FTB TURIZAM d.d.

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

This version of the financial statements 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.

FTB TURIZAM d.d.

Content

FTB TURIZAM d.d.

Management Report to the shareholders of FTB TURIZAM d.d. Group for the year 2019

The Annual Report of the Management Board has been prepared on the basis of Article 250.a of the Companies Act and Article 21and 24 of the Accounting Act.

The report relates to FTB Turizam Group composed of the companies Hoteli Cavtat d.d. Cavtat, Hoteli Metropol d.o.o. Portorož, Remisens Hotel Group d.o.o. Zagreb and FTB Turizam d.d. Zagreb, with the aim of presenting the most important achievements in the year 2019 as well as an overview of future expectations.

Review of operations in 2019 with a focus on the most important financial indicators of business operations

The consolidated results of the FTB Turizam Group for the year 2019 show that the Group's companies (Hoteli Cavtat d.d., Hoteli Metropol d.o.o., Remisens Hotel Group d.o.o. Zagreb and FTB TURIZAM d.d.) achieved 1% fewer overnight stays than last year. Operating income is about 2% higher than last year and GOP (gross operating profit) is about 8% higher than last year.

Impairment of receivables of around HRK 2.3 million relates to doubtful receivables of the Thomas Cook agency that operated with Hoteli Cavtat d.d.

The result from financial activities is negative in the amount of HRK 2.5 million, and 0.9 million lower than last year. Last year's result was influenced by the decision (from June 2018) of the General Assembly to pay out the amount of HRK 40,338,000 to the sole shareholder, FTB TURIZAM d.d., which was retained earnings from previous years of Hoteli Cavtat d.d. Also in 2018, income from dividend and profit share (around HRK 4.1 million) was paid based on the decision to pay out the retained earnings from 2017 of the company Hoteli Metropol d.o.o. to the company Hoteli Cavtat d.d.

In 2019, FTB TURIZAM d.d. (Company) achieved loss before tax in the amount of about HRK 252 thousand (2018: profit HRK 30,206 thousand). The Group realised profit after tax of HRK 25,007 thousand (2018: HRK 16,849 thousand).

Indicators of liquidity and solvency and the ratio of debt to equity and cash flows are at required level.

Research and development activities

Within the framework of activities that the Group and its related companies perform, there are opportunities for significant investment in research and development of new products and technologies.đ

Expected development in the future

In order to realize the planned future investments for the Group, key information includes that on 29 November 2018 at its session the Municipal Council of the Municipality of Konavle issued a Decision on the modification of the Spatial Plan of the Municipality of Konavle, with which restrictions have been removed in respect of the number of beds in the T1 zone, a restriction which prevented the extension of the Albatros Hotel; therefore, further to the above-mentioned, extension of the existing Albatros Hotel is now permissible.

The future development of the Group is based on the development of hotel companies and their planned investments.

Management Report to the shareholders of FTB TURIZAM d.d. Group for the year 2019 (continued)

Expected development in the future

If the investment studies that are currently being analyzed by the Group and its companies will show an acceptable ratio of return and investment risk, in the future period, and according to the business plan, the Group will continue with an intensive investment cycle.

The process of obtaining the necessary documentation for the upgrading of the new accommodation units (252 AU) of the Remisens Hotel Albatros is in progress. At the end of 2019 HC d.d. has implemented a beach concession agreement for the Epidaurus Hotel, and the investment is expected. For the next period investments in Remisens Premium Hotel Metropol, Remisens Premium Casa Rosa and Remisens Premium Casa Bel Moretto are being analysed.

The goal of the all future investments is to increase the quality and, consequently, to strengthen market position and recognition, as well as continuation of the positive trends with respect to financial results.

All investment plans are subject to change due to situation with coronavirus.

Information on repurchase of own shares

The Company has 4,485 own shares, which makes a total of 1.48% of the Company's share capital.

Financial instruments

The Group's financial instrument management policy defines underlying principles to ensure short-term and long-term liquidity, as well as investment security together with the realization of maximum possible income with minimum risk.
The financial assets of the Group entities consist of cash funds, receivables for short-term borrowings within the Group, receivables from customers and other receivables. Of the total financial assets, the largest portion relates to cash, thus ensuring both short-term and long-term liquidity at the level of the entire Group.

Financial liabilities consist of long-term loans, as well as liabilities to suppliers and other liabilities that are settled within the Group within maturity. The financial instrument management policy determines the Group's exposure to risk as well as measures to hedge these risks.

