

Stanovi Jadran

Management report

STANOVI JADRAN d.d. SPLIT

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I. COMMENTS ON BUSINESS DOING

Stanovi Jadran d.d. (the Company) had 923.689 HRK total revenues for the first nine months in 2018 what is 491,85 % more than the year before for the same time period. Sales revenue were 634.044 HRK what is an increase of 780,62 % from year prior. The revenue source is 68,64% from core business what was 46,13% last year. Other revenues are 12.808 HRK what is a decrease of 15.103 HRK.

100% of revenues streams are from local market and it remained like it was in 2017. Material expenses are 699.943 HRK what is a decrease of 41,53% from year before and those are 24,29 % of total expenses.

Salaries went up for 17,21% and are weighting 34,26 % in total expenses what was 26,91% year before. There was no value adjustment costs and account receivables adjustment neither this year.

Financial revenues increased for 220.680 HRK what is an increase of 392,97%. Financial costs went up for 135.612 HRK or 1.386,91 % from year before what is an increase in total expenses to 8,07%. There are no negative currency exchange rates, while the costs went up mostly due to interest rate increase for 135.648 HRK for credit line at Kreditna Banka Zagreb which was used to complete purchase of commercial property Ploka.

Gross loss is 877.205 HRK what is a decrease from 1.652.112 HRK from year before or 46,90 %. The gross loss is lower as the Company has revenue streams from renting commercial property Ploka.

In accordance with transactions among related persons the company had net income of 76.012 HRK, an increase of 58,35%.

Total assets increased for 11,56 % to 76.400.326 HRK while fixed assets increased for 20.185.235 or 41,22 %. Material assets increased for 18.579.974 HRK due to property purchase and investment in Šibenik.

Long-term financial assets mainly relate to shares in affiliated companies and to shares of non-listed companies. It amounts 30.078.780 HRK and is 1.607.094 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.

Current assets are 7.078.401 HRK, which is by 63,73% lower than the beginning of the year. In the structure of current assets, receivables are lower compared to the beginning of the year, while cash is raising.

Total account receivables amounted to 2.733.031HRK, a decrease of 312.461 HRK or 10,26 % compared to the beginning of the year.

Short-term financial assets amount to 3.297.046 HRK what is mostly short-term given loans. Compared to year before, financial assets decreased by 12.588.623 HRK. Cash in the bank and cash registers amounts to 1.048.324 HRK and is higher by 463.270 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 9.973.377 HRK what are credit lines at Karlovačka Banka and Kreditna Banka Zagreb.

Short-term liabilities amount to 3.185.336 HRK, of which the largest portion of HRK 1.193.938 relates to liabilities on short-term borrowings. Account payables decreased from the beginning of the year for 287.832 HRK or 54,72 %. Total loans of the company amounted to HRK 9.973.377 which is an increase from the beginning of the year for 6.975.494 HRK.

Stanovi Jadran d.d. (Group) achieved total revenues of 6.322.366 HRK in the first nine months of 2018, what is 2,09 % higher than in the same period of the previous year. Sales revenues, which amounted to 5.958.929 HRK for the first nine months of 2018 were higher by 1,92 % compared to the same period last year. Core business revenues in total revenues were 98,69%, compared with 97,50% in the same period last year. Other operating revenues, which amounted to 80.428 HRK were down for 69.505 HRK compared to the same period of the previous year.

Out of the total revenue, 8,63% of revenues were realized on the domestic market, while 91,37% of sales were generated on the foreign market. This structure did not change in relation to the same period last year.

Material expenses amount to 2.847.870 HRK which is lower by 12,65% than the same period of the previous year. Salaries increased by 18,59% compared to the same period of the previous year. Their share in total expenses were 30,34%, compared with 24,94% in the same period last year.

There were no cost of value adjustments and receivables adjustment, neither this year.

Financial revenues were higher by 86.544 HRK or 44,05%, as compared to the same period of the previous year. There were no positive exchange rate differences in the structure of financial income.

Financial expenses increased by 123.328 HRK or 252,89% compared to the same period last year. Their share in total expenditures increased by 268,17% compared to the same period last year. In the structure of financial expenditures there were no negative exchange rate differences, while interest costs are higher due to the realized credit line of Kreditna Banka Zagreb for the purpose of financing the purchase of the commercial building Ploka.

The gross loss (pre-tax loss) is 95.169 HRK, while in the same period of the previous year it was 262.110 HRK, which is a decrease of 166.941 HRK or 175,71%. The lower gross

loss was due to the fact that the loss in the same period last year was significantly higher due to high listing preparation costs.

Total assets were 8,04% higher compared to the beginning of the year and amounts to 85.837.151 HRK. Fixed assets were higher by 17.387.701 HRK or 29,30%, compared to the beginning of the year. Long-term intangible assets were lower by 35.860 HRK compared to the beginning of the year, with the largest impact due to depreciation. Tangible assets are higher by 17.856.468 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 2.376.526 HRK and was 432.907 HRK less than the beginning of the year, primarily due to the value adjustment quoted on the Zagreb Stock Exchange.

Current assets amount to 8.884.268 HRK which is 55,80 % less than the beginning of the year. In the structure of current assets, inventories are greater compared to the beginning of the year, while account receivables, cash and short-term assets are falling.

Total accounts receivables amounted to 3.790.871 HRK, a decrease of 132.028 HRK or 3,37 % compared to the beginning of the year. Trade receivables amounted to 3.147.931 HRK and recorded an increase of 6,22 % compared to the beginning of the year.

