

**Stanovi Jadran d.d., Split and its subsidiaries**  
Annual report and Financial  
statements for the year ended 31 December 2018  
together with Independent Auditor's Report

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

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## Management Report

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### I COMMENTS ON BUSINESS DOING FOR THE PERIOD FROM 01/01/2018 TO 31/12/2018

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Stanovi Jadran d.d. (the Company) had 1,886,655 HRK total revenues for year ended 2018 what is 209 % more than the year before for the same time period. Sales revenue were in 2018 973,336 HRK, what is an increase of 404 % from year prior.

Revenue streams from the main activities are holding 51,59 % of total revenues, which were 31,63 % year before. Other revenues are 58,546 HRK what is an increase of 21.653 HRK from year before. Other revenues are holding 6.03% of total revenues in 2017, and in 2018 it was 3.1%. Out of the total sales revenue, 100% of revenues streams are from local market, while 0% are from foreign market. This structure in 2018 remained like it was in 2017.

Material expenses in 2018 were 1,043,074 HRK, what is a decrease of 21,28 % from year before. Given that operating expenses recorded a lower percentage growth, the share of material expense in operating expenses was by 19.07% lower than the same period of the previous year and was 42.18%.

Salaries went up for 22,24% and are weighting 31,9 % in total expenses what was 29,83% year before. There were no value adjustment costs and account receivables adjustment neither this year.

Financial revenues, mainly consist of dividend revenues from Winter LTD, increased for 473,741 HRK. Financial costs went up for 257,606 HRK from year before. Their share in total expenses is 11%. In the structure of financial expenses there are 13,642 HRK negative exchange rate differences, while interest expenses are higher by 243,459 HRK due to the realized loan of Agram banka d.d. for the purpose of financing the purchase of building Ploka.

Gross loss (loss before taxation) is 887,918 HRK, while in the same period last year it amounted 1,596,484 HRK, what is a decrease of 708,566 HRK, or 44%. The gross loss decreased as the Company has revenue streams from renting commercial property Ploka and Winter dividend revenues.

Total assets increased for 16,17 % to 79,552,955 HRK while fixed assets increased for 23,804,645 or 48.62%. Long-term intangible assets increased by 1,770 kuna compared to the beginning of the year, with the largest impact of depreciation. Material assets increased for 21,939,053 HRK due to property purchase and investment in Šibenik.

I COMMENTS ON BUSINESS DOING FOR THE PERIOD FROM 01/01/2018 TO 31/12/2018 (CONTINUED)

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Long-term financial assets mainly relate to shares in subsidiary companies and to shares of non-listed companies. It amounts 30,335,508 HRK and is 1,863,822 HRK higher compared to the beginning of the year, primarily due to the share capital increase of the subsidiary company Vile Orašac d.o.o. on 19 April 2018. Current assets are 6,609,273 HRK, which is lower by 66.13% than the beginning of the year. In the structure of current assets, receivables are higher compared to the beginning of the year, while cash level and current financial assets are falling. Total short-term receivables amounted to 3,141,512 HRK and recorded a slight growth compared to beginning of the year in amount of 96,020 HRK, or 3.15 %. Total account receivables amounted to 2,442,592 HRK, an decrease of 4.29 % compared to the beginning of the year.

Short-term financial assets amount to 3,388,515 HRK what is mostly short-term given loans. Compared to year before, financial assets decreased by 12,497,154 HRK. Cash in the bank and cash registers amounts to 79,246 HRK and is lower by 505,808 HRK compared to the beginning of the year. There was no change in capital and reserves compared to the beginning of the year.

Long-term liabilities amount to 9,653,539 HRK what are credit lines at Karlovačka Bank and Kreditna banka Zagreb. Short-term liabilities amount to 6,784,471 HRK, of which the largest portion of HRK 4,474,353 relates to liabilities for down payments under the Sale Agreements in Šibenik. Account payables increased from the beginning of the year for 371,568 HRK. Total loans of the company amounted to HRK 9,653,539 which is an increase from the beginning of the year for 6,655,656 HRK.

Stanovi Jadran d.d. (Group) achieved total revenues of 8,040,846 HRK for year ended 2018, what is 1.76% lower than in the same period of the previous year. Sales revenues amount to 7,694,966 HRK and were higher by 3.98 % compared to the same period last year. Main business activities revenues hold 97.72% of total revenues, compared with 95.16% in the same period last year.

Other operating income amounted to HRK 162,159. The share of other operating income in the total revenues of the previous year was 4.74% and in 2018 it is 2.02%.

Out of total sales revenue, 10.89% of revenues are generated on the domestic market, while 89.11% of sales are generated on the foreign market. This structure in 2018 has not changed significantly compared to the same period last year.

Material costs amount to HRK 3,973,836, which is by 5.98% lower than the same period of the previous year. Given that business expenses are recorded as a percentage increase, the share of material expense in operating expenses is 44.02%. Personnel expenses increased by 18.22% compared to the same period of the previous year. Their share in total operating expenses is 28.63%, compared to 25.64% in the same period last year. The cost of asset adjustment amounts to zero kuna, the same as in the same period last year. The cost of the receivables' write-off was neither in the observed period nor in the same period of the previous year.

I COMMENTS ON BUSINESS DOING FOR THE PERIOD FROM 01/01/2018 TO 31/12/2018 (CONTINUED)

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Financial revenues were lower by 212,261 HRK or 53.6% compared to the same period of the previous year. Financial expenses increased by 231,134 HRK or 383.11% compared to the same period last year.

The gross loss (pre-tax loss) is 1,278,118 HRK, while in the same period of the previous year it was 397,750 HRK, which is an increase of 880,368 HRK or 221.34 %. Higher gross loss was due to investment intensity in Šibenik and hiring experts in project development.

Total assets were 12.39% higher compared to the beginning of the year and amounts to 89.295.180 HRK. Fixed assets were higher 20,840,954 HRK or 35.12%, compared to the beginning of the year. Long-term intangible assets have not changed significantly compared to the beginning of the year. Tangible assets were higher by 21,295,190 HRK compared to the beginning of the year due to the purchase of the commercial property Ploka in Split and the investment in the residential project in Šibenik.

Long-term financial assets mostly refer to the shares of non-listed companies, except for FMPS-R-A and VART -R-1. It amounts to 2,409,120 HRK and was 400,313 HRK less than the beginning of the year, primarily due to the value adjustment quoted on the Zagreb Stock Exchange.

Current assets amount to 8,903,396 HRK what is 55.70 % less than the beginning of the year. In the structure of current assets, inventories and account receivables are greater compared to the beginning of the year while cash and short-term financial assets are falling. Total accounts receivables amounted to 4,358,033 HRK, an increase of 435,134 HRK or 11.09 % compared to the beginning of the year.

Short-term financial assets amount to 3,587,138 HRK relating to short-term given loans. Short-term financial assets decreased by 10,687,104 HRK from year before.

Cash in the bank and cash registers amounted to 384,553 HRK and was lower by 1,180,259 HRK compared to the beginning of the year. There was change in capital and reserves compared to the beginning of the year due to reserves revaluation.

Long-term liabilities amount to 10,791,303 HRK what are credit lines at Karlovačka Bank and Agram Bank. Short-term liabilities amount to 8,499,088 HRK of which the largest portion of 4,599,556 HRK were liabilities for down payments. Total debt to credit institutions of the Group Stanovi Jadran d.d. amounted to 11,296,952 HRK which is an increase from the beginning of the year in amount of HRK 7,417,043.

## II IMPORTANT BUSINESS EVENTS

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Stanovi Jadran d.d. has been listed at Zagreb Stock Exchange - Official Market on July 02, 2018.

The company purchased commercial property in Split and took over already signed rental agreements for commercial spaces, while the top floor, which is an apartment, will be rented on a daily base through booking services to tourists.

There is high work intensity in Residential property in Šibenik. New tenants are expected to move in during Spring 2019. All additional permits has been issued and the original project has reduced number of apartments from 9 to 7, apartments can be done in phases and the small existing house has new floor map adjusted to hotel standards.

The hotel project is in process of getting building permit, and it is expected until 05.02.2019. Due to the inability to complete the works until the summer season of 2019, the Management Board decided to open the window for spring 2020. It is planned that demolition, construction and landscaping will be completed by June 2019 when it comes to interior decoration.

Other properties that the company owns, such as land plots, has been listed on sale through real estate agencies. In this year, management sold three land plots in Lovinac. Additionally, there has been expressed interest of potential buyer for project in Dubrovnik where the project documents have been delivered.

## III EXPECTED BUSINESS DEVELOPEMENT

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In the last quarter of 2018, the Company entered the final works of the housing business in Šibenik and modified documentation according to the guidelines of public law bodies to begin reconstruction of the neighboring facility and adaptation of the same to the hotel.

Future potential liabilities of the Company and its subsidiaries relate mainly to investments in already started projects under construction. The construction of a commercial residential building in Šibenik, which is underway, is an investment which, inevitably, with each new phase of construction work, requires an agreement on new jobs and contracts between the main contractor and the subcontractors.

For two projects in Dubrovnik, the subsidiaries have been redesigned to reduce the future costs of building and optimizing space and comprehensive units, which will require additional costs in the future.

### III EXPECTED BUSINESS DEVELOPMENT (CONTINUED)

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The Company and the Group of Affiliated Companies manages, monitors and rationalizes all planned business policies and hence the potential risks in further investment for the purpose of real estate development projects and for the purpose of their commercialization and achievement of satisfactory and sustainable revenues from the lease of the business premises, business operations of the Company and Group related companies in the tourism and hospitality sector and / or the sale of their financial and material assets on the market.

Depending on the company VILE ORAŠAC d.o.o, it was not affiliated with this company in 2018 because potential buyers expressed their interest in buying a stake before purchasing the plot due to lower costs.

In the subsidiary company Winter d.o.o. there was a fall in revenues of BAM1,809,870.22. The biggest reason for declining revenue is the election year in Bosnia and Herzegovina, which influenced the MICE segment. After the election, Hotel Blanca Resort & Spa recorded record revenue and revenue in November and December 2018.

