of recognized receivables.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Leases

At the commencement of the lease term, the Company recognizes finance leases (by which substantially all the risks and rewards incidental to ownership of the asset are transferred to the Company) as assets and liabilities in their balance sheet at amounts equal to the fair value of the asset of the leased property or, if lower, the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Any initial direct costs increase the asset's value. The lease payments are apportioned between the finance charge and the reduction of the liability.

The finance charge is allocated to each period during the lease term as to produce a constant periodic rate of interest on the remaining balance of the liability. A finance lease gives rise to amortization expense as well as finance expense for each accounting period. The amortization policy for amortizable leased assets is consistent with that for amortizable assets that are owned.

Leases that do not transfer all the risks and rewards incidental to ownership to the Company are classified as operating leases. Lease payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term.

2.15 Revenue recognition

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

Sales are recognized when the amount of revenue can be measured reliably and when it is probable that future economic benefits will flow to the entity. Revenue is recognized in the same period when the Company delivers the service and the costs for this service are incurred.

(a) Sales of trading goods

Revenue from the sale of trading goods is recognized when the Company has delivered products to the customer, the customer has discretion over determining the selling price, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been transported to the specified location, the risks of loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(b) Sales of services

Revenue from the sale of services is recognized in the same period when the Company has delivered services and the corresponding costs for performed services arise.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Financial income and expenses

Financial income and expenses comprise interest income on loans and borrowings using the effective interest method, interest income on funds invested dividend income and foreign currency losses and gains.

Interest income is recognized in profit or loss as incurred, using the effective interest method. Dividend income is recognized on the date that the Company's right to receive payment is established.

Financial expenses comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets.

Borrowing costs related directly to the purchase, construction or production of qualifying asset are capitalized during the period which is necessary for finishing and preparation of the asset for its intended use or sale. Other borrowing costs are recognized in the profit and loss account using the effective interest rate method.

2.17 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-employment benefits.

(b) Short term employee remunerations

The Company recognizes obligations for accumulated payments for absence from work based on unused vacation on reporting date.

2.18 Taxation

The Company provides for taxation liabilities in accordance with Croatian law. Corporate tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Taxation (continued)

Deferred tax reflects the net tax effect of the temporary differentials between the book values of the assets and the liabilities for the purpose of the financial reporting and values used for the purpose of establishing profit tax.

A deferred tax asset for the carry-forward of unused tax losses and unused tax credits is recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. Deferred tax assets and liabilities are calculated using the tax rate applicable to the taxable profit in the years in which these assets and liabilities are expected to be collected or paid.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity.

2.19 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.

2.20 Contingent assets and liabilities

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

Contingent assets are not recognized in the financial statements except when the inflow of economic benefits is virtually certain.

2.21 Events after the reporting period

Subsequent events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

NOTE 3 – FINANCIAL RISK MANAGEMENT AND CRITICAL ACCOUNTING ESTIMATES

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk. Overall risk management in respect of these risks is carried out by the Company's Management.

(a) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euro. Foreign exchange risk arises from recognized assets and liabilities.

(b) Credit risk

Current asset that may subject the Company to concentrations of credit risk includes primarily trade and other receivables and cash. The Company has no significant concentrations of credit risk. The credit risk with respect to trade receivables is not significant due to the policy that customers should meet minimum credit worthiness requirements and the Company's strict collection and delivery measures.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company does not use derivative instruments for active protection from exposure to cash flow interest rate risk and to fair value interest rate risk.

3.2 Capital risk management

The Company has no legal or other obligations for a formal capital risk management program. Further, no capital aims are followed internally. Pursuant to the Trading Company Act distribution to owners must not lessen the minimum amount of the share capital of HRK 20 thousand.

NOTE 3 – FINANCIAL RISK MANAGEMENT AND CRITICAL ACCOUNTING ESTIMATES (continued)

3.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

3.4 Critical accounting estimates

In preparing these financial statements management was required to use estimates and assumptions affecting the net carrying amount of the Company's assets and liabilities and their disclosure.

Estimates were used but are not restricted to:

- provisions for doubtful receivables,
- provisions for employee benefits.

Since future events and their effects cannot be determined with certainty, accounting estimates require judgment. The judgments used in preparing the financial statements are subject to change if new events, experiences, information and changes of the environment incurred. Actual results may differ from estimated results.

NOTE 4 – SALES

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Management fee (Note 18) /i/	21,977	21,373
	<u>21,977</u>	<u>21,373</u>

/i/ the management fees per hotel are as follows:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Hoteli Tučepi d.d.	7,368	6,926
Hoteli Brela d.d.	6,364	5,665
Hoteli Zlatni rat d.d.	5,961	5,929
Hotel Alan d.d.	1,986	2,105
Salve Regina Marija Bistrica d.o.o.	298	155
WOT Hotels Adriatic Asset d.o.o	-	593
	<u>21,977</u>	<u>21,373</u>

NOTE 5 – OTHER OPERATING INCOME

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Income from suppliers' discounts	468	377
Income from promotion	196	396
Rent income	12	12
Other	794	453
	<u>1,470</u>	<u>1,238</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 6 – MATERIAL EXPENSES

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Professional services	(2,502)	(2,825)
Rent	(2,223)	(1,924)
Energy	(637)	(547)
Repair and maintenance	(611)	(781)
Transport, telephone, postage	(508)	(456)
Advertising	(420)	(412)
Small inventory	(210)	(184)
Utilities	(171)	(169)
Material costs	(97)	(60)
Cleaning services	(79)	(79)
Other expenses	(107)	(29)
	<u>(7,565)</u>	<u>(7,466)</u>

NOTE 7 – PERSONNEL EXPENSES

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Net salaries	(9,204)	(7,746)
Tax and contributions from salaries <i>/ii/</i>	(5,451)	(4,551)
Contributions on salaries	(2,108)	(1,872)
Other employee benefits <i>/i/</i>	(343)	(1,023)
Unused vacation	(31)	(25)
Personnel expenses	(17,137)	(15,217)

As at 31 December 2018 the Company had 64 employees (2017: 63 employees).

/i/ Other employee benefits refer to Christmas allowances, education and training, transportation to and from work, other income, students' work and the use of products and services for their own consumption.

