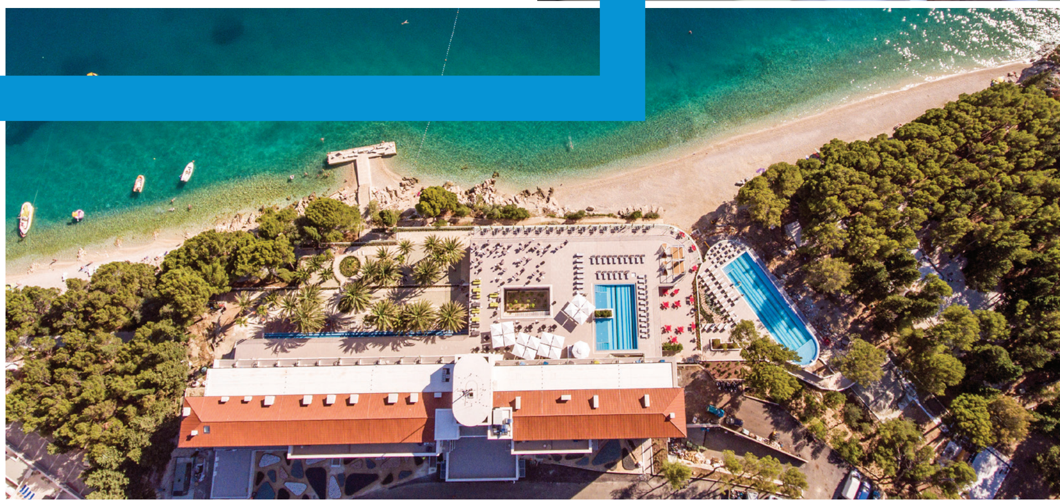
SUNCE KONCERN d.d. GROUP

2018 Annual Report

This report has been approved and released April 25, 2019



BOL · SUPETAR · BRELA · TUČEPI · STARIGRAD PAKLENICA

bluesun
HOTELS & RESORTS

Sunce koncern d.d. Group at a glance

- Founded in 2004, today one of the leading tourist groups in Croatia
- Family owned with institutional investors as significant minority shareholders
- Parent company of the Group (Sunce koncern d.d.) together with 3 controlling companies (Hoteli Brela d.d., Hoteli Tučepi d.d. & Hoteli Zlatni rat d.d.) listed on ZSE

- **11 fully owned hotels, 1 camping resort, 1 hotel under Management and JV Company with TUI AG**
- **Prime beachfront** locations in middle Adriatic
- Long hospitality tradition in its destinations
- **Own Airport** on Island of Brač
- The first hotel chain in Croatia which started the **internal academy** for the education of employees and scholarships
- **Bluesun** - a trusted name on the local labour market
- The first hotel for **employees** in Croatia

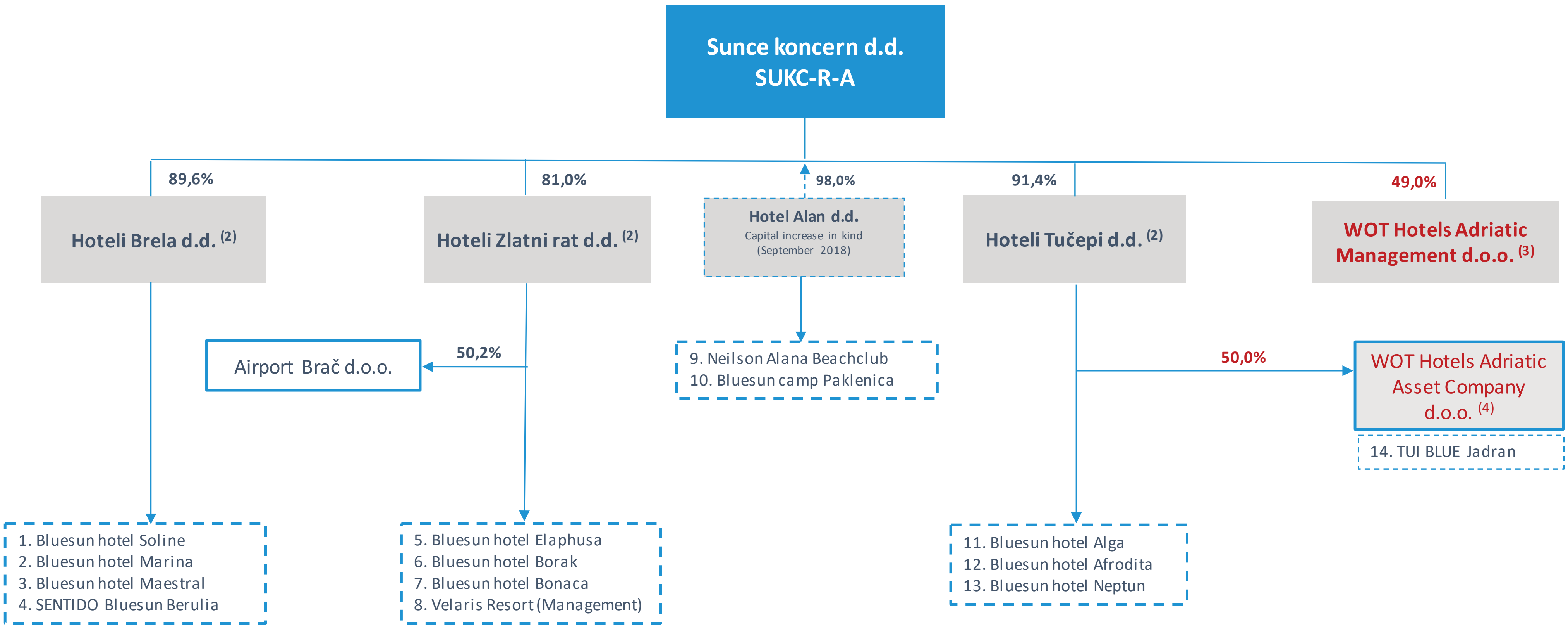
>150.000 guests per year

> 1.500 employees

~ 3.000 rooms

400 participants of internal BLUESUN ACADEMY annually

Organizational structure of Sunce koncern d.d. Group (1)



(1) *Data as of 31.12.2018; Sunce koncern d.d. as a Group has some additional members, but they are immaterial for the Group's performance.*
(2) *Companies that are also listed on the regulated market of Zagreb Stock Exchange, together with the parent company Sunce koncern d.d.*
(3) *Management Company established with TUI AG, where TUI AG holds 51% share.*
(4) *Joint Venture Company with TUI AG.*

Content

Introduction

General

Pursuant to Article 462 of the Croatian Capital Market Act, this Annual Report ("the Report") present the results of operations, financial position, and cash flows of Sunce koncern d.d. and its subsidiaries (collectively referred to in this Report as "we," "us,", "Sunce", "Group" or "the Company") for the fiscal year ended December 31, 2018 ("Reported period" or "Reporting date").

Depending on the context and the potential regulatory requirements, the above terms ("we", "us", "Sunce" or "Company") may also refer to Sunce koncern d.d. as the parent company of the Group.

The Report contains, amongst else, (i) Audited Consolidated Financial Statements, (ii) Management's Discussion and Analysis ("MD&A"), (iii) Statement of Management's Responsibilities for the preparation of the Report and (iv) the Independent Auditor's Report. Additionally, pursuant to the Croatian Accounting Law, the Report contains the Confirmation of responsibility for the Consolidated Financial Statements by the Management, as well as Corporate Governance Code Compliance Statement.

In order to make this report easier to read, we also refer throughout to our Consolidated Audited Financial Statements as our "Financial Statements".

This Report has been approved and released on April 25, 2019 and the Company and the Group have made disclosures about significant events that happened after the Reporting date.

Caution Regarding Forward-Looking Statements

We make forward-looking statements in MD&A and elsewhere in this Report based on the beliefs and assumptions of our management and on information currently available to us. Forward-looking statements include information about our possible or assumed future results of operations, preceded by, followed by, or that include the words "believes," "expects," "anticipates," "intends," "plans," "estimates," or similar expressions.

The forward-looking statements in this report speak only as of the date of this Report, and we undertake no obligation to update or revise any forward-looking statement, whether due to new information, future developments, or otherwise. Any number of risks and uncertainties could cause actual results to differ materially from those we express in our forward-looking statements, including the risks and uncertainties we describe below and other factors we describe from time to time in our periodic filings with Zagreb Stock Exchange ("ZSE").

Review of key information about the Group

The following overview presents a short analysis of the key facts about the Group and should be read in conjunction with our Financial Statements and related notes.

Description of the Group

Sunce is the parent company of the Group, founded in 2004, which consists of number of different subsidiaries (Hoteli Brela d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hotel Alan d.d.), through which it owns, operates and develops hotels and resorts in prime holiday destinations in Croatia.

Also, Sunce has a Joint Venture entity (50/50) with a global tourist group TUI AG, which owns a luxury hotel property TUI Blue Jadran in Tučepi and land for development project on the Island of Brač. Additionally, the Company has a 49% interest in the Management company with the same partner. Management company is responsible for operating all existing and possible future hotel properties under Joint Venture entity.

The companies formed with TUI AG are not consolidated in the Group's Financial Statements.

Bluesun Hotels & Resorts

Bluesun Hotels & Resorts is the name under which Sunce koncern manages most of the members of its Group. The right of use of the said brand name has also been provided to certain companies outside the Group on the basis of business cooperation agreements.

Changes in the organisational structure of the Group

In the 2018 third quarter, the Company has done a capital increase in kind by contribution of 97.96% shares of Hotel Alan d.d. and issuance of new shares of the Company. In order to increase efficiency and decrease operating costs, the Company will continue to evaluate further steps to simplify its structure and relationship with its Subsidiaries.

In the same quarter, the Company has incorporated a Management Company with TUI AG, while already formed JV entity changed its legal and commercial name from Punta Zlatarac Tučepi d.o.o. into WOT Hotels Adriatic Asset Company d.o.o. as of September 19, 2018.

Company's Shares

As of the Reporting date, the Company's share capital consists of 5,393,850 ordinary registered Shares in the nominal amount of HRK 100.00 each, all fully paid-up. The Shares are issued in dematerialised form and deposited with the Croatian Central Depository & Clearing Company Inc. (CDCC) as ordinary registered shares under the ticker SUKC-R-A and ISIN HRSUKCRA0001.

The Shares are listed on the Official Market of the Zagreb Stock Exchange, and they all have equal voting rights.

Except ordinary shares, there are no other type of equity or debt security issued by the Company.

There are no options, warrants or instruments convertible into shares or other agreements relating to the existing shares of the Company or for the issuance of additional shares in any of the Group members.

The Company holds no treasury Shares.

	General information on Company Shares	
1	Type of share	Ordinary share
2	Trading symbol at CDCC	SUKC-R-A
3	Trading symbol at Zagreb Stock Exchange (ZSE)	SUKC
4	ISIN	HRSUKCRA0001
5	Share Capital	HRK 539,385,000,00
6	Total number of shares issued	5,393,850
7	Date of listing on a Regulated market	08.06.2017 (4,443,062 shares)
8	Market segment	Official Market (from 27.12.2018)
9	Price range during 2018 (1)	HRK 190.00 – HRK 225.00
10	Total turnover on ZSE during 2018 (1)	HRK 1,631,465

Source: ZSE, Central Depository and Clearing Company (CDCC)

(1) Including Regular and OTC turnover.

Dividend Policy

The Company has not distributed any dividends in the 2018 financial year. The Company has defined its dividend policy in its publicly announced financial guidelines on the basis of the Dividend payout ratio - DPR in the range between 30% and 70% for the following three-year period. The Company will consider the policy in light of growth potential available to Group members and may revise said policy from time to time.

Company's Shareholder Structure

The Andabak family, i.e. Mr. Jako Andabak together with affiliated parties, have since the Company's incorporation in 2004, held a majority position within the Company. Mr. Jako Andabak directly holds the majority shareholding and voting rights in the shareholder LUCIDUS d.d. Additionally, Mr. Jako Andabak and affiliated parties are the founders of the company SUNCE ULAGANJA d.o.o.

Institutional investors have become significant minority shareholders of the Company by its listing on the Regulated market of the Zagreb Stock Exchange in June 2017 and the share capital increase by means of a cash contribution in September 2017.

Top ten shareholders of the Company as at December 31, 2018

	Shareholder	# of Shares	Ownership (%)
1	Sunce Ulaganja d.o.o.	3,004,672	55.71
2	Lucidus d.d.	1,143,239	21.20
3	Erste Plavi OMF kategorije B	892,898	16.55
4	Raiffesien OMF kategorije B	156,134	2.89
5	PBZ CO OMF – kategorija B	70,460	1.31
6	Raiffeisen dobrovoljni mirovinski fond	67,470	1.25
7	Erste Plavi Expert – dobrovoljni mirovinski fond	25,753	0.48
8	Raiffeisen OMF kategorije A	8,895	0.16
9	Erste Plavi OMF kategorije A	8,162	0.15
10	PBZ CO OMF – kategorija A	5,695	0.11

Source: Central Depository and Clearing Company (CDCC)

Investments in Associates and Joint Ventures

Joint ventures

The Group has 50% interest in joint venture WOT Hotels Adriatic Asset d.o.o. with global tourist company TUI AG. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Associates

An associate is an entity over which the Group and the Company have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Associate entities of the Group as of Reporting date are Praona d.o.o. and WOT Hotels Adriatic Management d.o.o.

The Group's investment in associates and joint venture is accounted for using the equity method and are not subject of consolidation.

Acquisitions and Dispositions, Discontinued Operations

Acquisitions

In the third quarter of 2018, Hotel Alan d.d. became a member of the Group, through capital increase in kind of the Company.

Dispositions

No disposal of assets or entities in the Reported period.

Derivative Financial Instruments

The Company doesn't have any exposure to derivative financial instruments as of the date of the Financial Statements. But depending on our strategy and market conditions, we might enter into forward contracts to manage foreign exchange risk on the Group level or to hedge certain forecasted transactions. We also may enter into interest rate swap agreements to manage the impact of interest rates on the results of operations, cash flows and the market value of our debt.

Commitments and Contingencies

Lease agreements

The Group occupies one of its hotels under a lease agreement (Velaris Resort via Hoteli Zlatni rat d.d.). This is a long-term arrangement under which the Group leases a hotel, fixtures, furniture and equipment from a third-party property owner for a certain period of time for a fixed monthly rental payment.

A new accounting standard (IFRS 16) seeking more faithful representation of a company's assets and liabilities and greater transparency about the company's financial leverage has been published with an effective date 1 January 2019 (not mandatory for 31 December 2018 reporting period). The new standard requires lessees to recognise nearly all leases (other than short-term leases and leases of low-value assets) on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments. The most significant balance sheet effect of IFRS 16 is to be an increase in lease assets and lease liabilities. Regarding the impact on the company's income statement, IFRS 16 is expected to result in higher operating profit before interest and taxes compared to the amounts reported applying former IAS 17 standard as applying IFRS 16, a company presents the implicit interest in lease payments for former off-balance sheet leases as part of finance costs. In contrast, applying IAS 17, the entire expense related to off balance sheet leases was included as part of operating expenses.

In 2018 the Group performed a preliminary assessment of the potential effect of adopting IFRS 16 on its financial statements which is available in relevant Notes later in the Report.

Guarantees

We provide a certain number of guarantees to companies that are not members of the Group. These companies are related parties with the majority shareholder of the Company in accordance with the relevant regulation. Our obligations under these guarantees in future periods are dependent on the operating performance level of the related companies over the remaining term of the guarantees. Outstanding amount of guarantees as of date of this Report is listed in accompanying Notes to the Consolidated Financial Statements.

Claims and lawsuits

We are involved in certain claims and lawsuits arising in the ordinary course of business. While the ultimate results of claims and litigation cannot be predicted with certainty, we expect that the ultimate resolution of all pending or threatened claims and litigation as of date of this report, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Significant events after the Reported period

Intention to merge controlled companies

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

Pursuant to Article 515 of the Companies Act, Supervisory Boards of all related companies have jointly proposed Deloitte d.o.o., Radnička cesta 80, Zagreb as a merger auditor. Merger auditor shall present a written report on its findings. The report shall be concluded by a statement regarding the adequacy of the ratio of the proposed exchange of shares. Final decision regarding the approval of the proposed merger will be rendered by the general assemblies of the companies taking part in the merger. The Management Boards of the said companies will convoke the general assemblies after receiving the report of the merger auditor. Pursuant to relevant regulations, the merger will be considered to be completed only after the approval by the general assemblies of the companies taking part in the merger and upon its entry into the court register of the acquiring company, which is expected to be implemented by the end of 2019.

Significant business events 2018

Hotel Alan d.d. became a member of the Group

For the purposes of simplifying and optimising the organisational structure, an extraordinary General Assembly of Sunce koncern was held on **10 August 2018,** and a decision was passed on increase of share capital by contribution in kind and issuance of new shares with exclusion of shareholders' pre-emption rights. Sunce's share capital increase was performed by way of a contribution in kind of ordinary shares of the company Hotel Alan d.d., Starigrad, representing approximately 98% of the company's share capital. The company Lucidus d.d., Zagreb, Trpinjska 9, has subscribed and paid-up all the newly issued shares. The new shares represented approximately 10.4% of the total issued share capital of the Company in the moment of passing the decision on the share capital increase. Under the Company's Articles of Association, the General Assembly's decisions whereby the shareholders' pre-emption rights in subscription of new shares is entirely excluded and/or decisions on increase of share capital by way of a contribution in kind, are passed by a number of votes representing a minimum of 6/7 of share capital represented at the General Assembly when passing the decision.

Conclusion of a Merger Agreement with the Sunce Global d.o.o.

Sunce koncern d.d. announced on **16 June 2018** that it acquired, as a majority shareholder, the other share in the company SUNCE GLOBAL d.o.o. tourist agency, which represented a 0.309% share in the share capital of the company SUNCE GLOBAL d.o.o. Following said transaction Sunce koncern d.d. became its sole shareholder. The share transfer was performed without consideration. Additionally, for the purpose of simplifying the organisational structure, a Merger Agreement was concluded between Sunce koncern d.d., as the acquiring company and Sunce Global d.o.o., as the merging company.

