

SUPER SPORT d.o.o.

Annual report for 2019

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

CONTENT

	<u>Page</u>
Management report	1 – 2
Responsibility for the unconsolidated financial statements and Management Report	3
Independent Auditors' Report	4 - 6
Unconsolidated statement of comprehensive income	7
Unconsolidated statement of financial position	8
Unconsolidated statement of changes in equity	9
Unconsolidated statement of cash flows	10
Notes to the unconsolidated financial statements	11 – 42

SUPER SPORT d.o.o.

MANAGEMENT REPORT for the year ended 31 December 2019

SUPER SPORT, a limited liability company ("Company"), seated at Krčka 18/d, Zagreb, was registered in the court register at the Commercial Court in Zagreb on July 11th 2000.

In June 2010, the Company started offering online games of chance. In January 2012, the Company started offering casino games. In January 2017, the Company started offering casino games over the internet.

As of the reporting date, the Company had 1,046 employees (in 2018 it had 1,024 employees).

As of December 31st, 2019, the Company had 331 betting shops and 961 active betting terminals whilst on December 31st 2018 there were 331 betting shops and 851 betting terminals.

The Capital Expenditures into tangible and intangible assets amounted to HRK 3,571 thousand.

Operating income, operating expenses, profit before tax and total assets are shown as follows:

	2018	2019	Change	Index
	HRK '000	HRK '000	HRK '000	%
TOTAL OPERATING INCOME	707,187	819,787	112,600	116%
TOTAL OPERATING EXPENSES	270,009	318,446	48,437	118%
PROFTI BEFORE TAX	435,310	522,744	87,434	120%
	31.12.2018	31.12.2019	Change	Index
	HRK '000	HRK '000	HRK '000	%
TOTAL ASSETS	610,376	679,229	68,853	111%

Development Plan

The Company is aware of the trends in the gaming industry and thus is continuously further developing its product portfolio.

Risk management

In its business, the Company is exposed to the following financial risks:

- Market risk (price, currency and interest rate risk)
- Liquidity risk
- Credit risk

SUPER SPORT d.o.o.

MANAGEMENT REPORT (*continued*) for the year ended 31 December 2019

Risk management (*continued*)

Market Risk

a) Price risk

The Company operates in the Croatian market only. Management determines the prices of its services based on market prices. Also, in the betting segment, the Management Board determines betting coefficients when these are announced on the basis of the market level of the betting coefficients. The Company is exposed to market risk due to the nature of the games of chance business itself. The Company monitors results on daily basis as they are subject to very large changes due to the nature of the betting industry.

b) Currency risk

The Company is exposed to currency risk via services provided from abroad and through monetary assets denominated in a currency other than the functional currency of the Company. The currency that exposes the Company to the currency risk is Euro. The consequent exchange rate differences are charged to operating expenses or are credited to the comprehensive income statement but do not affect the cash flow.

c) Interest risk

Interest rate risk is the risk that the value of financial instruments will change due to changes in market interest rates relative to the interest rates applicable to financial instruments. The risk of interest rates on cash flow is the risk that the costs of interests on financial instruments will be variable over the period. Given the absence of liabilities, the Company estimates this risk as low.

Liquidity risk

The Company is exposed to liquidity risk due to daily incoming and outgoing payments. The Company manages liquidity risk by maintaining sufficient cash funds available to pay out winners on a daily basis.

All financial liabilities, except lease liabilities, are due within one year. The Company is not significantly exposed to liquidity risk as it is liquid and fulfills all its obligations in a timely manner.

Credit risk

Credit risk is the risk that the buyer or other party to the financial instrument will not make a commitment and thereby cause the Company's financial losses to arise.

Financial assets that potentially may trigger the credit risk consist mainly of cash, given loans and receivables from customers. The Company estimates that all monetary assets will be monetized.

SUPER SPORT d.o.o.

Responsibility for the unconsolidated financial statements and Management Report

Pursuant to the Accounting Act of the Republic of Croatia, the Directors are responsible for ensuring that unconsolidated financial statements ("financial statements") are prepared for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union ("the EU IFRS"), which give true and fair view of the financial position and results of operations of Super Sport d.o.o., Zagreb ("the Company") for that year.

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

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

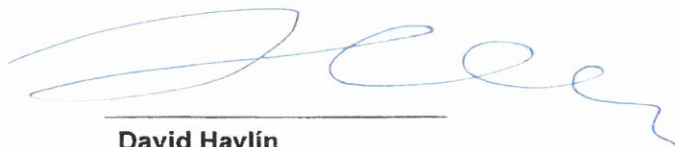
- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- the applicable accounting standards are followed, subject to any material departures disclosed and explained in financial statements; and
- financial statements are prepared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

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

Directors are also responsible for the preparation and content of the Management Report, as required by Article 21 of the Croatia Accounting Act. The Management Report and the unconsolidated financial statements were authorized by the Directors and are signed below to signify this.