/ii/ Contributions for pension insurance for 2018 amount up to HRK 2,743 thousand (2017: HRK 2,264 thousand).

NOTE 8 – OTHER EXPENSES

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Value adjustment of given loans	(10,640)	-
Representation	(1,087)	(914)
Employee travel expenses	(603)	(537)
Insurance premiums	(229)	(167)
Taxes, contributions, and membership fees	(205)	(305)
Education and professional literature	(124)	(56)
Bank fees	(93)	(48)
Receivables value adjustment	-	(5,958)
Other operating expenses	(1,060)	(766)
	(14,041)	(8,751)

NOTE 9 – FINANCIAL INCOME AND EXPENSES

	2018	2017
	<i>(in thousands of HRK)</i>	
Financial income		
Interest income from related parties (note 18)	1,741	706
Net foreign exchange profit from non-related parties	121	155
Net foreign exchange profit from related parties	78	47
Interest income from non-related parties	-	3
	<u>1,940</u>	<u>911</u>
Financial expenses		
Interest expense from non-related companies	(781)	(951)
Interest expense from related companies (note 18)	(245)	(1,128)
Other financial expenses	(231)	(17)
Value adjustment of financial assets (IFRS 9)	(121)	-
	<u>(1,378)</u>	<u>(2,096)</u>
Net financial income / expense	<u>562</u>	<u>(1,185)</u>

NOTE 10 – INCOME TAX

Calculation of corporate income tax liability for the year ended 31 December 2018 was as follows:

	2018	2017
	<i>(in thousands of HRK)</i>	
Net loss for the year	(15,429)	(10,414)
Tax non-deductible expenses	12,585	7,054
Tax profit /(loss)	<u>(2,845)</u>	<u>(3,360)</u>
Corporate income tax	<u>-</u>	<u>-</u>

The corporate income tax rate is 18% (2017: 18%).

The Tax Authority has not performed an audit of the Company's tax returns. In accordance with the regulations in the Republic of Croatia, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, 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.

	31.12.2018	31.12.2017
	<i>(u tisućama kuna)</i>	
2018	-	-
2019	-	-
2020	-	-
2021	-	-
2022	3,359	3,359
2023	2,845	-
	<u>6,204</u>	<u>3,359</u>

The Company did not recognize deferred tax assets for unused tax losses as it considers that it will not in the future generate taxable profit on the basis of which deferred tax assets will be utilized.

NOTE 11 – INTANGIBLE ASSETS

(in thousands of HRK)

	Software	Leasehold improvement	Total
Purchase value			
As at 1 January 2017	375	34	409
Increase	-	91	91
As at 31 December 2017	375	125	500
Increase	-	-	-
As at 31 December 2018	375	125	500
Accumulated amortization			
As at 1 January 2017	(210)	(17)	(227)
Amortization	(80)	(22)	(102)
As at 31 December 2017	(290)	(39)	(329)
Amortization	(65)	(31)	(96)
As at 31 December 2018	(355)	(70)	(425)
Net book value			
As at 1 January 2017	165	17	182
As at 31 December 2017	85	86	171
As at 31 December 2018	20	55	75

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Plant and equipment	Tools, technical equipment and vehicles	Assets under construction	Total
Purchase value				
As at 1 January 2017	1,244	2,922	356	4,522
Increase	-	-	1,313	1,313
Transfers	89	1,132	(1,221)	-
Sale	-	(123)	(345)	(468)
As at 31 December 2017	1,333	3,931	103	5,367
Increase	-	-	1,601	1,601
Transfers	444	1,260	(1,704)	-
Sale	-	(150)	-	(150)
As at 31 December 2018	1,777	5,041	-	6,818
Accumulated depreciation				
As at 1 January 2017	(1,029)	(2,649)	-	(3,678)
Depreciation	(132)	(172)	-	(304)
Sale	-	57	-	57
As at 31 December 2017	(1,161)	(2,764)	-	(3,925)
Depreciation	(143)	(456)	-	(599)
Sale	-	97	-	97
As at 31 December 2018	(1,304)	(3,123)	-	(4,427)
Net book value				
As at 1 January 2017	215	273	356	844
As at 31 December 2017	172	1,167	103	1,442
As at 31 December 2018	473	1,918	-	2,391

Total gross carrying value of the Company's fully depreciated tangible assets still in use as at 31 December 2018 amounts to HRK 3,858 thousand (31 December 2017: HRK 3,461 thousand).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 13 – INVESTMENTS IN SUBSIDIARIES

	2018 Ownership in %	2018 (in thousand HRK)	2017 Ownership in %	2017 (in thousand HRK)
Hoteli Zlatni Rat d.d. //	80.99 %	190,311	80.99 %	190,311
Hoteli Brela d.d. //	89.58 %	146,111	89.58 %	146,111
Hoteli Tučepi d.d. //	91.41 %	136,842	91.41 %	136,842
Hotel Alan d.d. //	97.96 %	121,714	-	-
Sunce Vital d.o.o. //	100.00 %	20	100.00 %	20
WOT Hotels Adriatic Management d.o.o.	49 %	10	-	-
Sunce Global d.o.o.	99.60 %	-	99.60 %	-
		<u>595,008</u>		<u>473,284</u>

// Pursuant to the loan agreement concluded on 28 August 2018 between the companies Sunce koncern d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d., Hotel Alan d.d. and Hoteli Brela d.d. and the European Bank for Reconstruction and Development, Zagrebačka banka d.d., Privredna banka Zagreb d.d. and Erste & Steiermärkische Bank d.d. and the Agreement on securing the cash claim by establishing a pledge right on the shares that was concluded on 2 October 2018, a pledge has been established on the shares that Sunce koncern d.d. has in Hoteli Tučepi d.d., Hoteli Zlatni rat d.d., Hotel Alan d.d. and Hoteli Brela d.d. The pledge right was established in favour of Privredna banka Zagreb d.d.