Execution of an agreement on full refinancing of financial debt

On **28 August 2018,** Sunce koncern d.d. signed an agreement on refinancing of its entire financial debt ("Agreement") with the European Bank for Reconstruction and Development (EBRD) as the arranger, the representatives of Erste&Steiermärkische Bank d.d., Privredna banka Zagreb d.d., and Zagrebačka banka d.d. as members of the banks' syndicate. Apart from Sunce koncern d.d. as the parent company, affiliated companies - co-borrowers (Hoteli Brela d.d., Hoteli Zlatni rat d.d., Hoteli Tučepi d.d., and Hotel Alan d.d.) are also parties to the agreement. The whole transaction was valued at EUR 73 million, whereby, apart from full refinancing of the Company's short-term and long-term debt, a portion of the total value relates to financing of 2018 investments. Additionally, the agreement also provides for the possibility of financing future investments in raising the quality of accommodation. By this arrangement, Sunce has achieved its main goals, being: (i) a reduction in the number of creditors and equalisation of credit terms, (ii) reduction in the average interest rate, and (iii) prolongation of financial liabilities' term.

Published new guidelines on the maximum level of indebtedness and dividend policy

Sunce koncern d.d. announced on **20 December 2018** that the Company's management board has replaced the existing guidelines on the maximum level of indebtedness and dividend policy issued in September 2017 with financial covenants from the newly approved syndicated loan. Namely, by signing the 10-year-term agreement on refinancing of the Company's the entire financial debt on 28 August 2018 with the European Bank for Reconstruction and Development as the arranger, Erste&Steiermärkische Bank d.d., Privredna banka Zagreb d.d., and Zagrebačka banka d.d. as members of the banks' syndicate, Sunce has accepted financial covenants usual for a transaction of this kind.

In the existing guidelines, apart from the maximum level of indebtedness, the Company also defined its dividend policy on the basis of the Dividend Payout Ratio in the range between 30% and 70% for the following three year period. During the 2018 financial year the Company has not distributed any dividends, while it retains the above defined range for the following three year period. The Company will consider the policy in light of growth potential available to Group members and may revise said policy from time to time.

Transition of all Company shares from the Zagreb Stock Exchange's Regular Market segment to the Official Market

Sunce koncern d.d. announced on **19 December 2018** that it submitted a request that all Company shares transit from the Zagreb Stock Exchange's Regular Market segment to the Official Market. Since its listing on the regulated market in June 2017, Sunce has been actively engaged in increasing transparency towards the investor community as well as on the increase in the percentage of distribution of shares to the public (free-float) within the meaning of the Stock Exchange Rules. The Management Board of the Zagreb Stock Exchange (Zagrebačka burza d.d.) issued a decision approving the transit for all 5,393,850 ordinary shares to the Official Market and the transit was executed on 27 December 2018. Further on, it is the Company's intention to additionally increase the percentage of distribution of shares to the public, and it has therefore initiated a restructuring process by means of optimisation of the organisational structure, with the final goal of increasing capital by issuance of new shares.

JV company with TUI AG - WOT Hotels Adriatic Asset Company d.o.o

Introduction

Sunce koncern d.d., Hoteli Tučepi d.d. and TUI AG concluded a joint venture agreement on 10 November 2017 through the company Punta Zlatarac Tučepi d.o.o. As part of the transaction, TUI AG acquired a 50% share in the company Punta Zlatarac which owns the TUI BLUE Jadran Hotel in Tučepi, and concurrently undertook to incorporate a joint management company (TUI 51%, Sunce 49%). Additionally, the company Punta Zlatarac d.o.o. concluded a purchase of a 320,000 sqm land on the island of Brač on 16 November 2017 with the intention of building up to three new hotels. The land is located in the Sutivan municipality („Sutivan Project") and presents a prime location for development of new tourist objects. In September 2018, the company Punta Zlatarac Tučepi d.o.o. changed its name into WOT Hotels Adriatic Asset Company d.o.o.

Incorporation of the Management Company

By concluding articles of association of a limited liability company on 20 June 2018, TUI AG and Sunce koncern d.d. incorporated a joint Management Company WOT Hotels Adriatic Management d.o.o., wherein Sunce holds a 49% and TUI a 51% share. The purpose of the Management Company is the management of the TUI BLUE Jadran Hotel and all other hotels which may be under WOT Hotels Adriatic Asset Company.

TUI Blue Jadran Hotel, Tučepi

TUI BLUE Jadran Hotel has, in 2018 as its first full operating season, positioned itself as the best hotel within the TUI BLUE brand. The hotel achieved high ratings in guest satisfaction surveys and received multiple international recognitions, whereby the „TUI Holly" should be highlighted as the most significant award given out by the global tour operator TUI Deutschland. The award is a synonym of everything which makes a vacation perfect: top service, high attention to detail and extraordinary cuisine. The hotel also received the „TUI Environmental champion" award in 2018, as well as the „Travlife Gold – Sustainability in Tourism" certificate which are awarded to hotels which support best practices in environment protection as well as in socially accountable business generally.

These results had an immediate effect on the 2019 bookings level, given that the hotel, as of the moment of publication of this Report, is recording a significant increase in bookings compared to the same period last year.

Sutivan Project

Investment in the Sutivan municipality is in the planning phase and the development of the project is expected to be defined during 2019.

Management's Discussion and Analysis of Financial Condition and Results of Operation

Introduction

The following Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") presents an analysis of the consolidated financial condition of Sunce for the Reported period and should be read in conjunction with our consolidated financial statements and related notes.
This MD&A is the responsibility of management.
MD&A refers to certain financial measures that are not determined in accordance with IFRS. Although these measures do not have standardized meanings and may not be comparable to similar measures presented by other companies, these measures are defined herein or can be determined by reference to our financial statements. The Company discusses these measures because it believes that they facilitate the understanding of the results of its operations and financial position.

Our business

With 11 beachfront hotels on the Adriatic coast, 1 camp site and 1 leased property compromising 2,976 units, its own airport on the Island of Brač and other tourism assets located in 4 popular touristic destinations in Croatia, Sunce is one of the leading tourism groups in Croatia. Additionally, its joint venture with TUI AG has one premium hotel property (TUI Blue Jadran) offering 161 units.

Under our current business model, we typically both own and manage properties. The Company owns all except one of the properties, which it leases through a subsidiary.

The Group's properties are covering all market segments, from Economy to Premium. The Group is undergoing through refurbishment cycle with an upgrade of existing lower quality assets. This should increase profitability, while increasing our competitive advantage, as there is stronger competition (supply) in lower quality segment from private accommodation facilities.

Properties are mostly managed and operated under an in-house brand, "Bluesun Hotels and Resorts".

A significant part of the Group's units is booked through Allotment contracts with various global tour-operators. They provide guarantees for certain period of occupancy.

Also, the Company has signed different franchise contracts to use rights for certain brands and trademarks, under which we are paying certain fees, while keeping the management of the property. In most cases these fees consist of a percentage of property-level revenue.

Overview of the Group Portfolio (as of Reporting date)

	Hotel	Category (*)	# Units	Franchise Partner
1	Hotel Maestral	3	69	
2	Hotel Soline	3	206	
3	SENTIDO Bluesun Berulia	4(1)	236	Thomas Cook
4	Hotel Marina	3	283	
	Hoteli Brela d.d.		**794**	
5	Hotel Alga	4	381	
6	Hotel Afrodita	4	155	
7	Smartline Bluesun Neptun	3	252	Thomas Cook
	Hoteli Tučepi d.d.		**788**	
8	Hotel Elaphusa	4	306	
9	Hotel Borak	3	184	
10	Hotel Bonaca	3	236	
11	Velaris Resort	3/4	177	
	Hoteli Zlatni rat d.d.		**903**	
12	Neilson Alana Beachclub	4	187	Neilson UK
13	Bluesun kamp Paklenica	-	304	
	Hotel Alan d.d.		**491**	
	Group in total		**2,976**	
14	TUI Blue Jadran (2)	5	161	TUI AG
	WOT Hotels Adriatic Asset Company d.o.o.			

Source: Group

(1) In the process of obtaining 5-star categorisation

(2) JV company with TUI AG

Key Performance Measures Metrics Used by Management

Occupancy

Occupancy represents the total number of room nights sold divided by the total number of room nights available at a hotel or group of hotels for a given period (based on operating days of the hotel). Occupancy measures the utilization of our hotels' available capacity. Management uses occupancy to gauge demand at a specific hotel or group of hotels in a given period.

Average Daily Rate ("ADR")

ADR represents cumulative hotel room revenue (accommodation and F&B board revenue) divided by total number of room nights sold for a given period. ADR measures average room price attained by a hotel, and ADR trends provide useful information concerning the pricing environment and the nature of the customer base of a hotel or group of hotels. ADR is a commonly used performance measure in the industry, and we use ADR to assess pricing levels that we are able to generate by type of customer.

Revenue per Available Room ("RevPAR")

RevPAR is calculated by dividing hotel room revenue (without F&B revenue) by total number of room nights available to guests for a given period. We consider RevPAR to be a meaningful indicator of our performance as it provides a metric correlated to two primary and key drivers of operations at a hotel or group of hotels: occupancy and ADR. RevPAR is also a useful indicator in measuring performance over comparable periods for comparable hotels.

EBITDA and Adjusted EBITDA

EBITDA reflects the consolidated net income of the Group prepared in accordance with IFRS before any provision on account of taxation, depreciation and amortisation, any interest, commissions, discounts and other fees incurred in respect of any debt and any interest earned on debts. Adjusted EBITDA is calculated as EBITDA, as previously defined, further adjusted to exclude certain exceptional, one off, non-recurring or extraordinary items which represent gains or losses including those arising on:

a) the restructuring of the activities of an entity and reversals of any provisions for the cost of restructuring;
b) disposals, revaluations, write downs or impairment of non-current assets or any reversal of any write down or impairment; and
c) disposals of assets associated with discontinued operations.

We believe that EBITDA and Adjusted EBITDA provide useful information to investors about us and our financial condition and results of operations for the following reasons: (i) these measures are among the measures used by our management team to evaluate our operating performance; and (ii) these measures are frequently used by securities analysts and investors as a common performance measure to compare results or estimate valuations across companies in our industry. Important note is that EBITDA and Adjusted EBITDA are not recognized terms under IFRS and have limitations as analytical tools and should not be considered as alternatives, either in isolation or as a substitute, for net income (loss), cash flow or other methods of analysing our results as reported under IFRS. Some of these limitations are:

- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA and Adjusted EBITDA do not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness;
- EBITDA and Adjusted EBITDA do not reflect a provision for income taxes or the cash requirements to pay our taxes;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate EBITDA and Adjusted EBITDA differently, limiting their usefulness as comparative measures.

Results of Operations

In comparison with 2017, the Group's result of operations in 2018 is significantly determined by the following activities:

- end of consolidation of the result of operations of the TUI BLUE Jadran hotel due to the sale of a 50% share in the company WOT Hotels Adriatic Asset Company in November 2017;
- first year of consolidation of the company Hotel Alan d.d., since 1 August 2018 (the total result of operations of the season was not consolidated);
- and, as of 1 January 2018, the Company has started managing the Velaris tourist village within the company Hoteli Zlatni rat d.d., which had a negative effect on the Group's profitability when measured by the EBITDA margin due to reporting of the lease cost under the existing accounting standard.

The following tables present key financial and performance indicators of the Group and have been derived from the Audited Consolidated Financial Statements:

Financial highlights - Sunce koncern d.d. Group (consolidated audited)				
HRKm				
Financial performance	**12M 2018**	**12M 2017**	**Δ**	**2018/2017**
Total Revenues	425.2	378.1	47.1	12.5%
Operating expenses	320.2	291.3	28.8	9.9%
EBITDA	105.1	86.8	18.3	21.1%
EBITDA margin %	24.7%	22.9%	180 bp	
Adjustments	8.1	25.8	-17.6	-68.4%
Adjustment EBITDA	113.2	112.6	0.7	0.6%
Adjustment EBITDA margin %	26.6%	29.8%	-320 bp	
EBIT	50.0	43.0	6.9	16.1%
Interest & Fees	-18.8	-20.1	1.3	-6.7%
Net income	30.0	20.6	9.4	45.7%
Financial position	**31.12.18**	**31.12.17**	**Δ**	**2018/2017**
Total assets	1,387.7	1,204.0	183.7	15.3%
Fixed assets	1,109.6	992.5	117.1	11.8%
Group's Property Market Value (1)	1,315.1	1,177.8	137.3	11.7%
Equity	799.6	742.6	57.0	7.7%
Total debt	504.0	394.2	109.8	27.8%
Net financial debt / (cash)	458.9	367.1	91.8	25.0%
Guarantees	144.0	169.2	-25.2	-14.9%
Financial Ratios[2]				
Equity / total assets	0.58x			
Loan to Value Ratio	53%			
DSCR	2.1x			
Interest cover	14.8x			
Leverage Ratio	4.05x			

Key operating indicators				
	12M 2018	**12M 2017**	**Δ**	**2018/2017**
Number of accommodation units	2,976	2,305	671	29.1%
Number of units sold	405,857	326,384	79,473	24.3%
Overnights	878,221	713,664	164,557	23.1%
Occupancy rate (operating days)	77.9%	86.0%	-8.1%	-9.4%
ADR (HRK)	833.7	837.7	-4.0	-0.5%
RevPAR (HRK)	474.7	473.3	1.5	0.3%

(1) Total fair market value of all of the Group's hotel properites as appraised by the Independent Valuer. Airport Brač assets and JV assets not included.

(2) Financial ratios calculation is based on 12 month period data prepared in accordance with IFRS unless otherwise defined in the Loan Agreement (signed August 28, 2018)

During 2018 the Group achieved HRK 425.2 million in business revenue, which is an increase of 12.5% over the same period of last year. **Increase in business revenue** is the result of increased number of rooms sold primarily due to additional capacities of Velaris Tourist Resort leased as of 1st of January 2018 as well as due to consolidation of company Hotel Alan d.d. as of 1st of August 2018. At the same tame Average Daily Rate stayed unchanged due to the following: (i) Velaris Tourist Resort operations are performed during the entire calendar year, therefore average daily rate in off season periods decreases overall average daily rate, (ii) consolidation of Hotel Alan d.d. as of 1st of August 2018 which, when compared to the Group before consolidation, has lower average daily rate due to Paklenica campsite (lower pricing than in hotels) and (iii) deconsolidation of TUI Blue Jadran (Premium categorization) from 1st of November 2017.

Group put special attention in 2018 on direct sales channels and digital marketing which will also continue in 2019. Although allotment contracts are the largest individual sales channel of the Group, we have to maintain relevant share of all channels and keep a healthy balance in our distribution strategy not only to maximize returns but also to stay flexible and quickly react to market changes.

The double-digit growth was also achieved **in terms EBITDA and net profit.** During 2018 EBITDA reached a level of HRK 105.1 million versus HRK 86.8 million in 2017, which represents an increase of HRK 18.3 million or more than 21% compared to the same period of the previous year.

One-off costs in 2018, which affected the EBITDA result, must be taken into consideration in the analysis of the Group's results of operations. Namely, in the first four quarters of 2018 EBITDA reached a level of HRK 105.1 million, while one-off costs for the same reporting period amount to HRK 8.1 million which implies that Adjusted EBITDA amounts to HRK 113.2 million.

Adjustments for business year 2018

NON-RECURRING EXPENSES	AMOUNT HRK	DESCRIPTION
ONE OFF COSTS SHOWN IN P&L OF THE GROUP		
Consulting services	1,553,000	Costs of consultancy services related to services provided for valuation and calculation of share-exchange ratio for Sunce koncern - Hotel Alan transaction. Furthermore, the costs of consultants for the implementation of the GDPR directive, Purchase Price Allocation report, as well as other consultants' costs related to the incorporation of the company's internal projects are also recognized here.
Legal services related to refinancing	551,000	Expenses incurred as part of the refinancing transaction for the entire debt of the Group, referring to services of legal advisers as well as the costs of public notaries arising from the registration of real estate pledges.
Cost related to listing shares on Official market of the Zagreb Stock Exchange	150,000	Expenses related to the transition of all 5,393,850 ordinary shares of Sunce koncern d.d. from the Regular Market to the Official Market of Zagreb Stock Exchange.
Write downs/losses on assets disposal and receivables	2,478,000	Hoteli Tučepi d.d. and Hoteli Zlatni rat d.d. have written off some of the assets during the annual inventory process in the amount of HRK 1,820,224. On the other hand, receivables write-offs of HRK 484,110 refer to the years before 2018.
FOREGONE EARNINGS DUE TO LATE CONSOLIDATION OF HOTEL ALAN d.d.		
Hotel Alan d.d. - late consolidation	3,411,000	Hotel Alan was consolidated as of 1st of August 2018. In the year 2018, total consolidated EBITDA of Sunce koncern d.d. amounted to HRK 7.3 million. All year's EBITDA of company Hotel Alan d.d. amounted to HRK 10.7 million (EBITDA adjusted for one-off write downs of operating equipment (purchased as part of new investments) at HRK 592 thousand and HRK 1.1 million one-off loss when selling 34 mobile homes). If Hotel Alan d.d. had been consolidated from the 1st of January 2018, total EBITDA would be higher by HRK 3.41 million.

During 2018 the Group realized 878,221 **overnight stays,** while in the same period last year there were 713,664 overnight stays, which represents a 23% increase. Of the total number of overnight stays 6% was made by domestic guests and 94% by foreign guests. Most foreign guests came from the following countries: Germany (20%), France (13%), Great Britain (12%) and Sweden (11%), representing 56% of the total number of overnight stays.

The Group recorded a fall in **occupancy rate** in relation to the previous period, mostly due to consolidation of Velaris Tourist Resort which is open during the whole year and Bluesun Paklenica camp (Hotel Alan d.d.) which had lower occupancy than the average of the Group during the Reported period.

Most of the Group's operating expenses account for **staff costs,** which in 2018 amounted to HRK 148.4 million, while in the same period of 2017 they amounted to HRK 129.1 million, representing an increase of HRK 19 million. The **share of personnel costs** in total revenue grew slightly on an annual basis, i.e. in the year 2018 it was 34.8%, while in the same period in 2017 it was 34.1%.