### IV RESEARCH AND DEVELOPEMENT ACTIVITIES

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Improving business in the real estate market requires regular market monitoring, which is mainly conducted through own research and through conversation with agents who meet on a daily basis with property and real estate demand.

New designers are also involved, who are based in the area of the existing real estate, and are more familiar with the current, dislocated project designers. Together with external consultants, more functional and cost-optimal versions and models of future buildings have been identified, which is also the reason for approaching the overhaul of planned facilities.

### V TREASURY SHARES INFORMATION

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Stanovi Jadran d.d. does not have any treasury shares while current ownership structure depends on trading streams at Zagreb Stock Exchange.

### VI BRANCH OFFICES

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The company and its subsidiary companies do not have and branch offices

## VII FINANCIAL INSTRUMENTS USED BY COMPANY

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Important financial instruments that the company has in its portfolio are:

- stake at subsidiary companies
- shares of companies listed on the regulated market in the Republic of Croatia, of which it currently holds shares of Varteks d.d. and the shares of Proprius d.d. a closed AIF with a public offering for real estate investment, the FMPS mark at 10.57% of FMPS equity, after which in 2017 the Company sold the rest of its portfolio of financial instruments to the regulated market, with the intermediation of investment companies.

## VIII COMPANY AIMS AND POLICIES RELATED TO THE MANAGEMENT OF FINANCIAL RISKS AND POLICY PROTECTION OF PROJECTED TRANSACTIONS

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The Company is exposed to the basic business risks of which the financial risks are stated together with other business risks of this Company in Chapter IX. of this Report.

All employees of the Company, including the Management Board and the Supervisory Board, are involved in the implementation of the internal control and risk management system.

The company manages risks, particularly financial, monitoring and compliance with significant regulations and internal control exercised through monitoring of operations in all organizational units through the activities of the company and especially the control of auxiliary services.



IX. RISK EXPOSURE

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**Real estate market risk**

Real estate market in Republic of Croatia has been recovering over the past three years. There has been an increase in building permits issuance and residential and commercial prices, especially on a coast what is affected with tourism. Since the Croatia entered EU, there is a real estate demand increase. Foreign investors are looking for exclusive properties at unique destinations such as property in Šibenik the company is developing. The market lacks upper class properties where the management of the company sees the opportunity and therefore focusing towards that niche.

**Tourism market risk**

Tourism is very specific industry and the best spending generator. Current risk level is medium since it is very important industry and it is still growing. However, the management sees the seasonality of tourism as the largest risk related to that market.

**Construction related risk**

By finding the appropriate, staffing and mechanization of a well-equipped and teamed partner, the Company has reduced the risk due to a shortage of construction companies that can simultaneously work on multiple locations as well as contracted works as partners for future projects.

**Personnel risk**

The company, together with its subsidiary companies has 46 employees at the date of creating financial statements. This risk is low since the EU allows labor force movement what increase possibility of finding qualified employees.

**Currency exchange risk**

Existing currency exchange differences has been noted as expenses in P&L statement but do not affect money flow. The company has currency exchange risk in a sense of exchange movement between HRK and BAM or EUR and BAM since the subsidiary company WINTER d.o.o. operates in Bosnia and Herzegovina.

IX. RISK EXPOSURE (CONTINUED)

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**Exposure risk**

The company employs engineer who is reducing risk by setting up control mechanism which controls cost and individual material prices and planned or performed work. The management tries to reduce the cost exposure by hiring companies at the projects that has at least 50 for additional protection as larger companies reduce the risk of exposure and procurement.

**Financing risk**

The management believes financing risk is at the lowest possible level since the finance market offers affordable arrangements.

**Liquidity risk**

The management is trying to put all company assets in use in a shorter possible period in order to increase revenue streams and create stable cash flow to service short-term and outstanding liabilities. All receivables has been secured with financial instruments in order to reduce liquidity risk.

**Interest rate risk**

Loans received by credit arrangements are mainly contracted at a changeable interest rate based on the reference interest rate (EURIBOR), therefore, there is an interest risk. The management is not using any financial instruments to protect changes in interest rate so far what makes this risk high.

**Credit risk**

The management of the company does not allow partner crediting, and all credits are secured by additional insurance instruments. The Company is exposed to credit risk. It is servicing on time two credit lines to commercial banks and plans to sell real estate (currently in construction) to further reduce its exposure to loans to credit institution

## Responsibility for the financial statements

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Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which give a true and fair view of the state of affairs and results of Stanovi Jadran d.d. ("the Company") and Stanovi Jadran d.d. and its subsidiaries ("the Group") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

For and on behalf of the Management Board,

*Toni Jeličić Purko,*  
*President of the Management Board,*  
*STANOVI JADRAN d.d., Split*

*Maja Bradić,*  
*Board Member,*  
*STANOVI JADRAN d.d., Split*

*30 April 2019*

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Stanovi Jadran d.d. and subsidiaries.

### Opinion

We have audited the non-consolidated financial statements of Stanovi Jadran d.o.o. ("the Company") and consolidated financial statements of Stanovi Jadran d.d. and its subsidiaries ("the Group"), which comprise the statement of financial position of the Company and the Group as at 31 December 2018, and the statement profit and loss and other comprehensive income, the Company's and the Group's 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

### Basis for Opinion

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

### 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. 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.

### Impairment of investment property

*We draw attention to Note 3 on page 33 in which the accounting policies are published and Note 13, on page 44, in which is investment property note presented (hereinafter: investment property).*

In accordance with International accounting Standard 36 "Impairment of Assets", the Management Board is required to check for any reporting period whether there are any indication of impairment of investment property and accordingly make necessary adjustments.

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The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Marina Tonžetić, Juraj Moravek and Dražen Nimčević; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrijska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Key Audit Matters (continued)

#### *Impairment of investment property (continued)*

Investment property is asset intended for rent or for profit on the basis of potential future price increases, while land and buildings represent assets owned by the Company and the Group for regular business (headquarters and outlets). Given that economic conditions in the market greatly influence the price movements of such real estates, the Management Board is required to continually invoke the credibility of the valuation on which it evaluates the investment property in its accounting records. This involves a significant amount of management judgments because the estimates of losses are based on independent valuation estimates, which are often made for real estate with limited market access information and where significant judgment is to be applied when selecting the appropriate assessment method. Therefore, it is sometimes challenging for independent evaluators to choose an appropriate assessment method.

The Company investment property is recorded in the amount of HRK 50,011 thousand at the balance sheet date (2017: HRK 28,054 thousand), while the Group presents investment property is recorded in in the amount of HRK 42,385 thousand at the balance sheet date (2017: HRK 20,448 thousand). The Company and the Group investment property is valued at fair value. Part of these properties are rented and the part which is not rented the Company and the Group are holding them for the purpose of realizing future projects.

#### *How our audit addressed the key audit matter*

During the audit, we conducted a series of procedures to verify the classification and reconcilability of investment property. Our procedures included the following:

- Checking the adequacy of the applied valuation methodology and assessing the estimated value of the property with the accounting records.
- Checking the accuracy and completeness of the data from the Company's and Group's subledgers and aligning it with the with the General Ledger;
- Confirmation of existing investment property rights, identifying potential impairment indicators and, where possible, comparing with market prices;
- Checking the purpose of investment property by collecting and conducting a test of property investment property register.

### Other Information

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

Our opinion on the financial statements does not cover the other information.

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. Other information need to include the Management report and the Corporate Governance Statement drawn in accordance with Articles 21, 22 and 24 of the Accounting Act. By the date of our report, the Company and the Group submitted the Management Report. With respect to the Management Report, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report include required disclosures as set out in the Articles 21 and 24 of the Accounting Act.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Other Information (continued)

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

- 1) Information included in the other information is, in all material respects, consistent with the attached financial statements.
- 2) Management Report has been prepared, in all material respects, in accordance with the Articles 21 and 24 of the Accounting Act.

The Management Board is responsible for any other information that should include a Corporate Governance Statement that must be prepared in accordance with Article 22 paragraph 1 items 3 and 4 of the Accounting Act and include the information referred to in Article 22, paragraph 1, items 2. , 5, 6 and 7 and Article 24, paragraph 2. It is expected that the Corporate Governance Statement will be available after the date of the auditor's report,

When we read the Corporate Governance Statement, if we conclude that there is a significant misstatement in the same, we are required to give the issue to those charged with governance.

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

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

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

### 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.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

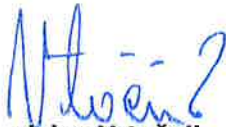
We were appointed as the statutory auditor of the Company and the Group on 8 June 2018 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 5 years and covers period 1 January 2014 to 31 December 2018.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company and the Group on 30 April 2019 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and the Group and its controlled undertakings.

The engagement partner on the audit resulting in this independent auditor's report is Branislav Vrtačnik.



**Branislav Vrtačnik**

President of the Board and the Certified auditor

Deloitte d.o.o.