NOTE 14 – GIVEN LOANS

During 2018 and 2017 the Company approved the following long-term loans to related parties:

	Interest rate	Maturity	31.12.2018	31.12.2017
			<i>(in thousands of HRK)</i>	
Lucidus d.d.	4.57%	January 2020	11,600	-
Hoteli Zlatni Rat d.d.	4.57%	November 2019	5,031	23,773
Hotel Alan d.d.	4.57%	December 2019	200	-
Sunce Vital d.o.o.	4.57%	December 2019	90	150
Sunce Global d.o.o.	4.57%	-	-	6,445
Sunce Global d.o.o.	4.57%	-	-	3,300
Loans value adjustment (IFRS 9)			(116)	-
			<u>16,805</u>	<u>33,668</u>

Loan maturity:

	31.12.2018	31.12.2017
	<i>(in thousands of HRK)</i>	
Within 1 year	10,299	33,668
From 2 to 5 years	6,506	-
Over 5 years	-	-
	<u>16,805</u>	<u>33,668</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTE 14 – GIVEN LOANS (continued)

The carrying amounts of loans are denominated in the following currencies:

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<i>(in thousands of HRK)</i>	
HRK	<u>16,805</u>	<u>33,668</u>
	16,805	33,668

The loans are secured by promissory notes.

NOTE 15 – TRADE RECEIVABLES AND RECEIVABLES FROM RELATED PARTIES

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<i>(in thousands of HRK)</i>	
Trade receivables – related parties (note 18)	19,410	11,074
Trade receivables	538	471
Total trade receivables	<u>19,948</u>	<u>11,545</u>
Interest receivable - related parties (note 18)	848	310
Cession receivable - related parties (note 18)	65	65
Total receivables	<u>20,861</u>	<u>11,920</u>

Fair value of trade receivables is approximate to their carrying value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 15 – TRADE RECEIVABLES AND RECEIVABLES FROM RELATED PARTIES (continued)

As at 31 December 2018, trade receivables which were past due but not value adjusted relates to a number of individual customers for which there is no history of default.

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<i>(in thousand HRK)</i>	
Trade receivables – related parties	19,410	16,795
Trade receivables – third parties	538	471
Value adjustment	-	(5,721)
	<u>19,948</u>	<u>11,545</u>

The ageing analysis of total trade receivables is as follows:

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<i>(in thousand HRK)</i>	
Undue	5,329	4,652
90 days	5,689	2,114
90 – 180 days	1,580	867
180 – 360 days	1,829	1,490
more than 360 days	5,521	2,422
	<u>19,948</u>	<u>11,545</u>

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<i>(in thousand HRK)</i>	
HRK	20,861	11,920
	<u>20,861</u>	<u>11,920</u>

NOTE 16 – OTHER RECEIVABLES

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<i>(in thousands of HRK)</i>	
Receivables from state	482	498
Given advances	292	35
Prepaid expenses and accrued income	161	154
Loans, deposits, etc.	18	12
	<u>953</u>	<u>699</u>

NOTE 17 – SHARE (SUBSCRIBED) CAPITAL

As at 31 December 2018 the share capital of Sunce Koncern d.d. consists of 5,393,850 shares, with a nominal value of HRK 100 per share that equals HRK 539,385 thousand.

The shareholders structure as of 31 December 2018 was as follows:

Shareholder	Total shares	Total nominal amount (in HRK)	Share %
Sunce Ulaganja d.o.o.	3,004,672	300,467,200	55.71
Lucidus d.d.	1,143,239	114,323,900	21.20
OTP banka d.d./Erste plavi OMF category B - custody account	892,898	89,289,800	16.55
Addiko bank d.d./Raiffeisen OMF category B - custody account	156,134	15,613,400	2.89
Addiko bank d.d./PBZ CO OMF - category B - custody account	70,460	7,046,000	1.31
Addiko bank d.d./Raiffeisen voluntary pension fund - custody account	67,470	6,747,000	1.25
OTP banka d.d./Erste plavi expert - voluntary pension fund - custody account	25,753	2,575,300	0.48
Addiko bank d.d./Raiffeisen OMF category A - custody account	8,895	889,500	0.16
OTP banka d.d./Erste plavi OMF - category A - custody account	8,162	816,200	0.15
Addiko bank d.d./PBZ CO OMF - category A - custody account	5,695	569,500	0.11
Other shareholders	10,472	1,047,200	0.19
Total	5,393,850	539,385,000	100.00

The shareholders structure as of 31 December 2017 is as follows:

Shareholder	Total shares	Total nominal amount (in HRK)	Share %
Sunce Ulaganja d.o.o.	3,004,672	300,467,200	61.48
Splitska banka d.d./Erste plavi OMF category B - custody account	809,004	80,900,400	16.55
Lucidus d.d.	727,500	72,750,000	14.89
Addiko bank d.d./Raiffeisen OMF category B - custody account	156,134	15,613,400	3.19
Addiko bank d.d./Raiffeisen dobrovoljni mirovinski fond - custody account	67,470	6,747,000	1.38
Addiko bank d.d./PBZ CO OMF - category B - custody account	63,840	6,384,000	1.31
Splitska banka d.d./Erste plavi expert - dobrovoljni mirovinski fond - custody account	25,753	2,575,300	0.53
Addiko bank d.d./Raiffeisen OMF category A - custody account	8,895	889,500	0.18
Splitska banka d.d./Erste plavi OMF kategorije A - custody account	8,162	816,200	0.17
Addiko bank d.d./PBZ CO OMF - category A - custody account	5,160	516,000	0.11
Other shareholders	10,472	1,047,200	0.21
Total	4,887,062	488,706,200	100.00

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 17 – SHARE (SUBSCRIBED) CAPITAL (continued)

Earnings per share – basic and diluted

The basic earnings per share is calculated by dividing the profit for the year, available to the owners of the company by weighted average number of ordinary shares over the period, excluding treasury shares. The weighted average number of shares is calculated as the weighted average number of shares at the beginning of the period, corrected for the number of shares issued during the period multiplied by the weighted time factor.