Group risk exposure

The Group is exposed to financial risk through the operations of its members, particularly market risk (including currency risk, interest rate cash flow and fair value and price risk), credit risk and liquidity risk.

Exchange rate risk

The Group is exposed to foreign exchange rate risk since credit liabilities, trade payables and trade receivables from the companies in the Group are expressed in EUR.

Interest rate risk

The Group is exposed to interest rate risk because debts and deposits are contracted at variable interest rates.

Management Report to the shareholders of FTB TURIZAM d.d. for the year 2019 (continued)

Credit risk

The Group has short-term loans between its Companies and is exposed to this risk.

Liquidity risk

At the Group level, liquidity risk is managed by maintaining adequate reserves, bank assets and provisions for borrowed funds, continuous monitoring of forecast and actual cash flows, as well as comparing the maturity of financial assets and liabilities.

The spread of the coronvirusa and its impact on global tourism have changed the risk exposure position for the Group after the balance sheet date. Liquidity risk increased due to decline in bookings and cancelation in bookings. The Group responded by adjusting business plans, decisions and business activities, as described below. However, the course of the pandemics is unpredictable and at present complete risk evaluation is not possible.

Important subsequent events after business year end

The occurrence and spread of the pandemic caused by the coronavirus (COVID-19) will have a significant impact on the operations of the companies within the FTB Group in the future.
According to current situation and information at disposal we can assume that countries will reach coronavirus spread peak at different times which means they will also stabilize at different times. Unfortunately, in countries which are our biggest emitting markets (United Kingdom, France, Italy) pandemic has not yet reached its peak, as well as in other countries, therefore there is uncertainty when will this happen and when will recovery follow. Even with eventual slower spread there will be uncertainty when will the pandemic stop and when will the consequences be overcomed locally and in our emission markets.

Taking into account aforementioned, Management of the Company has a liability not only to their employees and owners, but also legal obligation to pursue all legally permitted actions and measures in every situation, especially as extraordinary as this one. Actions which Management has undertook and will continue to undertake are conditioned by emergence and development of this unpredictable external event which will unfortunately, judging by the development scope and pandemic period, have significant negative impact on Croatian, European and global economy.
Repercussions of all the above are reservation cancellation and consequently inability to open for work our hotels in Cavtat and Portorož.
We present individually for Group's companies planned and performed actions to subside negative business effect of coronavirus (COVID-19) spread.

Impact on business performance of Hoteli Cavtat d.d., Cavtat:

- Hotels did not open in April as planned (Remisens Hotel Albatros: 01 April 2020.; Remisens Hotel Epidaurus 19 April 2020.)
- Per Decisions by responsible institutions of Republic of Croatia migration of people has been restricted. For all foreign and Croatian citizens entering Republic of Croatia (including main emission markets for Company) measures of compulsory 14 day quarantine accommodation period have been put in place. Other countries are putting into place restrictions on migration as well with purpose of combating disease spread. Business continuation will depend on infection development and cancellation of restrictions in countries which are our main emission markets.

Management Report to the shareholders of FTB TURIZAM d.d. for the year 2019 (continued)

Important subsequent events after business year end (continued)

- The Company will make a decision on the eventual commencement of operation or change of the opening date of the facility, depending on the further development of the situation caused by the spread of the coronavirus infection. At this point, it is likely that the facilities will not even open in the season 2020.

Accordingly, the measures taken by the Company are as follows:

- In relation to the above, most of our employees do not work, and only some work from home. In order to preserve the Company's liquidity in the coming period, operations were reduced to the so-called "cold drive".
- Within the prescribed deadlines, an application was made for receiving subsidies introduced by the Government of the Republic of Croatia, which are applicable to the activity of the company - hotel business.
    - The Company obtained a support from the Croatian Employment Service to preserve jobs for the period from March to May for all employees,
    - The Company has requested a deferral of payment of all taxes and contributions for the next 3 months,
    - The Bank has reached a moratorium on credit obligations (principal + interest) for a 6 + 6 month period,
    - The Company is in the process of seeking liquidity loans from the Commercial Bank, the realization of which is expected during June 2020.
- The Company has signed an Annex to the employment contract with the Management Board and all employees - managers on the reduction of salary by 50% for the period q1 April 2020 to 31 May 2020.
- In accordance with the agreement reached with the trade unions, all employees who have tariff contracts for work wages have been reduced for the period from 01.04.2020. to 31.05.2020. in such way that wages are reduced by 50%, but only to a part of the wage which is above than HRK 4,000 to the full wage of workers, which is the amount of State aid for April and May
- which is an average wage reduction of about 15% for tariff workers.
- The company has with contract annex for the period 01.04.2020. to 05.31.2020. reduced the advisory fees by 50% of the full fee, for a total of three advisers.
- The Management of the Company continuously monitors the adoption of all measures by the Republic of Croatia related to assistance to the economy, and also uses all legal possibilities to reduce costs and will continue to do so in the future to protect the interests of the Company.