Zagreb, 30 April 2019

Radnička cesta 80,

10 000 Zagreb, Croatia



Statement of comprehensive income  
For the year ended 31 December 2018  
(All amounts are expressed in kunas)

	Note	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
		2018 '000kn	2017 '000kn	2018 '000kn	2017 '000kn
Sales income	5	7,857	7,789	1,032	230
<b>Total operating income</b>		<b>7,857</b>	<b>7,789</b>	<b>1,032</b>	<b>230</b>
Material expenses	6	(3,974)	(4,227)	(1,043)	(1,325)
Personnel expenses	7	(2,584)	(2,186)	(789)	(645)
Amortisation and depreciation expense	12	(1,190)	(1,098)	(43)	(3)
Other expenses	8	(1,279)	(1,012)	(598)	(189)
<b>Total operating expenses</b>		<b>(9,027)</b>	<b>(8,523)</b>	<b>(2,473)</b>	<b>(2,163)</b>
<b>Operating loss</b>		<b>(1,170)</b>	<b>(734)</b>	<b>(1,441)</b>	<b>(1,933)</b>
Finance income	9	184	396	855	381
Finance expense	10	(291)	(60)	(302)	(10)
<b>Profit from financial activities</b>		<b>(108)</b>	<b>336</b>	<b>553</b>	<b>371</b>
<b>Loss before tax</b>		<b>(1,278)</b>	<b>(398)</b>	<b>(888)</b>	<b>(1,562)</b>
Income tax expense	11	(31)	(77)	-	-
<b>Loss for the year</b>		<b>(1,309)</b>	<b>(475)</b>	<b>(888)</b>	<b>(1,562)</b>
To the owners of the company		(1,335)	(594)	(888)	(1,562)
Non-controlling interest		26	120	-	-
<b>Items that can later be included in profit or loss:</b>					
Net profit / (loss) on financial assets available for sale		(549)	(510)	(549)	3,786
<b>Other comprehensive income / (loss)</b>		<b>(549)</b>	<b>(510)</b>	<b>(549)</b>	<b>3,786</b>
<b>Total comprehensive income / (loss)</b>		<b>(1,858)</b>	<b>(984)</b>	<b>(1,437)</b>	<b>2,224</b>
To the owners of the company		(1,884)	(1,104)	-	-
Non-controlling interest		26	120	-	-

Accounting policies and other notes form part of these financial statements.

Statement of financial position  
For the year ended 31 December 2018  
*(All amounts are expressed in kunas)*

	Note	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
		31/12/2018 '000kn	31/12/2017 '000kn	31/12/2018 '000kn	31/12/2017 '000kn
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	12	81	135	22	20
Property, plant and equipment	12	27,690	28,352	26	24
Investment property	13	50,011	28,054	42,385	20,448
Long-term financial assets available for sale	15	2,261	2,809	2,256	2,804
Given loans		149	-	149	-
Shares in subsidiaries	14	-	-	32,002	30,011
		<b>80,191</b>	<b>59,350</b>	<b>76,840</b>	<b>53,308</b>
<b>Current assets</b>					
Inventories		574	337	-	-
Receivables	16	3,219	2,963	2,443	2,552
Receivables from related companies	16	-	-	67	37
Other receivables	17	1,139	959	631	457
Loans to related parties	18	-	-	99	1,711
Short-term financial assets	18	3,587	14,274	3,290	14,175
Cash and cash equivalents	19	385	1,566	79	585
		<b>8,903</b>	<b>20,099</b>	<b>6,609</b>	<b>19,516</b>
Prepaid expenses and accrued income		200	1	176	1
<b>TOTAL ASSETS</b>		<b>89,295</b>	<b>79,450</b>	<b>83,625</b>	<b>72,825</b>

## Statement of comprehensive income

For the year ended 31 December 2018

(All amounts are expressed in kunas)

	Note	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017
		'000kn	'000kn	'000kn	'000kn
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share Capital	20	76,248	76,248	76,248	76,248
Capital reserves		3,358	3,358	3,358	3,358
Revaluation reserves		(980)	(430)	3,047	3,834
Translation reserve		(507)	110	-	-
Transferred loss		(10,359)	(9,764)	(14,544)	(12,982)
Loss for the year		(1,335)	(594)	(888)	(1,562)
		<b>66,425</b>	<b>68,927</b>	<b>67,220</b>	<b>68,896</b>
Non-controlling interest		3,580	3,554	-	-
		<b>70,005</b>	<b>72,480</b>	<b>67,220</b>	<b>68,896</b>
<b>Non-current liabilities</b>					
Borrowings	22	10,791	3,857	9,654	2,998
		<b>10,791</b>	<b>3,857</b>	<b>9,654</b>	<b>2,998</b>
<b>Current liabilities</b>					
Trade payables	21	1,483	871	898	527
Borrowings	22	1,754	1,479	1,216	206
Liabilities to related parties		-	-	104	122
Liabilities for advances received		4,600	166	4,474	-
Liabilities to employees		163	120	59	40
Liabilities for taxes, contributions and similar allowances		430	403	-	24
Other short-term liabilities		4	55	-	-
Share based liabilities		65	-	-	-
		<b>8,499</b>	<b>3,094</b>	<b>6,751</b>	<b>918</b>
Accrued expenses and deferred income		-	18	-	14
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>89,295</b>	<b>79,450</b>	<b>83,625</b>	<b>72,825</b>

Accounting policies and other notes form part of these financial statement.

Consolidated statement of changes in owner's equity  
For the year ended 31 December 2018

(All amounts are expressed in kunas)

Stanovi Jadran d.d. and its subsidiaries	Share Capital	Capital reserves	Revaluation reserves	Transferred loss	Translation reserve	Non-controlling interest	Total
	'000kn	'000kn	'000kn	'000kn	'000kn	'000kn	'000kn
<b>At 1 January 2017</b>	<b>45,908</b>	<b>3,358</b>	<b>79</b>	<b>(9,764)</b>	<b>429</b>	<b>3,434</b>	<b>43,444</b>
Loss for the year	-	-	(509)	(594)	-	120	(984)
Capital increase	30,340	-	-	-	-	-	30,340
Translation reserve	-	-	-	-	(319)	-	(319)
<b>31 December 2017</b>	<b>76,248</b>	<b>3,358</b>	<b>(431)</b>	<b>(10,359)</b>	<b>110</b>	<b>3,554</b>	<b>72,480</b>
Loss for the year	-	-	(549)	(1,335)	-	26	(1,858)
Translation reserve	-	-	-	-	(617)	-	(617)
<b>31 December 2018</b>	<b>76,248</b>	<b>3,358</b>	<b>(980)</b>	<b>(11,694)</b>	<b>(507)</b>	<b>3,580</b>	<b>70,005</b>

Accounting policies and other notes form part of these financial statement.

## Consolidated statement of changes in owner's equity

For the year ended 31 December 2018

(All amounts are expressed in kunas)

Stanovi Jadran d.d.	Share Capital	Capital reserves	Revaluation reserves	Transferred loss	Total
	'000kn	'000kn	'000kn	'000kn	'000kn
<b>At 1 January 2017</b>	<b>45,908</b>	<b>3,358</b>	<b>48</b>	<b>(12,982)</b>	<b>36,332</b>
Loss for the year	-	-	-	(1,562)	(1,562)
Capital increase	30,340	-	-	-	30,340
Change in fair value of financial assets	-	-	3,786	-	3,786
<b>31 December 2017</b>	<b>76,248</b>	<b>3,358</b>	<b>3,834</b>	<b>(14,544)</b>	<b>68,896</b>
Loss for the year	-	-	-	(888)	(888)
Change in fair value of financial assets	-	-	(788)	-	(788)
<b>31 December 2018</b>	<b>76,248</b>	<b>3,358</b>	<b>3,046</b>	<b>(15,432)</b>	<b>67,220</b>

Accounting policies and other notes form part of these financial statement.

## Statement of cash flows

For the year ended 31 December 2018

(All amounts are expressed in kunas)

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
<b>CASH FLOWS FROM OPERATING</b>				
<b>ACTIVITIES</b>				
Loss for the year	(1,278)	(398)	(888)	(1,562)
Amortisation	1,223	1,098	192	3
Net loss/(gain) from sale of investments in shares and investment funds	-	(62)	-	-
Impairment of investments in tangible assets	-	346	-	-
Dividend income	-	(5)	-	-
Interest expense	291	60	257	10
Interest income	(181)	(340)	(163)	(325)
Increase / (decrease) in the calculated costs	(19)	2	(14)	1
<b>Cash from operations before changes in working capital</b>	<b>36</b>	<b>701</b>	<b>(616)</b>	<b>(1,874)</b>
(Decrease) / increase in short-term receivables	(256)	4,141	262	4,167
Increase inventory	(237)	35	-	-
Increase / (decrease) in trade payables and other liabilities	5,046	(8,252)	5,428	(10,930)
Other cash flow decrease	-	-	502	-
Tax paid	(61)	(57)	-	-
Interest paid	(291)	(60)	(257)	(10)
<b>Net increase in cash flow from operating activities</b>	<b>4,237</b>	<b>(3,492)</b>	<b>5,319</b>	<b>(8,647)</b>
<b>CASH FLOW FROM INVESTMENT</b>				
<b>ACTIVITIES</b>				
Cash outflows from the purchase of equity and debt instruments	400	-	-	(4,309)
Purchase of tangible and intangible assets	(486)	(555)	(13)	(18)
Investment property purchase	(12,721)	(4,535)	(12,173)	(4,508)
Sale of investments in financial assets available for sale	-	109	-	-
Investments in financial assets available for sale	-	(3,060)	-	(2,503)
Interest received	181	340	162	325
DividendS	-	5	-	-
<b>Net decrease in cash flow from investing</b>	<b>(12,626)</b>	<b>(7,696)</b>	<b>(12,024)</b>	<b>(11,013)</b>

Statement of cash flows (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>				
Cash receipts from loan principal, debentures, loans and other borrowings	-	-	-	-
Repayment of Received Loans	(3,175)	(4,059)	(3,175)	(3,929)
Net (payments) / receipts for received loans	10,384	(14,044)	10,384	(6,272)
Recapitalization		30,340		30,340
<b>Net increase in cash flow from financial activities</b>	<b>7,209</b>	<b>12,237</b>	<b>7,209</b>	<b>20,139</b>
Cash and cash equivalents at the beginning of the period	1,565	516	585	106
Net increase / (decrease) in cash and cash equivalents	(1,180)	1,049	(504)	479
<b>Cash and cash equivalents at the end of the period</b>	<b>385</b>	<b>1,566</b>	<b>79</b>	<b>585</b>

Accounting policies and other notes form part of these financial statement.

## Notes to the financial statements

For the year ended 31 December 2018

(All amounts are expressed in kunas)

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### 1. GENERAL INFORMATION

STANOVI JADRAN d.d., a real estate operations company, is based at the address: Kralja Zvonimira 14/IX, 21000 Split. The Company registration number is 2182190, and its statistical economic activity code according to the State Bureau of Statistics is 6810 – Buying and selling of own real estate. The Personal Identification Number (OIB) of the Company is 88680117715.