	31.12.2018	31.12.2017
Loss for the year (in thousands of HRK)	(15,429)	(10,414)
Weighted average number of shares (less treasury shares)	5,086,107	4,887,062
Earnings per share (in HRK)	(3.03)	(2.13)

NOTE 18 – RELATED PARTY TRANSACTIONS

Transactions with related parties that refer to the balances on 31 December 2018 and 2017 and the items of the profit and loss account for the years then ended are as follows:

	Note	2018	2017
		(in thousands of HRK)	
RECEIVABLES			
Trade Receivables	15		
Hotel Alan d.d.		8,306	5,287
Hoteli Zlatni rat d.d.		4,964	1,863
Hoteli Tučepi d.d.		3,312	1,024
Salve Regina – Hotel Kaj d.o.o.		974	456
WOT Hotels Adriatic Asset Company d.o.o.		713	770
Hoteli Brela d.d.		634	1,251
Sunčane toplice d.o.o.		438	319
Jako Vino d.o.o.		21	3
Sunce Global d.o.o.		19	35
Stubaki d.d.		17	12
Izvor osiguranje d.d.		8	1
Lucidus d.d.		2	3
Sunce Vital d.o.o.		1	1
ŠKZ Sunce u likvidaciji		1	1
Sunce Ulaganja d.o.o.		-	34
Lječilište Bizovačke Toplice		-	14
		19,410	11,074
Loan receivables	14		
Lucidus d.d.		11,484	-
Hoteli Zlatni Rat d.d.		5,031	23,773
Hotel Alan d.d.		200	-
Sunce Vital d.o.o.		90	150
Sunce Global d.o.o.		-	9,745
		16,805	33,668

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 18 – RELATED PARTY TRANSACTIONS (continued)

	Note	2018	2017
Interest receivable	15		
Lucidus d.d.		498	-
Hoteli Zlatni Rat d.d.		261	193
Sunce Global d.o.o.		81	116
Hotel Alan d.d.		8	-
Sunce Vital d.o.o.		-	1
		<u>848</u>	<u>310</u>
Cession receivable	15		
Stubaki d.d.		65	65
		<u>65</u>	<u>65</u>
LIABILITIES			
Trade payables	20		
Hoteli Tučepi d.d.		1,670	1,233
Hoteli Brela d.d.		731	1,622
Jako Vino d.o.o.		215	95
Nest Plus d.o.o.		210	86
Hoteli Zlatni Rat d.d.		197	405
Hotel Alan d.d.		117	5
Izvor osiguranje d.d.		100	12
Sunce Global d.o.o.		74	249
Salve Regina – Hotel KAJ d.o.o.		40	-
Sunčane toplice d.o.o.		3	-
WOT Hotels Adriatic Asset Company d.o.o.		-	5
		<u>3,357</u>	<u>3,712</u>
Borrowings	18		
Hoteli Brela d.d.		2,738	2,773
Hoteli Tučepi d.d.		2,510	-
		<u>5,248</u>	<u>2,773</u>
Interest payable	18		
Hoteli Brela d.d.		1,573	1,460
Hoteli Tučepi d.d.		29	-
Hoteli Zlatni Rat d.d.		-	10
		<u>1,602</u>	<u>1,470</u>

NOTE 18 – RELATED PARTY TRANSACTIONS (continued)

REVENUES	Note	2018	2017
Management fee	4		
Hoteli Tučepi d.d.		7,368	6,926
Hoteli Brela d.d.		6,364	5,665
Hoteli Zlatni rat d.d.		5,961	5,929
Hotel Alan d.d.		1,986	2,105
Salve Regina – Hotel KAJ d.o.o.		298	155
WOT Hotels Adriatic Asset Company d.o.o.		-	593
		21,977	21,373
Interest income	9		
Hoteli Zlatni rat d.d.		731	244
Lucidus d.d.		511	-
Sunce Global d.o.o.		485	453
Hotel Alan d.d.		8	-
Sunce Vital d.o.o.		6	9
		1,741	706

NOTE 18 – RELATED PARTY TRANSACTIONS (continued)

	Note	2018	2017
EXPENSES			
Rent	6		
Nest Plus d.o.o.		1,525	1,439
		<u>1,525</u>	<u>1,439</u>
Other expenses	6,8		
Sunce Global d.o.o.		1,525	1,397
Nest plus d.o.o.		696	804
Jako vino d.o.o.		423	-
Izvor osiguranje d.d.		253	1
Salve Regina – Hotel KAJ d.o.o.		196	222
Hoteli Zlatni Rat d.d.		61	24
Hoteli Tučepi d.d.		41	40
Hoteli Brela d.d.		38	24
WOT Hotels Adriatic Asset Company d.o.o.		12	-
Hotel Alan d.d.		7	8
Sunčane toplice d.o.o.		2	4
		<u>3,254</u>	<u>2,524</u>
Interest expense	9		
Hoteli Brela d.d.		154	689
Hoteli Tučepi d.d.		91	346
Hoteli Zlatni Rat d.d.		-	93
		<u>245</u>	<u>1,128</u>

NOTE 18 – RELATED PARTY TRANSACTIONS (continued)

	<u>2018</u>	<u>2017</u>
Key personnel transactions	<i>(in thousands of HRK)</i>	
Net salaries	1,391	1,774
Tax and surtax	725	902
Contributions	653	933
Other fees <i>/i/</i>	31	30
Management Board	2,800	3,639
Supervisory Board	2,213	1,851
	<u>5,013</u>	<u>5,490</u>

/i/ other fees relate to Christmas allowances and unused vacations.

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<i>(in thousands of HRK)</i>	
Non-current liabilities		
Long-term borrowing <i>/i/</i>	2,738	2,773
Less: Current portion of non – current borrowings <i>/i/</i>	(2,738)	(1,566)
	<u>-</u>	<u>1,207</u>
Current liabilities		
Current portion of non – current borrowings <i>/i/</i>	2,738	1,566
Short-term borrowing <i>/i/</i>	2,510	-
Trade payables	3,357	3,712
Interest liabilities	1,602	1,470
	<u>10,207</u>	<u>6,748</u>

Loan liabilities relates to the long-term loan received from the subsidiary Hoteli Brela d.d. The loan is due half-yearly, with maturity on the date 30 September 2019. The loan is denominated in EUR and is approved at interest rate of 3-month Euribor + 5.95%. The loan is secured by the Company's debentures.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 19 – LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<i>(in thousands of HRK)</i>	
Non-current		
Bank borrowings //	16,280	13,661
Less: Current portion of non – current borrowings //	(1,750)	(6,831)
	<u>14,530</u>	<u>6,830</u>
Current		
Current portion of non – current borrowing //	1,751	6,831
Interest payable	-	435
	<u>1,751</u>	<u>7,266</u>

On 28 August 2018, a contract was signed for refinancing of the Company's and subsidiaries total financial debt with the European Bank for Reconstruction and Development as an arrangement agent, and Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d., and Zagrebačka banka d.d. as members of the trade unions of banks. The total value of the transaction is EUR 73 million, with all banks participating equally in this amount. Although the loan agreement was signed on 28 August 2018, the funds were paid out at the end of the fourth quarter of the same year after the fulfilment of all the above conditions under the Loan Agreement. The Company refinanced its total debt to banks for a period of 10 years.