Radim Haluza
Director



David Havlín
Director



Goran Đurić
Director

6 March 2020

Krčka 18/d
10 000 Zagreb
Croatia



Independent Auditors' Report to the owners of Super Sport d.o.o.

Opinion

We have audited the separate financial statements of Super Sport d.o.o. ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2019, and the separate statements of comprehensive income, cash flows and changes in equity of the Company for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2019 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Management Report, we have also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Article 21 of the Accounting Act.

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



Independent Auditors' Report to the owners of Super Sport d.o.o. (continued)

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Independent Auditors' Report to the owners of Super Sport d.o.o. (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

6 March 2020


Domagoj Hrkać
Director, Croatian Certified Auditor

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SUPER SPORT d.o.o.

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2019

	Note	2019 HRK '000	2018 HRK '000
Operating income			
Sales revenue	5	817,532	697,871
Other operating income	6	2,255	9,316
		819,787	707,187
Operating expenses			
Change in value of work in progress and finished goods		250	272
Materials and energy	7	(17,456)	(14,743)
Service costs	8	(78,256)	(78,931)
Employee expenses	9	(104,298)	(87,761)
Amortisation and depreciation	14, 15, 16	(22,510)	(5,108)
Other operating expenses	10	(96,176)	(83,738)
		(318,446)	(270,009)
Operating profit		501,341	437,178
Finance income	11	23,533	867
Finance costs	12	(2,130)	(2,735)
Net finance income / (costs)		21,403	(1,868)
Profit before tax		522,744	435,310
Income tax expense	13	(90,422)	(77,703)
Profit for the year		432,322	357,607
Other comprehensive income		-	-
Total comprehensive income for the year		432,322	357,607

The accompanying accounting policies and notes form an integral part of these unconsolidated financial statements.

SUPER SPORT d.o.o.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2019

		31 December 2019 HRK '000	31 December 2018 HRK '000
ASSETS			
Intangible assets	14	638	675
Property, plant and equipment	15	10,481	12,568
Right-of-use assets	16a	53,856	-
Investments in subsidiaries	17	302,700	302,700
Total non-current assets		367,675	315,943
Inventories		2,928	2,253
Trade and other receivables	18	28,640	17,407
Loans given	19	83	974
Cash and cash equivalents	20	270,215	265,113
Prepaid expenses	21	9,688	8,686
Total current assets		311,554	294,433
TOTAL ASSETS		679,229	610,376
EQUITY AND LIABILITIES			
Subscribed capital	22	308,000	308,000
Retained earnings		224,203	207,607
Total equity		532,203	515,607
Non-current liabilities			
Lease liabilities	16b	38,374	-
Total non-current liabilities		38,374	-
Current liabilities			
Lease liabilities	16b	16,185	-
Trade and other payables	23	76,894	70,870
Current tax liability		15,573	23,899
Total current liabilities		108,652	94,769
TOTAL EQUITY AND LIABILITIES		679,229	610,376

The accompanying accounting policies and notes form an integral part of these unconsolidated financial statements.

SUPER SPORT d.o.o.

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2019

	Subscribed capital HRK '000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2018	308,000	340,370	648,370
Dividends	-	(490,370)	(490,370)
Profit for the year	-	357,607	357,607
Balance at 31 December 2018	308,000	207,607	515,607
Balance at 1 January 2019	308,000	207,607	515,607
Dividends	-	(415,726)	(415,726)
Profit for the year	-	432,322	432,322
Balance at 31 December 2019	308,000	224,203	532,203

The accompanying accounting policies and notes form an integral part of these
unconsolidated financial statements.

SUPER SPORT d.o.o.

UNCONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2019

	Note	2019 HRK '000	2018 HRK '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		432,322	357,607
Adjustments for:			
Amortisation and depreciation	14, 15, 16	22,509	5,108
Gain on sale of property, plant and equipment	6	(180)	(2,556)
Reversal of allowance for impairment of loans given and other receivables	6	(80)	(5,523)
Allowances for impairment of loans given and other receivables	10	386	12
Gain on derecognition of right-of-use assets		(16)	-
Interest income	11	(394)	(810)
Dividend income	11	(23,119)	-
Interest expense	12	1,739	-
	12		
Loss from revaluation of financial assets at FVTPL		-	417
Foreign exchange differences		-	1,666
Tax expense	13	90,422	77,703
		523,589	433,624
Changes in working capital			
Decrease/(increase) in trade and other receivables		6,024	(4,088)
(Decrease)/increase in trade and other payables		(12,232)	15,884
Increase in inventories		(675)	(209)
Cash generated from operating activities		516,706	445,211
Lease interest paid		(1,739)	-
Income tax paid		(98,748)	(80,764)
Net cash from operating activities		416,219	364,447
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of financial assets at FVTPL		-	187,215
Proceeds from sale of property, plant and equipment		265	4,133
Interest received		383	1,269
Dividends received		23,119	-
Repayment of loans given		12,773	11,743
Acquisition of property, plant and equipment and intangible assets		(3,567)	(7,841)
Loans given		(12,180)	(1,650)
Increase of investments in subsidiaries		-	(302,700)
Net cash from/(used in) investing activities		20,793	(107,831)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid and prepaid		(415,726)	(490,370)
Payment of lease liabilities		(16,184)	-
Net cash used in financing activities		(431,910)	(490,370)
Net increase/(decrease) in cash and cash equivalents		5,102	(233,754)
Cash and cash equivalents at 1 January		265,113	500,533
Effects of movements in exchange rates on cash held		-	(1,666)
Cash and cash equivalents at 31 December	20	270,215	265,113