At 8 February 2007 the Company was entered into the court register of the Commercial Court in Split under the registration number 060227551 (Registration decision number: Tt-07/245-2) based on the Memorandum of Association of 26 January 2007. The Company's share capital amounts to HRK 16,262,100 and is fully paid in. The sole owner of the Company is Jadran Kapital d.d., Split.

Pursuant to the Ruling of the Commercial Court in Split, Ruling no Tt-13/3414-7, dated 14 October 2013, a merger of Zelena vala projekt d.o.o., Peškarija d.o.o. and Ličko selo d.o.o. to Stanovi Jadran d.d. was registered. As a result, the total share capital amounts to HRK 29,046,600.

Pursuant to the Ruling of the Commercial Court in Split, Ruling no Tt-14/5434-5, dated 21 April 2015, the merger of Jadran solar d.o.o. was entered into the court register, resulting in additional HRK 1,000,000 being added to the share capital, as a result of which the total share capital of the Company amounts to HRK 30,046,600. As per decision of the members of the Company on 30 June 2016 the share capital was increased by HRK 15,861,400 based on a decision of the Company's' shareholders to convert a portion of receivables to share capital, resulting in a share capital in the amount of HRK 45,908,000.

By decision of the Commercial Court in Split, no. Tt-17 / 3110-5 of 13.04.2017, published on 14.04.2017 Commercial court in Split, according to the judge, Edi Maleš, in the registration case of registration in the court register of the decision to increase the share capital, according to the proposal of the proponent STANOVI JADRAN d.d. for the real estate business, Split, Kraljevo Zvonimira 14 / IX, on April 13, 2017, a decision was made on the increase of the share capital in the subject of registration filed under the company STANOVI JADRAN d.d. for real estate business, based in Split, Kralja Zvonimira 14 / IX, in a register with MBS: 060227551, OIB: 88680117715, in the amount of HRK 45,908,000.00, for the amount of HRK 30,340,000.00, by cash payment , issuing 151,700 new ordinary shares in the non-materialized form, amounting to HRK 76,248,000.00.

The share capital of HRK 76,248,000.00 is divided into 381,240 new ordinary shares in the non-materialized form, which are denominated in the name, each in the nominal amount of HRK 200.00.

Authorized representative:

- 1) Maja Bradić, Board Member, represents the company individually and independently since 10 September 2012.
- 2) Toni Jeličić Purko, President of the Management Board, represents the company individually and independently since 21 October 2016.

The Supervisory Board was appointed on August 18, 2017, members are:

1. Tvrtko Brajković, member
2. Ante Jelčić, member
3. Katija Barić, Member
4. Bojan Vrančić, Deputy President
5. Miroslav Jeličić-Purko, President



## Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

### 1. GENERAL INFORMATION (CONTINUED)

The subject-matter of the Company according to the court register:

- Catering - preparation of food and provision of food services, preparation and serving of drinks and beverages and provision of accommodation services; preparation of food for consumption at other locations (on means of transport, at events and similar), with or without serving;
- Buying and selling of owned real estate;
- Rental and management of owned real estate;
- Real estate management and maintenance operations;
- Real estate dealings;
- Business and management consultancy;
- Accounting and bookkeeping.

The Group includes, in addition to the Company as the "Parent", the following subsidiary/associated companies:

<b>Subsidiary/Associate</b>	<b>31/12/2018</b>	<b>31/12/2017</b>	<b>Principal activity</b>	<b>Acquisition / Establishment</b>
	<b>% equity share</b>	<b>% equity share</b>		
Nova nekretnine d.o.o., Trsteno	78%	78%	Buying and selling of owned real estate	Acquired in December 2014
Mediteran gradnja d.o.o., Mokošica	93%	93%	Buying and selling of owned real estate	Acquired in December 2014
Vile Orašac d.o.o., Trsteno	100%	100%	Buying and selling of owned real estate	Acquired in December 2014
Winter d.o.o., Travnik, Bosna i Hercegovina	89%	89%	Accommodation, food and drink services	Acquired in April 2016

## Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

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### 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

#### ***Initial application of new amendments to the existing standards effective for the current reporting period***

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 2 "Share-based Payments"** - Classification and Measurement of Share-Based Payment Transactions, Adopted in the European Union on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time).
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IAS 40 "Investments in Real Estate"** - Transfer of Real Estate Investments, Adopted in the European Union on 14 March 2017 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 1 and IAS 28 under the heading "Adjustment of IFRS from Cycle 2014 - 2016"** arising from the IFRS Annual Compensation Project (IFRS 1, IFRS 12 and IAS 28), primarily to eliminate discrepancies and Texts Adopted in the European Union on 7 February 2018 (Amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018).
- **IFRS 22 "Transactions and prepayments in foreign currencies"**, adopted in the European Union on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

Adopting these amendments to existing standards and interpretations did not lead to significant changes in the financial statements.

## 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

### Initial application of new amendments to the existing standards effective for the current reporting period (continued)

#### Impact of initial application of IFRS 9 *Financial Instruments*

In the current year, the Company and the Group have applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. Additionally, the Company and the Group adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures about 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the financial statements are described below.

The Group and the Company have applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

#### (a) *Classification and measurement of financial assets*

The date of initial application (i.e. the date on which the Group/Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have been restated where appropriate.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

## Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

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### 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

**Initial application of new amendments to the existing standards effective for the current reporting period (continued)**

**Impact of initial application of IFRS 9 *Financial Instruments* (continued)**

*(a) Classification and measurement of financial assets (continued)*

- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company and the Group may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Company and the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Company and the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Company and the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Company and the Group reviewed and assessed the Company's and Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

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**2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**

**Initial application of new amendments to the existing standards effective for the current reporting period (continued)**

**Impact of initial application of IFRS 9 *Financial Instruments* (continued)**

*(b) Impairment of financial assets*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortised cost or at FVTOCI,
- (2) Lease receivables,
- (3) Trade receivables and contract assets, and
- (4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The Company did not recognize the impact of IFRS 9 on retained earnings since the Board's conclusion that such amount is not significant.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### **2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**

#### ***Amendments to the existing standards published by the OMRS and adopted in the European Union but not yet in force***

At the date of approval of the financial statements, the following new standards and amendments to the existing standards were published but not in force, published by IASB and adopted by the European Union:

- **IFRS 16 "Leases"**, adopted in the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IFRS 9 "Financial Instruments" - Advantages with Negative Compensation Advantages** - Adopted in the European Union on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019)
- **OTMF 23 "Uncertainties regarding the application of taxation rules on income tax"** - adopted in the European Union on 23 October 2018 (effective for annual periods effective for annual periods beginning on or after 1 January 2019).

The Company and the Group have chosen not to apply new standards, amendments to existing standards and interpretations before the date of their entry into force. The Company and the Group expect that the application of these standards and the amendment of existing standards will not lead to material changes to the financial statements in the first Implementation period.

#### ***Standards and Interpretations adopted IASB Union but not yet effective***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 30 April 2019 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IAS 3 "Business Combinations"** - Business Definition (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period commencing on or after 1 January 2020 and on the acquisition of or after the beginning of that period),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

## Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

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### 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

#### *Standards and Interpretations adopted IASB Union but not yet effective (continued)*

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Misstatements" - Significance Definition** (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to the Conceptual Framework Guidelines in IFRSs (effective for annual periods beginning on or after 1 January 2020).**

According to the estimates of the Company and the Group, the application of the new standards and the amendment of existing standards would not have a material material impact on the financial statements.

Accounting for hedges in a portfolio of financial assets and liabilities whose policies have not been adopted in the EU remains unregulated.

According to Company and Group estimates, the application of hedge accounting of financial assets or liabilities portfolio in accordance with IAS 39: "Financial Instruments: Recognition and Measurement" would not have a significant impact on the financial statements if applied at the balance sheet date.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The Company and the Group are required to prepare financial statements in line with the International Financial Reporting Standards (IFRSs) adopted by the European Union.

The financial statements of the Company and the Group are prepared in line with the Accounting Act of the Republic of Croatia and IFRSs. The consolidated and unconsolidated financial statements are prepared on an accrual basis of accounting, whereby the effects of transactions and other events are recognised when they occur and they are reported in the financial statements of the period to which they relate.

The financial statements of the Company and the Group are presented in HRK, which is also the functional currency of the Company and the Group, as it is the currency most of the business events of the Company and the Group are reported in.

<b>Currency</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
EUR 1	7.4176	7.5136
BAM 1	3.7925	3.8417

The financial statements are prepared based on the going concern principle.



## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Basis of consolidation

The accompanying consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- *has power over the investee;*
- *is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.*

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- *the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;*
- *potential voting rights held by the Company, other vote holders or other parties;*
- *rights arising from other contractual arrangements; and*
- *any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.*

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Revenue recognition**

Revenue is an increase in economic benefits in an accounting period in the form of inflows or increases of assets or reduction of liabilities which results in an increase of equity other than from amounts contributed by the owners. Revenue includes gains, as well as proceeds from ordinary activities such as those from the sale of assets or interest. Revenue is measured at the fair value of the consideration or receivable.

Revenue is recognised on an accrual basis of accounting and under the income and expense matching principle (whereby the income for a particular accounting period is matched against the expenses of the same accounting period).

Revenues from services are recognised by reference to the percentage of the service completion, i.e. where there is no significant uncertainty as regards the provision of the service or the related costs.

Financial income consists of interest, foreign exchange gains, dividends and other income from related parties, interest, foreign exchange gains, dividends and other income from third parties and other entities, part of the income from associates and joint ventures, unrealized gains (revenues) and other income. Interest income is recognized in the income statement when incurred, using the effective interest method. Dividend income is recognised when the right to receive payment has been established.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Expense recognition**

Expenses are reductions in economic benefits over an accounting period in the form of outflows or reductions of assets or increases in liabilities which lead to a decrease in equity, other than as a result of the profit distributed to the equity holders.

Expenses are recognized by matching them directly with the related revenue from one and the same transaction or other event.