Short-term financial assets amount to 3.453.271 HRK relating to short-term given loans. Short-term financial assets decreased by 10.820.971 HRK from year before. Cash in the bank and cash registers amounted to 1.183.615 HRK and was lower by 381.197 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 10.345.221 HRK what are credit lines at Karlovačka Banka and Kreditna Banka Zagreb.

Short-term liabilities amount to 4.053.990 HRK of which the largest portion of 821.713 HRK were liabilities to suppliers. Trade payables decreased by 60.476 HRK, or 6,95 % compared to the beginning of the year. Total credit line of the Group Stanovi Jadran d.d. amounted to 10.345.221 HRK which is an increase from the beginning of the year.

II. IMPORTANT BUSINESS EVENTS

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.

Furthermore, the company is constructing a residential property in Šibenik. Currently, the property is getting a facade and new environment. The management signed agreements with several real estate agencies in order to start selling apartments.

At the same time, the company hired design studios and consultants to prepare paperwork to build a hotel in Šibenik which is planning to open its door in spring 2019. The hotel location is right next to residential property.

Other properties that the company owns, such as land plots, has been listed on sale through real estate agencies. In this year, management sold two land plots in Lovinac.

Additionally, the management hired another design studio to develop new paperwork for two projects in Dubrovnik in order to reduce construction costs.

III. EXPECTED BUSINESS DEVELOPEMENT

The management of the company has already signed construction agreements for residential project in Šibenik and those are the only obligations the company has towards other parties. Since the investment in residential property is ongoing, it is expected that the management will sign new agreements at given stage in order to finish the project.

The apartments within the residential property are matching buyer's highest standard with five-star facilities. The commercial space at the ground floor will be restaurant that the company will rent.

In order to reduce costs, the management has hired new studios to get new permits in order to start constructing in Dubrovnik. Once it is done, the management will sign agreements with contractors to put the property in use and gain revenues. The management is rationalizing all projects in order to reduce risks and gain faster returns.

It is planned to merge VILE ORAŠAC d.o.o. to STANOVI JADRAN d.d. to during this year unless there is a potential buyer for a project. Apart from that, the management is planning

to buyout stakes of a partner in companies MEDITERAN GRADNJA d.o.o. i NOVA NEKRETNINE d.o.o so the company would be sole owner.

It is expected revenue increase to 2.05 -2.1 million BAM in subsidiary company WINTER d.o.o. what is believed to be the highest possible revenue for 55 units in Hotel Blanca Resort & Spa. The hotel is generating 40% of the revenues in three months what are January, July and August. There is an extension project what will increase number of units for 28 units and new conference halls. The reason behind the project is revenue increase since the hotel cannot host larger MICE groups therefore reaching the highest possible revenues with current number of units.

IV. RESEARCH AND DEVELOPEMENT ACTIVITIES

In order to understand market, the management did real estate market research. Taking a residential project and hotel in Šibenik, the management hired external consultant to make a feasibility study in order to reach inputs which will affect revenue stream starting in 2019.

Apart from that, the management hired new local studios in some projects as it believes local studios can affect the speed of permit issuance.

V. TREASURY SHARES INFORMATION

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

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

VII. IMPORTANT FINANCIAL INSTUMENTS

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

- stake at subsidiary companies
- shares bought at Zagreb Stock Exchange such as 10,57% of share capital of Proprius d.d. closed investment fund, while other shares has been sold during 2017

VIII. COMPANY AIMS AND POLICY

It is questionable level of financial risk management activities in Republic of Croatia due to shortage of financial instrument within a domestic financial industry. The company has not used any of financial risk management instruments such as hedging, terminal contracts or financial derivative so far. However, the management is expressing a will to use those instruments in a future within a domestic financial framework in order to reduce risk exposure.

IX. RISK EXPOSURE

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

Since the company is in investment cycle, it is important to note the deficit of construction companies and labour force in that sector. The management reduced this risk as it believes the company has partners which are already sign contracts with.

Industry risk in tourism

There is a high intensity in infrastructure investments within the country what is reducing this risk. The management believes it is a medium risk level since it is least probable that natural disasters will occur.

Personnel risk

The company, together with its subsidiary companies has 43 employees. This risk is low since the EU allows labour 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.

Exposure risk

The company employs engineer who is reducing risk by setting up control mechanism which controls cost and individual material prices. The management tries to reduce the cost exposure by hiring companies at the projects that has at least 50 employees and that are profitable.

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 stabile cash flow. All receivables has been secured with financial instruments so the management believe there is no liquidity risk.

Interest rate risk

There is an interest rate risk since all the credit arrangements are have changeable interest rate. 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 by offering payment delay. The company is exposed to two credit lines and it is servicing it on time. The management is planning to pay off the credit lines once it sells residential property in Šibenik.

X. MANAGEMENT STATEMENT

Toni Jeličić Purko as a president of Management Board and Maja Bradić as a member of Management Board of STANOVI JADRAN d.d., Split, Kralja Zvonimira 14/IX, OIB 88680117715, as responsible persons for composition of financial reports for period 01.01.2018. – 30.09.2018. are giving

STATEMENT

According to our knowledge, financial report of STANOVI JADRAN d.d., Split, Kralja Zvonimira 14/IX, OIB 88680117715, for period 01.01.2018. – 30.09.2018. is in line with Accounting Law, Accounting Standards of Financial Reporting and EU Directives.

The interim management report consists of true information and business results for a company and its subsidiary companies together with risk exposure statements.

Toni Jeličić Purko
Management Board President

Maja Bradić
Management Board Member

Split, 23 October 2018.