Payrolls growth of 19 million kuna in absolute figures on an annual level and 0.7% in relative terms (to revenues) was planned in line with the salary increase policy and the new staff hired to ensure service quality and additional focus on direct sales channels and digital marketing. **To understand the Group's business, it is important to point out a smaller share of the exposure to the Camp segment than comparable companies in Croatia,** which generally affects a larger share of the staff costs in the Group's operating expenses.

Despite the pressures on the labour market, for 2019, we do not plan a significant increase in labour costs, as no new or significant renewal of the existing capacity is planned, which marked the previous period. However, through **further improvement of business processes,** we intend to ensure pay competitiveness. Apart from the emphasis on the efficiency of the processes, the Group's human resources sector will also focus on additional internal staff development and scholarship system.

Financial income amounted to HRK 9.7 million, while financial expenses amounted to HRK 24.4 million, of which interest expenses amounted to HRK 17.8 million, while the rest of HRK 5.7 million is related with costs of refinancing.

As already mentioned in the Report, on 28th of August 2018 Sunce koncern d.d. signed a **Loan Agreement** with the European Bank for Reconstruction and Development (EBRD) as an arranger, and Erste&Steiermärkische Bank d.d., Privredna banka Zagreb d.d., and Zagrebačka banka d.d. as members of the syndicate.

The Loan Agreement comprises of full refinancing of the Group's loans at the level of the Borrower and the Subsidiaries. The key purpose of the refinancing was to achieve operational efficiencies through the balance sheet restructuring, including consolidating the loans at the level of the Borrower, reducing number of creditors, aligning pricing and the covenants while significantly lowering cost of debt. Additionally, Loan Agreement includes an uncommitted tranche for financing future investments by the company.

Total refinancing transaction amounted to EUR 73 million and as **loan funds have been withdrawn in December 2018,** the effect of cheaper debt is not yet been visible in financial expenses of the reported Financial Statements for the 2018.

In addition to all above, in considering Group's operations during the Reported period, the following comments on **individual properties** should also be considered:

Velaris Tourist Resort (Hoteli Zlatni rat d.d.): The Velaris Tourist Resort in Supetar on the Island of Brač consists of three properties (Hotel Amor 4 *, Villa Vela Luka 4 * and Pavilions Vlačica and Vrilo 3 *) which total have a capacity of 177 rooms. The group is leasing the related properties from 01 January 2018 through its subsidiary Hoteli Zlatni rat d.d. The hotel operations are performed during the entire calendar year, which is a contrast to other Group properties. The Group's revenues are higher for the reporting period in comparison to the same period of last year, due to new lease contract. In the first four quarters of 2018 Velaris reported revenues of HRK 21.9 million and EBITDAR (EBITDA increased for rent costs) of HRK 6 million.

SENTIDO Bluesun hotel Berulia (Hoteli Brela d.d.): The hotel re-opened at the end of July 2017 after total refurbishment. During the reported period the hotel started with operations in late April 2018, so the current reporting period includes higher number of operating days for the property. During the non-operating period of 2017, the hotel incurred only operating expenses, so the numbers for the 2018 needs to be adjusted for that fact when making comparison. During the 2018 the hotel reported revenues in the amount of HRK 43.1

million, and EBITDA of HRK 13.4 million. In the same period of 2017, EBITDA was negative in the amount of HRK 2.1 million.

TUI Blue Hotel Jadran (WOT Hotels Adriatic Asset Company d.o.o.): The hotel re-opened on 01 July 2017 after complete renovation. During November 2017, the group formed a joint venture company with TUI AG by selling 50% stake in the entity that owned the related property (Punta Zlatarac Tučepi d.o.o) through its subsidiary Hoteli Tučepi d.d. Consequently, the company Punta Zlatarac ceased to be consolidated in the Group financial statements as of 31.10.2017. Following the above, the Group reported EBITDA for the third quarter of 2017 in the amount of HRK 2.1 million, while in 2018 the Group did not show any result on the EBITDA level due to deconsolidation.

Alana Beach Club and Alan Camp (Hotel Alan d.d.): The Company has entered into a long-term allotment contract with UK tourist group Neilson for “Hotel Alana Beachclub” with a capacity of 187 accommodation units in hotel and 34 mobile homes. The rest of 60 mobile homes and 210 pitches in the Alan Camp is not part of the Allotment contract. The hotel started with this year’s operations in June 2018 after full refurbishment, but has been included in the Group’s business results as of August 2018, when the related properties were consolidated into Group after capital increase in kind. In consolidation period after 01 August 2018, Hotel Alan d.d. reported revenues of HRK 20.8 million while EBITDA was HRK 7.3 million.

Net Debt of the Group at the end of the reporting period 31 December 2018 was HRK 459 million, up HRK 92 million in relation to the balance on 31 December 2017 mainly as consolidation of company Hotel Alan d.d. which had increased Net debt by HRK 75 million. However, the consolidation had a positive effect on the overall Group debt ratios due to the lower leverage of the Hotel Alan d.d.

Additionally, when considering the amount of indebtedness of the Group, we monitor the status of the capital markets and regularly evaluate the effect that changes in capital market conditions may have on our ability to execute our growth plans and fund our liquidity needs. Our financial objectives still include diversifying our financing sources and optimizing the mix of our capital structure.

The Group’s Total assets increased significantly compared to 31 December 2017 as a result of the capital increase in kind. The Company issued 506,788 new ordinary shares in exchange for gaining 97.96% of the ownership of Hotel Alan d.d. The related entity was consolidated into Group financial statements starting from August 1, 2018.

Investments 2018

In 2017, the Group underwent one of the biggest investment cycles in its history. The following has performed: (i) Jadran Hotel has been completely refurbished, (ii) Berulia Hotel in Brela has been completely renovated and upgraded in order to comply with the requirements of the prestige SENTIDO Thomas Cook franchise, (iii) a portion of rooms in Alga Hotel in Tučepi has been completely refurbished, (iv) Neptun Hotel has been additionally decorated, and (v) renovation and construction of additional content facilities in Alan Hotel in Starigrad Paklenica has begun. Additionally, a first hotel for employees of a tourist group in Croatia has been built in Zadvarje municipality, in immediate vicinity of our operations.

2018 was marked by two investments - room renovation in the Group's largest Alga Hotel in Tučepi and completion of complete refurbishment of the Alana Beachclub Hotel in Starigrad Paklenica.

Bluesun Hotel Alga**** Tučepi

Bluesun hotel Alga in Tučepi started operations on 24 March 2018 and welcomed its first guests of the season with a new look - namely, renovation of 156 rooms began since its closure at the end of October 2017. The refurbishment's imperative was to add additional freshness and to adjust the design to the guests' taste. At the same time, the restaurant was also renovated and it now has a different design and concept - the emphasis is now on show cooking and food presentation to guests. In the 2018 season, the guests were also welcomed by a renovated terrace the size of 400 sqm where breakfast, lunch and dinner were served, whereby we satisfied the guests' requests to enjoy food with a sea view and have thereby additionally raised the quality of service. The total value of this investment amounted to about HRK 15 million. The next renovation phase is planned to be completed by the 2019 season.

Alana Beachclub*** Starigrad Paklenica

A partnership with Neilson, the biggest UK agency for active tourism, was concluded in 2017, whereby Hotel Alan entered into five-year Franchised contract. Since then it operates under the name Alana Beachclub. A total of 187 rooms have been completely redesigned in order for the hotel to comply with very specific requirements of UK guests. The project was done by the respectable designer Lea Avian from Split, who is also responsible for the last year's reconstruction of TUI BLUE Jadran Hotel in Tučepi. 34 new mobile homes have also been mounted, the beach bar has been reconstructed, a half-Olympic size pool has been constructed (50x12.5 m in size), the terrace of the beach restaurant has been enlarged and new apartments for some of the employees have been constructed. The total value of construction work amounted to about HRK 50 million.

Planned investments for 2019

Bluesun Hotel Alga**, Tučepi - renovation of the remainder of rooms**

The third phase of Alga Hotel renovation includes a renovation of the remainder of the hotel's accommodation or to be more exact, of 182 rooms, and demanding work on the hotel's installations. We have gained additional accommodation capacity of 18 new rooms by conversion of a portion of the existing common areas. The total value of investments is planned for slightly above HRK 20 million. This year's investment closed out the accommodation capacity renovation cycle in this largest Group hotel and what remains is the renovation of the common areas.

Bluesun Hotel Soline*, Brela - renovated restaurant, lobby, reception desk**

Soline Hotel is one of the most well-known hotels within the Group, mostly owing to its specific location and author, Julije De Luca, one of our most recognized architects. The renovation for the 2019 season includes the following common areas of the hotel: part of the basement, tall basement, ground floor and first floor. The existing café bar has not been converted as part of the basement renovation, while the souvenir shop and the gallery have been converted in a wine shop. Construction work in the hotel's tall basement encompassed renovation of the existing restaurant and kitchen, with an a la carte restaurant in its south wing. The total value of investment is planned for slightly above HRK 27 million. Upon renovation completion, it is envisaged that Soline Hotel attains a new categorisation of 4* from the existing 3* which will have a positive effect on the hotel's positioning within the Group.

Investments in Alga Hotel and Soline Hotel are planned with the use of tax relief under the Law on Promotion of Investment.

Risk Factors

In addition to the other information in this Report, the following risk factors should be considered carefully in evaluating our Company and our Business.

Risks Related to Our Business and Industry

Our business in Croatia is subject to a number of business, financial and operating risks inherent to the hospitality industry, including amongst other:

- significant competition from other hospitality providers primarily in Mediterranean area which serves as a benchmark for pricing our services;
- competition of private accommodation facilities, primary in lower priced segments of our business;
- changes in operating costs, primarily employee compensations. Labour shortages or increased labour costs could impair the Group's ability to execute its business strategy and growth plans;
- increases in costs due to inflation or other factors that may not be fully offset by price increases in our business;
- changes in taxes and governmental regulations that influence or set wages, prices, interest rates or construction and maintenance procedures and costs;
- the costs and administrative burdens associated with complying with applicable laws and regulations;
- the ability of third-party internet and other travel intermediaries to attract and retain customers;
- the availability and cost of capital necessary for us to fund investments, capital expenditures and service debt obligations;
- delays in or cancellations of planned or future development or refurbishment projects;
- the financial condition of developers, touroperators, franchise owners and joint venture partner;
- relationships with touroperators, franchise owners and joint venture partners, including the risk that owners may terminate our allotment, franchise or joint venture contracts.

Any of these factors could increase our costs or limit or reduce the prices we are able to charge for hospitality products and services, or otherwise affect our ability to maintain existing properties or develop new properties.

Macroeconomic and other factors beyond our control

Macroeconomic and other factors beyond our control can reduce demand for hospitality products and services, including demand for rooms at our hotels. These factors include, but are not limited to:

- changes in general economic conditions, including low consumer confidence, unemployment levels resulting from the severity and duration of any downturn on our key markets;
- the financial and general business condition of the airline, automotive and other transportation-related industries and its effect on travel, including decreased airline capacity and routes;
- conditions that negatively shape public perception of travel, including travel-related accidents;
- adverse weather conditions during the high season, as the Group's business is highly seasonal.

Risks Relating to Debt Financing

As a result of our outstanding debt obligations, we are subject to: (i) the risk that cash flow from operations will be insufficient to meet required payments of principal and interest, (ii) restrictive covenants, including covenants relating to certain financial ratios, and (iii) interest rate risk. Although we anticipate that we will be able to repay or refinance our existing indebtedness and any other indebtedness when it matures, there can be no assurance that we will be able to do so or that the terms of such refinancing will be favourable.

Market risk

We are exposed to market risk primarily from changes in interest rates and foreign currency exchange rates, which may affect future income, cash flows and the fair value of the Company, depending on changes to interest rates or foreign exchange rates. In certain situations, we may seek to reduce cash flow volatility associated with changes in interest rates and foreign currency exchange rates by entering into financial arrangements intended to provide a hedge against a portion of the risks associated with such volatility.

Interest Rate Risk

We are exposed to interest rate risk as all our debt is based on variable-rate. We are most vulnerable to changes in six-month EURIBOR, as the interest rate on our variable-rate debt is based on this index.

Foreign Currency Exchange Rate Risk

We conduct business in various currencies and are exposed to earnings and cash flow volatility associated with changes in foreign currency exchange rates. By far the most of the sales revenue generated abroad is denominated in euros, but so is the long-term debt of the Company. Hence, for the most part the Company and Group are naturally hedged from exchange rate risks.

Corporate Governance

There is no single definition of corporate governance which may be applied to all companies, each ownership structure or all legal regimes. As an example, The Organisation for Economic Co-operation and Development (OECD) defines corporate governance as "*internal mechanisms through which joint stock companies are managed and controlled […], which encompass a set of relationships between the company's management board, its supervisory board, shareholders and other stakeholders*".

Company Management Structure

The term and legal position of the Company is regulated by the Companies Act, which regulates, amongst else, matters of incorporation, general acts, capital, management organisation and internal supervision.

The Companies Act provides for a possibility for joint stock companies to organise their management with a choice between a single-tier system or a two-tier system. There is no single answer as to which corporate governance system is better.

Sunce koncern d.d. has been, in accordance with domestic practice, incorporated as a two-tier system wherein the supervisory board and the management board are separate bodies. In this system, the management board is entrusted with day-to-day company management. It is, in turn, controlled by the supervisory board, whose members are elected by the general assembly.

Apart from the ability to choose between two different structures of management organisation, companies which are listed on the capital market's regulated market must form certain bodies and panels for matters of internal supervision and audit of operations

General Assembly (Shareholders' Assembly)

The general assembly is the Company's highest ranking management body. Shareholders pass and approve basic corporate decisions through the assembly. The general assembly appoints members of the company's supervisory board. In addition, after the management board and the supervisory board establish annual financial statements and auditor's reports, the general assembly decides on the use of profits and coverage of losses (including distribution of dividends), elects an outside auditor, decides on the increases and decreases of share capital, as well as on other matters defined by law and the Company's articles of association.

Articles of association

Articles of association is the company's basic general act regulating the management of the Company and other key matters related to organisation and operations. It also serves an important public role in the matter of relationship towards third parties since it provides information about the Company, and especially about its corporate governance system. The Articles of Association of Sunce koncern is aligned with best market practice. Amongst others, the Articles of Association defines elements of best market practice, i.e. minority shareholder protection by requiring a higher majority for adoption of certain decisions of the general assembly than as prescribed by the Companies' Act (being: exclusion of pre-emption rights of shareholders in subscription of new shares and delisting the Company's stock from the regulated market), as well as introducing (i) prior consent of the Supervisory Board for taking material actions, especially for related party transactions, and (ii) joint representation of the Company. The Articles of Association of the company Sunce koncern d.d. may be downloaded from the Company's Investor Website.

Supervisory Board

The Supervisory Board is responsible for the appointment, direction, control of work and removal of the management board, i.e. for supervision of the Company's management. The Supervisory Board has a role of directing strategic decision-making and establishing a management framework, and not direct Company management. The Supervisory Board's Rules of Procedure regulates the manner of work, rights and obligations of members thereof, manner of decision-making and other matters which are important for the work of the Supervisory Board. The Rules of Procedure of the Supervisory Board of Sunce koncern d.d. may be downloaded from the Company's Investor Website (Croatian version only).

Management Board

The Management Board manages and represents the Company. The Management Board manages the Company independently and at its own responsibility. In performance of its work, the Management Board is not bound by instructions of other company's bodies nor instructions provided by the majority shareholders or the supervisory board. The Management Board has the duty to always act exclusively in the interests of the company and its shareholders, taking into account the interests of the employees and the wider community, with the goal of increasing the Company's value. The Management Board's Rules of Procedure regulate, amongst else, tasks, accountability, organisation, manner of work and decision-making of the Company's Management Board. The Rules of Procedure of the Management Board of Sunce koncern d.d. may be downloaded from the Company's Investor Website (Croatian version only).

The Company's Committees

The Company's Committees are envisaged by the law and the corporate governance code recommendations. The Audit Law requires each Croatian company whose securities are listed on the regulated market (as defined by the law regulating capital markets) to appoint an **Audit Committee,** and provides for a possibility to form other committees as well.

The tasks of and membership in an audit committee is also regulated by the Audit Law. The purpose of the Audit Committee is to assist the company's supervisory board in supervising (i) the integrity of financial statements, (ii) compliance with legal and regulatory requirements, (iii) qualifications and independence of the audit company, and if applicable (iv) the function of the company's internal audit. The Audit Committee's Rules of Procedure regulates, amongst other, the purpose, tasks, duties and responsibilities and the committee's reporting. The Rules of Procedure of the Audit Committee of Sunce koncern d.d. may be downloaded from the Company's Investor Website (Croatian version only).

For the purposes of preparation and drafting of certain decision proposals or for execution of a task, the management board may form temporary or permanent professional bodies, panels or advisory bodies. In accordance with its Rules of Procedure, the Management Board has formed the **Investment Committee** as an advisory body whose purpose is to assist the work and activities of the Management Board in decision-making related to the company's investments. In more detail, the Investment Committee has the goal of:

(i) Considering and evaluating capital needs of the company's hotel portfolio and other assets, and defining long-term investment plans; and
(ii) Monitoring, considering and recommending appropriate actions or activities related with mergers, acquisitions, material sales or purchases of assets and other extraordinary transactions for the company's account. The Rules of Procedure of the Investment Committee of Sunce koncern d.d. may be downloaded from the Company's Investor Website (Croatian version only).

External supervision

External supervision of the company's operations primarily includes the audit of annual financial statements. This work is performed by an independent external audit company in accordance with regulations governing accounting and audit. Independent external auditors must, in the most possibly clear and certain way, express their opinion on whether the financial statements prepared by management adequately reflect the capital position and financial condition of the company, and the results for a given time period. The Group's independent external auditor is Ernst & Young d.o.o. Zagreb, Radnička cesta 50, 10000 Zagreb (EY). EY's first year of engagement was the audit of financial statements for the year ended 31 December 2017.