NOTE 20 – TRADE PAYABLES

	<u>31.12.2018.</u>	<u>31.12.2017.</u>
	<i>(in thousands of HRK)</i>	
Trade payables	1,208	1,336
	<u>1,208</u>	<u>1,336</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 21 – TAX, CONTRIBUTIONS AND SIMILAR LIABILITIES

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<i>(in thousands of HRK)</i>	
VAT liabilities	2,170	796
Contributions from and on salaries	433	400
Tax and surtax	230	229
	<u>2,833</u>	<u>1,425</u>

NOTE 22 – OTHER CURRENT LIABILITIES

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<i>(in thousands of HRK)</i>	
Unused vacation days accrual	550	550
Accrued expenses	115	215
Forests contribution	5	9
Other current liabilities	8	61
	<u>678</u>	<u>835</u>

NOTE 23 – CONTINGENCIES AND COMMITMENTS

According to the Company's management and its legal counsel, as at 31 December 2018 there are no legal disputes that could result in significant losses for the Company and for which additional provisions should be recognized.

The Company concluded rental agreements for business premises and vehicles from which the following future liabilities arise:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Less than 1 year	131	269
2-5 years	216	379
	<u>347</u>	<u>648</u>

NOTE 24 – SUBSEQUENT EVENTS

In order to optimise the organisational structure of the business, on 13 March 2019, Supervisory Boards of Hoteli Brela d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hotel Alan d.d. have approved the necessary actions in order to prepare the merger of controlled companies to Sunce koncern d.d. as the acquiring company.

SUNCE KONCERN d.d.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 25 – APPROVAL OF FINANCIAL STATEMENTS

Financial statements here presented have been prepared and approved for issuing by the Management Board on 25 April 2019.

Signed on behalf of the Management Board:

President of the Management Board

Tonči Boras


Member of the Management Board

Kristijan Gagulić


Member of the Management Board

Ivan Potkrajčić


MANAGEMENT REPORT FOR THE YEAR 2018

Sunce Koncern d.d.

Trpinjska 9
10000 Zagreb, Hrvatska

1. General information

Sunce Koncern d.d. was established as a limited liability company on 11 October 2004 at the Commercial Court in Zagreb under the registration number 080502040. On 4 April 2007, the general assembly of the company made a decision on restructuring the company from a limited liability company into a joint stock company.

The Company is registered for the provision of accommodation in hotels and provides a variety of consulting services to companies that include advertising and marketing services, property management, procurement, and services related to nautical, rural, health, congress, sports and other types of tourism, and as such manage the following subsidiary companies:

Company:	Location	Nature of business	Ownership
Sunce Koncern d.d.	Zagreb	Parent company	-
Sunce Global d.o.o.	Zagreb	Tourist group	100.00%
Hoteli Zlatni Rat d.d.	Bol	Hotels	80.99%
Hoteli Brela d.d.	Brela	Hotels	89.58%
Hoteli Tučepi d.d.	Tučepi	Hotels	91.41%
Hotel Alan d.d.	Starigrad	Hotels	97.96%
Aerodrom Brač d.o.o.	Supetar	Airport	50.18%
Sunce Vital d.o.o.	Zagreb	Healthcare	100.00%
Zlatni rat Poljoprivreda d.o.o.*	Bol	Agriculture	80.99%
Zlatni rat Servisi d.o.o.*	Bol	Maintenance	80.99%
Zlatni rat Tenis centar d.o.o.*	Bol	Tennis player	80.99%
Plaža Zlatni Rat d.o.o.*	Bol	Beach Manager	80.99%
Eko - promet d.o.o.*	Bol	Transport	38.28%
Brač 500 Plus d.o.o.	Bol	Cable management	56.24%
Brela Jakiruša d.o.o.	Brela	Preparation of food and beverages	89.58%

* Marked companies do not have records of assets and liabilities (inactive business), and have submitted requests to the Tax Administration for deletion from the court register

Securities

The share capital amounts to HRK 539,385,000.00 and is divided into 5,393,850 ordinary shares, in the name of a nominal amount of HRK 100.00 each, held at the Central Depository Closing Company d.d. in a non-materialized form marked with the SUKC-R-A and ISIN mark HRSUKCRA0001. Fund capital is paid in full.

All stocks are of the same rank and each gives (i) the right to one vote; (ii) the right to the payment of dividends and (iii) all other rights in accordance with Croatian law.

Sunce Koncern d.d.

Trpinjska 9

10000 Zagreb, Hrvatska

At the general assembly of shareholders on 31 August 2017, it was decided to increase the share capital by issuing new shares. The Company issued 444,000 new shares, which increased the total number of shares by 9.9%, and HRK 68.8 million of new funds was raised.

Sunce Koncern d.d. as a majority owner, acquired second business share in a member of the Group, company SUNCE GLOBAL d.o.o. which represented 0.309% of the Company's share capital, after which it became the only member of the company. The merger contract was published on the commercial court register on 13 June 2018.

On 10 August 2018, the general assembly of the Sunce koncern d.d. made a decision to increase the share capital of the Company by assigning the rights intake of 595,397 ordinary shares of the company HOTEL ALAN d.d. and issuing 506,788 new ordinary shares. By this decision, the share capital of the Company increased from the amount of HRK 488,706,200 for the amount of HRK 50,678,800 to the amount of HRK 539,385,000.