The accompanying accounting policies and notes form an integral part of these unconsolidated financial statements.

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

1. GENERAL INFORMATION

SUPER SPORT betting company, a limited liability company (hereinafter: Company), with headquarters at Krčka 18/d, Zagreb, is registered in the court register at the Commercial Court in Zagreb on 11 July 2000 under Company's court registration number 080352592.

In June 2010, the Company started with online betting games. In January 2012, the Company started with casino games. In January 2017, the Company started with online casino games.

On 26 April 2018, a majority of Company's shares were acquired by Sazka Group Adriatic d.o.o., Croatia, whose ultimate controlling party was KKCG AG, Switzerland.

On 22 May 2019, as a result of split of assets in the Sazka Group, the Czech Republic, the new ultimate controlling party became EMMA Capital, Cyprus, whose majority owner is Jiří Šmejč, the Czech Republic.

1.1. Company bodies

The Company's assembly is the highest body and it is made up of members of the Company.

Supervisory Board

Váňa Radek, President, until 12 July 2019

Marek Doseděl, member, from 12 July 2019, President, from 31 July 2019

Danko Ćorić, Deputy president, from 25 April 2018

Sandra Ivanović, member, from 25 April 2018

Pavel Horák, member, from 25 April 2018

Jakub Sokol, member, until 12 July 2019

Radka Blažková, member, from 12 July 2019

Directors

Radim Haluza, from 25 April 2018

David Havlín, from 25 April 2018

Goran Đurić, from 25 April 2018

1.2. Employees

At the reporting date, the Company had 1,046 employees (2018 - 1,024 employees).

2. BASIS OF PREPARATION

2.1 Statement of compliance

The Company's unconsolidated financial statements ("financial statements") have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union ("EU IFRS").

The Company has used the exemption allowed by International Financial Reporting Standard 10 "*Consolidated Financial Statements*", for the presentation of consolidated financial statements, on the basis that the parent company EMMA ALPHA HOLDING LTD, Cyprus, prepares consolidated financial statements in accordance with EU IFRS. The audited consolidated financial statements of EMMA ALPHA HOLDING LTD are publicly available.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except where otherwise disclosed. The methods used to measure fair values are discussed further in a separate note.

This is the first set of the Company's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 4.

Certain new standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Company. These are not expected to have a significant impact on the Company's financial statements.

2.3 Functional and presentation currency

These financial statements are presented in the Croatian currency, Kuna (HRK), which is the functional currency of the Company and rounded to the nearest thousand.

2.4 Going concern

The financial statements have been prepared under the assumption that the Company will continue to operate as a going concern. Management believes that the use of the going concern assumption in preparation of financial statements with respect to the above mentioned facts is appropriate.

2.5 Use of estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of financial statements are listed below. These policies have been consistently applied to all periods presented in these financial statements.

3.1. Revenue

Revenue from betting activities

Revenue represent amounts staked by the customers less betting payouts and betting taxes payable to the state. The amount paid by customers is deducted by 5% (transaction costs) and only remaining 95% of ticket amount is used to calculate the potential winning. Revenue is recognised when the result of the performance obligation is known, i.e. immediately after the bet event result occurs ("at a point in time").

Revenue from casino games

Revenue represent net wins in respect of bets placed on casino games less gaming tax and amounts accrued for prize pools. Revenue from the online poker business reflects the net income (rake) earned from poker games completed by the year end. Revenue is recognised when the result of the performance obligation is known, i.e. immediately after the game result occurs ("at a point in time").

Revenue from other activities

Other revenues which do not represent the main business include: sale of odds lists and weekly betting magazines.

Revenue is recognized when the goods are delivered and have been accepted by the customer ("at a point in time").

3.2. Foreign currencies

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries and jointly controlled companies when it is probable that their status will not change in the near future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.4. Intangible assets

Where patents, licences, and similar rights are acquired by the Company from third parties the costs of acquisition are capitalised to the extent that future economic benefits are probable and will flow to the Company.

Subsequent expenditure is capitalised only if it is probable that it increases the future economic benefits embodied in the specific asset to which it relates and those benefits will flow to the Company. All other expenditure is recognised in the profit or loss as incurred.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date on which they are available for use. Their estimated useful lives range from 4 to 10 years (2018: 4 to 10 years).