Corporate Governance Statement

As support in development and advancing the corporate governance practice, companies in Croatia have at their disposal the Corporate Governance Code of the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange. The Code contains rules, recommendations and guidelines based on domestic law and bylaws which regulate corporate governance issues. The Code is based on generally accepted principles of corporate governance, including the principles of OECD.

The Code's basic principles include ensuring transparent business operations, defining detailed procedures for the work of the issuer's management and supervisory board, avoiding a conflict of interests between the issuer's relevant persons (members of the management board, supervisory board, senior management), establishing efficient internal controls and an efficient system of accountability.

The Croatian Companies Act require companies which are listed on the capital market to include a separate chapter in their annual report with, at a minimum, information on the corporate governance code they are bound by and/or the corporate governance code that the company voluntarily applies outside of what is required under the law. The law also prescribes that the company must state whether it deviates from the application of the corporate governance code and explain reasons for such deviation.

These requirements are met through the annual corporate governance questionnaire which forms an integral part of this Annual Report.

In accordance with Article 250.b paras 4 and 5 and Article 272.p of the Companies Act, and Article 22 of the Accounting act, the Company hereby gives its Corporate Governance Statement.

The Company applies the Corporate Governance Code of the Zagreb Stock Exchange (Zagrebačka burza d.d., Zagreb) which is effective as of 1 January 2011 and is published on the Stock Exchange's website (www.zse.hr) and on the website of the Croatian Financial Services Supervisory Agency (www.hanfa.hr). The Company complies with the Code's provisions, with the exception of those provisions whose application is not practicable at a given time or does not materially affect the transparency of business operations or the Company's risk profile.

Code of corporate governance annual questionnaire

Main company information: SUNCE KONCERN d.d.
Contact person and contact phone: Tea Piacun, Chief Legal Officer; +385 1 6442 247
Date of questionaire complete: 18.04.2019

All the questions contained in this questionnaire relate to the period of one bussines year to which the annual financial statements also relate. If a question in the questionnaire asks for an explanation, it is necessary to explain the answer provided.All the answers in the questionnaire will be measured in percentages, as explained at the beggining of each chapter.

COMPANY HARMONIZATION WITH THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

Answers to this questionnaire chapter will be valued with a max. 20% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

Question No.	Questions	Answer YES/NO	Explanation
1	Has the company accepted implementation of the code of corporate governance of the Zagreb Stock Exchange?	YES	
2	Does the company have its own code of corporate governance?	NO	The Company accepted the application of the ZSE Code.
3	Have any principles of the code of corporate governance been adopted as part of the company's internal policies?	YES	
4	Does the company disclose harmonization with the principles of corporate governance in its annual financial statements?	YES	

SHAREHOLDERS AND GENERAL MEETING

Answers to this questionnaire chapter will be valued with max. 30% of whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

Question No.	Questions	Answer YES/NO	Explanation
5	Is the company in a cross-shareholding relationship with another company or other companies? (If so, explain)	NO	
6	Does each share of the company have one voting right? (If not, explain)	YES	
7	Are there cases of different treatment of any shareholders?? (If so, explain)	NO	
8	Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, explain)	YES	
9	Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, explain)	NO	The Company did not receive any request from shareholders to provide a proxy.
10	Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, explain)	YES	

11	Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, explain)	YES	
12	Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, explain)	NO	There were no dividend payments.
13	Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, explain)	NO	There were no dividend payments. When the dividend is paid, a legal deadline of 30 days is applied.
14	Were any shareholders favoured while receiving their dividends or advance dividends? (If so, explain)	NO	
15	Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, explain)	NO	There were no such requests from the shareholders. The Company will consider the use of modern communication technology.
16	Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney etc.? (If so, explain)	YES	Pursuant to the Articles of Association of the Company, shareholders submit applications for participation in the General Meeting within the deadline prescribed by the Companies Act. The power of attorney is given to the Company until the last day of the application for participation in the General Meeting. The power of attorney does not have to be notarized by a notary public to be valid.
17	Did the management of the company publish the decisions of the general assembly of the company?	YES	
18	Did the management of the company publish the data on legal actions, if any, challenging those decisions? (If not, explain)	NO	The Company did not receive any action challenging the decisions of the General Meeting.

MANAGEMENT AND SUPERVISORY BOARD	
PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS	Tonči Boras - President of the Management Board, Ivan Potkrajčić - Member of the Management Board, Kristijan Gagulić - Member of the Management Board
PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD AND THEIR FUNCTIONS	Jako Andabak - President of the Supervisory Board, Sanja Gagulić - Deputy of the President of the Supervisory Board, Ivan Augustin - Member of the Supervisory Board, Ružica Andabak - Member of the Supervisory Board, Ana Volk - Member of the Supervisory Board

Answers to this questionnaire chapter will be valued with a max. 20% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code.

Question No.	Questions	Answer YES/NO	Explanation
19	Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, explain)	NO	For the purposes of future work the Company intends to adopt a plan including a list of regular sessions and data made available to the members of the Supervisory Board.
20	Did the Supervisory or Management Board pass its internal code of conduct?	YES	
21	Does the company have any independent members on its Supervisory or Management Board? (if not, please explain)	YES	
22	Is there a long-term succession plan in the company? (If not, explain)	NO	No long-term plan of succession is defined, but there is an indicative plan of replacing the staff in leading positions by implementing continuous training programmes.
23	Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)	NO	The Company Supervisory Board members did not receive rewards or compensation for their work in 2018.
24	Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (If not, explain)	NO	The Company Supervisory Board members did not receive rewards or compensation for their work in 2018.
25	Have detailed records on all remunerations and other earnings of each member of the management or each executive director received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)	NO	The information provided in the annual report is published on a consolidated basis for all members of the Board, not for individual members.
26	Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)	NO	The information provided in the annual report is published on a consolidated basis for all members of the Board, not for individual members.
27	Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company 's shares promptly and no later than three business days, after such a change occurs? (If not, explain)	YES	
28	Were all transactions involving members of the Supervisory or Management Board or persons related to them and the company and persons related to it clearly presented in reports of the company? (If not, explain)	NO	The mentioned tasks are presented as a part of a note about transactions with related parties.
29	Are there any contracts or agreements between members of the Supervisory or Management Board and the company?	YES	
30	Did they obtain prior approval of the Supervisory or Management Board? (If not, explain)	YES	

31	Are important elements of all such contracts or agreements included in the annual report? (If not, explain)	NO	These contracts do not have material significance for the Company.
32	Did the Supervisory or Management Board establish the appointment committee?	NO	
33	Did the Supervisory or Management Board establish the remuneration committee?	NO	
34	Did the Supervisory or Management Board establish the audit committee?	YES	
35	Was the majority of the audit committee members selected from the group of independent members of the Supervisory Board? (If not, explain)	NO	The Audit Committee was established in 2018, pursuant to the Audit Act 127/17. All Audit Committee members are Supervisory Board members and pursuant to Article 65 paragraph 7 of the Audit Act they will be exempt from the requirement of independence.
36	Did the committee monitor the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (If not, explain)	YES	
37	Did the audit committee assess the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, explain)	YES	
38	Has the audit committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, explain)	NO	The Company has no established internal audit function.
39	If there is no internal audit system in the company, did the audit committee consider the need to establish it? (If not, explain)	NO	The Company Management Board applies adequate processes of monitoring major risks to which the Company is exposed. One of the tasks of the Audit Committee on a yearly basis is to consider the need to establish a special internal audit function if it is necessary to improve the internal control system of the Company.
40	Did the audit committee monitor the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, explain)	YES	

41	Did the committee monitor nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (If not, explain)	YES	
42	Did the audit committee prepare rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)	NO	Since the External Auditing House and its affiliated persons did not provide any services to the Company nor they are intended to be used by the Company in due course, the relevant rules have not been adopted.
43	Did the audit committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, explain)	YES	
44	Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)	YES	
45	Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)	YES	
46	Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?	NO	
47	Are detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the annual report of the company? (If not, explain)	NO	The income of Management Board members is disclosed in the annual report on a consolidated basis.
48	Are all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the company? (If not, explain)	NO	The Management Board was given no rewards, options or other benefits.
49	Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (If not, explain)	NO	The mentioned tasks are presented as a part of a note about transactions with related parties.
50	Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the anagement of the company, and a special comment on its cooperation with the management? (If not, explain)	YES	

AUDIT AND MECHANISMS OF INTERNAL AUDIT

Answers to this questionnaire chapter will be valued with a max. 10% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

Question No.	Questions	Answer YES/NO	Explanation
51	Does the company have an external auditor?	YES	
52	Is the external auditor of the company related with the company in terms of ownership or interests?	NO	

53	Is the external auditor of the company providing to the company, him/herself or through related persons, other services?	NO	
54	Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)	YES	
55	Does the company have internal auditors?	NO	The Audit Committee considers the need to establish a special internal audit function once a year and gives the corresponding recommendation to the Supervisory Bord.
56	Does the company have an internal audit system in place? (If not, explain)	YES	

TRANSPARANCY AND THE PUBLIC OF ORGANIZATION OF BUSINESS

Answers to this questionnaire chapter will be valued with a max. 20% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

Question No.	Questions	Answer YES/NO	Explanation
57	Are the semi-annual, annual and quarterly reports available to the shareholders?	YES	
58	Did the company prepare the calendar of important events?	NO	"In its future the Company intends to make a calendar of important events."
59	Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?	YES	
60	Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?	YES	
61	Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company? (if yes, explain)	NO	
62	Did the management of the company hold meetings with interested investors, in the last year?	YES	
63	Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?	YES	

Consolidated Financial Statements for 2018

The accompanying notes to financial statements are an integral part of the above statements.

RESPONSIBILITY FOR THE PREPARATION AND AUTHORIZATION OF ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Law, the 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 the Group for that period.

After making enquiries, the Management Board has a reasonable expectation that 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 consolidated financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable;
- applicable accounting standards are followed;
- The financial statements are prepared on the going concern basis.

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

Signed on its behalf by:

President of the Management Board
Tonči Boras

Member of the Board
Kristijan Gagulić

Member of the Board
Ivan Potkrajčić

25 April 2019
SUNCE KONCERN d.d.
Trpinjska 9
Zagreb

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMETNS

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

STATEMENT

According to our best knowledge the annual audited consolidated financial statements for 2018, are prepared in accordance with applicable standards of financial reporting and give true and fair view of the assets and liabilities, profit and loss, financial position and operations of the Company and its subsidiaries (together – „Group").

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

In Zagreb, 25 April 2019

CFO
Ivan Potkrajčić

Director of Accounting and Finance
Ivan Franić

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SWIFT: ESBCHR22

Independent auditor's report

To the Shareholders of Sunce koncern Group;

Report on the audit of the consolidated financial statements

Opinion

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

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis Opinion

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

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

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

Emphasis of matter

We draw attention to Note 14 of the consolidated financial statements, which describes material uncertainties regarding legal cases related to ownership of the land and to Note 29 regarding contingent liability.

Our opinion is not modified in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key Audit Matter	How we addressed Key Audit Matter
Measurement of Property, Plant and equipment ("PPE")	
The Group has a significant balance of PPE in its consolidated statement of financial position. Therefore, initial measurement (capitalization), estimation of useful lives and subsequent valuation may have a significant impact on the financial position and the financial performance of the Group, making it important that selection and application of relevant accounting policies and estimates is done properly. Management's assessment of the useful lives and valuation of PPE was significant to our audit because these processes involve significant management judgement. As a result of above mentioned, this matter was noted as a key audit matter.	Audit procedures included understanding of the process relating to PPE and evaluation of design of the controls implemented in the process. Our audit procedures included testing and assessing the appropriateness of capitalization of items to PPE on a sample basis. We compared the useful lives of PPE applied by the Group with those applied by similar companies in the hospitality industry in Croatia, as well as compared the useful lives of buildings applied by the Group with useful lives of buildings as estimated by independent real estate appraisal experts. We assessed the competency and independence of the professional valuers engaged by the Group. We tested management's assumptions used in the value in use calculations including the historical accuracy/consistency of management's assumptions. We also assessed adequacy of the disclosures in the consolidated financial statements presented in Note 2.11 *Property, plant and equipment* and if these are in line with the requirements of International Financial Reporting Standards as adopted by EU.
Purchase price allocation	
The Group acquired three subsidiaries during 2004 relating to Hoteli Brela d.d., Hoteli Tučepi d.d. and Hoteli Zlatni rat d.d. However, since the purchase price allocation was not performed at the date of acquisition, the fair value of identifiable assets acquired and liabilities assumed of subsidiaries acquired was not initially determined at acquisition date and accordingly no goodwill or gain from bargain purchase has been determined. Since the above mentioned was not in line with the requirements of IFRS 3 Business combination, the Group hired independent consultants to assist it in preparation of a Purchase price allocation estimate during 2018 with aim of assessing whether and how significant adjustments to the consolidated financial statements are required to account for residual effects of purchase price allocation. Given the significance of the transactions and the level of management's judgment to identify the acquired assets and liabilities, to assess their fair value and to correctly describe this information in the notes to the consolidated financial statements we consider that the purchase price allocation is a key audit matter.	We evaluated the competency and objectivity of the external consultants engaged by the Group. We assessed whether all tangible and intangible assets acquired, and all liabilities assumed have been identified and engaged internal specialists to perform this assessment and analyse the methodologies applied for the valuation of the most significant assets and liabilities acquired, and assessed the main assumptions and parameters used to determine their fair value. We assessed management conclusion that previously stated carrying amount of PPE as at 31 December 2004 are within acceptable range (considering different weighted average cost of capital rates and growth rates as one of the main assumptions in the model) of fair value at the same date. We also assessed the appropriateness of the disclosures provided in the Note 32 *Acquisition of subsidiaries during 2004* to the consolidated financial statements in respect to the purchase price allocation and if these are in line with the requirements of International Financial Reporting Standards as adopted by EU.

Building a better working world

Other information included in the Group's Annual Report for year 2018

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

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

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

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

1. the information given in the enclosed Management report for the 2018 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;

2.the enclosed Management report for 2018 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Group's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's annual report for the year 2018 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed consolidated financial statements;

In addition, in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and Group`s Annual report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

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

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

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

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

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

6. 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 Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

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

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 18 April 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Zvonimir Madunić
Member of the Board and certified auditor

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)	**Note**	**2018**	**2017**
Sales	4	415,180	355,544
Other income	5	10,060	22,581
Operating income		**425,240**	**378,125**
Cost of materials and services	6	(129,889)	(109,848)
Employee costs	7	(148,404)	(129,139)
Depreciation and amortisation	13, 14	(55,103)	(43,739)
Other operating expenses	8	(41,870)	(52,359)
Operating expenses		**(375,266)**	**(335,085)**
Operating profit		**49,974**	**43,040**
Finance expense – net	9	(14,623)	(10,915)
Share of loss of associate	15	(2,739)	(3,094)
Profit before taxes		**32,612**	**29,031**
Income tax	10	(2,592)	(8,422)
Profit for the year		**30,020**	**20,609**
Profit attributable to:			
Owners of the Parent Company		26,176	24,733
Non-controlling interest		3,844	(4,124)
Earnings per share (in HRK) - basic and diluted	11	**5.15**	**5.40**
Other comprehensive income		24	-
Total comprehensive income		**30,044**	**20,609**
Total comprehensive income attributable to:			
Owners of the Parent Company		26,199	24,733
Non-controlling interest		3,845	(4,124)

The notes to the financial statements form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

(in thousands of HRK)	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Intangible assets	13	1,027	1,139
Property, plant and equipment	14	1,109,621	992,542
Investment in associates and joint venture	15	101,488	50,193
Loans	20	31,715	10,290
Deferred tax assets	12	5,527	-
Other receivables	16	2,422	2,247
		1,251,800	**1,056,411**
Current assets			
Inventories	17	3,734	3,067
Trade receivables	18	24,643	23,990
Other receivables	19	17,980	15,284
Loans	20	44,445	78,182
Cash and cash equivalents	21	45,080	27,050
		135,882	**147,573**
Total assets		**1,387,682**	**1,203,984**
EQUITY AND LIABILITIES			
Share capital	22	539,385	488,706
Share premium		83,265	24,420
Other reserves		10,304	10,504
Retained earnings		81,996	138,692
		714,950	**662,322**
Non-controlling interest		**84,648**	**80,253**
Total equity		**799,598**	**742,575**
LIABILITIES			
Non-current liabilities			
Borrowings	23	449,257	281,064
Other liabilities		3,346	-
Provisions	24	1,748	1,727
Deferred tax liabilities	25	1,078	692
		455,429	**283,483**
Current liabilities			
Borrowings	23	54,700	113,116
Provisions	24	252	260
Trade and other payables	26	45.872	37,138
Other liabilities	27	31,831	27,412
		132,655	**177,926**
Total liabilities		**588,084**	**461,409**
Total equity and liabilities		**1,387,682**	**1,203,984**

The notes to the financial statements form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total
Balance as at 1 January 2017	**444,306**	**-**	**10,985**	**111,622**	**566,913**	**90,537**	**657,450**
Transactions with owners:							
Sunce Koncern d.d. capital increase	44,400	24,420	-	-	68,820	-	68,820
Sale of 50% in the subsidiary	-	-	-	2,337	2,337	(6,047)	(3,710)
Total owners transactions	44,400	24,420		2,337	71,157	(6,047)	65,110
Profit for the year	-	-	-	*24,733*	*24,733*	*(4,124)*	*20,609*
Other comprehensive income							
Reversal of deferred tax liabilities	-	-	(481)	-	(481)	(113)	(594)
Total other comprehensive income	**-**		**(481)**	**24,733**	**24,252**	**(4,237)**	**20,015**
Balance at 31 December 2017	**488,706**	**24,420**	**10,504**	**138,692**	**662,322**	**80,253**	**742,575**
Balance as at 1 January 2018	**488,706**	**24,420**	**10,504**	**138,692**	**662,322**	**80,253**	**742,575**
Transactions with owners:							
Sunce Koncern d.d. capital increase	50,679	71,035	-	-	121,714	-	121,714
Carried forward losses	-	(12,190)	(223)	12,413	-	-	-
Acquisition of the subsidiary Hotel Alan d.d. (Note 33)	-	-	-	(95,285)	(95,285)	550	(94,735)
Total owners transactions	50,679	58,845	(223)	(82,872)	26,429	550	26,979
Profit for the year	-	-	-	*26,176*	*26,176*	*3,844*	*30,020*
Other comprehensive income							
Land revaluation	-	-	23	-	23	1	24
Total other comprehensive income	**-**		**23**	**26,176**	**26,199**	**3,845**	**30,044**
Balance at 31 December 2018	**539,385**	**83,265**	**10,304**	**81,996**	**714,950**	**84,648**	**799,598**

The notes to the financial statements form an integral part of these financial statements.

CONOSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)	**Note**	**2018**	**2017**
Cash flow from operating activities	28	**94,972**	**104,304**
Interest paid		(21,410)	(18,525)
Tax paid		(3,914)	(6,198)
Net cash from operating activities		**69,468**	**79,581**
Purchase of property, plant and equipment	14	(61,639)	(224,926)
Purchase of intangible assets	13	(359)	(671)
Acquisition of a subsidiary	33	2.066	-
Gains on sale of non-current assets		-	511
Sales of subsidiary (net)		-	46,663
Interest received		-	394
Found of associate	15	(10)	-
Loans granted to related parties		(62,784)	(24,935)
Loans received from related parties		21,759	9,560
Net cash outflow from investment activities		**(100,967)**	**(193,404)**
Cash flow from financing activities			
Proceeds from borrowings		706,307	229,322
Repayments of borrowings		(656,621)	(157,513)
Issuance of new shares		-	68,820
Repayment of financial lease		(157)	(110)
Net cash inflow from financing activities		**49,529**	**140,519**
Net increase in cash and cash equivalents		**18,030**	**26,696**
Cash and cash equivalents			
at beginning of year		27,050	354
at year end	21	45,080	27,050
Net increase		**18,030**	**26,696**

The notes to the financial statements form an integral part of these financial statements.

NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1 – GENERAL INFORMATION

Sunce Koncern d.d. ("Company") is a holding which manages hotels and provides a variety of consulting services related to the management and operation of companies including advertising and marketing services, real estate management, procurement, water supply, rural tourism, health services, congresses, sport activities and other forms of tourism. The Company has been established as a private limited liability Company. The General Assembly agreed at its meeting held on 4 April 2007 to transform the Company from a limited company to a public limited company. Specific details of subsidiaries and the nature of their operations are noted in the table below:

The Group consists of following entities:

	Nature of Business	Ownership 2018	Ownership 2017
Sunce Koncern d.d.	Investment Holding	Parent company	Parent company
Hoteli Brela d.d.	Hotels	89.58%	89.58%
Hoteli Tučepi d.d.	Hotels	91.41%	91.41%
Hoteli Zlatni rat d.d.	Hotels	80.99%	80.99%
Hotel Alan d.d.	Hotels	97.96%	-
Sunce Global d.o.o.	Tourist Group	100%	99.60%
Zlatni rat Poljoprivreda d.o.o.	Agriculture	80.99%	80.99%
Zlatni rat Servisi d.o.o	Maintenance	80.99%	80.99%
Zlatni rat Tenis centar d.o.o	Tennis operator	80.99%	80.99%
Plaža Zlatni rat d.o.o.	Beach operator	80.99%	80.99%
Eko – promet d.o.o.	Transport	41.39%	41.39%
Aerodrom Brač d.o.o.	Airport	40.65%	40.65%
Sunce Vital d.o.o.	Medical services	100%	100%
Brač 500 Plus d.o.o.	Cable car management	56.24%	56.24%
Brela Jakiruša d.o.o.	Serving food and beverages	89.58%	89.58%

The Group as a majority owner has acquired remaining business share in a member of the Sunce Global d.o.o. which represented 0.309% of its share capital, after which it became the only member of the Sunce Global d.o.o. The merger agreement was announced at the court registry on 13 June 2018. The Commercial Court in Zagreb announced the merger registration on 28 February 2019.

NOTE 1 – GENERAL INFORMATION (continued)

As at 10 August 2018, the General Assembly of the Group made the decision to increase the share capital through the right to subscribe 595,397 ordinary shares of the Hotel Alan d.d. and issuing 506,788 of new ordinary shares. By this decision, the Group share capital increased from HRK 488,706,200 in the amount of HRK 50,678,800 to HRK 539,385,000.

Sun Koncern d.d. is controlled by the Sunce Ulaganja d.o.o. registered in Croatia, Trpinjska 9, Zagreb.

As at 31 December 2018, the shares of the Group were listed on the Official market of the Zagreb Stock Exchange. Decision on the transfer of all shares of the Group from the Regular to the Official Market, Zagreb Stock Exchange d.d. has adopted on 21 December 2018, and was also carried out on 27 December 2018.

Supervisory Board

Jako Andabak – president of the Management Board (from 13/06/2017)
Sanja Gagulić – Deputy Chairman of the Supervisory Board (from 13/06/2017)
Ružica Andabak – Member of the supervisory board (from 13/06/2017)
Ana Volk – Member of the supervisory board (from 13/06/2017)
Ivan Augustin – Member of the supervisory board (from 13/06/2017)

Management Board

Tonči Boras – President of the Management Board (from 13/06/2017)
Kristijan Gagulić – Member of the Management Board (from 13/06/2017)
Ivan Potkrajčić – Member of the Management Board (from 13/06/2017)

1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations effective in the current period

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

IFRS 9: Financial Instruments:

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group adopted this standard on 1 January 2018 and did not restate comparative information. The Group adopted this standard on January 1, 2018 without adjusting comparative information. Effects of adopting IFRS-9 have been presented in note 20 to the financial statements.

IFRS 15: Revenue from Contracts with Customers

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

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

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

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

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

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

Standards and Interpretations effective in the current period (continued)

IAS 40: Transfers to Investment Property (Amendments)

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

IFRIC interpretation 22: Foreign Currency Transactions and Advance Consideration

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

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

IFRS 16: Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of "low value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

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

IFRS 16: Leases (continued)

Lessor accounting under IFRS 16 is substantially unchanged with regard to today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group made a preliminary estimate of the potential effect of adopting IFRS 16 on its financial statements, which are presented in Note 30 - Commitments.

IFRS 9: Prepayment features with negative compensation (Amendment)

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

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

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

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

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

IFRIC 23: Uncertainty over Income Tax Treatments

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

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

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

Conceptual Framework in IFRS standards

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

IFRS 3 Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Group.

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

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

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

Definition of 'material' (Amendments))

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

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

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

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

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

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

- *IAS 12: Income tax*

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

- *IAS 23: Borrowing cost*

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

Statement of compliance

Consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with the applicable laws in the Republic of Croatia and International Financial Reporting Standards as adopted by the European Union (IFRS).

The consolidated financial statements have been prepared on the accrual basis and on a going concern basis.

The accounting policies have been consistently applied, unless otherwise noted. The financial statements for the year ended 31 December 2018 have been prepared using the historical cost method.

The consolidated financial statements are denominated in Croatian Kuna (HRK) as the functional and reporting currency of the Group. At 31 December 2018, the exchange rate for EUR 1 was HRK 7.417575 (31 December 2017: HRK 7.513648).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

a) Subsidiaries

Subsidiaries are all entities in which the Group has control over the financial and operating policies, which generally goes hand in hand with holding more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or exchangeable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is effectively transferred to the Group. They are de-consolidated from the date such control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the.

The excess of the consideration transferred, the amount of any minority interest in the acquiree and the fair value at the acquisition date of any previous equity interest in the acquiree over the fair value of the Group's interest in the identifiable net assets acquired is recorded as goodwill.

In the consolidated financial statements, all within-Group transactions, balances and unrealised gains and losses on transactions between the Group companies are eliminated. Where necessary, accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

b) Subsidiaries in separate financial statements

The Group discloses its subsidiaries in the separate financial statements at cost value less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration.

c) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. When the Group ceases to have control, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

c) Transactions with non-controlling interests

related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

d) Joint ventures

The Group's interests in jointly controlled ventures are accounted for under the equity method. Under this method, an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venture's share of net assets of the jointly controlled entity. The profit or loss of the venture includes the venture's share of the profit or loss of the jointly controlled entity. In the separate financial statements, the Group's interest in joint venture is measured at purchase cost less impairment.

2.3 Investments in associates

Associated companies are companies over which the Group has significant influence, but are not subsidiaries or interest in joint ventures. Significant influence is the power in decision making on financial and operating policies of a company, but not the control over the policies.

In the consolidated financial statements results, assets and liabilities of the associates are stated on the basis of equity method, except for the investments in associates held for sale which are accounted for in accordance with IFRS 5 Non-current assets held for sale and discontinued operations. Equity method requires investments in associates to be carried at cost adjusted for all changes of the Group's share in net assets of the associates after the acquisition date, as well as for any impairment of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Goodwill / Bargain purchase

Goodwill arising on the acquisition or merger of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

In the respect of Bargain purchase, any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss or against the assets of the acquired subsidiary to reflect the real cost of acquisition.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.4.1 Merger of entities and transactions with companies under common control

Merger of entities classified as companies from parties under common control are accounted for using book values (pooling of interest method). Under this method, the assets and liabilities of the entities under common control are transferred to the predecessor entities' carrying amounts. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of the net assets and the consideration paid is accounted for in these financial statements as an adjustment to equity.

2.5 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.7 Revenue from contracts with customers

The IASB issued IFRS 15, “Revenue from Contracts with Customers”, in May 2014. IFRS 15 supersedes IAS 11, “Construction Contracts”, IAS 18, “Revenue”, and related Interpretations, and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

The Group adopted this standard on 1 January 2018 and did not restate comparative information. Adoption of IFRS 15 on 1 January 2018 did not have any material effect. In addition, the adoption of IFRS 15 did not have a significant impact on the financial statements for the year and for the year ended 31 December 2018.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group have generally concluded that this is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Revenue from contracts with customers (continued)

Owned and leased hotels

Primarily derived from hotel operations, including the rental of rooms, food and beverage sales and other services from owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied, food and beverages are sold and services are performed.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due)).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group have received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability (advance payments received) is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.8 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group will be required to settle the obligation what implies outflow of economic benefits, and when a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If effect of time value of money is significant, the amount of provisions is a current value of costs which are expected to be used for settling the liability. In case of discounting, increase in provisions that reflect time flow is recognised as financial cost, while carrying amount of provisions increases each year in order to reflect time flow.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Provisions (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.9 Financial income and expenses

Financial income and expenses comprise of interests on loans granted calculated by using the effective interest rate method, interest receivables from funds invested, income from dividends, foreign exchange gains/losses.

Interest income is recognized in the income statement on an accrual basis using the effective interest rate method. Dividend income is recognised in the profit and loss at the date the Group's right to the dividend has been established.

Financial expenses are comprised from the interests calculated on loans and losses from exchange rate differences.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period indispensable for the finalization and preparation of the asset for its intended use or sale. Other borrowing costs are recognized in the income statement using the effective interest rate method.

2.10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further 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.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Taxation (continued)

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

Current and deferred taxes for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

2.11 Property, plant and equipment

Buildings, plant and equipment are recognized at cost less subsequent accumulated depreciation and any recognized impairment losses. Buildings, plant and equipment in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Buildings, plant and equipment with equal useful lives are grouped to determine the amount of the depreciation.

Depreciation is charged so as to write off the cost, other properties under construction, over their estimated useful lives, using the straight-line method, at the following rates:

	2018	2017
Buildings (hotels, residential buildings)	20 – 66 years	20 – 66 years
Other buildings (playground, parking, news-stand etc.)	20 – 66 years	20 – 66 years
Vehicles	5 years	5 years
Computers	4 – 5 years	4 – 5 years
Plant and equipment	5 – 30 years	5 – 30 years
Furniture	5 – 20 years	5 – 20 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Property, plant and equipment (continued)

Land owned by the Group where construction objects have not been built and are revalued and are not amortized. Any increase in value utilized by revaluation of land is credited to the revaluation reserve for real estate, except in the event of an increase in the amount of damage previously recognized in the income statement and other comprehensive income over the period, profit or loss and other comprehensive income up to the amount of previously recognized losses.

Any revaluation increase arising on the revaluation of such land is credited in equity to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

A decrease in the carrying amount arising on the revaluation of such land is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued land, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.12 Intangible assets

Intangible asset is recorded if it is expected that probable future economic benefits will be generated and that purchase cost can be measured reliably. Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period. Useful lives of the applicable intangible assets are five to ten years.

2.13 Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of tangible and intangible assets (continued)

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified
Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.14 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rentals are recognized as expenses in the periods in which they are incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Leases (continued)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.15 Inventories

Inventories are carried at cost. Cost includes an appropriate portion of fixed and variable overhead expenses assigned in bringing the inventories to their present location and condition. Group’s small inventory useful life for 5* hotels is four years while small inventory of hotels with lower categorization is written off over a period of one year.

2.16 Financial asset

Classification

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

(a) Financial assets at fair value through profit or loss

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

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

The Group measures financial assets at fair value through OCI if both of the following conditions are me:

• The financial asset is held within a business model with the objective of holding the financial assets to collect and selling contractual cash flows

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal and interest on the principal amount outstanding.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial asset (continued)

Classification (continued)

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

(c) Financial assets at amortised cost

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

• The financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

Measurement and recognition

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial asset (continued)

Measurement and recognition (continued)

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

Impairment of financial assets

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest (EIR) method, less the allowance for expected credit losses (ECLs), as described in Note 2.16.

2.18 Cash and cash equivalents

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

2.19 Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measures at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Key estimates, assumptions and uncertainties used in the preparation of the financial statements

During the preparation of the consolidated financial statements, the Group's management used certain judgements, estimates and assumptions that affect the carrying amount of assets and liabilities, disclosures of contingent items at the balance sheet date and income and expenses for that period.

Estimations have been used, but are not limited on: calculation of depreciation and useful lives, residual value of property, plant and equipment and tangible assets, impairment losses estimation, value adjustment for inventories and doubtful receivables, provisions for employee benefits and legal cases.

More details on the accounting policies for these estimations are presented in other parts of notes. Future events and their effects cannot be estimated with a certainty. Due to that accounting estimates require judgement, and estimates that are used in the preparation of the financial statements are subject to changes from future events, additional experience, new additional information and changes in environment in which the Group operates. Actual results can differ from estimated results.

2.21 Contingent assets and liabilities

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

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

2.22 Events after the reporting period

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

NOTE 3 – FINANCIAL RISK MANAGEMENT

The Group is exposed in its business mostly to market (interest and foreign currency risk), credit risk and liquidity risk.

The Group does not use derivative financial instruments. The risk management policies relating to current and non-current financial assets, current and non-current receivables, cash management as well as debts and liabilities can be summed up as follows:

3.1 Capital risk management

The Group manages its capital to ensure that it will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt to equity balance. The Group manages capital and for the purpose of proper capital structure, in accordance with the economic conditions present on the market, is makes appropriate adjustments. The Group can make a decision if the retained earnings should be distributed to shareholders, if the capital needs increase or decrease, if the assets should be sold in order to decrease liabilities and similar.

The management reviews the sources of funding on a monthly basis. The sources of funding the Group's regular business, investments and repayments of long-term debt were mainly own cash funds.

The gearing ratio at the year-end can be presented as follows:

	2018	2017
	(in thousands of HRK)	
Debt /i/	503,957	394,180
Cash and cash equivalents	(45,080)	(27,050)
Net debt	**458,877**	**367,130**
Equity /ii/	799,598	742,575
Net debt-to-equity ratio	**57%**	**49%**

/i/ Debt comprises non-current and current borrowings. Current borrowings represent the current portion of long-term debt and short term debts due within one year from the balance sheet date.

/ii/ Equity includes share capital, reserves, retained earnings and profit for the year.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Accounting policies for financial instruments are applied on the following balance sheet items:

2018

	Cash, Loans and receivables	**Financial assets**	**Financial assets through comprehensive income**	**Total**
31 December 2018	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	2,422	-	-	2,422
Trade and other receivables	43,498	-	-	43,498
Loan receivables	76,160	-	-	76,160
Cash and cash equivalents	45,080	-	-	45,080
Total	**167,160**	**-**	**-**	**167,160**

2017

	Cash, Loans and receivables	**Financial assets**	**Financial assets through comprehensive income**	**Total**
31 December 2017	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	2,247	-	-	2,247
Trade and other receivables	39,274	-	-	39,274
Loan receivables	88,472	-	-	88,472
Cash and cash equivalents	27,050	-	-	27,050
Total	**157,043**	**-**	**-**	**157,043**

Historical carrying amount of receivables and payables, including provisions that are in accordance with normal operating conditions, is approximately equal to their fair value.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Financial risk management

The Group’s Management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

Market risk is the risk that the change in market prices, as change of foreign currencies and interest rates, would influence the Group's result of the value of its financial instruments. Goal of the market risk management is managing and controlling the exposure to this risk within acceptable parameters, thus, optimizing returns.

The Group’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There have been no significant changes to the Group’s exposure to market risks or the manner in which it manages and measures the risk.

Interest risk

The Group is exposed to interest risk since the loans received is agreed at variable interest rate while the most of assets does not bear interests. The Group does not hedge exposure to interest rate risk.

The following table shows sensitivity of changes of interest rates relating to Group's loans as of 31 December 2018 and 31 December 2017, with the assumptions that all other variables are constant, on income before taxes.

The analysis was made on the assumption that the outstanding amount of long-term loans at variable interest rates at the reporting date was outstanding for the entire year.

The average interest rates that applied in 2018 are increased or decreased by 1 percentage point (%). Amounts are shown in thousands of HRK.

2018	Increase / decrease in percentage	Effect on profit before taxes HRK'000
HRK	+1 %	(5,040)
HRK	-1 %	5,040

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

2017	Increase / decrease in percentage	Effect on profit before taxes HRK'000
HRK	+1%	(2,528)
HRK	-1%	2,528

Foreign currency risk

The Group is mainly exposed to fluctuations of Euro (EUR) as a significant portion of trade receivables and sales, cash and long-term borrowings are denominated in those currencies. Other assets and other liabilities are mainly denominated in Croatian Kuna. Foreign exchange risk is managed using natural hedger, by maintaining a required level of cash in EUR, in which long-term debt of the Group is denominated.