By taking all the above measures, the Company believes that it will be able to maintain its liquidity in the coming period.

Impact on business performance of Hotel Metropol Ltd., Portorož, R. Slovenia:

- The largest central point for the spread of the virus in Europe is Italy. At Hotel Metropol d.o.o. year-over-year, guests with Italian citizenship account for 22% of total overnight stays.

Management Report to the shareholders of FTB TURIZAM d.d. for the year 2019 (continued)

Important subsequent events after business year end (continued

- Due to the fact that the infection is spreading in Slovenia there is a large decline in domestic guests. There has also been a decline in the entry of new bookings or an increase in cancellations from other major markets in which the Company operates (for example: Austria, Germany).
- The decision of the authorities of the Republic of Slovenia prohibits the supply and sale of goods and services directly to consumers in the territory of the Republic of Slovenia. This includes accommodation, catering, wellness, sports and recreation, cinematic, cultural, hairdressing, cosmetic and pedicure services, as well as gambling and other similar activities.
- Remisens Hotel Lucija was closed on 15.03. Remisens Premium Hotel Metropol is not open as planned (13.03). Currently, all Company facilities are closed.
- Other countries, with the aim of suppressing infection, impose restrictions on the movement of their citizens, and the continuation of business will depend on the development in spread of the virus and the abolition of restrictions introduced in the countries that are our main emitting markets (Italy, Slovenia, Austria, Germany).

Due to the unpredictable nature of the further development of infection caused by coronavirus and related remedial measures adopted by the Government of the Republic of Slovenia, the Company applied for all available measures.

- All employees for whom there is no need to work are referred to the statutory waiting-home institute, for which, during the waiting period, workers are paid 80% of full pay. Within the framework of the measures for protection of jobs, the State has undertaken to settle all 80% of the salary on hold for a period of 3 months with the exemption of employers from the burden of taxes and contributions from salaries. , Company has terminated employment contracts to seasonal workers employed on 15.03.2020; 35 in total.
- In order to preserve the Company's liquidity in the coming period, we reduced our operations to the so-called "cold drive".
- The Management of the Company continuously monitors the adoption of all measures by the Republic of Slovenia related to assistance to the economy and also uses all legal possibilities to reduce costs and will continue to do so in the future to protect the interests of the Company.

From the start of coronavirus infection, both Companies monitor the development of the situation, directing all resources and activities to take preventative measures to protect the health of guests and employees and to preserve liquidity for a longer period (due to uncertainty about the duration of the infection and its negative effects on business). In the current circumstances in the country and in the world, it is not possible to predict with certainty the definitive negative effect and the effect on the business of the Companies resulting from the pandemic of the COVID-19 disease, with particular emphasis on the emitting markets of both Companies. However, by taking all the aforementioned measures and adjusting its operations to the future development of the situation and planning additional measures, the Management believes that it will manage to preserve the liquidity of both Companies in the coming period.

FTB TURIZAM d.d.

Corporate Governance Code Compliance Statement

Pursuant to Article 272 of the Companies Act (NN 111/93, 34/99, 52/00, 118/03, 107/07 and 148/08, hereinafter referred to as the CA) and Article 22 of the Accounting Act (NN 120/16), the Management Board of **FTB TURIZAM d.d. Zagreb**, Miramarska 24 ("the Company") on 26.02.2020, brings the following

Corporate Governance Code Compliance Statement

1. The Company voluntarily applies the Corporate Governance Code prescribed by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d., Zagreb.

2. In 2019, the Company followed and applied the recommendations set out in the Code, publishing all the information whose publishing is anticipated by positive regulations as well as information that is in the best interests of the Company's shareholders. The Company does not deviate from the Corporate Governance Code.