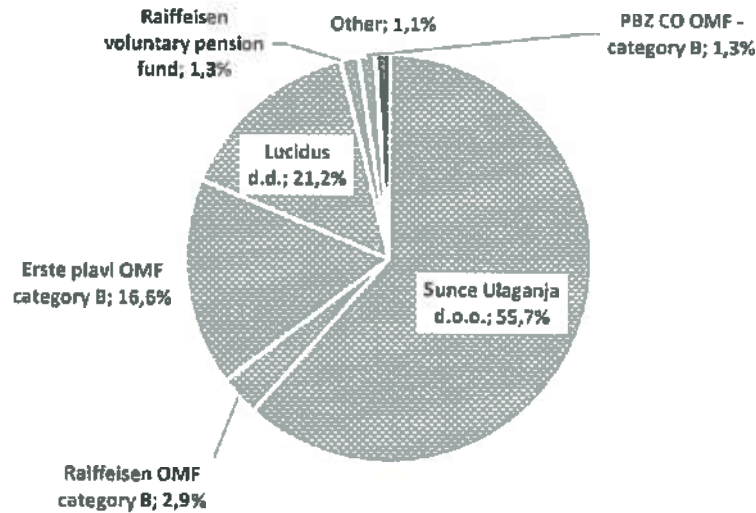
On 28 August 2018 a contract was signed with the European Bank for Reconstruction and Development (EBRD) as an arranger, as well as representatives of Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d., and Zagrebačka banka d.d. as members of the trade unions of banks. The total value of the transaction is EUR 73 million, with all banks participating equally in this amount. Although the loan agreement was signed on 28 August 2018, the funds were paid out at the end of the fourth quarter of the same year after the fulfilment of all the above conditions under the Loan Agreement.

On 19 December 2018, Sunce koncern d.d. filed a request for the transfer of all shares of the Company from the segment of the regular market to the official market of the Zagreb Stock Exchange. Management of Zagreb Stock Exchange issued a decision on approving the transition of all 5,393,850 ordinary shares to the official market, which was carried out on 27 December 2018. 23.09% of the shares was distributed to the public, including three compulsory and/or voluntary pension fund management companies, but the Company intends to further increase the percentage of public share distribution by distributing more than 25% of the total number of shares to the public and due to that, the restructuring process was started by optimizing the organizational structure, with the ultimate goal of increasing capital by issuing new shares.

Sunce koncern d.d. is a holding company operating in the ownership and management as a shareholder in other hotel and tourism companies and companies whose activities are closely related to the tourism and hotel sector. Sunce koncern d.d. as a holding company is the dominant (parent) company of the Group, made up of its direct and indirect subsidiaries.

Since its foundation, Andabak family or Mr. Jako Andabak, together with related persons, has a dominant position in the Company. In one of the Company's shareholder, LUCIDUS d.d., Mr. Jako Andabak directly holds most of its share capital and voting rights. In addition, Mr. Jako Andabak, together with related persons, is the founder of SUNCE ULAGANJA d.o.o. By entering into a regulated market and increasing capital in September 2017, pension funds become significant minority shareholders.

Ownership structure of Sunce Koncern d.d. as at 31.12.2018.



Management Board:

- Tonči Boras, president
- Kristijan Gagulić, member
- Ivan Potkrajčić, member

Supervisory Board:

- Jako Andabak, president
- Sanja Gagulić, vice-president
- Ružica Andabak, member
- Ana Volk, member
- Ivan Augustin, member

Audit Committee:

- Ivan Augustin, president
- Sanja Gagulić, member
- Ružica Andabak, member

The Audit Committee of the Company was established in accordance with the amendments to the Audit Act.

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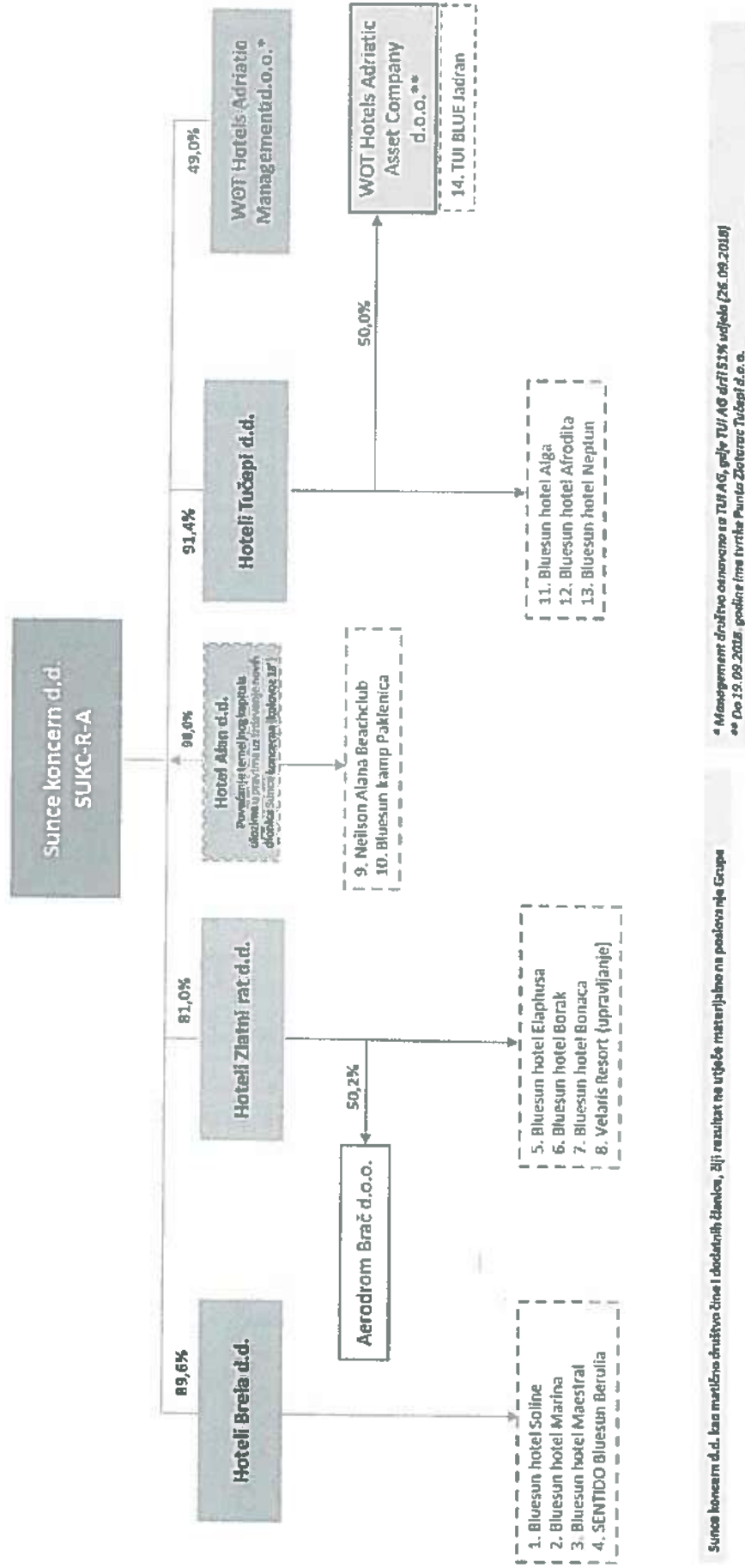
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Brand under which Sunce koncern d.d. manage members of its Group is Bluesun Hotels & Resorts, consolidated in the locations of Brela, Tucepi, Brac, Starigrad, Marija Bistrica with headquarters in Zagreb.