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Property, plant and equipment

Property, plant and equipment are included in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Description	2019	2018
	Years	Years
Personal vehicles	5	5
Trucks and commercial vehicles	4-5	4-5
Office furniture	4	4
Office and IT equipment	2-4	2-4
Telephones, mobile phones and equipment	2-4	2-4

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined as the difference between the income from the disposal and the carrying amounts of the asset disposed, and are recognised in profit or loss within other income/expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Impairments of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 net of depreciation or amortisation 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.

3.7. Investment in subsidiaries

Investments in subsidiaries are accounted for at cost less potential impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit and loss.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit and loss. Any gain or loss on derecognition is recognised in profit and loss.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (*continued*)

Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts, including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

Impairment of non-derivative financial assets

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost.

Loss allowances are measured on either of the following:

- 12-month ECLs: these are ECLs that result from possible default events within 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instruments

Loss allowance for the Company's financial assets measured at amortised cost are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Events that indicate that financial assets are credit-impaired includes the following:

- It is probable that the borrower will enter bankruptcy or any other type of reorganisation or restructuring;
- specific financial difficulty of the borrower.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash in cash registers, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

3.10. Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average cost method, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Merchandise is carried at the lower of purchase cost and selling price (less applicable taxes and rebates). Low valued inventory and tools are expensed when put into use.

At the moment of sale, the Company recognizes the carrying amount of sold inventories as expense in profit or loss. The amount of any inventory write-off resulting from adjustments to net realizable value and/or shortages is recognized as an expense in profit or loss as incurred.

3.11. Employee benefits

Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds managed by third parties on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company is not obliged to provide any other post-employment benefits with respect to these pension schemes.

3.12. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

3.13. Contingent liabilities and assets

Contingent liabilities are not included in the financial statements. They are disclosed unless the likelihood of the outflow of economic benefits from the Company is remote. Contingent assets are not recognized in the financial statements, but are disclosed when the cash inflow is probable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14. Dividends

Dividends are presented in the statement of changes in equity and are recognised as liability in the period in which are approved by the Company's owners. Prepaid dividends are recognised in the statement of changes in equity.

3.15. Determining fair value

Fair values are measured using information collected from third parties in which case management and the finance function assess whether the evidence collected from third parties support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1* - quoted prices in active markets for identical assets or liabilities.
- *Level 2* - inputs other than quoted prices included in level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3* - input variables for assets or liabilities that are not based on observable market data (unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more significant inputs are not based on observable market data, the fair value estimate is included in level 3.

3.16. Leases

The details of accounting policies under IAS 17 and IFRS 16 are disclosed below.

Policy applicable before 1 January 2019

The Company rents certain property, plant and equipment. Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. As at 31 December 2018 the Company did not have leases classified as finance leases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16. Leases (continued)

Policy applicable from 1 January 2019

As a lessee, the Company leases premises for its betting shops.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefit for the use of asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is use.

The Company recognised a right-of-use asset and a lease liability at the lease commencement date.

Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease payments comprise fixed payments and exclude non-lease components.

The lease liability is measured at amortised cost using the effective interest rate method.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Company initially applied IFRS 16 *Leases* from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

The Company applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IAS 17 and IFRIC 4. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3.16.

On transition to IFRS 16, the Company did not elect to apply the practical expedient to grandfather the assessment of which transactions are leases. Therefore, at the date of initial application the Company applied the new definition of a lease to all its contracts.

The Company assessed that certain contracts do not meet the definition of a lease. These contracts mostly relate to the leases of locations for the Company's betting machines. As the exact location in these contracts have not been identified, the Company concluded that the asset is not physically distinct and could not be identified and therefore the Company assessed that these contracts do not represent lease contracts in accordance with IFRS 16.

As a lessee

As a lessee, the Company leases premises for its betting shops.

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application; and
- applied single discount rate to a portfolio of leases with reasonably similar characteristics.

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact on transition

On transition to IFRS 16, the Company recognised additional right-of-use assets and lease liabilities. The impact on transition is summarised below.

	1 January 2019
HRK '000	
Right-of-use assets	59,070
Lease liabilities	59,070

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The average incremental borrowing rate applied is 3%.

As at 1 January 2019, the Company had a limited number of leases with indefinite lease term. The Company assessed that, due to existing economic barriers in case of cancellation / termination, estimated lease term of five years reflects highly likely duration of non-cancellable period of such contracts.

The Company has disclosed operating lease commitments as at 31 December 2018 in the amount equal to monthly lease payments as the majority of contracts were cancelable with a notice period of one month.

	1 January 2019
HRK '000	
Operating lease commitments disclosed as at 31 December 2018	1,671
Discounted using the Company's incremental borrowing rate at 1 January 2019	1,667
Adjustments as a result of a different treatment of termination options	57,403
Lease liability recognised as at 1 January 2019	59,070

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

5. SALES REVENUE

Disaggregation of revenue

In the following table, revenue is disaggregated by major product/service lines, sales channels and timing of revenue recognition.