3. In accordance with a requirement of the Code and with the directives of the CA, the Supervisory Board conducts internal control of the Company through regular audits of the presented reports. The members of the Supervisory Board are regularly (at least once a month) provided with detailed information on the management and operation of the Company. At the Supervisory Boards meetings, all the matters within the competence of that body, prescribed by the CA and the Company’s Articles of Association, are discussed and decisions are made. The Supervisory Board’s report on the conducted supervision of the management of business activities is a part of the Company’s Annual Report submitted to the General Assembly. The Management Board is responsible for monitoring whether the Company maintains business and other books and documentation, compiles accounting documents, accurately evaluates assets and liabilities and prepares financial and other reports in accordance with accounting regulations and standards, as well as applicable laws and regulations.

   The Company does not have a formal diversity policy in place with respect to gender, age, education or education for its executive, management and supervisory bodies. The Company's policy of appointment to executive bodies is carried out in accordance with the needs of specific business activities in terms of knowledge, qualifications and competence on the part of potential executives, without taking into account gender or age. The Company's management and oversight bodies also require certain knowledge, education and competence on the part of potential executives in these bodies, in accordance with the criteria and decisions of the Supervisory Board and the Company's Assembly.

Corporate Governance Code Compliance Statement *(continued)*

4. The ten largest shareholders as at 31 December 2019 were as follows:

Nr.	Shareholder	Number of shares	Share in ownership %
1.	SNH GAMA D.D. (1/1)	184,782	61.06
2.	SN PECTINATUS D.D. (1/1)	75,660	25.00
3.	CERP / REPUBLIKA HRVATSKA (1/1)	8,589	2.84
4.	FTB TURIZAM D.D. (1/1)	4,485	1.48
5.	CROATIA BANKA D.D./ /CRBA0033	1,519	0.50
6.	HPB D.D./ HMID PLUS AIF	1,500	0.50
7.	HPB D.D./ KAPITALNI FOND D.D.	1,295	0.43
8.	HPB D.D.	1,170	0.39
9.	ADDIKO BANK D.D./ PBZ CO OMF - KATEGORIJA A (1/1)	1,114	0.37
10.	HPB D.D.	849	0.28

In accordance with the Company's Articles of Association, the voting right of a shareholder is not limited to a certain percentage or number of votes, nor are there time constraints to realise voting rights. Each regular share entitles the shareholder to one vote at the General Assembly.

The Company's rights and obligations arising from the acquisition of its own shares are achieved in accordance with the directives of the CA.

5. The Management Board of the Company is composed of one member:

- Jasnica Juroš, Director

The Management Board manages the Company's business in accordance with the Company's Articles of Association and legal regulations.

The Management Board appoints and revokes the Supervisory Board in accordance with the Company’s Articles of Association and the CA. The Supervisory Board is composed of the following members:

- Tin Dolički, President
- Darko Ostoja, Vice president
- Joško Marić, Member

Pursuant to the provisions of Article 250.a paragraph 4 and Article 272.p of the CA, this Statement is a separate section and an integral part of the Annual Report on the Company's status for the year 2019.

Statements of the Management's responsibilities

The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and its cash flows, in accordance with International Financial Reporting standards as adopted by European Union, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management is also responsible for the preparation and content of the Management Report and the Statement of the implementation of corporate governance code, as required by the Croatian Accounting Act. The Management Report and the Corporate governance statement set out on pages 1 to 7, were authorised for issuance by the Management Board. The Management Board is responsible for submitting the Annual Report to the Supervisory Board, including financial statements, and the Supervisory Board is required to approve the financial statements for submission to the General Assembly of Shareholders for adoption.

The Annual report was approved by the Management Board on 29 April 2020 for submission to the Supervisory Board and was signed below by:

FTB TURIZAM d.d.
Zagreb 1

Jasnica Juroš

Director

Independent Auditors’ Report to the shareholders of FTB Turizam d.d.