Operating expenses comprise material costs, staff costs, depreciation, amortisation, impairment of non-current and current assets as well as other operating expenses.

Financial expenses include interest expense, foreign exchange losses and other costs from relationships with related and third parties, unrealized losses from financial assets and other financial expenses. Interest expense on borrowings is recognized using the effective interest method.

#### **Receivables**

Current receivables comprise trade receivables, receivables from the state and other receivables.

Trade receivables include all amounts receivable from the sale of goods and services. They are presented in the amounts which are expected to be received. An impairment allowance for bad and doubtful accounts is recognised based on the Management's best estimate of their recoverability. Impairment losses are recognized in the statement of profit or loss.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, short-term bank deposits with contractual maturities of up to 3 months and cash with banks. Cash with banks and on hand is recognised at nominal amount and expressed in Croatian kunas. Foreign-currency denominated balances with banks and on hand are translated using the middle exchange rate of the Croatian National Bank rate at the end of each reporting period.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Foreign currencies**

Transactions denominated in foreign currencies are translated into the Group's functional currency using the exchange rate effective at the dates of the transactions. Monetary assets denominated in a foreign currency are retranslated into functional currency at the end of each reporting period. Non-monetary assets in a foreign currency carried at fair value are translated using the exchange rate effective at the fair-value measurement date. Non-monetary assets in a foreign currency carried at historical cost are not retranslated. Foreign currency differences arisen on the settlement and subsequent retranslation of monetary assets are recognised in the statement of profit or loss for the period. Foreign currency differences on subsequent measurement of non-monetary assets carried at fair value form a part of the fair value of these assets.

#### **Taxation**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit for the period reported in the statement of profit or loss because it excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax is recognized as an expense in the statement of profit or loss, except where it relates to equity items, in which case it is also recognised in equity. Where taxes arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### **Property, plant and equipment**

Property, plant and equipment are recognised initially at cost of acquisition. The initial cost of property, plant and equipment comprises the purchase price, which includes import duties and non-refundable sales taxes as well as costs directly attributable to bringing an asset to its working condition and location for its intended use.

Expenditure incurred after bringing items of property, plant and equipment to their intended use, such as repairs and maintenance costs, is recognized as an expense in the statement of profit or loss in the period in which it is incurred. Expenditures resulting in an obvious increase of the expected future economic benefits to be derived from the use of an item of property, plant and equipment are capitalised. Costs of periodic, planned significant overhauls necessary for further use of assets are also capitalized.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property, plant and equipment (continued)

Property, plant and equipment are no longer recognised in the financial statements when they are sold or when the Group no longer expects to receive any economic benefits from their use or disposal. Any gain or loss from sale property, plant and equipment is included in the statement of profit or loss. The net book value of sold property, plant and equipment is included in expenses and offset against the selling price to arrive at the gain or loss from the sale. Items of property, plant and equipment which are disposed of are derecognised from the statement of profit or loss, together with their respective accumulated depreciation.

Any increase in the carrying amount resulting from revaluation is recognised as an addition to the revaluation reserves. Impairment of property, plant and equipment carried at revalued amounts is shown as a reduction of the revaluation reserve to the extent of the previously recognised surplus on revaluation, and all other impairment is charged to the statement of profit or loss.

Depreciation is provided under the straight-line method over the estimated useful life of an asset at the following annual rates:

	<b>2018</b>	<b>2017</b>
Properties	2 - 3%	2 - 3%
Equipment and furnishings	20%	20%
Vehicles	20%	20%

Land and assets under construction are not depreciated. Depreciation of other assets is calculated for each item separately at rates appropriate to write down their cost over their estimated useful lives.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Shares in subsidiaries**

Subsidiaries are companies in which the Mother Company has control, i.e. the power to manage financial and business policies involving the decision on financial and business policies in subsidiary.

Control was achieved if:

- Company has the predominance i.e. power of disposal in the subject
- The company is exposed or has rights over the variable return on the basis of its participation in that Entity and
- It is capable of relying on its predominance, i.e. the power to dispose of its contribution to its yield.

The Company re-evaluates whether it has control over the facts and circumstances that indicate that one or more of the above-mentioned control elements have occurred.

Investments in subsidiaries are reported in the statement of financial position at cost of investments adjusted for all changes in the Company's share of the net assets of the subsidiary after the acquisition, as well as for any impairment of the value of individual investments.

#### **Investment properties**

Investments in land and buildings which are held for the purposes of capital appreciation or earning rentals are classified as investment properties.

They are recognised initially at cost of acquisition, which includes transaction costs. The cost is increased by all costs directly attributable to the acquisition of an item of investment property. After the initial recognition, investment properties are measured at fair value.

Fair value is the current price on an active market for a similar type of property in the same condition that is subject to similar contracts. The fair value is measured at least once a year, as well as whenever the fair value of an item of investment property differs significantly from its carrying amount.

Any gain or loss from the re-measurement of fair value of such assets is recognised in the statement of profit or loss for the period in which it arises. A gain or loss from the disposal of investment properties is recognised in the statement of profit or loss as a difference between the actual selling price and the carrying amount of an asset.

Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment**

Assets with an indefinite useful life are not depreciated and are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Assets that are not depreciated are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets not yet available for use are reviewed for impairment at each reporting date.

Impairment losses are recognised whenever the carrying amount of an asset exceeds the asset's recoverable amount. Impairment losses are recognised in the statement of profit or loss.

The recoverable amount of property, plant and equipment and of investment properties is the higher of their fair value less costs to sell and value in use.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial assets

Financial assets are classified into one of the following categories: loans and receivables, and financial assets available for sale. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Loans and receivables

Trade receivables, loan receivables and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables and measured initially at amortised cost using the effective interest method, less impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

#### Financial assets available for sale

Available-for-sale (AFS) financial assets include certain equity instruments. AFS assets are recognised initially at cost, which includes transaction costs, and are measured and recognised subsequently at fair value. Financial assets whose prices are not quoted in an active market and whose fair values cannot be determined reliably are carried at historical cost less accumulated impairment losses.

#### Impairment of financial assets

At the end of each reporting period, the Group performs a review to identify whether there is any objective indication that financial assets are impaired. Impairment on a financial asset is recognised if there is objective evidence of impairment as a result of one event, or several events, occurring after the initial recognition ("an impairment triggering event"), which affects the estimated future cash flows from a financial assets that can be measured reliably.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest rate at the date of initial recognition. Changes in the carrying amount of the allowance account are recognised in the income statement.



## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Financial assets (continued)**

##### Impairment of financial assets

For equity investments classified as available for sale, any significant or prolonged decrease in their fair value below the cost is taken into account in determining whether an asset has been impaired. If any such indication exist, the cumulative loss on impairment of a financial assets, determined as the difference between the cost and the current fair value of the asset, less any impairment loss on that financial asset previously recognised in the statement of profit or loss, is transferred from other comprehensive income and recognised in the statement of profit or loss. If, in a subsequent period, the fair value of a debt security classified as available for sale increases, and the increase can be related objectively to an event occurring after the recognition of the impairment loss in profit or loss, the previously recognised impairment loss is reversed in the statement of profit or loss. However, any subsequent increase in the fair value of previously impaired equity securities available is recognised in the statement of other comprehensive income.

#### **Borrowings**

Received loans are recognised initially at fair value less transaction costs. Received loans are carried subsequently at amortised cost using the effective interest method.

#### **Share capital**

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity, net of any related income taxes. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Where the Group or the related parties constituting the Group purchase, or become entitled to purchase, the Group's share capital, the consideration paid, including any attributable transaction costs, net of income taxes is shown as a deduction from the total shareholders' equity. Gains and losses on sale of own shares are charged or credited to the share premium/discount account in equity.

#### **Events after the balance sheet date**

Events after the balance sheet date that provide additional information about the Company's and Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Standards requires from the Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses and any disclosed contingent liabilities. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. The most significant areas of judgement are set out below:

#### Useful life of property, plant and equipment

The Company and the Group review the estimated useful lives of its assets at the end of each annual reporting period. There were no changes of the useful lives during the year.

#### Impairment allowance on trade receivables

At each reporting date, the Company and the Group estimate the carrying amount of its trade receivables and adjusts their value if necessary. Value adjustment on trade receivables is recognized based on the experience with irrecoverable amounts in prior periods and an analysis of the current financial position of debtors.

#### Income tax

Taxes are calculated based on interpretations of the current tax legislation. Tax calculations that result in a tax refund are subject to review and recognition by the local tax authorities.

#### Property valuation

Property valuation was conducted during November 2016 by the external independent valuation expert PBZ Nekretnine, and two during February and July 2018. Law on valuation of property, Article 23, prescribes three methods of assessment; comparative, income and cost method. The selection of method depends on the type of the property, taking into account existing practices in usual commercial transactions and other circumstances of the case, especially in relation to the available data. Estimates of the value of land were prepared by using comparative method. This method requires an analysis of a number of comparable transactions and real estates advertised for sale on the market. This approach is based on data available on the market, but is based on the availability of newer and directly comparable transactions available to the public within the meaning of Regulation 575, the EU Article 199. Access determines the value of land per m<sup>2</sup>, and is calculated using the coefficients of conversion in order to take into account the differences in quality, marketability and value of comparable land with land assessed. For the purposes of valuing the hotel Blanca (Winter d.o.o.) income method was used. Previously, estimates of real estate were last conducted in December 2012. Prior to November 2016, and February and July 2018, real estates were last conducted in December 2012.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**5. SALES INCOME**

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
Revenue from services	6,744	7,319	36	96
Rental income	611		611	-
Income from sale of assets	203	-	203	-
Income from recharged items	23	16	23	16
Income from debt write-off and credit notes	5	22	-	-
Other income	270	432	159	118
	<b>7,857</b>	<b>7,789</b>	<b>1,032</b>	<b>230</b>

Revenue from services at the Group level is related to revenues from the services of hotel accommodation Winter d.o.o., Travnik, which became part of the Group in April 2016.