	2019 HRK '000	2018 HRK '000
<i>Major products/service lines</i>		
Revenue from betting activities	515,847	492,628
Revenue from casino games	299,812	202,673
Revenue from other activities	1,131	1,826
Rental income (not in scope of IFRS 15)	742	744
Total	817,532	697,871
<i>Sales channel</i>		
Land-based	232,036	235,800
Online	583,623	459,501
Revenue from other activities	1,131	1,826
Rental income (not in scope of IFRS 15)	742	744
Total	817,532	697,871
<i>Timing of revenue recognition</i>		
Products and services transferred at a point in time	816,790	697,127
Rental income (not in scope of IFRS 15)	742	744
Total	817,532	697,871

Revenue from betting services is generated by providing betting services via betting shops throughout Croatia as well as via betting machines and online betting. Casino revenues are generated by providing physical (land based) and online casino services.

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

5. SALES REVENUE (CONTINUED)

	2019 HRK '000	2018 HRK '000
Gross gaming revenue	1,035,399	883,022
Taxes payable to the state	(219,740)	(187,721)
Net gaming revenue	815,659	695,301
Revenue from other activities	1,131	1,826
Rental income (not in scope of IFRS 15)	742	744
Total	817,532	697,871

6. OTHER OPERATING INCOME

	2019 HRK '000	2018 HRK '000
Gain on sale of property, plant and equipment	180	2,556
Gain from write-offs	68	63
Reversal of allowance for impairment of loans given and other receivables	80	5,523
Other operating income	1,927	1,174
Total	2,255	9,316

7. MATERIALS AND ENERGY

	2019 HRK '000	2018 HRK '000
Materials used	8,229	5,690
Energy consumed	6,064	6,166
Small inventory write-off	3,163	2,887
Total	17,456	14,743

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

8. SERVICE COSTS

	2019 HRK '000	2018 HRK '000
External services related to products and services offered	53,355	39,794
Advertising services	11,646	7,857
Transport and telecommunications services	4,368	4,003
Rent expenses	2,907	20,430
Maintenance	2,325	3,386
Utilities	1,848	1,792
Other services	1,807	1,669
Total	78,256	78,931

Rent expenses in the amount of HRK 528 thousand are not in the scope of IFRS 16.

9. EMPLOYEE EXPENSES

	2019 HRK '000	2018 HRK '000
Net salaries and wages	65,379	55,158
Taxes and contributions from salaries	24,397	20,078
Contributions on salaries	14,522	12,525
Total	104,298	87,761

Employee expenses include HRK 17,422 thousand (2018: HRK 14,053 thousand) of compulsory contributions for pension insurance paid to the Croatian Pension Insurance Institute, calculated as a percentage of gross salaries of employees.

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

10. OTHER OPERATING EXPENSES

	2019 HRK '000	2018 HRK '000
Product related services	51,783	46,975
Contributions and taxes	5,067	6,443
Bank and credit card charges	9,759	8,654
Travel and commuting expenses	3,642	3,558
Betting and casino concession charge	6,500	6,500
Other employee costs	6,804	4,177
Entertainment expenses	7,642	2,595
Insurance	855	778
Impairment of loans given	379	1
Impairment of other receivables	7	11
Impairment of Inventories	249	252
Donations	763	618
Other expenses	2,726	3,176
Total	96,176	83,738

Product related services in the amount of HRK 51,783 thousand (2018: HRK 46,975 thousand) relate mainly to operational maintenance, design, development and updates of programs and applications, as well as other services, such as those related to provision of live results, etc.

Contributions and taxes relate mostly to the non-refundable value added tax.

11. FINANCE INCOME

	2019 HRK '000	2018 HRK '000
Dividend income	23,119	-
Interest income	394	810
Foreign exchange gains	20	57
Total	23,533	867

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

12. FINANCE COSTS

	2019 HRK '000	2018 HRK '000
Interest expense	1,739	-
Loss from revaluation of financial assets at fair value through profit and loss	-	417
Foreign exchange losses	274	1,794
Other finance expenses	117	524
Total	2,130	2,735

13. INCOME TAX EXPENSE

Income tax is calculated at a rate of 18% (2018: 18%) in accordance with Law and Rulebook on income tax. A reconciliation of tax expense per the statement of the comprehensive income and taxation at the statutory tax rate is as follows:

	2019 HRK '000	2018 HRK '000
Profit before tax	522,744	435,310
Income tax 18% (2017: 18%)	94,094	78,356
Effect of non-deductible expenses	567	367
Effect of non-taxable income	(4,239)	(1,020)
Income tax expense	90,422	77,703
<i>Effective tax rate</i>	<i>17.3%</i>	<i>17.8%</i>

The Company is subject to income tax under the laws and regulations of the Republic of Croatia, which represents the difference between income and expenses determined in accordance with the laws and regulations.