Exposure of the Group to the foreign currency risk is as follows:

2018	EUR 000' HRK	HRK 000' HRK	Total 000' HRK
Trade receivables	18,244	6,399	24,643
Loans	3,409	72,751	76,160
Other receivables	3,895	14,085	17,980
Cash and cash equivalents	25,504	19,576	45,080
Borrowings	(503,493)	(464)	(503,957)
Trade and other payables	(1,636)	(44,236)	(45,872)
Other short term liabilities	(2,670)	(29,161)	(31,831)
	(456,747)	**38,950**	**(417,797)**

2017	EUR 000' HRK	HRK 000' HRK	Total 000' HRK
Trade receivables	14,645	9,345	23,990
Other receivables	6,562	8,722	15,284
Cash and cash equivalents	8,670	18,380	27,050
Borrowings	(387,638)	(6,542)	(394,180)
Trade and other payables	(4,696)	(32,442)	(37,138)
Other short term liabilities	-	(27,412)	(27,412)
	(362,457)	**(29,949)**	**(392,406)**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

000' HRK	Short term exposure	Long term exposure
	EUR	
2018		
Financial assets	50,667	385
Financial liabilities	(58,542)	(449,257)
Total exposure	**(7,875)**	**(448,872)**
2017		
Financial assets	26,782	3,095
Financial liabilities	(112,375)	(279,959)
Total exposure	**(85,593)**	**(276,864)**

Sensitivity analysis

The weakening of the HRK in relation to the EUR by 1% at the date of reporting would increase / (decrease) the profit before tax by the following amounts:

	2018	**2017**
	Effect on profit before taxes	Effect on profit before taxes
	HRK'000	HRK'000
Weakening of HRK in relation to EUR by 1%	(4,602)	(3,623)

This analysis assumes that all other variables, in particular interest rates, remain constant.

A strengthening of HRK against the above mentioned currency for the same changes of currency at reporting date would have had the equal but opposite effect on the profit before tax, if all other variables remain constant.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss form defaults. The Group only transacts with entities with good credibility. The Group uses other publicly available financial information and its own trading records to rate its major customers.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transaction concluded is spread amongst approved counterparties.

The grand part of credit risk is based on trade receivables.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Risk management is the responsibility of the Management Board, which has built quality frame for the monitoring of current, middle and long-term financing, and all depends related to liquidity risk. The Group manages this risk by constant monitoring of estimated and actual cash flow with the maturity of financial assets and liabilities.

The following table shows the maturity of financial liabilities of the Group at 31 December 2018 according to the contracted non-discounted payments:

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

	Carrying value	Contracted cash flows	0 – 12 months	1 – 2 years	2 – 5 years	Over 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2018						
Borrowings	503,957	552,877	62,969	63,131	182,503	244,274
Trade and other payables	45,872	45,872	45,872	-	-	-
Other liabilities	31,831	31,831	31,831	-	-	-
	581,660	**630,580**	**140,672**	**63,131**	**182,503**	**244,274**

	Carrying value	Contracted cash flows	0 – 12 months	1 – 2 years	2 – 5 years	Over 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2017						
Borrowings	394,180	434,819	128,073	101,135	158,961	46,650
Trade and other payables	37,138	37,138	37,138	-	-	-
Other liabilities	27,412	27,412	27,412	-	-	-
	458,730	**499,369**	**192,623**	**101,135**	**158,961**	**46,650**

NOTE 4 – SEGMENT INFORMATION

Basic reporting format – business segments

The Group records its operating revenue and costs by the type of services rendered in two basic segments: hotels and other segments. Other operating segments include sport and recreation services, "all inclusive" services, "á la carte", airport services and other services.

Profit and loss for the year ended 31 December 2018 by business segments is as follows:

(in thousands of HRK)	**Hotels**	**Other segments**	**Unallocated**	**Total**
Total segment revenue	414,129	12,744	29,634	456,507
Inter segment revenue	(435)	(4,279)	(26,553)	(31,267)
Revenue from external costumers	**413,694**	**8,465**	**3,081**	**425,240**
Operating expenses	(282,688)	(11,286)	(26,189)	(320,163)
EBITDA	**131,006**	**(2,821)**	**(23,108)**	**105,077**
Depreciation and amortisation	(53,105)	(1,303)	(695)	(55,103)
EBIT	**77,901**	**(4,124)**	**(23,803)**	**49,974**
Share of loss from associates				(2,739)
Net financial cost				(14,623)
Profit before taxes				**32,612**
Income tax				(2,592)
Profit for the year				**30,020**
Attributable to:				
Owners of the Parent Company				26,176
Non-controlling interest				3,844

Unallocated revenue mostly includes revenue from the management fee to Hotel Alan and revenue from goods sold to Hotel Alan and to Hotel Salve Regina – Marija Bistrica. The company Hotel Alan d.d. became a member of the Group at August 1, 2018, therefore the management fee revenue relates to the first 8 months of 2018, while the company was not a member of the Group.

NOTE 4 – SEGMENT INFORMATION (continued)

The profit and loss for the year ended 31 December 2017 by business segments is as follows:

(in thousands of HRK)	**Hotels**	**Other segments**	**Unallocated**	**Total**
Total segment revenue	347,899	26,355	28,265	402,519
Inter segment revenue	-	-	(24,394)	(24,394)
Revenue from external costumers	**347,899**	**26,355**	**3,871**	**378,125**
Operating expenses	(224,395)	(44,037)	(22,914)	(291,346)
EBITDA	**123,504**	**(17,682)**	**(19,043)**	**86,779**
Depreciation and amortisation	(41,477)	(1,856)	(406)	(43,739)
EBIT	**82,027**	**(19,538)**	**(19,449)**	**43,040**
Share of loss from associates				(3,094)
Net financial cost				(10,915)
Profit before taxes				**29,031**
Income tax				(8,422)
Profit for the year				**20,609**
Attributable to:				
Owners of the Parent Company				24,733
Non-controlling interest				(4,124)

Unallocated revenue mostly includes revenue from the management fee to Hotel Alan and revenue from goods sold to Hotel Alan and to Hotel Salve Regina – Marija Bistrica.

NOTE 4 – SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

The Group's sales revenues can be classified according to the customers' origin.

	2018	2017
	(in thousands of HRK)	
Domestic sales	29,459	43,013
Foreign sales	385,721	312,531
	415,180	**355,544**

Foreign sales, according to the number of overnight stays, may be classified as follows:

	2018		2017	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Germany	78,854	20%	74,858	24%
France	48,641	13%	50,015	16%
Great Britain	48,138	12%	26,434	8%
Sweden	43,638	11%	35,186	11%
Austria	17,746	5%	16,452	5%
Bosnia and Herzegovina	17,416	5%	7,782	2%
Norway	17,274	4%	14,768	5%
Slovenia	12,809	3%	8,147	3%
Czech Republic	12,084	3%	8,590	3%
Other countries	89,120	23%	70,299	22%
	385,721	**100%**	**312,531**	**100%**

The Group's total assets and capital expenditures are located in the Republic of Croatia.

NOTE 5 – OTHER INCOME

	2018	2017
	(in thousands of HRK)	
Rent income	2,351	2,271
Management fee	1,524	2,260
Income from grants	1,493	772
Gain on sale of fixed assets	292	698
Penalty income	-	7,571
Gain on sale of investment in subsidiary	-	5,488
Other income	4,400	3,521
	10,060	**22,581**

NOTE 6 – COST OF MATERIALS AND SERVICES

	2018	2017
	(in thousands of HRK)	
Raw materials and supplies		
Raw materials and supplies used	(50,628)	(48,059)
Energy and water used	(14,727)	(11,949)
Small inventory	(5,795)	(4,703)
Cost of goods sold	(1,478)	(1,921)
	(72,628)	**(66,632)**
External services		
Communal fees	(10,250)	(9,170)
Maintenance	(9,673)	(8,352)
Rents	(8,538)	(2,836)
Advertising and promotion	(7,746)	(4,159)
Laundry services	(7,248)	(7,016)
Animation and entertainment	(4,614)	(4,181)
Intellectual services	(3,506)	(2,596)
Transportation and telecommunication	(2,374)	(2,085)
Other services	(3,312)	(2,821)
	(57,261)	**(43,216)**
Total costs of materials and services	**(129,889)**	**(109,848)**

/i/ statutory audit services fees to the auditor of the Group's financial statements amounted to HRK 703 thousand (2017: HRK 372 thousand).

NOTE 7 – EMPLOYEE COSTS

	2018	2017
	(in thousands of HRK)	
Net salaries	(83,468)	(71,661)
Contributions, taxes and surtax	(48,741)	(43,465)
Accrued overtime and unused vacation	300	(3,173)
Termination benefits and jubilee awards	(111)	81
Other employee costs /i/	(16,384)	(10,921)
	(148,404)	**(129,139)**

/i/ Other employee' costs comprise compensations for transportation costs, grants, Christmas gifts, bonuses and similar benefits.

During 2018, the average number of staff employed by the Group was 1,179 (2017: 950 employees).

Contributions paid in mandatory pension funds during 2018 amounted to HRK 21,676 thousand (2017: HRK 18,303 thousand), to State pension funds amounts to HRK 16,995 thousand (2017: HRK 14,523 thousand) and private pension fund amounts to HRK 4,681 thousand (2017: HRK 3,780 thousand).

NOTE 8 – OTHER OPERATING EXPENSES

	2018	2017
	(in thousands of HRK)	
Commission to travel agencies and credit cards institutions	(18,876)	(11,655)
Municipal and similar charges and contributions	(5,363)	(4,492)
Representation costs (hosting and mediation)	(3,148)	(3,176)
Insurance premiums	(3,129)	(2,845)
Disposals of property, plant and equipment	(1,833)	(953)
Business travel costs	(1,333)	(1,381)
Management fees	(992)	(1,440)
Staff education cost and other similar cost	(866)	(1,104)
Bank fees	(655)	(610)
Provisions for impairment of trade and other receivables (note 18)	(590)	(953)
Asset write-downs of Airport Brac	-	(15,700)
Provisions for impairment of other receivables from related parties	-	(1,225)
Impairment of financial assets	-	(89)
Other	(5,085)	(6,736)
	(41,870)	**(52,359)**

NOTE 9 – FINANCE INCOME/ (EXPENSE) – NET

	2018	2017
	(in thousands of HRK)	
Financial income		
Interest income	5,601	2,189
Net foreign exchange gains	3,836	1,521
Gain from fair value at initial recognition of an investment in a joint venture	-	5,488
Other financial income	298	-
	9,735	**9,198**
Financial expenses		
Interest expense	(17,817)	(18,907)
Fee and other related costs	(5,729)	(1,206)
Expected credit losses (IFRS 9)	(812)	-
	(24,358)	**(20,113)**
	(14,623)	**(10,915)**

NOTE 10 – INCOME TAX

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

	2018	2017
	(in thousands of HRK)	
Profit before tax	**32,612**	**29,031**
Consolidation adjustment	2,692	11,020
Non-deductible expenses	14,704	23,838
Tax exempt income	(3,976)	(3,059)
Taxable profit	**46,032**	**60,830**
Used tax losses carried forward from previous years	(928)	(14,043)
Tax basis	**45,104**	**46,787**
Income tax (18%)	8,119	8,422
Deferred tax (note 12)	(5,527)	-
Income tax	**2,592**	**8,422**
Tax losses to be carried forward	**(42,090)**	**(14,514)**
Effective tax rate	**7.95%**	**29.01%**

The applicable corporate income tax rate for 2018 was 18% (2017: 18%).

The Group can carry forward tax losses from subsidiaries which incurred loss in the year 2018, and which had no tax liability and from subsidiaries who realized profit in 2018 but had tax losses from previous periods. These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2018 tax losses carried forward amount to HRK 42,090 thousand and can be used as follows:

	2018	2017
	(in thousands of HRK)	
2018	-	3,016
2019	2,555	2,555
2020	3,450	3,450
2021	2,760	840
2022	877	4,653
2023	32,448	-
	42,090	**14,514**

NOTE 10 – INCOME TAX (continued)

Tax administration has not made inspection of Income tax in Group companies since 2003. In accordance with the regulations of the Republic of Croatia, the Tax authorities may at any time inspect the Group's books and records within 3 years following the year in which the tax liability was reported, and may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 11 – EARNINGS PER SHARE

Basic and diluted

Basic gain per share is calculated by dividing the net profit attributable to owners of the parent by the weighted average number of shares ordinary in issue during the year, excluding treasury shares.

	2018	**2017**
Net profit attributable to owners of the parent Company (in thousands of HRK*)*	26,176	24,733
Weighted average number of shares (decreased by treasury shares)	5,086,107	4,579,295
Earnings per share (in HRK*)*	**5.15**	**5.40**

NOTE 12 – DEFERRED TAX ASSETS

	31.12.2018	**31.12.2017**
	(in thousands of HRK)	
Tax loss for the year 2018 - Hotel Alan d.d.	5,527	-
As at 31 December	**5,527**	**-**

Deferred tax assets refers to the transfer of the unused tax loss of the subsidiary Hotel Alan d.d. for the year 2018, which represents a temporary difference whose tax effect the Group has recorded in the business accounts. Subsidiary Hotel Alan d.d. in 2018 realized a tax loss in the amount of HRK 30,706 thousand primarily due to the disposal of the non- depreciated part of the old hotel building. At the end of June 2018 an investment was made in the reconstruction of the hotel, where a significant renovation and upgrading of the existing building was done. In accordance with the requirements of IFRS, it was necessary to assess whether there is a need for the write-off of the remaining carrying value of old hotel building.

The Group recognized a deferred tax asset when it is probable that it will be taxable profit sufficiently charged that the deferred tax asset can use.

NOTE 13 - INTANGIBLE ASSETS

(in thousands of HRK)	**Software**	**Licenses**	**Other**	**Assets under construction**	**Total**
As at 1 January 2017					
Cost	6,167	930	2,294	24	9,415
Accumulated amortisation	(4,936)	(914)	(2,294)	-	(8,144)
Carrying amount	**1,231**	**16**	**-**	**24**	**1,271**
For the year ended 31 December 2017					
As at 1 January 2017	**1,231**	**16**	**-**	**24**	**1,271**
Additions	379	91	-	166	636
Transfers	148	-	-	(113)	35
Deconsolidation of Punta Zlatarac Tučepi d.o.o.	(265)	-	-	-	(265)
Amortization	(516)	(22)	-	-	(538)
As at 31 December 2017	**976**	**86**	**-**	**77**	**1,139**
As at 31 December 2017					
Cost	6,425	1,021	2,294	77	9,817
Accumulated amortisation	(5,448)	(935)	(2,294)	-	(8,678)
Carrying amount	**976**	**86**	**-**	**77**	**1,139**
For the year ended 31 December 2018					
As at 1 January 2018	**976**	**86**	**-**	**77**	**1,139**
Additions	-	-	-	359	359
Transfers	412	-	-	(412)	-
Acquisition of the subsidiary Hotel Alan d.d. (Note 33)	496	-	9	-	505
Amortization	(463)	(31)	-	-	(494)
Acquisition of the subsidiary Hotel Alan d.d. (Note 33)	(482)	-	-	-	(482)
As at 31 December 2018	**939**	**55**	**9**	**24**	**1,027**
As at 31 December 2018					
Cost	7,333	1,021	2,303	24	10,681
Accumulated amortisation	(6,394)	(966)	(2,294)	-	(9,654)
Carrying amount	**939**	**55**	**9**	**24**	**1,027**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2017 *(in thousands of HRK)*	**Land**	**Buildings**	**Vehicles**	**Plant and equipment**	**Assets under construction**	**Total**
As at 31 December 2017						
Cost	182,834	1,284,051	10,302	271,177	46,451	1,794,815
Accumulated depreciation	-	(529,557)	(8,372)	(211,006)	-	(748,935)
Carrying amount	**182,834**	**754,494**	**1,930**	**60,171**	**46,451**	**1,045,880**
Additions	989	38,488	386	27,758	196,256	263,877
Sales and Disposal	(1,056)	(63,740)	(123)	(10,685)	(345)	(75,949)
Transfers	4,905	85,598	1,431	17,251	(140,593)	(31,408)
Impairment	(6,030)	(9,512)	(100)	99	-	(15,543)
Deconsolidation of WOT Hotels Adriatic Asset Company d.o.o.	(71,071)	(42,209)	-	(18,453)	(93,671)	(225,404)
Depreciation	-	(30,051)	(522)	(12,628)	-	(43,201)
Sales and Disposal	-	63,681	58	9,993	-	73,732
Transfers	-	-	84	(84)	-	-
Deconsolidation of WOT Hotels Adriatic Asset Company d.o.o.	-	240		318		558
As at 31 December 2017						
Cost	110,571	1,292,676	11,896	287,147	8,098	1,710,388
Accumulated depreciation	-	(495,687)	(8,752)	(213,407)	-	(717,846)
Carrying amount	**110,571**	**796,989**	**3,144**	**73,740**	**8,098**	**992,542**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

For the year ended 31 December 2018 *(in thousands of HRK)*	**Land**	**Buildings**	**Vehicles**	**Plant and equipment**	**Assets under construction**	**Total**
As at 31 December 2018						
Cost	110,571	1,292,676	11,897	287,147	8,098	1,710,389
Accumulated depreciation	-	(495,687)	(8,753)	(213,407)	-	(717,847)
Carrying amount	**110,571**	**796,989**	**3,144**	**73,740**	**8,098**	**992,542**
Additions	-	13,557	3	6,064	41,986	61,610
Sales and Disposal	(108)	-	(1,188)	(10,015)	-	(11,311)
Transfers	399	12,733	1,693	7,190	(22,015)	-
Acquisition of the subsidiary - Hotel Alan d.d. (Note 33)	3,345	120,226	196	31,181	108	155,056
Land revaluation	30	-	-	-	-	30
Depreciation	-	(37,356)	(994)	(16,259)	-	(54,609)
Sales and Disposal	-	-	809	9,177	-	9,986
Acquisition of the subsidiary - Hotel Alan d.d. (Note 33)	-	(33,772)	(139)	(9,772)	-	(43,683)
As at 31 December 2018						
Cost	114,237	1,439,192	12,601	321,567	28,177	1,915,774
Accumulated depreciation	-	(566,815)	(9,077)	(230,261)	-	(806,153)
Carrying amount	**114,237**	**872,377**	**3,524**	**91,306**	**28,177**	**1,109,621**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

The Group has engaged independent appraisers for the purpose of assessing the value of construction facilities and land for hotel companies Hotels Brela d.d., Hotels Tučepi d.d., Hotels Zlatni Rat d.d. and Hotel Alan d.d. Estimated value of the Group's property amounts to HRK 1,315,067 thousand as at 31 December 2018.