Other Income on Group-level include income from insurance payments and incentives. Other Income on Company-level refer to revenues from sales of services to affiliated companies. For the year ended 2018 HRK 100 thousand (2016: HRK 96 thousand).

**6. MATERIAL EXPENSES**

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
Service costs	2,076	2,172	934	1,274
Cost of raw material and supplies	1,898	2,055	109	51
	<b>3,974</b>	<b>4,227</b>	<b>1,043</b>	<b>1,325</b>

Service costs relate to regular business services, such as leases, banking and professional services.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**7. PERSONNEL EXPENSES**

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
Net salaries	1,549	1,314	504	405
Contributions and taxes from salaries	751	630	173	146
Contributions on salaries	284	241	113	95
	<b>2,584</b>	<b>2,186</b>	<b>789</b>	<b>645</b>

As at 31 December 2018, the Group had 46 employees and the Company had 9 employees (31 December 2017: 39 employees had Group and 6 employees Company). The increase in wage costs was due to the increase in the number of employees.

**8. OTHER EXPENSES**

	Stanovi Jadran d.d. and subsidiaries		Stanovi Jadran d.d.	
	2018	2017	2018	2017
	'000HRK	'000HRK	'000HRK	'000HRK
Business travel, professional education and other non-taxable payments to employees	415	417	158	95
Second income costs	362	329	247	73
Disposal of non-current asset costs	86	-	11	-
Insurance premiums	67	130	-	1
Representation costs	41	10	22	1
Taxes independent of the result	40	54	95	12
Marketing costs	29	-	-	-
Donations	19	-	1	-
Membership fees	15	5	39	5
Administrative and court costs and duties	6	3	20	3
Other costs	199	65	5	-
	<b>1,279</b>	<b>1,012</b>	<b>598</b>	<b>189</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**9. FINANCIAL INCOME**

	Stanovi Jadran d.d. and subsidiaries		Stanovi Jadran d.d.	
	2018	2017	2018	2017
	'000HRK	'000HRK	'000HRK	'000HRK
Dividend income	3	5	693	5
Interest income and foreign exchange gains	181	340	162	325
Realised gains on sale of shares	-	51	-	51
	<b>184</b>	<b>396</b>	<b>855</b>	<b>381</b>

**10. FINANCIAL EXPENSES**

	Stanovi Jadran d.d. and subsidiaries		Stanovi Jadran d.d.	
	2018	2017	2018	2017
	'000HRK	'000HRK	'000HRK	'000HRK
Interest expense and foreign exchange losses	291	60	257	10
Losses on sale of shares	-	-	45	-
	<b>291</b>	<b>60</b>	<b>302</b>	<b>10</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

### 11. INCOME TAX

Corporate income tax is assessed according to the Croatian laws and regulations. The tax rate applied to taxable profit for the year is 18%.

Corporate income of Winter d.o.o., Travnik is assessed according to the laws and regulations of the Federation BiH. The tax rate applied to taxable profit in BiH is 10%.

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
Accounting loss	(1,278)	(398)	(888)	(1,562)
Tax base increase	142	1,601	134	114
Tax base decrease	(693)	(832)	(693)	(424)
Tax base	1,183	769	-	-
Tax rate 18% / 20%	-	-	-	-
Tax rate 10%	31	77	-	-
<b>Income tax</b>	<b>31</b>	<b>77</b>	<b>-</b>	<b>-</b>

	Stanovi Jadran d.d. and its subsidiaries	Stanovi Jadran d.d.
	2018	2018
	'000kn	'000kn
<b>Tax loss</b>		
Utilized by the end of 2018	151	115
Utilized by the end of 2019	105	68
Utilized by the end of 2020	1,080	1,041
Utilized by the end of 2021	8,161	2,128
Utilized by the end of 2022	1,458	1,426
<b>Total</b>	<b>10,955</b>	<b>4,778</b>

In accordance with the tax regulations, the Tax Administration may at any time review the books and records of the Group for a period of three years after the expiration of the year in which the tax liability is reported and may impose additional tax liabilities and penalties. The Management Board of the Company is not aware of any circumstances that could lead to potential significant obligations under supervised supervision

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**12. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS**

Stanovi Jadran d.d. and its subsidiaries	Concessions, licence, software	Total intangible assets	Land	Buildings	Equipment	Furniture	Total property, plant and equipment
	'000kn	'000kn	'000kn	'000kn	'000kn	'000kn	'000kn
<b>COST</b>							
Balance at 1 January 2017	157	157	2,060	28,703	895	86	31,744
Additions / (Disposals)	30	30	(8)	(337)	524	-	179
<b>Balance at 31 December 2017</b>	<b>187</b>	<b>187</b>	<b>2,051</b>	<b>28,366</b>	<b>1,419</b>	<b>86</b>	<b>31,923</b>
Additions / (Disposals)	2	2	(26)	292	220	-	486
<b>Balance at 31 December 2018</b>	<b>189</b>	<b>189</b>	<b>2,025</b>	<b>28,659</b>	<b>1,640</b>	<b>86</b>	<b>32,410</b>
<b>VALUE ADJUSTMENT</b>							
Balance at 1 January 2017	(8)	(8)	-	(2,024)	(420)	(86)	(2,530)
Charge for the year	(44)	(44)	-	(590)	(464)	-	(1,054)
<b>Balance at 31 December 2017</b>	<b>(53)</b>	<b>(53)</b>	<b>-</b>	<b>(2,613)</b>	<b>(884)</b>	<b>(86)</b>	<b>(3,583)</b>
Charge for the year	(55)	(55)	-	(865)	(270)	-	(1,135)
<b>Balance at 31 December 2018</b>	<b>(108)</b>	<b>(108)</b>	<b>-</b>	<b>(3,479)</b>	<b>(1,154)</b>	<b>(86)</b>	<b>(4,719)</b>
<b>NET BOOK VALUE</b>							
<b>Balance at 31 December 2017</b>	<b>135</b>	<b>135</b>	<b>2,051</b>	<b>25,753</b>	<b>548</b>	<b>-</b>	<b>28,352</b>
<b>Balance at 31 December 2018</b>	<b>81</b>	<b>81</b>	<b>2,025</b>	<b>25,180</b>	<b>486</b>	<b>-</b>	<b>27,690</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**12. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS (CONTINUED)**

Stanovi Jadran d.d.	Concessions, licence, software	Total intangible assets	Equipment	Total property, plant and equipment
	'000kn	'000kn	'000kn	'000kn
<b>COST</b>				
Balance at 1 January 2017	-	-	43	43
Additions / (Disposals)	20	20	22	42
<b>Balance at 31 December 2017</b>	<b>20</b>	<b>20</b>	<b>65</b>	<b>85</b>
Additions / (Disposals)	2	2	11	13
<b>Balance at 31 December 2018</b>	<b>22</b>	<b>22</b>	<b>76</b>	<b>97</b>
<b>VALUE ADJUSTMENT</b>				
Balance at 1 January 2017	-	-	(37)	(37)
Charge for the year	-	-	(3)	(3)
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>(41)</b>	<b>(41)</b>
Transfer	-	-	35	35
Charge for the year	-	-	(43)	(43)
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>-</b>	<b>(49)</b>	<b>(49)</b>
<b>NET BOOK VALUE</b>				
Balance at 31 December 2017	20	20	24	24
Balance at 31 December 2018	22	22	26	26



Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**12. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS (CONTINUED)**

As collateral for the repayment of the lending obligations of the Company and the Group, real estate worth HRK 5,080,000 (2017: 5,080,000 HRK) was pledged. The Group does not own the property under financial lease.

**13. INVESTMENT PROPERTY**

	Stanovi Jadran d.d. and its subsidiaries	Stanovi Jadran d.d.
	'000kn	'000kn
<b>COST</b>		
Balance at 31 December 2016	31,372	21,095
Additions	4,535	4,509
<b>Balance at 31 December 2017</b>	<b>35,907</b>	<b>25,603</b>
Additions	22,266	22,246
<b>Balance at 31 December 2018</b>	<b>58,173</b>	<b>47,849</b>
<b>VALUE ADJUSTMENT</b>		
Balance at 31 December 2016	(7,853)	(5.155)
Charge for the year	-	-
<b>Balance at 31 December 2017</b>	<b>(7,853)</b>	<b>(5.155)</b>
Charge for the year	(309)	(309)
<b>Balance at 31 December 2018</b>	<b>(8,162)</b>	<b>(5.464)</b>
<b>NET BOOK VALUE</b>		
<b>Balance at 31 December 2017</b>	<b>28,054</b>	<b>20,448</b>
<b>Balance at 31 December 2018</b>	<b>50,011</b>	<b>42,385</b>

The carrying amount of property classified as an investment in real estate represents approximately its market value.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**14. SHARES IN SUBSIDIARIES**

	<b>Stanovi Jadran d.d.</b>			
	<b>31/12/2018</b>	<b>31/12/2017</b>	<b>31/12/2018</b>	<b>31/12/2017</b>
	Equity share	Equity share		
Vile Orašac d.o.o.	100%	100%	4,347	2,330
Mediteran Gradnja d.o.o.	93%	93%	1,432	1,444
Winter d.o.o.	89%	89%	24,762	24,765
Nova Nekretnine d.o.o.	78%	78%	1,462	1,472
			<b>32,002</b>	<b>30,011</b>

**15. LONG-TERM FINANCIAL ASSETS AVAILABLE FOR SALE**

	<b>Stanovi Jadran d.d. and its subsidiaries</b>		<b>Stanovi Jadran d.d.</b>	
	<b>31/12/2018</b>	<b>31/12/2017</b>	<b>31/12/2018</b>	<b>31/12/2017</b>
	'000kn	'000kn	'000kn	'000kn
Shares listed on the Zagreb Stock Exchange	2,071	2,620	2,071	2,620
Investment funds	5	5	-	-
Shares carried at cost	174	174	174	174
Share in Hvar Hills d.o.o.	11	11	11	11
	<b>2,261</b>	<b>2,809</b>	<b>2,256</b>	<b>2,804</b>