Through our own hotel brand - Bluesun Hotels & Resorts, we want to create a recognizable Croatian hotel chain. Our vision is focused on adherence to high standards and the introduction of innovation in the tourism market, and constantly improve the quality and enriching our offering and services, as a prerequisite for the continuous increase guest satisfaction as our most important goal.

The goal is to be known for the quality standard of service and products, and consistency in promoting excellence and innovations for future development. The Company's mission is to exceed guest expectations, inspire and motivate employees, and achieve outstanding financial results.

Sunce koncern primarily promotes hospitality and courtesy towards guests, and as a leading employer in the region is introducing innovation and increasing competitiveness in the Croatian market. In addition to monitoring the satisfaction of the guests and employees, the growth of standards, and the excellent grades of work performance and competencies, we hope for a good financial result as a benchmark for success.



Sunce koncern d.d. kao matično društvo čine i dodatnih članova, čiji rezultat ne utječe materijalno na poslovanje Grupa

* Management društvo osnovano sa TUI AG, gdje TUI AG drži 53% udjela (26.09.2018)
** Do 19.09.2018. godine ima tvrtka Punta Zlatar Tučepi d.o.o.

2. Financial indicators

Total revenues in 2018 amounted to HRK 25,387 thousand (2017: HRK 23,522 thousand).

Total expenditures in 2018 amounted to HRK 40,816 thousand (2017: HRK 33,936 thousand).

The realized loss for the current period amounts to HRK 15,429 thousand. In the same period last year, the Company realized a loss of HRK 10,414 thousand. The biggest impact on the loss in current year caused the value adjustment of loans given to related companies in the amount of HRK 10,640 thousand.

The revenue structure consists of total operating income of 92.4% (management fee) and interest income and exchange rate differences from related and third parties in the amount of 7.6% of total revenues while expenditures relates mostly to employees' expenses of 42.0% and other operating expenses up to 34.4% of total expenses.

As of 31 December 2018 the Company had 64 employees (2017: 63 employees).

During 2018, the Company's management conducted actions in accordance with the law and the Statute, for the conduct of business and representation activities and planned a business policy that was conducted with the care of an orderly and conscientious businessman.

3. Risk management

Currency-price risk

Currency risk arises from future commercial transactions and recognized assets and liabilities. Most of the income and receivables are related to the EUR exchange rate. Therefore, the exchange rate fluctuations between the EUR and the HRK may have an impact on future business results and cash flow. The Group's credit liabilities are mainly related to the movement of EUR values. At the same time, contracts with foreign agencies and clients are contracted in foreign currencies, mainly in EUR. The management believes that the members of the Group are not significantly exposed to price or currency risk.

Interest rate risk

The Group is exposed to interest rate risk as part of the loan is contracted at floating interest rates while most of the assets are non-interest bearing. Since the Group does not have significant assets generating interest income, Group revenues and cash flows from operating activities are not significantly dependent on changes in market interest rates. Interest rate risk arises from long-term loans. Loans granted at variable rates expose the Group to the risk of interest rate fluctuations. Loans at fixed rates expose the Group to a fair value interest rate risk. The Group does not use derivative instruments for active hedging against exposure to interest rate risk and fair value of interest rate risk.

Credit risk

Credit risk arises from cash and cash equivalents, and from customer receivables. The Group policies ensure that customer service is billed in cash or credit card and postponed payments are approved to customers who have a relevant credit history. From the credit risk - the risk of collecting customer receivables, the Group is hedged by means of payment collateral and by assessing the creditworthiness of customers. Currently, this risk cannot jeopardize the financial stability of Group companies.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial liabilities within the maturity. Liquidity risk management is the responsibility of the management board which has built a quality framework for monitoring short-term, mid-term and long-term financing and requirements related to liquidity risk. The Group manages liquidity risk by constantly monitoring the foreseeable and actual cash flow by comparing it with the maturity of financial assets and liabilities.

Market Risk

Market risk is the risk that changes in market prices, such as foreign currency and interest rates, will affect the Group's income or the value of their financial instruments. The aim of market risk management is to manage and control market risk exposure within acceptable parameters, optimizing return. There were no significant changes in the Group's market risk impact nor changes in the measurement and management of market risk.

4. The expected future development of the Company, research and development

The goal is to be known for the quality standard of service and products, and consistency in promoting excellence and innovations for future development. The Company's mission is to exceed guest expectations, inspire and motivate employees, and achieve outstanding financial results.

Sunce koncern primarily promotes hospitality and courtesy towards guests, and as a leading employer in the region is introducing innovation and increasing competitiveness in the Croatian market. In addition to monitoring the satisfaction of the guests and employees, the growth of standards, and the excellent grades of work performance and competencies, we hope for a good financial result as a benchmark for success.

5. Code of corporate governance

In support of the development and improvement of corporate governance practices in Croatia, corporate governance code of the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange are available to companies. The code contains rules, recommendations and guidelines based on domestic legal and subordinate regulations governing corporate governance issues and is based on universally accepted corporate governance principles, including OECD principles.