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

14. INTANGIBLE ASSETS

	Software and licences HRK '000
Cost	
As at 1 January 2018	2,261
Additions	72
As at 31 December 2018	2,333
As at 1 January 2019	2,333
Additions	57
As at 31 December 2019	2,390
Accumulated amortization	
As at 1 January 2018	1,564
Charge for the year	94
As at 31 December 2018	1,658
As at 1 January 2019	1,658
Charge for the year	94
As at 31 December 2019	1,752
Carrying value	
As at 1 January 2018	697
As at 31 December 2018	675
As at 1 January 2019	675
As at 31 December 2019	638

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

15. PROPERTY, PLANT AND EQUIPMENT

	Land HRK '000	Buildings HRK '000	Equipment, vehicles and tools HRK '000	Works of art HRK '000	Total HRK '000
Cost					
As at 1 January 2018	1,400	2,124	55,600	60	59,184
Additions	-	-	7,768	-	7,768
Disposals and write-offs	(1,400)	(2,124)	(6,087)	-	(9,611)
As at 31 December 2018	-	-	57,281	60	57,341
As at 1 January 2019	-	-	57,281	60	57,341
Additions	-	-	3,510	-	3,510
Disposals and write-offs	-	-	(1,327)	-	(1,327)
As at 31 December 2019	-	-	59,464	60	59,524
Accumulated depreciation					
As at 1 January 2018	-	2,124	45,670	-	47,794
Charge for the year	-	-	5,014	-	5,014
Disposals and write-offs	-	(2,124)	(5,911)	-	(8,035)
As at 31 December 2018	-	-	44,773	-	44,773
As at 1 January 2019	-	-	44,773	-	44,773
Charge for the year	-	-	5,512	-	5,512
Disposals and write-offs	-	-	(1,242)	-	(1,242)
As at 31 December 2019	-	-	49,043	-	49,043
Carrying value					
As at 1 January 2018	1,400	-	9,930	60	11,390
As at 31 December 2018	-	-	12,508	60	12,568
As at 1 January 2019	-	-	12,508	60	12,568
As at 31 December 2019	-	-	10,421	60	10,481

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

16. LEASES

The Company leases premises for its betting shops. The leases typically run for a period of 1 to 10 years. Information about leases for which the Company is a lessee is presented below.

a) *Right-of-use assets*

	Premises HRK '000
As at 1 January 2019	-
Recognition of right-of-use asset on initial application of IFRS 16	59,070
Adjusted balance as at 1 January 2019	59,070
Additions	14,141
Depreciation charge	(16,903)
Terminations and modifications	(2,452)
As at 31 December 2019	53,856

Amounts recognised in profit and loss

	HRK '000
2019 – Leases under IFRS 16	
Interest on lease liabilities	1,739
Expenses relating to short-term leases	2,107
Expenses relating to leases of low-value assets	272
Gain on derecognition of right-of-use assets	(16)
2018 - Operating leases under IAS 17	
Lease expense	20,430

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

16. LEASES (CONTINUED)

b) Lease liabilities

Movement in lease liabilities is as follows:

	2019 HRK '000
Balance at 1 January	-
<i>Changes from financing cash flows</i>	
Payment of lease liabilities	(16,184)
Total changes from financing cash flows	(16,184)
<i>Other</i>	
Adoption of IFRS 16	59,070
Interest expense	1,739
Interest paid	(1,739)
New leases	14,141
Terminations and modifications	(2,468)
Total other	70,743
Balance at 31 December	54,559

Maturity analysis of contractual undiscounted cash flows is as follows:

	31 December 2019 HRK '000
Less than one year	17,594
One to two years	14,573
Two to five years	21,890
More than five years	4,109
Total undiscounted lease liabilities	58,166
Lease liabilities included in the statement of financial position	54,559
Current	16,185
Non-current	38,374

As at 31 December 2019 the average incremental borrowing rate amounted to 3%.

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

17. INVESTMENTS IN SUBSIDIARIES

	31 December 2019 % share	31 December 2018 % share
Puni broj d.o.o., Zagreb	100%	100%
Carrying value in HRK '000	302,700	302,700

Principal activity of Puni broj d.o.o. is the operation of casino and similar games.

18. TRADE AND OTHER RECEIVABLES

	31 December 2019 HRK '000	31 December 2018 HRK '000
Receivables from financial service companies - credit card transactions	26,557	15,048
Receivables for vouchers	159	150
Trade receivables from domestic customers	53	60
Other receivables from state and state institutions	80	337
Advances paid	1,064	1,098
Other receivables	727	714
Total	28,640	17,407

Receivables from credit card transactions, receivables for vouchers and domestic trade receivables are due within 30 days. Receivables are denominated in Croatian kuna.