**Analysis by type of investment at 31/12/2018**

	<b>Cost</b>	<b>Unrealised (losses) / gains</b>	<b>Fair value</b>
	'000kn	'000kn	'000kn
FMPS-R-A	2,939	(137)	2,117
INFS-R-A	47	-	47
MMTZ-R-A	91	-	100
SEM-R-A	42	-	42
VART-R-1	121	-	91
NOVČANI FOND ZB PLUS	5	-	5
UDJEL U DRUŠTVU HVAR HILLS D.O.O	11	-	11
	<b>3,256</b>	<b>(137)</b>	<b>2,413</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**15. LONG-TERM FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)**

*Analysis by type of investment at 31/12/2017*

	Cost	Unrealised (losses) / gains	Fair value
	'000kn	'000kn	'000kn
FMPS-R-A	2,939	(399)	2,540
INFS-R-A	47	(16)	32
MMTZ-R-A	91	9	100
SEM-R-A	42	-	42
VART-R-1	121	(41)	80
NOVČANI FOND ZB PLUS	5	-	5
UDJEL U DRUŠTVU HVAR HILLS D.O.O	11	-	11
	<b>3,256</b>	<b>(447)</b>	<b>2,809</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**16. RECEIVABLES**

*Ageing structure of receivables for which no impairment was found:*

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	'000kn	'000kn	'000kn	'000kn
Up to 30 days	3,219	2,845	2,510	2,589
Up to 90 days	-	-	-	-
Up to 180 days	-	-	-	-
Up to 360 days	-	-	-	-
Over 360 days	-	119	-	-
	<b>3,219</b>	<b>2,964</b>	<b>2,510</b>	<b>2,589</b>

**17. OTHER RECEIVABLES**

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
State receivables	398	486	216	304
Other receivables	741	474	415	153
	<b>1,139</b>	<b>959</b>	<b>631</b>	<b>457</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**18. SHORT-TERM FINANCIAL ASSETS**

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	'000kn	'000kn	'000kn	'000kn
Given loans	3,587	14,274	3,389	15,886
	<b>3,587</b>	<b>14,274</b>	<b>3,389</b>	<b>15,886</b>

Loans are given to affiliated / subsidiary companies. Interest rates are between 0% and 5% (2017: 0% -5%), and mature within one year (or upon request).

**19. CASH AND CASH EQUIVALENTS**

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	'000kn	'000kn	'000kn	'000kn
Giro account balance	245	1.469	78	583
Cash in hand	140	96	1	2
	<b>385</b>	<b>1.565</b>	<b>79</b>	<b>585</b>

**20. SHARE CAPITAL**

As at 31 December 2018 share capital amounted 76,248,000 HRK (as at 31 December 2017: 76,248,000 HRK).

*The ownership structure at the reporting date was as follows:*

	31/12/2018		31/12/2017	
	Equity share		Equity share	
	'000kn	%	'000kn	%
<b>Shareholders</b>				
Jadran kapital d.d., Split	45,909	60,21	35,908	47,09
ADDIKO BANK d.d./PBZ CO OMF - B	20,000	26,23	20,000	26,23
Agram life osiguranje d.d.	5,002	6,56	-	-
HPB d.d./Fond NEK	5,002	6,56	5,000	6,55
ADDIKO BANK d.d./PBZ CO OMF - A	335	0,44	340	0,47
Miroslav Jeličić Purko	-	-	10,000	13,11
Agram Invest d.d.	-	-	5,000	6,55
	<b>76,248</b>	<b>100</b>	<b>76,248</b>	<b>100</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**21. TRADE PAYABLES**

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	'000kn	'000kn	'000kn	'000kn
Liabilities towards domestic and foreign suppliers	1,483	871	898	527
	<b>1,483</b>	<b>871</b>	<b>898</b>	<b>527</b>

**22. BORROWINGS**

Creditor	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	'000kn	'000kn	'000kn	'000kn
Kreditna banka d.d. – interest rate 5%	7,075	-	7,075	-
Karlovačka banka: long-term loan – interest rate 3%	2,579	3,044	2,495	2,998
Karlovačka banka: short-term part of long-term loan – interest rate 3%	-	-	-	46
Unicredit d.d. Long-term - interest rate 3.09%	1,138	-	-	-
Unicredit d.d. Short-term - interest rate - 3.09%	415	-	-	-
Capturis d.o.o. - interest rate 5%	1,036	-	1,036	-
Samoborske vile d.o.o. – interest rate 0%	160	160	160	160
Jadran kapital d.d. - interest rate 0%	-	400	-	-
Miroslav Jeličić Purko – interest rate 0%	-	873	-	-
RBA: Short-term - interest rate 4.5%	-	859	-	-
Nova nekretnine d.o.o. - interest rate 0%	-	-	104	-
Other	142	-	-	-
	<b>12,545</b>	<b>5,336</b>	<b>10,870</b>	<b>3,204</b>

Received loans mature between 2019 and 2029 at an interest rate of 0% - 5% (2017: 0% - 5%).

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**23. RELATED-PARTY TRANSACTIONS**

In the course of operations, the Group entered into the following transactions with parties to which it is related on the basis of common owner. The transactions were recognised at the standard terms and conditions.

	Revenue		Expenses	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
Jadran kapital d.d.	36	36	-	-
Malojan d.o.o.	8	8	-	-
Samoborske vile d.o.o.	8	8	-	-
Capturis d.o.o.	114	213	-	117
Hvar Hills d.o.o. (ex. Plančić d.o.o.)	45	18	-	-
Denis Štambuk	2	2	-	-
	<b>213</b>	<b>286</b>	<b>-</b>	<b>117</b>

Receivables from and liabilities to related parties are presented below:

	Receivables		Payables	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
Jadran kapital d.d.	4,879	2,279	-	1
Malojan d.o.o.	23	72	-	-
Samoborske vile d.o.o.	23	12	160	160
Capturis d.o.o.	1	9,313	-	-
Hvar Hills d.o.o. (ex. Plančić d.o.o.)	512	603	-	-
Denis Štambuk	62	62	-	-
Meho Poljarević	156	-	-	-
Filip Ćurak	-	5	-	-
Mario Adžaip	6	6	-	-
AM-PEK	96	93	-	-
	<b>5,758</b>	<b>12,446</b>	<b>160</b>	<b>161</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**23. RELATED-PARTY TRANSACTIONS (CONTINUED)**

In the course of operations, the Company entered into the following transactions with parties to which it is related on the basis of common owner. The transactions were recognised at the standard terms and conditions.

	Revenue		Expenses	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
Jadran kapital d.d.	36	-	-	1
Malojan d.o.o.	8	11	-	-
Samoborske vile d.o.o.	8	-	-	-
Mediteran gradnja d.o.o.	8	-	-	-
Nova nekretnine d.o.o.	8	-	-	-
Vile Orašac d.o.o.	8	-	-	-
Capturis d.o.o.	117	-	117	152
Hvar Hills d.o.o. (ex. Plančić d.o.o.)	45	-	-	-
Winter d.o.o.	-	-	3	-
Denis Štambuk	2	-	-	-
	<b>240</b>	<b>11</b>	<b>120</b>	<b>153</b>

Receivables from and liabilities to related parties are presented below:

	Receivables		Payables	
	2018	2017	2018	2017
	'000kn	'000kn	'000kn	'000kn
Jadran kapital d.d.	4,879	5,559	-	1
Malojan d.o.o.	23	77	-	-
Samoborske vile d.o.o.	23	11	160	160
Capturis d.o.o.	1	9,100	-	4
Hvar Hills d.o.o. (ex. Plančić d.o.o.)	512	603	-	-
Denis Štambuk	62	-	-	-
Mediteran gradnja d.o.o.	105	92	-	-
Nova nekretnine d.o.o.	23	12	104	122
Vile Orašac d.o.o.	39	1,643	-	-
Winter d.o.o.	-	-	-	-
	<b>5,667</b>	<b>17,97</b>	<b>264</b>	<b>287</b>

Remuneration paid to Management and Supervisory Bord annually with correspondent taxes and contributions amounted in total HRK 281 thousand (2017: HRK 281 thousand).



## Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

### 24. RISK MANAGEMENT

#### Equity risk management

##### Net debt-to-equity ratio

The Group and Company's gearing ratio is defined as the ratio of net debt to equity. Debt has been defined as non-current and current borrowings. Equity includes all capital and reserves.

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	'000kn	'000kn	'000kn	'000kn
Debt (non-current and current borrowings)	12,545	5,336	10,973	3,325
Cash and cash equivalents	(385)	(1,565)	(79)	(585)
<b>Net debt</b>	<b>12,160</b>	<b>3,771</b>	<b>10,894</b>	<b>2,740</b>
Equity	70,005	72,480	67,220	68,896
Net debt-to-equity ratio	17.37%	5.20%	16.21%	3.98%

#### Categories of financial instruments

	Stanovi Jadran d.d. and its subsidiaries		Stanovi Jadran d.d.	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	'000kn	'000kn	'000kn	'000kn
<b>Financial assets</b>				
Cash and cash equivalents	385	1,565	79	585
Given loans	3,736	14,274	3,537	15,886
Securities	2,261	2,809	2,256	2,804
Trade receivables	3,219	2,964	2,511	2,589
Other receivables	1,139	959	631	457
	<b>10,740</b>	<b>22,571</b>	<b>9,014</b>	<b>22,321</b>
<b>Financial liabilities</b>				
Borrowings	12,545	5,336	10,973	3,325
Trade payables	1,483	871	898	527
Other liabilities	5,262	744	4,534	64
	<b>19,290</b>	<b>6,951</b>	<b>16,405</b>	<b>3,916</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### **24. RISK MANAGEMENT (continued)**

#### **Financial risk management**

The Group and the Company are exposed to the international market and is partly financed using foreign-currency denominated loans. The most significant risks include market risk (foreign exchange risk, interest rate risk), credit risk and liquidity risk. The Group and the Company did not use any derivative instruments to minimise the effects of these risks.