Report on the Audit of the Separate and Consolidated Financial Statements

Opinion

We have audited the separate financial statements of FTB Turizam d.d. (“the Company”) and consolidated financial statements of the Company and its subsidiaries (“the Group”), which comprise the separate and consolidated statements of financial position of, respectively, the Company and the Group as at 31 December 2019, and their respective statements of comprehensive income, cash flows and changes in equity 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 separate and consolidated financial statements give a true and fair view of the respective unconsolidated and consolidated financial position of the Company and the Group as at 31 December 2019 and of their respective unconsolidated and consolidated financial performance and 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 and the Group 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 4 c) *Going concern* and Note 26 *Events after reporting date*, which indicates negative impact of COVID-19 outbreak which is expected to have significant impact on the Group’s operations. Without financial support from banks and government of Republic of Croatia and Slovenia, the Group may be unable to settle its liabilities as they fall due. As stated in Note 4 c) *Going concern*, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KPMG

Independent Auditors' Report to the shareholders of FTB Turizam d.d. *(continued)*

Report on the Audit of the Separate and Consolidated Financial Statements *(continued)*

Key Audit Matters

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

Impairment and useful lives of tourism properties (consolidated financial statements)

The carrying amount of *property, plant and equipment* of the Group as at 31 December 2019 was HRK 365,031 thousand (*2018: HRK 391,502 thousand*).

Refer to Note 2.4 of *Accounting policies*, Note 4(a) of *Critical accounting estimates*, and Note 13.1 on *Property, plant and equipment* of the financial statements.

Key audit matter	How our audit addressed the matter
As at 31 December 2019, the carrying amount of *property, plant and equipment* represented approximately 83% of the total assets of the Group. These assets, carried at cost less accumulated depreciation and any accumulated impairment losses, consist primarily of tourism properties and related assets, and are subject to annual review to assess whether or not they may be impaired. In the process, the Group first identifies its tourism properties where there is an indication of impairment. These properties are then subjected to a detailed impairment review through analysis of their value-in-use (based on an internal discounted cash flow model) or the estimate of their fair value less costs to sell. Any such impairment would be recognized in the amount by which the carrying amount of the asset (or its cash-generating unit, CGU) exceeds the recoverable amount. The Group's assessment relies on significant judgments and assumptions about tourism flows in the future, including: discount rates, growth rates, occupancy rates, asset useful lives, terminal values and revenue per available room. Application of significant judgement is also required in assessing the continued relevance of the assets' useful lives. In conjunction with its year end reporting, the Group has assessed	Our audit procedures in this area included, among others: • Evaluating the appropriateness of allocation of assets to CGUs, based on our understanding of the Group's operations and business units; • Evaluating the appropriateness of the Group's judgments regarding identification of tourist properties or related CGUs which may require further impairment testing. This included, but was not limited to, comparing of the assets' (or CGUs') actual performance to previous forecasts; • For the assets or CGUs that required further impairment testing, challenging the key assumptions used in determining their recoverable amounts. This included a comparison of occupancy rates, revenue per available room and market growth rates to externally derived data including external hotel industry reports and quoted prices for similar assets. We also analysed other key inputs such as estimated future costs, discount rates, asset useful life estimates and terminal multipliers, and considered the historical performance of the properties; • Analysing the methodology used in determining the remaining useful lives of the tourism properties and challenging the key assumptions used in the area by making enquiries of the Management Board, the Group's technical experts and its finance team members, and also by

KPMG

Independent Auditors' Report to the shareholders of FTB Turizam d.d. *(continued)*

Report on the Audit of the Separate and Consolidated Financial Statements *(continued)*

Key Audit Matters (continued)

Key audit matter	How our audit addressed the matter
the remaining useful lives for tourism properties based on the detailed analysis performed for each component of the property, by applying inputs from the Group's technical experts as well as the analysis provided by an independent appraiser engaged by the Group. Due to the above factors, accounting for impairment and useful lives of tourism properties were determined to be a key audit matter.	reference to our understanding of the future utilisation of assets by the Group and the depreciation policies applied by other market participants operating similar assets; • Evaluating the Group's analysis of the sensitivity of the impairment test's results, in particular in respect of the assumptions with the greatest potential effect on the test results.

Other Information

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

Our opinion on the separate and consolidated 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 separate and 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 separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and the Corporate Governance Statement, we 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 Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Independent Auditors' Report to the shareholders of FTB Turizam d.d. *(continued)*

Report on the Audit of the Separate and Consolidated Financial Statements *(continued)*

Other Information (continued)

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

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the separate and consolidated financial statements are prepared, is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 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 and the Corporate Governance Statement. We have nothing to report in this respect.