19. LOANS GIVEN

	31 December 2019 HRK '000	31 December 2018 HRK '000
Loans given	2,179	3,073
Provision for impairment	(2,096)	(2,099)
Total	83	974

Loans given relate to loans to legal entities and employees of the Company. Loans given generally carry interest rates ranging from 3% to 5% (2018: 3% to 5%) and have maturity up to one year. As at 31 December 2019, loans given in the amount of HRK 8 thousand are denominated in euros (31 December 2018: HRK 258 thousand).

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

20. CASH AND CASH EQUIVALENTS

	31 December 2019 HRK '000	31 December 2018 HRK '000
Bank accounts - HRK	260,781	255,708
Bank accounts - foreign currency	204	85
Cash in hand	9,230	9,320
Total	270,215	265,113

21. PREPAID EXPENSES

	31 December 2019 HRK '000	31 December 2018 HRK '000
Annual fees for the organisation of casino games and betting activities	6,500	6,500
Other prepaid expenses	3,188	2,186
Total	9,688	8,686

22. SUBSCRIBED CAPITAL

The owners of the Company are as follows:

	31 December 2019 HRK '000	31 December 2018 HRK '000	31 December 2019 %	31 December 2018 %
Sazka Group Adriatic d.o.o.	201,586	206,360	65.45	67.00
Danko Čorić	101,640	101,640	33.00	33.00
Key management	4,774	-	1.55	-
Total	308,000	308,000	100	100

As at 31 December 2019 the subscribed capital consist of 5 shares (31 December 2018: 2 shares).

The ultimate owner of the Sazka Group Adriatic d.o.o. is Jiří Šmejč, the Czech Republic.

The subscribed capital of the Company includes HRK 300,000 thousand of capital arising from profit reinvestments made in prior years. If in the subsequent periods the subscribed capital is paid out or decreased, the tax incentive utilised on reinvested profit may be revoked and may result in tax expense and liability.

During 2019, the Company paid total dividends in the amount of HRK 415,726 thousand, out of which HRK 208,119 thousand relate to prepaid dividends for 2019 (2018: the Company paid total dividends in the amount of HRK 490,370 thousand, out of which HRK 150,000 thousand relate to prepaid dividends for 2018).

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

23. TRADE AND OTHER PAYABLES

	31 December 2019 HRK '000	31 December 2018 HRK '000
Trade payables	12,520	9,616
Advances received	9,853	8,775
Payables to employees	6,124	5,439
Payables to the state (pension and health insurance and other taxes)	5,401	4,800
Payables to the state related to betting and casino activities	36,907	34,632
Liabilities for unpaid wins	1,174	1,484
Other short-term payables	4,915	6,124
Total	76,894	70,870

24. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT

Accounting classifications and fair value

The Company's financial assets and financial liabilities are measured at amortised cost. Their carrying amount is a reasonable approximation of fair value.

Risk management

In its business, the Company is exposed to the following financial risks:

- Market risk (price, currency and interest rate risk)
- Liquidity risk
- Credit risk

Market risk

Market risk is the risk that the change in market prices, such as the change in foreign exchange rates and interest rates, will affect the Company's revenue or the value of its financial instruments.

a) Price risk

The Company operates in the Croatian market. Management determines the prices of its services based on the market prices. In the betting segment, management determines the betting odds when betting offers are announced, based on offers for betting odds present on the market. The Company is exposed to market risk arising from the business itself. The Company monitors the results that are subject to very large changes due to the nature of the betting industry on a daily basis.

24. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT
(CONTINUED)

Market risk (continued)

b) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will change due to changes in market interest rates relative to the interest rates applicable to financial instruments.

Interest rate risk with respect to cash flows is the risk that the interest expense arising from financial instruments will be variable over time. The Company estimates this risk as low as it has no interest bearing borrowings while interest bearing financial assets generally mature within one year.

b) Currency risk

The Company is exposed to currency risk through services received from abroad and through monetary assets and liabilities denominated in a currency other than the functional currency of the Company. The currency to which the Company is primarily exposed is euro.

The following table contains the carrying amounts of the monetary assets and liabilities of the Company in foreign currency at the reporting date.

	Liabilities		Assets	
	31 December 2019 HRK'000	31 December 2018 HRK'000	31 December 2019 HRK'000	31 December 2018 HRK'000
EUR	55,568	3,074	210	342
Other currencies	-	-	2	1

The weakening/strengthening of the kuna (HRK) against the euro by 1% at the reporting date would increase/decrease the pre-tax result by HRK 554 thousand (31 December 2018: HRK 27 thousand). This analysis assumes that all other variables, including interest rates, remain unchanged.

Exposure to euro has increased as a result of recognition of lease liabilities which are mostly denominated in euro.

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

24. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

Liquidity risk

The Company is exposed to liquidity risk due to daily payments and withdrawals. The Company manages the liquidity risk by providing enough cash to pay the betting/casino wins on a daily basis.