Fundamental principles of the code imply the provision of transparent business operations, the definition of detailed procedures for the work of the board of directors and the supervisory board of the issuer, avoidance of conflicts of interest of the relevant persons in the issuer (management, supervisory board, and senior management), establishment of effective internal control and effective system of accountability.

The Croatian Companies Act obliges companies whose shares are traded on the capital market to provide at least the information on the corporate governance code that obliges them and/or the Corporate governance code that the company voluntarily applies outside of what is required by the regulations in the special chapter of the annual report. The law also stipulates that the company must state whether it departs from applying the corporate governance code and explaining the reasons for the deviations.

As the Company whose shares are quoted on the regular market at the Zagreb Stock Exchange d.d., Sunce Koncern d.d. during the business year of 2018, applied the recommendations of the code of the Zagreb Stock Exchange and HANFA (the code is available at <http://zse.hr/default.aspx?id=10865>).

All reports and other prescribed information are publicly disclosed and available to the public in accordance with the Capital Market Act and the Rules of the Zagreb Stock Exchange.

The reasons for not applying or deviating from the specific recommendations of the code in 2018 are set out in the annual questionnaire that forms an integral part of the code and submits to the Zagreb Stock Exchange d.d. together with the annual financial statements for public disclosure on the Company's web pages and the Zagreb Stock Exchange d.d.

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With the recommendations of the Code, the management board and supervisory board try to invest additional efforts in order to establish appropriate corporate governance of the Company, taking into account the structure and organization of the company, strategy and business objectives, distribution of authority and responsibility.

The Company applies the recommendations of the code, with certain deviations that it states and explains as follows.

The Company has not introduced the possibility to attend and vote at the shareholders' general meeting by using means of modern communication technology due to the fact that there was no need for that, nor there such requests from shareholders. The Company will certainly consider such use of the funds of modern communications technology and will, as appropriate, allow its shareholders to use it for purposes of participation and voting at the general assembly.

For participation in the general assembly, pursuant to the statute of the Company, shareholders submit applications within the time prescribed by the Companies Act. The power of attorney is submitted to the Company until the last day of the application for participation in the general assembly. For the validity of the power of attorney, no public notary certification is required.

The supervisory board did not make a decision on the framework for its actions for 2018. For the purposes of future actions, the Company intends to make a decision on the framework plan for the actions of the supervisory board and data to be regularly and timely made available to the members of the supervisory board.

There is no long-term plan of succession in the Company in terms of the code, but there is already a framework plan for replacing staff in leading positions through continuous training programs.

In the annual report, all transactions involving the members of the supervisory board or related persons and the Company and related persons are disclosed in the notes to transactions with related parties, while the essential elements of such agreements or contracts are not disclosed in the report because these transactions are not of material importance to the Company. This also refers to the affairs in which the members of the management and the related persons and the Company and related persons took part.

As the Company was listed on the Zagreb Stock Exchange in June 2017, the Audit committee was established in 2018, in accordance with the amendments to the audit Act. All the members of the audit committee are also members of the supervisory board, which is why they are exempted from the request for independence pursuant to Art. 65 st.7. the audit Act. The Company has no established internal audit function since the Company's board of directors applies the appropriate processes to monitor the major risks the Company is exposed to. One of the tasks of the audit committee is to annually consider the need to establish a special internal audit function in order to improve the internal control system.

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Also, the audit committee plans to establish in 2019 rules on which services an external audit firm and its affiliated persons cannot provide to the Company, which services can only be provided with the prior consent of the committee and which services can be provided without prior consent. In 2018 there was no need for such rules.

Fees and other benefits from the Company or with related persons to the members of the management board and the supervisory board are presented consolidated and published in the annual report and are not presented for each individual member of the management board or the supervisory board in particular.

Corporate Governance Structure

The Companies Act gives the stock companies the ability to manage their organization by choosing between one-tier system (single-board system) and two-tier system (dual board system).

According to the customary domestic practice, the Sunce koncern is formed as a dualistic system characterized by the existence of a split supervisory board and administration. By this system, day-to-day management of the company was entrusted to the management. The work of the management board is supervised by the supervisory board, elected by the assembly.

General Assembly (Assembly of Shareholders)

The assembly is the highest body of the company's management. Shareholders at the general assembly exercise their primary management rights, deciding on the matters that are within the competence of that body. The general assembly elects the members of the supervisory board of the company. In addition, it considers financial statements and auditor's reports, carries out external auditor selection, and decides on the use of profit and loss coverage (including dividend payment), increase and decrease in share capital as well as other issues as determined by the law and company statute.

Supervisory Board

The supervisory board is responsible for appointing, recalling, directing control of the work or supervising the management of the company's business.

Management

The management manages the affairs of the company and represents the company. The management manages the affairs of the company independently and at its own risk. In the performance of its duties, the administration is not bound by the instructions of other corporate bodies or by the instructions given to it by the majority shareholders or the supervisory board. Management is always required to act solely for the benefit of the company and shareholders, taking into account the interests of employees and the wider community, with the aim of increasing the value of the company.

Commission of the Company

The board of directors of the Company is provided for by the legal regulations and recommendations of the corporate governance code.

The audit act requires each company in Croatia whose securities are listed on the regulated market (as defined by the law regulating the capital market) to appoint the audit committee and leave the possibility of forming other committees.

Tasks and membership of the audit committee are also regulated by the audit act.

The purpose of the audit committee is to assist the supervisory board of the Company in overseeing (i) the integrity of the financial statements, (ii) compliance with legal and regulatory requirements, (iii) the qualifications and independence of the auditing company, and, where applicable, (iv) the internal audit function.

External control

External control of the Company's operations primarily includes auditing of annual financial statements. These tasks are performed by an independent external auditor in accordance with the regulations governing accounting and auditing.

Independent external auditors are obliged, as clearly and unambiguously as possible, to express their opinion as to whether the financial statements prepared by the management are adequate to reflect the capital and financial position of the company and results for a certain period of time.

Independent external auditor of Sunce koncern d.d. is Ernst & Young d.o.o. Zagreb, Radnička cesta 50, 10000 Zagreb (EY). The first year of the EY's engagement is the audit of the financial statements for the year ended 31 December 2017.

President of the Management Board

Tonči Boras



Member

Kristijan Gagulić



Member

Ivan Potkrajčić