As at 31 December 2018, the net book value of land and buildings pledged as collateral for the repayment of long-term borrowings (Note 23) amounted to HRK 660,200 thousand (2017: HRK 746,322 thousand).

The gross carrying value of property, plant and equipment which are fully depreciated and still in use as of 31 December 2018 amounts to HRK 183,503 thousand (2017: HRK 173,127 thousand).

Carrying value of Group's assets purchased on finance lease as at 31 December 2018 amounts to HRK 609 thousand (2017: HRK 806 thousand).

Several subsidiaries have recognised certain properties over which the ultimate title is still in dispute and the subsidiaries are currently in the process of defending various claims of title to these properties. Once the court cases are settled, in the event that the court cases are resolved unfavourably for the Group, there might be a need to recognise a provision for write down of land and buildings.

The subsidiary Hoteli Zlatni rat d.d. has recognised in the statement of financial position land designated as maritime demesne in the amount of HRK 1,409 thousand (2017: HRK 1,409 thousand) and HRK 3,441 thousand (2017: HRK 3,543 thousand). These buildings were built by the Group on this land before the land was designated maritime demesne. The usage of real estate on maritime demesne is determined based on concession rights. The Group has not signed a concession agreement with the State and therefore it is not clear if the Group will be able to continue using these buildings without a concession agreement in place. The Group is not able to currently determine any potential liability for not paying any concession fees in the past for the usage of such land, or whether there is impairment in the value of these buildings.

The Group discloses in its property certain properties on which ownership has not yet been resolved and the Group is in the process of resolving various court disputes based on ownership of those properties. After the resolution of court disputes, if the final outcome is negative for the Group, it may be necessary to recognize the impairment of land and buildings. Based on the Group's best estimate, 1/5 of the mentioned properties are covered by court disputes, which is a common situation in the Republic of Croatia.

NOTE 15 – INVESTMENT IN ASSOCIATES AND JOINT VENTURE

	31.12.2018		31.12.2017	
	(in thousands of HRK)	**Interest held**	*(in thousands of HRK)*	**Interest held**
Praona d.o.o., Makarska	2,940	42%	2,868	42%
WOT Hotels Adriatic Asset Company d.o.o. *(i)*	98,538	50%	47,325	50%
WOT Hotels Adriatic Management d.o.o.	10	49%	-	-
	101,488		**50,193**	

(i) During 2018, the company "Punta Zlatarac Tučepi d.o.o." changed its name to "WOT Hotels Adriatic Asset Company d.o.o. "

Movements on the group investments in associates and joint venture are as follows:

	31.12.2018	31.12.2017
	(in thousands of HRK)	
As at 1 January	50,193	2,792
Share in profit of associate (Praona d.o.o.)	72	76
Initial recognition of investment in a joint venture at fair value	-	50,495
Share in loss of joint venture (WOT Hotels Adriatic Asset Company d.o.o.) *(i)*	(2,812)	(3,170)
Increasing interest in the joint venture - capital increase of loans granted *(ii)*	54,025	-
WOT Hotels Adriatic Management d.o.o. – establishment	10	-
As at 31 December	**101,488**	**50,193**

(ii) In November 2018, the company "Hoteli Tučepi d.d." carried out a share capital increase in joint venture, i.e. "WOT Hotels Adriatic Asset Company d.o.o.", for the amount of receivables per loans granted in the amount of HRK 54,025 thousand.

Summarized financial information for the company Praona d.o.o. is shown below.

	31.12.2018	31.12.2017
Financial position – Praona d.o.o.		
Current assets	2,581	2,674
Non-current assets	13,336	13,103
Short-term liabilities	3,545	2,149
Long term obligations	5,369	6,800
Net assets	**7,003**	**6,828**
Profit and loss account – Praona d.o.o.		
Revenues	10,074	9,730
Expenses	(9,899)	(9,548)
Profit	**175**	**182**

NOTE 15 – INVESTMENT IN ASSOCIATES AND JOINT VENTURE (continued)

Summarized financial information for the company WOT Hotels Adriatic Asset Company d.o.o. (previously Punta Zlatarac Tučepi d.o.o.) is shown below.

	31.12.2018	**31.12.2017**
Financial position – joint venture		
Current assets	6,238	20,104
Non-current assets	263,121	265,764
Short-term liabilities	22,495	120,724
Long term obligations	77,853	98,557
Net assets	**169,011**	**66,587**
Profit and loss account – joint venture		
Revenues	39,783	271*
Expenses	(45,407)	(6,611)
Profit	**(5,624)**	**(6,340)**
Group's share in joint venture net loss	**(2,812)**	**(3,170)**

*WOT Hotels Adriatic Asset Company d.o.o. company is due to the seasonality of its business, closed in the period from 31 October to 1 April, and therefore has no significant income in the given period.

31 October 2017 Group has entered into a joint venture agreement in company WOT Hotels Adriatic Asset Company d.o.o. which was set up as a partnership together with TUI AG, Germany. The principal place of business of the joint venture is in Tučepi in Croatia.
The joint venture agreement requires the unanimous consent of both parties for all relevant activities. Partners have direct rights to the assets of a joint venture and are collectively and individually responsible for partnership obligations. The company is therefore classified as a joint venture and the Group recognizes the direct right to common assets, liabilities, revenues and expenses as described in Note 2.2.

Name of entity	**Place of business/ country of incorporation**	**% of ownership interest**		**Nature of business**	**Recognition method**	**Carrying amount as of 31 Dec 2018 *(in thousands of HRK)***
		2018	**2017**			
WOT Hotels Adriatic Asset Company d.o.o.	Tučepi, Croatia	50%	50%	Hospitality and tourism	Equity method	98,538

NOTE 16 – LONG-TERM RECEIVABLES

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Trade receivables	1,751	2,157
Accrued expenses	671	90
	2,422	**2,247**

NOTE 17 – INVENTORIES

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Raw materials and consumables	3,025	2,529
Merchandise	185	274
Small inventory and spare parts of tangible assets	325	212
Advances given	39	52
Advances given to related companies (Note 31)	160	-
	3,734	**3,067**

NOTE 18 - TRADE RECEIVABLES

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Trade receivables	28,708	21,306
Trade receivables – related companies (Note 31)	3,568	12,599
Less provision for impairment of trade receivables	(8,382)	(10,185)
Trade receivables – net	**23,894**	**23,720**
Advances given	477	270
Advances given to related companies (Note 31)	272	-
Trade receivables	**24,643**	**23,990**

The fair value of trade receivables is approximately equal to its carrying amount.

As at 31 December 2018 past due trade receivables but not impaired relates to a number of several individual customers for whom Group had no problems in collecting receivables in previous years.

NOTE 18 – TRADE RECEIVABLES (continued)

The maturities of the trade receivables, which are past due, but not impaired are as follows:

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Undue receivables	1,023	1,749
Less than 90 days	17,122	12,070
Between 90 and 180 days	3,472	5,103
Between 180 and 360 days	841	1,789
Later than 360 days	1,436	3,009
	23,894	**23,720**

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

	31.12.2018	31.12.2017
	(in thousands of HRK)	
EUR	18,244	14,645
HRK	6,399	9,345
	24,643	**23,990**

Movements in the provisions for impairment of trade receivables:

	31.12.2018	31.12.2017
	(in thousands of HRK)	
At 1 January	**(10,185)**	**(10,004)**
Charged/credited to the statement of profit or loss and other comprehensive income (Note 8):		
Increase due to the acquisition of Hotel Alan d.d.	(295)	-
Increase of impairment	(590)	(953)
Foreign exchange	39	6
	(846)	(947)
Receivables written-off	2,648	765
Collected receivables	1	1
At 31 December	**(8,382)**	**(10,185)**

The creation and release of provision for impaired receivables have been included in ‘other expenses’ in the statement of profit or loss and other comprehensive income (Note 8).

NOTE 19 – OTHER RECEIVABLES

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Interest receivable from related parties (Note 31)	5,335	3,383
Prepaid expenses	4,357	2,240
Receivables from state institutions	4,807	4,724
Other receivables from related parties (Note 31)	2,351	4,077
Receivables from employees	45	20
Other receivables	1,085	840
	17,980	**15,284**

NOTE 20 – LOANS

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Long-term		
Loans to joint venture (Note 31)	-	10,290
Loans to related parties (Note 31)	32,035	-
Loan loss allowance – IFRS 9 (Note 9)	(320)	-
	31,715	**10,290**
Short-term		
Loans to joint venture (note 31)	-	44,918
Loans to related parties (note 31)	44,876	33,252
Loan loss allowance – IFRS 9 (note 9)	(449)	-
Loans to employees	18	12
	44,445	**78,182**
	76,160	**88,472**

Long-term loans in the total amount of HRK 32 million relate to loans granted to related company Lucidus d.d. for the purpose of acquiring 100% of the business share in company Glasgow Gradnja d.o.o. which owns the Croatia tourist complex (110 apartments) and Hotel Alba (80 rooms) in Filip Jakov near Šibenik. Lucidus d.d. has acquired 100% of the business share. The Group has a call option to purchase the business share within 2 years from the date of loan approval or until 8 January 2020.

NOTE 20 – LOANS (continued)

Maturity of long-term loans is until January 2020, loans are secured by promissory notes and by pledge of business share in Glasgow gradnja d.o.o. to the total amount of HRK 32 million.

For short-term loans Group has obtain additional collateral in the form of real estate mortgages and pledges in the form of high-quality business shares of companies owned by business owners associated with Lucidus d.d. and the ultimate majority owner of the Group. The aforementioned collaterals are also secured long-term loans in the amount of HRK 32 million.

NOTE 21 – CASH AND CASH EQUIVALENTS

	31.12.2018	**31.12.2017**
	(in thousands of HRK)	
Foreign currency accounts	25,504	8,670
Domestic currency accounts	19,540	18,357
Cash in hand	36	23
	45,080	**27,050**

NOTE 22 – SHARE CAPITAL

The authorised and registered share capital of the parent Company amounts to HRK 539,385 thousand and comprises 5,393,850 ordinary shares, with a nominal value of HRK 100 per share.

The ownership structure as at 31 December 2018 was as follows:

Shareholder	Number of shares	Nominal value	Share in %
Sunce Ulaganja d.o.o.	3,004,672	300,467,200	55.71
Lucidus d.d.	1,143,239	114,323,900	21.20
Erste plavi OMF kategorije B	892,898	89,289,800	16.55
Raiffeisen OMF kategorije B	156,134	15,613,400	2.89
PBZ CO OMF - kategorija B	70,460	7,046,000	1.31
Raiffeisen dobrovoljni mirovinski fond	67,470	6,747,000	1.25
Erste plavi expert - dobrovoljni mirovinski fond	25,753	2,575,300	0.48
Raiffeisen OMF kategorije A	8,895	889,500	0.16
Erste plavi OMF kategorije A	8,162	816,200	0.15
PBZ CO OMF - kategorija A	5,695	569,500	0.11
Other shareholders	10,472	1,047,200	0.19
Total	**5,393,850**	**539,385,000**	**100.00**

The ownership structure as at 31 December 2017 was as follows:

Shareholder	Number of shares	Nominal value	Share in %
Sunce Ulaganja d.o.o.	3,004,672	300,467,200	61.48
Erste plavi OMF kategorije B	809,004	80,900,400	16.55
Lucidus d.d.	727,500	72,750,000	14.89
Raiffeisen OMF kategorije B	156,134	15,613,400	3.19
Raiffeisen dobrovoljni mirovinski fond	67,470	6,747,000	1.38
PBZ CO OMF - kategorija B	63,840	6,384,000	1.31
Erste plavi expert - dobrovoljni mirovinski fond	25,814	2,581,400	0.53
Raiffeisen OMF kategorije A	8,895	889,500	0.18
Erste plavi OMF kategorije A	8,162	816,200	0.17
PBZ CO OMF - kategorija A	5,160	516,000	0.11
Other shareholders	10,411	1,041,100	0.21
Total	**4,887,062**	**488,706,200**	**100.00**

NOTE 23 – BORROWINGS

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Non-current		
Bank borrowings	503,009	377,779
Finance lease	335	305
Less: Current portion of non - current borrowings	(54,087)	(97,020)
	449,257	**281,064**
Current		
Current portion of non - current borrowings	54,087	97,020
Loan from related parties	464	-
Bank borrowings	-	15,945
Finance lease	149	151
	54,700	**113,116**
	503,957	**394,180**

At 28 August 2018, a contract was signed for refinancing the entire financial debt of Sunce Koncern d.d. and its subsidiary hotel companies with the European Bank for Reconstruction and Development as a lead arranger, and Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d., and Zagrebačka banka d.d. as members of the bank syndicate. The total value of the transaction amounted to 73 million euros, with all banks equally participated in the loan amount. Although the loan agreement was signed at 28 August 2018, the funds were paid out at 18 December 2018, after the fulfilment of all conditions precedent under the loan agreement. The Group has refinanced its total banks borrowings for a period of 10 years, during which is required to comply with certain financial covenants that are common to such a transaction.

Covenants include the following financial obligations:

(a) Interest coverage ratio,

(b) Debt service coverage ratio,

(c) Net debt/ EBITDA,

(d) Loan coverage ratio and

(e) Equity/Total asset ratio.

As at 31 December 2018, the Group is in compliances with all its banking covenants. In the event that certain conditions are met when calculating the indebtedness of the Group, the interest rate has a “margin step down” option.

NOTE 23 – BORROWINGS (continued)

	Outstanding amount	Currency	Interest rate	Maturity
		(in thousands of HRK)		
Bank				
European Bank for Reconstruction and Development	125,753	EUR	6M EURIBOR + 2%	2028
Erste&Steiermärkische Bank d.d.	125,752	EUR	6M EURIBOR + 2%	2028
Privredna banka Zagreb d.d.	125,752	EUR	6M EURIBOR + 2%	2028
Zagrebačka banka d.d.	125,752	EUR	6M EURIBOR + 2%	2028
	503,009			

Bank borrowings are secured by a mortgage over land and buildings (Note 14) with a net book value of HRK 660,200 thousand (2017: HRK 746,322 thousand).

The effective interest rates at balance date was 4.37% (2017: 4.77%).

Maturity of long-term borrowings is as follows:

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Between 2–5 years	224,211	236,871
Over 5 years	225,046	44,193
	449,257	**281,064**

The carrying amounts of borrowings approximate their fair value.

The carrying amounts of the Group’s borrowings are denominated in the following currencies:

	31.12.2018	31.12.2017
	(in thousands of HRK)	
EUR	503,493	387,638
HRK	464	6,542
	503,957	**394,180**

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

NOTE 23 – BORROWINGS (continued)

The present value of finance lease liabilities is as follows:

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Less than a year	149	151
Between 1-5 years	335	294
Over 5 years	-	11
	484	**456**

Group has following unused credit lines:

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Variable interest rate:		
Less than a year	-	12,326
Fixed interest rate:		
Less than a year	-	1,470
	-	**13,796**

Reconciliation in liabilities arising from financial activities

The table below provides details of changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes, which the Group considers to be material. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

(in thousands of HRK)	**At 1 January 2018**	Cash flow		Acquisition of a subsidiary	Foreign exchange	**At 31 December 2018**
		Increase	*Decrease*			
Received Loans	**394,180**	706,307	(656,778)	64,196	(3,948)	**503,957**

(in thousands of HRK)	**At 1 January 2017**	Cash flow		Sales of a subsidiary	Foreign exchange	**At 31 December 2017**
		Increase	*Decrease*			
Received Loans	**401,013**	229,322	(157,623)	(77,641)	(891)	**394,180**

NOTE 24 – PROVISIONS

(in thousands of HRK)	**Severance payments /i/**	**Legal claim /ii/**	**Jubilee awards /i/**	**Total**
At 1 January 2018	**551**	**652**	**784**	**1,987**
Additional provisions	154	-	234	388
Used during year	(139)	(46)	(190)	(375)
At 31 December 2018	**566**	**606**	**828**	**2,000**
Current portion	105	-	147	**252**
Non-current portion	461	606	681	**1,748**

/i/ The liability recognised in the statement of financial position in respect of defined jubilee awards and severance plans is the present value of the defined benefit obligation at the balance sheet date. The present value of defined benefit obligation is calculated annually using interest rates of Government bonds. The provision charge is recognised in profit or loss within ‘employee costs’.

/ii/ The amounts represent a provision for certain legal claims brought against the group by Customer, suppliers and employees. The provision charge is recognised in profit or loss within ‘other expenses’ (Note 8). By the Board’s opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2018.