The Company's assets and liabilities at the reporting date are as follows:

31 December 2019	Carrying amount HRK '000	Contractual cash flows HRK '000	0 - 12 months HRK '000	1 - 2 years HRK '000	2 - 5 years HRK '000	Over 5 years HRK '000
Financial assets						
Trade and other receivables	28,640	28,640	28,640	-	-	-
Loans given	83	83	83	-	-	-
Cash and cash equivalents	270,215	270,215	270,215	-	-	-
	298,938	298,938	298,938	-	-	-
Financial liabilities						
Lease liabilities	54,559	58,166	17,594	14,573	21,890	4,109
Trade and other payables	92,467	92,467	92,467	-	-	-
	147,026	150,633	110,061	14,573	21,890	4,109

All liabilities, except lease liabilities, are due within one year. The Company is not significantly exposed to liquidity risk since it is liquid and fulfils all its obligations in a timely manner.

31 December 2018	Carrying amount HRK '000	Contractual cash flows HRK '000	0 - 12 months HRK '000	1 - 2 years HRK '000	2 - 5 years HRK '000	Over 5 years HRK '000
Financial assets						
Trade and other receivables	17,407	17,407	17,407	-	-	-
Loans given	974	974	974	-	-	-
Cash and cash equivalents	265,113	265,113	265,113	-	-	-
	283,494	283,494	283,494	-	-	-
Financial liabilities						
Trade and other payables	94,769	94,769	94,769	-	-	-
	94,769	94,769	94,769	-	-	-

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

24. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk is a risk that a buyer or other party to a financial instrument will not fulfill its obligation and thereby cause the Company to incur financial losses.

Financial assets that expose the Company to credit risk consist mainly of cash, loans given and trade receivables.

The carrying amount of financial assets represents the maximum exposure to credit risk at the reporting date and is as follows:

	31 December 2019 HRK '000	31 December 2018 HRK '000
Trade and other receivables	27,496	15,972
Loans given	83	974
Cash and cash equivalents	270,215	265,113
	<hr/> 297,794 <hr/>	<hr/> 282,059 <hr/>

The credit rating of institutions where the Company holds its cash and cash equivalents according to Standard&Poor's classification is as follows:

	Rating	31 December 2019 HRK '000	31 December 2018 HRK '000
Cash and cash equivalents	BB or above	9,339	6
	No rating	260,876	265,107
		<hr/> 270,215 <hr/>	<hr/> 265,113 <hr/>

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

25. RELATED PARTY TRANSACTIONS

During 2019 and 2018, the Company entered into transactions with the following related parties:

Company name / person	Relationship to the Company
Puni broj d.o.o.	Subsidiary of the Company
Minus5 d.o.o.	Subsidiary of Sazka group Adriatic d.o.o.
SAZKA Group Adriatic	Owns 65.45% of Company
Danko Ćorić	Owns 33% of Company
Other related parties	Mr Danko Ćorić family members and related parties.

Key management personnel compensation

As at 31 December 2019, key management consisted of four employees (*31 December 2018: three employee*). Key management personnel gross compensation for the year ended 31 December 2019 amounted to HRK 5,439 thousand (*2018: HRK 4,298 thousand*).

During the year, the management of the Company acquired 1.55% equity stake in the Company from Sazka Group Adriatic d.o.o.

Dividends paid to the key management personnel in 2019 amounted to HRK 2,868 thousand (*2018: -*).

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

	Trade and other receivables	Trade and other payables	Revenue	Expenses	Finance income
	31 December 2019 HRK '000	31 December 2019 HRK '000	2019 HRK '000	2019 HRK '000	2019 HRK '000
Puni broj d.o.o.	31	-	617	-	-
minus5 d.o.o.	-	1,812	-	15,061	-
SAZKA Group Adriatic d.o.o.	1	-	11	-	86
Mr Danko Ćorić	-	-	-	1,688	-
Parties related to Mr Danko Ćorić	-	26	42	1,514	-
	<u>32</u>	<u>1,838</u>	<u>670</u>	<u>18,263</u>	<u>86</u>
	31 December 2018 HRK '000	31 December 2018 HRK '000	2018 HRK '000	2018 HRK '000	2018 HRK '000
Puni broj d.o.o.	32	-	494	-	-
minus5 d.o.o.	-	1,288	-	13,353	-
SAZKA Group Adriatic d.o.o.	3	-	3	-	-
Mr Danko Ćorić	-	-	-	1,823	-
Parties related to Mr Danko Ćorić	-	33	-	1,782	-
	<u>35</u>	<u>1,321</u>	<u>497</u>	<u>16,958</u>	<u>-</u>

SUPER SPORT d.o.o.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Dividends paid during the year are shown in note 22 to the financial statements.

26. CONTINGENT LIABILITIES

The Company has a contingent liability relating to bank guarantees for the provision of betting games and casino games of chance issued to the Ministry of Finance of the Republic of Croatia in the amount of HRK 19,500 thousand (*31 December 2018: HRK 19,500 thousand*) as per the local gaming regulation requirements.