#### **Credit risk management**

The Group and the Company are exposed to the risk of default of a portion of its trade receivables, which would lead to financial losses for the Group and the Company. The Group and the Company transacts generally with creditworthy customers and it seeks to minimise its credit risk exposure by monitoring the financial position of its customers, applying strict collection measures and obtaining various instruments of collateral. The Group and the Company evaluates creditworthiness of its customers on the basis of available information. The Group and the Company continuously monitors its exposure to the parties with which it operates, as well as their creditworthiness, and the total value of transactions concluded allocated to accepted clients. Credit exposure is managed by regular analyses in order to timely identify the risks in dealing with individual customers.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

### 24. RISK MANAGEMENT (continued)

#### Currency risk

The official currency of the Group is partly Kuna, and partly BAM, but certain transactions carried out in foreign currencies are retranslated at the exchange rate applicable at the end of the reporting period. The official currency of the Company is Kuna. The resulting exchange differences are charged or credited to the income statement, but do not affect the cash flow.

The following table presents the carrying amounts of monetary assets and monetary liabilities of the Group denominated in foreign currencies at the reporting date.

	Assets		Liabilities	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	'000kn	'000kn	'000kn	'000kn
HRK	5,859	20,764	1,248	1,198
EUR	-	-	11,926	2,998
BAM	325	1,807	-	2,755
<b>HRK</b>	<b>6,184</b>	<b>22,571</b>	<b>13,174</b>	<b>6,951</b>

Through acquisition of Winter d.o.o. based in Bosnia and Herzegovina, the Group became partly exposed to changes in BAM / EUR rate, as aforementioned company has contracted loans in BAM with a clause which states that in the case of a change of attitude in BAM / EUR the Bank may require from the debtor settling of due liabilities in EUR.

The following table presents the carrying amounts of monetary assets and monetary liabilities of the Company denominated in foreign currencies at the reporting date.

	Assets		Liabilities	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	'000kn	'000kn	'000kn	'000kn
HRK	3,466	16,468	10,972	3,325
<b>HRK</b>	<b>3,466</b>	<b>16,468</b>	<b>10,972</b>	<b>3,325</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

### 24. RISK MANAGEMENT (continued)

#### Interest rate risk

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

Interest rate risk for the Group derives from long-term loans. Long-term loans are received from banks in the Republic of Croatia and Bosnia and Herzegovina.

#### Liquidity risk management

Management of the Group pays considerable attention to liquidity risk management, in order to manage short-term and long-term funding and liquidity. Liquidity risk management requires certain reserves and credit lines, continuously monitoring forecast and actual cash flows, and matching the maturity of receivables and liabilities.

#### Liquidity risk analysis

The table presents the maturity of contractual obligations and receivables in the statement of financial position of the Group at the end of the reporting period. The analysis was made on the basis of discounted cash flows from financial liabilities i.e. discounted cash flows from financial assets on maturity.

The tables show the principal cash flows.

<b>Stanovi Jadran d.d. and its subsidiaries</b>	<b>Weighted average effective interest rate</b>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Total</b>
		<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>
<b>31 December 2018</b>						
Trade payables (non-interest bearing)		1,483	-	-	-	1,483
Other liabilities (non-interest bearing)		664	4,599	-	-	5,263
Borrowings	4%	162	324	1,458	9,720	11,664
		<b>2,309</b>	<b>4,923</b>	<b>1,458</b>	<b>9,720</b>	<b>18,410</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**24. RISK MANAGEMENT (continued)**

**Liquidity risk management (continued)**

Stanovi Jadran d.d. and its subsidiaries	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
		'000kn	'000kn	'000kn	'000kn	'000kn
<b>31 December 2017</b>						
Trade payables (non-interest bearing)	-	871	-	-	-	871
Other liabilities (non-interest bearing)	-	744	-	-	-	744
Borrowings	3%	-	38	1,441	3,857	5,336
		<b>1,615</b>	<b>38</b>	<b>1,441</b>	<b>3,857</b>	<b>6,951</b>

The table presents the maturity of contractual obligations and receivables in the statement of financial position of the Company at the end of the reporting period. The analysis was made on the basis of discounted cash flows from financial liabilities i.e. discounted cash flows from financial assets on maturity.

The tables show the principal cash flows.

Stanovi Jadran d.d.	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
		'000kn	'000kn	'000kn	'000kn	'000kn
<b>31 December 2018</b>						
Trade payables (non-interest bearing)		897	-	-	-	897
Other liabilities (non-interest bearing)		92	-	-	-	92
Borrowings	4%	124	371	1,116	5,952	7,563
		<b>1,113</b>	<b>371</b>	<b>1,116</b>	<b>5,952</b>	<b>8,552</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**24. RISK MANAGEMENT (continued)**

**Liquidity risk management (continued)**

Stanovi Jadran d.d.	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
		'000kn	'000kn	'000kn	'000kn	'000kn
<b>31 December 2017</b>						
Trade payables (non-interest bearing)	-	526	-	-	-	-
Other liabilities (non-interest bearing)	-	63	-	-	-	-
Borrowings	3%	46	138	414	2,760	3,358
		<b>635</b>	<b>138</b>	<b>414</b>	<b>2,760</b>	<b>3,358</b>

Stanovi Jadran d.d. and its subsidiaries	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
		'000kn	'000kn	'000kn	'000kn	'000kn
<b>31 December 2018</b>						
Trade receivables (non-interest bearing)		3,219	-	-	-	3,219
Other receivables (non-interest bearing)		1,139	-	-	-	1,139
Given loans (non-interest bearing)		-	-	-	-	-
Given loans		3,587	-	-	-	3,587
Securities		2,244	-	-	-	2,244
Cash and cash equivalents		384	-	-	-	384
		<b>10,573</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,573</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**24. RISK MANAGEMENT (continued)**

**Liquidity risk management (continued)**

Stanovi Jadran d.d. and its subsidiaries	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
		'000kn	'000kn	'000kn	'000kn	'000kn
<b>31 December 2017</b>						
Trade receivables (non-interest bearing)		2,963	-	-	-	2,963
Other receivables (non-interest bearing)		959	-	-	-	959
Given loans (non- interest bearing)		-	-	3,345	-	3,345
Given loans		-	-	10,929	-	10,929
Securities		2,809	-	-	-	2,809
Cash and cash equivalents		1,565	-	-	-	1,565
		<b>8,297</b>	<b>-</b>	<b>14,274</b>	<b>-</b>	<b>22,571</b>

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**24. RISK MANAGEMENT (continued)**

**Liquidity risk management (continued)**

<b>Stanovi Jadran d.d.</b>	<b>Weighted average effective interest rate</b>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Total</b>
		<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>
<b>31 December 2018</b>						
Trade receivables (non-interest bearing)		2,510	-	-	-	2,510
Other receivables (non-interest bearing)		629	-	-	-	629
Given loans (non- interest bearing)		3,142	-	-	-	3,142
Given loans		212	-	-	-	212
Securities		2,244	-	-	-	2,244
Cash and cash equivalents		78	-	-	-	78
		<b>8,815</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,815</b>

<b>Stanovi Jadran d.d.</b>	<b>Weighted average effective interest rate</b>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Total</b>
		<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>
<b>31 December 2017</b>						
Trade receivables (non-interest bearing)	-	2,589	-	-	-	2,589
Other receivables (non-interest bearing)	-	454	-	-	-	454
Given loans (non- interest bearing)	-	5,655	-	-	-	5,655
Given loans	-	10,230	-	-	-	10,230
Securities	-	2,793	-	-	-	2,793
Cash and cash equivalents	-	584	-	-	-	584
		<b>22,305</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,305</b>



## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### **24. RISK MANAGEMENT (CONTINUED)**

#### **Fair value of financial instruments**

Financial instruments held to maturity in the normal course of business are carried at cost or net amount less repaid portion.

Fair value is defined as the amount for which a financial instrument could be exchanged between willing parties at an arm's length basis, except in the case of a forced sale or liquidation. The fair value of financial instrument is the one quoted on the securities market or obtained through using the discounted cash flow. On 31 December 2017 and 31 December 2018, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, and current borrowings approximate their fair values due to the short-term nature of these assets and liabilities.

#### **Fair value measurements recognized in the statement of financial position**

The table on the next page analyses financial instruments after initial recognition at fair value, classified into three groups based on the degree of availability of observable indicators of fair value:

Level 1 observable indicators - indicators of fair value derived from (unadjusted) quoted prices in active markets for identical assets or liabilities;

Level 2 observable indicators - indicators of fair value derived from other data, rather than quoted prices included in Level 1, that refer to direct observation of assets or liabilities, i.e. their prices, or indicators derived from prices; and

Level 3 - indicators derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Notes to the financial statements (continued)

For the year ended 31 December 2018

(All amounts are expressed in kunas)

**24. RISK MANAGEMENT (continued)**

**Fair value of financial instruments (continued)**

				<b>2018</b>
<b>Stanovi Jadran d.d. and its subsidiaries</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>
Financial assets available for sale	2,076	174	11	2,261
Investment property	-	-	50,011	50,011
				<b>2017</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>
Financial assets available for sale	2,625	174	11	2,809
Investment property	-	-	28,054	28,054
				<b>2018.</b>
<b>Stanovi Jadran d.d.</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>
Financial assets available for sale	2,071	174	11	2,256
Investment property	-	-	42,385	42,385
				<b>2017.</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>	<b>'000kn</b>
Financial assets available for sale	2,620	174	11	2,804
Investment property	-	-	20,448	20,448

## Notes to the financial statements (continued)

For the year ended 31 December 2018

*(All amounts are expressed in kunas)*

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### **25. EVENTS AFTER THE BALANCE SHEET DATE**

Following the reporting date, there were no significant events that would require adjustment or disclosure in the financial statements.

### **26. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements on the pages were approved by the Management Board and authorized for issue on 30 April 2019.

**Signed on the behalf of the Management Board:**

*Toni Jeličić Purko,*  
*President of the Management Board,*  
*STANOVI JADRAN d.d., Split*

*Maja Bradić,*  
*Member of the Management Board,,*  
*STANOVI JADRAN d.d., Split*

*30 April 2019*