NOTE 25 – DEFERRED TAX LIABILITY

The movement in deferred tax liabilities during the year 2018 and 2017 is as follows:

	Land revaluation
	(in thousands of HRK)
At 1 January 2017	**11,385**
Sale of shares in a subsidiary	(10,561)
Sale of revalued land	(132)
At 31 December 2017	**692**
Acquisition of Hotel Alan d.d.	380
Land revaluation	6
At 31 December 2018	**1,078**

NOTE 26 – TRADE AND OTHER PAYABLES

	31.12.2018	**31.12.2017**
	(in thousands of HRK)	
Trade payables	38,114	30,017
Advances received	2,266	1,860
Trade payables - related parties (Note 31)	2,916	1,118
VAT payable	2,185	817
Interest payables – banks	382	3,326
Interest payables – related parties (Note 31)	9	-
	45,872	**37,138**

NOTE 27 – OTHER SHORT-TERM LIABILITIES

	31.12.2018	31.12.2017
	(in thousands of HRK)	
Accrued overtime and unused vacations	8,560	8,248
Deferred income	7,204	6,154
Liabilities to employees	6,627	5,304
Accrued expenses	3,120	333
Contributions on salaries	1,806	1,433
Contributions from salaries	1,461	1,185
Income tax liability	1,184	3,926
Other taxes and contributions	693	130
Tax and surtax on salaries	589	478
Other liabilities	143	138
Other liabilities – related parties (Note 31)	444	83
	31,831	**27,412**

NOTE 28 - CASH GENERATED FROM OPERATIONS

Adjustment of profit with cash generated from operations:

	2018	2017
	(in thousands of HRK)	
Profit after taxation	**30.020**	**20.609**
Adjustments for:		
Depreciation and amortisation (Notes 13, 14)	55,103	43,739
Write-off of property, plant and equipment - Airport Brac (Note 8)	-	15,700
Net loss on sale of property, plant and equipment	1,353	822
Increase in provisions (Note 24)	388	106
Interest income (Note 9)	(5,601)	(2,189)
Interest expense (Note 9)	17,817	18,907
Expected credit loss IFRS 9 (Note 9)	812	-
Provision for impairment of trade receivables (Note 8)	590	2,178
Share of (profit)/loss in associate and joint venture (Note 15)	2,739	3,094
Income from the sale of shares	-	(10,976)
Unrealised foreign exchange losses	(3,944)	(4,090)
Total adjustments	**69,257**	**67,291**
Cash flows from operating activities before working capital changes	**99,277**	**87,900**
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade receivables	3,054	(17,507)
- other receivables	191	(68,450)
- inventories	(599)	(751)
- trade and other payables	(7,131)	103,112
Cash generated from operations	**94,792**	**104,304**

NOTE 29 - CONTINGENCIES

Legal proceedings

At 31 December 2018, the Group participates in certain legal proceedings initiated against its subsidiaries. In case of dispute losses Group may have outflows of funds. Subsidiaries formed contingent provisions for which the Management Board has estimated that there is a risk of loss.

Particularly significant legal proceedings are following:

(i) On 30th December 2008 a claim have been filed against company Hoteli Zlatni rat d.d. for the payment of the fee arising from the rent for the use of tennis courts that is in their ownership on the basis of lost rent. The company filed a counterclaim for payment of the amount invested in construction of the courts (stadium).
After the first-instance and second-instance proceedings have been held, the Municipal Court, in repeated proceeding, have ruled on 15th July 2016 against the company ordering to pay the amount of HRK 9,292,725 as the amount of the rent, together with the default interest on individual monthly instalments, and the amount of HRK 1,339,494 for the costs of litigation.
The company filed a complaint, the County Court of Split on 10th May 2017 annulled the first-instance verdict and returned the case to a re-trial to the Municipal Court. The proceeding is paused at the hearing on 20 February 2018 until the proceeding for determining the ownership based on the company's lawsuit on a new legal basis, the Law on Associated Labour.
Before mentioned proceeding of the counterclaim of the company has been separated by Municipal court and is being conducted under another business number. The preliminary hearing was held and main hearing on 21 March 2019 at which the court closed the hearing and the verdict is expected.

(ii) On 14th September 2018 the company Tehnika d.d. filed a claim against company Hoteli Brela d.d. for payment in the total amount of HRK 21,175,715 with a default interest expiring on 10.7.2018 according to the contract of construction dated 19.12.2016 concluded for the reconstruction of Hotel Berulia. According to its best estimate, the Group does not expect material loss in the final outcome of this dispute, as there is an unquestionable delay of the company Tehnika d.d. as the main contractor of Hotel Berulia. At the preliminary hearing Hoteli Brela d.d. have denied all the allegations of the plaintiff. The court has ordered the selection of a construction expert to make an opinion.

It is not expected that the outcome of any of these proceedings will have a significant impact on the financial position or performance of the Group.

NOTE 29 – CONTINGENCIES (continued)

Warranties and guarantees

Contingent liabilities are relates to warranties and co-guarantees by received guarantees in which the original debtors are Group's related parties and a joint venture. The guarantees mainly relates to financing of the reconstruction and upgrading of the hotel and working capital.

Total nominal amount of guarantees issued amounts to HRK 144,021 thousand as at 31 December 2018. The Group is currently in the process of removing guarantees for the company WOT Hotels Adriatic Asset Company d.o.o. (joint venture) in the total nominal amount of HRK 76,896 thousand.

Breakdown of warranties and guarantees:

Borrower	Approved amount	Purpose	Maturity	Principal outstanding at 31 Dec 2018	Principal outstanding at 31 Dec 2017
				(in thousands of HRK)	
Lucidus d.d.	3,291	Working capital	01.01.2020	927	2,420
Sunčane Toplice d.o.o.	46,000	Reconstruction and upgrade of complex in Bizovac	30.06.2033	45,087	45,981
Jako vino d.o.o.	9,350	Restructuring	01.11.2022	4,675	5,845
Jako vino d.o.o.	493	Working capital	01.10.2019	493	493
Jako vino d.o.o.	986	Working capital	01.02.2019	247	493
Sunčana murvica d.o.o.	3,483	Vineyard	01.01.2027	2,874	3,222
Sunčana murvica d.o.o.	3,528	Vineyard	31.12.2023	2,049	2,340
Jako Andabak	15,000	Debt assumption Sunčane Toplice	30.09.2024	10,773	12,657
Salve Regina Marija Bistrica d.o.o.	21,445	Acquisition and reconstruction of Hotel Kaj	31.12.2020	-	6,825
WOT Hotels Adriatic Asset Company d.o.o.	33,605	TUI BLUE Jadran reconstruction	31.08.2026	29,452	33,359
WOT Hotels Adriatic Asset Company d.o.o.	33,605	TUI BLUE Jadran reconstruction	31.08.2026	29,452	33,359
WOT Hotels Adriatic Asset Company d.o.o.	22,215	TUI BLUE Jadran reconstruction	31.10.2022	17,992	22,239
Total	**193,001**			**144,021**	**169,233**

NOTE 30 - COMMITMENTS

(a) Capital commitments

There are no capital expenditures that are contracted for as at the balance sheet date, but not yet incurred.

(b) Operating lease commitments – the Group as lessee

The Group leases several vehicles under operating lease agreements.

The future aggregate minimum lease payments under operating leases are as follows:

	31.12.2018	**31.12.2017**
	(in thousands of HRK)	
No later than 1 year	478	321
1 – 5 years	1,260	479
Over 5 years	-	-
	1,738	**800**

In 2018, the Group made a preliminary assessment of the potential effects of the adoption of IFRS 16 on its financial statements. The Group estimates that the application of IFRS 16 will affect the financial statements by increasing Group's balance sheet in the amount of HRK 27.6 million. The biggest effect on balance sheet increase in total of HRK 18.4 million has a lease of the property of Velaris Tourist Resort for the remaining period of 4 years, and the rent of a business premises in the amount of HRK 5 million and the rent of mobile homes in the amount of HRK 2.5 million while the other difference relates to car lease.

Also Group in 2019 expects, according to the preliminary assessment the increase in depreciation in the amount of HRK 7.5 million and increase in interest expense in the amount of HRK 1.1 million, and consequently decrease in lease/rent expense.

NOTE 31 - RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the power to exercise control over the other party or if it has significant influence over the other party in making financial or business decisions. Affiliated entities and joint ventures are considered related parties.

In the ordinary course of business, the Group entered into several related party transactions. These transactions were performed under usual commercial terms and conditions and at market rates.

At year-end, related party transactions were as follows:

	Note	31.12.2018	31.12.2017
RECEIVABLES		*(in thousands of HRK)*	
Trade receivables	**18**		
WOT Hotels Adriatic Asset Company d.o.o.		1,309	1,089
Salve Regina – Marija Bistrica d.o.o.		1,030	-
Lucidus d.d.		590	457
Sunčane toplice d.o.o.		440	333
Jako Vino d.o.o.		94	42
Sunčana Murvica d.o.o.		33	25
Izvor osiguranje d.d.		32	81
Stubaki d.d.		17	13
Zlatni rat d.d.		15	11
Imperator Dioklecian d.o.o.		7	5
ŠKZ Sunce u likvidaciji		1	1
Hotel Alan d.d.		-	5,538
Sunce Ulaganja d.o.o.		-	34
Lječilište Bizovačke Toplice d.o.o.		-	14
		3,568	**7,643**
Interest receivables	**19**		
Lucidus d.d.		4,303	1,798
WOT Hotels Adriatic Asset Company d.o.o.		1,031	1,575
Jako Andabak		1	1
Hotel Alan d.d.		-	9
		5,335	**3,383**
Advances given	**17,18**		
Nest plus d.o.o.		272	-
Jako Vino d.o.o.		160	-
		432	**-**
Loans	**20**		
Lucidus d.d.		76,142	33,052
WOT Hotels Adriatic Asset Company d.o.o.		-	55,208
Hotel Alan d.d.		-	200
		76,142	**88,460**

NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 31 - RELATED PARTY TRANSACTIONS (continued)

	Note	31.12.2018	31.12.2017
		(in thousands of HRK)	
Other receivables	**19**		
Sunčane toplice d.o.o.		2,163	1,958
Izvor osiguranje d.d.		123	110
Stubaki d.d.		65	65
Hotel Alan d.d.		-	1,848
Jako Vino d.o.o.		-	96
		2,351	**4,077**

	Note	31.12.2018	31.12.2017
LIABILITIES			
Trade payables	**26**		
Praona d.o.o.		1,276	780
Izvor osiguranje d.d.		609	85
Nest plus d.o.o.		322	99
Sunčane toplice d.o.o.		247	-
Jako Vino d.o.o.		241	110
Salve Regina – Marija Bistrica d.o.o.		143	36
Sunčane Livade d.o.o.		45	-
WOT Hotels Adriatic Asset Company d.o.o.		32	-
Lucidus d.d.		1	1
Hotel Alan d.d.		-	7
		2,916	**1,118**
Interest liabilities	**26**		
Izvor osiguranje d.d.		9	-
		9	**-**
Other short term payables	**27**		
Izvor osiguranje d.d.		367	2
Jako Vino d.o.o.		77	77
Nest plus d.o.o.		-	4
		444	**83**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

	Note	2018	2017
		(in thousands of HRK)	
REVENUES			
Sales revenues	**4**		
WOT Hotels Adriatic Asset Company d.o.o.		368	-
Hotel Alan d.d.		83	131
Jako Vino d.o.o.		28	119
Izvor osiguranje d.d.		24	65
Salve Regina – Marija Bistrica d.o.o.		21	166
Sunčane šume d.o.o.		1	1
Lucidus d.d.		-	2
Sunčane toplice d.o.o.		-	1
		525	**485**
Interest income	**9**		
Lucidus d.d.		3,366	1,270
WOT Hotels Adriatic Asset Company d.o.o.		1,770	373
Hotel Alan d.d.		444	9
		5,580	**1,652**
Other income	**5**		
WOT Hotels Adriatic Asset Company d.o.o.		466	60
Izvor osiguranje d.d.		296	185
Jako Vino d.o.o.		253	254
Lucidus d.d.		108	138
Praona d.o.o.		17	17
Salve Regina – Marija Bistrica d.o.o.		7	10
Zlatni Rat d.d.		7	7
Sunčana Murvica d.o.o.		2	7
Hotel Alan d.d.		-	68
		1,156	**746**
Management fee	**5**		
Hotel Alan d.d.		1,226	2,105
Salve Regina – Marija Bistrica d.o.o.		298	155
		1,524	**2,260**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

	Note	2018	2017
		(in thousands of HRK)	
EXPENSES			
Costs of goods sold	**6**		
Jako Vino d.o.o.		1,400	1,496
Sunčane livade d.o.o.		751	805
Salve Regina – Marija Bistrica d.o.o.		-	176
Hotel Alan d.d.		-	80
		2,151	**2,557**
Other expenses	**8**		
Nest plus d.o.o.		742	848
Salve Regina – Marija Bistrica d.o.o.		561	637
Jako Vino d.o.o.		441	344
Izvor osiguranje d.d.		24	1
Hotel Alan d.d.		21	22
Praona d.o.o.		3	-
		1,792	**1,852**
Insurance cost	**8**		
Izvor osiguranje d.d.		2,811	2,553
		2,811	**2,553**
Laundry costs	**6**		
Praona d.o.o.		6,575	6,464
		6,575	**6,464**
Rent costs	**6**		
Nest plus d.o.o.		1,731	1,647
Lucidus d.d.		5	5
Hotel Alan d.d.		-	6
		1,736	**1,658**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

Key management, Management and Supervisory Board

	2018	2017
	(in thousands of HRK)	
Net salaries	4,893	3,709
Contributions	3,323	1,985
Tax and surtax	1,116	758
Bonuses	10	140
Other fees	32	17
Key management ***/i/***	**9,374**	**6,609**
Management Board	**2,800**	**2,256**
Supervisory Board ***/ii/***	**2,920**	**3,192**
Total	**15,094**	**12,057**

/i/ Key management includes executive directors of hotel companies, hotel managers and parent Company directors.

/ii/ Remuneration of the supervisory board relates to the remuneration for the members of supervisory boards of subsidiaries, as well as income that individual members of the supervisory board of Company received on the basis of signed contracts of employment.

Ivan Augustin, Member of the Supervisory Board who was appointed by Erste d.o.o. a compulsory and voluntary pension fund management company did not received compensation for their work in accordance with the Law on Mandatory Pension Funds.

NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 32 – ACQUISITION OF SUBSIDIARIES IN 2004

At October 15, 2004, the Group acquired three subsidiaries: Hotels Brela d.d., Hotels Tučepi d.d. and Hotels Zlatni rat d.d. However, the purchase price allocation has not been made at the acquisition date, the fair value of acquired assets and liabilities as well as goodwill or bargain purchase has not been determined. Since this was not in line with the requirements of IFRS 3 Business Combinations, the Group has engaged independent consultants to assist in the preparation of the purchase price allocation during 2018 with the aim of assessing whether and how significant reclassifications of consolidated financial statements for the remaining purchase price allocation effects.
Overview of the acquired companies is given below:

Acquired company	Place of business	Nature of business	Acquisition date	Proportion of shares acquired	Consideration (in mil of HRK)
Hoteli Brela d.d.	Brela, Croatia	Hospitality and tourism	31 Dec 2004	84.70%	81.3
Hoteli Tučepi d.d.	Tučepi, Croatia	Hospitality and tourism	31 Dec 2004	89.10%	93.2
Hoteli Zlatni rat d.d.	Bol on island Brač, Croatia	Hospitality and tourism	31 Dec 2004	67.00%	48.0

Independent consultants have prepared valuation of assets and liabilities as at 31 December 2004 taking into consideration that business plans reflect the expectations of market participants that were effective during that period. The assets acquired in 2004 mostly relates to 11 hotels with a total capacity of 2,037 rooms, located in three locations in Split-Dalmatia County: Brela, Tucepi and Bol on the island of Brač.
According to the estimate carried out, the Board's conclusion is that the carrying amount of property, plant and equipment as at 31 December 2004 are within in an acceptable range (considering different weighted average cost of capital rates and growth rates as one of the main assumptions in the model) of fair value at the same date and based on these data no adjustments are required in the consolidated financial statements. Consequently, the amount of the gain on a bargain purchase recognized in the consolidated financial statements in previous periods as the difference between the amount paid for the acquisition of net assets and the carrying amount of the acquired net asset is not required to be corrected as of 31 December 2018.

NOTE 33 – ACQUISITION OF SUBSIDIARIES UNDER COMMON CONTROL

Acquired company	Place of business	Nature of business	Acquisition date	Proportion of shares acquired	Consideration (in thousand of HRK)
Hotel Alan d.d.	Starigrad, Croatia	Hospitality and tourism	1 Aug 2018	97.96%	121,714

In August 2018 Sunce Koncern d.d. has acquired 97.96% of Hotel Alan d.d. shares from Lucidus d.d. in share swap exchange.

The acquisition was carried out by issuing 506,788 Group's new shares to Lucidus d.d. in exchange for 97.96% of Hotel Alan d.d. shares.

Valuation for the share swap exchange was carried out by an independent appraisal and the total value of the consideration was determined in the amount of HRK 121,714 thousand.

From the Group's point of view, the stated transaction is considered to be a under common control merger and a pooling of interest method under which the acquired assets and liabilities are recorded at their existing carrying values rather than at fair value and no goodwill is recorded.

Acquired assets and liabilities

(in thousand of HRK)	**Carrying amount at acquisition date**
Assets	
Property, plant and equipment (Note 14)	111,373
Intangible assets (Note 13)	23
Trade and other receivables	9,661
Cash and cash equivalents	2,066
Inventories	69
Assets acquired	**123,192**
Liabilities	
Trade and other payables	(30,977)
Deferred tax liabilities (Note 25)	(380)
Financial liabilities (Note 23)	(64,856)
Liabilities acquired	**(96,213)**
Net assets acquired	**26,979**
Less: consideration transfer	**(121,714)**
Net effect on equity at acquisition (statement of changes in equity)	**(94,735)**

NOTE 34 – GOING CONCERN ASSUMPTION

The consolidated financial statements are prepared on the going concern basis. As at 31 December 2018 short-term assets of the Group are exceeding its short-term liabilities by HRK 3,227 thousand (2017: short-term liabilities of the Group are exceeding its short-term assets by HRK 30,353 thousand).

Taking into account the seasonal nature of the Group's business, current assets in comparison to current liabilities at the end of the business year is decreased. Furthermore, the most significant cash flows from operations are realized at the beginning of the new tourist season, i.e. new business year. With respect to the above, the Group's management has considered the appropriateness of applying the going concern assumption in the preparation of financial statements for the year 2018 and concluded that the assumption is appropriate.

NOTE 35 – SUBSEQUENT EVENTS

At 13 March 2019 Supervisory Boards of subsidiaries Hoteli Brela d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hotel Alan d.d. have approved the necessary actions in order to prepare the merger of controlled companies to Sunce Koncern d.d. as the acquiring company with the purpose of further optimizing the organizational structure of the business. After the reporting date the Group did not have other significant events which would require adjustment or disclosure in these financial statements.

NOTE 36 – PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Signed on behalf of the Management Board:

President of the Management Board

Tonči Boras

Member of the Board

Kristijan Gagulić

Member of the Board

Ivan Potkrajčić

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