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

Management is responsible for the preparation of the separate and consolidated 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 separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent Auditors' Report to the shareholders of FTB Turizam d.d. *(continued)*

Report on the Audit of the Separate and Consolidated Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated 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 separate and 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 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 and the Group's internal controls.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and/or 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 auditors' report to the related disclosures in the separate and 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 auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report to the shareholders of FTB Turizam d.d. *(continued)*

Report on the Audit of the Separate and Consolidated Financial Statements *(continued)*

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

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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

We were appointed by those charged with governance on 29 August 2019 to audit the separate and consolidated financial statements of the Company and the Group for the year ended 31 December 2019. Our total uninterrupted period of engagement is four years, covering the periods ending 31 December 2016 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 27 April 2020;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit;

The engagement partner on the audit resulting in this independent auditors' report is Domagoj Hrkać.

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

29 April 2020

Domagoj Hrkać
Board Member, Croatian Certified Auditor

This version of the financial statements 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.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	Note	2019 Group	2018 Group	2019 Company	2018 Company
Revenue	6	184,199	180,269	-	-
Other income		1,715	2,501	-	-
		185,914	**182,770**	**-**	**-**
Cost of materials and services	7	(47,157)	(44,311)	(119)	(443)
Staff costs	8	(38,003)	(45,765)	-	(9,532)
Depreciation and amortisation		(41,667)	(44,777)	-	-
Impairment loss on trade receivables		(2,740)	(764)	-	-
Other operating expenses	9	(23,386)	(22,611)	(131)	(176)
		(152,953)	**(158,228)**	**(250)**	**(10,151)**
			-	-	-
Operating profit/(loss)		**32,961**	**24,542**	**(250)**	**(10,151)**
		-	-	-	-
Finance income		678	2,275	39	40,429
Finance costs		(3,177)	(3,910)	(41)	(72)
Net finance income / (costs)	10	**(2,499)**	**(1,635)**	**(2)**	**40,357**
			-	-	-
Profit/(loss) before tax		**30,462**	**22,907**	**(252)**	**30,206**
		-	-	-	-
Income tax expense	11	(5,455)	(6,058)	-	-
		-	-	-	-
Profit/(loss) for the year		**25,007**	**16,849**	**(252)**	**30,206**
Other comprehensive income		-	-	-	-
Items that may be reclasified to profit or loss		-	-	-	-
Foreign operations-foreign currency translation difference		1,601	(6,127)	-	-
Other comprehensive income for the period		**1,601**	**(6,127)**	**-**	**-**
			-	-	-
Total comprehensive income/(loss) for the period		**26,608**	**10,722**	**(252)**	**30,206**
			-	-	-
Profit attributable to:			-	-	-
Owners of the parent		24,892	16,734	(252)	30,206
Non-controlling interests		115	115	-	-
		25,007	**16,849**	**(252)**	**30,206**
Total comprehensive income/(loss) attributable to:			-	-	-
Owners of the parent		26,477	10,607	(252)	30,206
Non-controlling interests		131	115	-	-
		26,608	**10,722**	**(252)**	**30,206**
Earnings per share basic and diluted (in HRK)		82.25	55.29	-	-

Accompanying notes form an integral part of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	Note	31 December 2019 Group	31 December 2018 Group	31 December 2019 Company	31 December 2018 Company
ASSETS					
Non-current assets					
Intangible assets	14	6,722	7,117	-	-
Property, plant and equipment and investment property	13.1	365,031	391,502	-	-
Right of use assets	13.2	2,968	-	-	-
Investments in subsidiary	15	-	-	202,962	202,962
Deferred tax assets	11	786	786	-	-
Other assets		142	143	-	-
		375,649	**399,548**	**202,962**	**202,962**
Current assets					
Loans given to related parties	25	-	33,000	-	5,000
Inventories		1,723	1,871	-	-
Income tax receivable		-	-	3	-
Trade and other receivables	16	16,458	7,899	-	73
Cash and cash equivalents	17	45,965	9,920	320	493
		64,146	**52,690**	**323**	**5,566**
Total assets		**439,795**	**452,238**	**203,285**	**208,528**
EQUITY					
Share capital	18	202,769	202,769	202,769	202,769
Legal reserves		489	7	489	7
Treasury shares		(8,963)	(8,963)	(8,963)	(8,963)
Reserve for own shares		8,963	8,963	8,963	8,963
Other reserves	18	36,882	33,892	-	-
Retained earnings/(accumulated loss)		26,438	3,417	(64)	670
Non-controlling interests	18	895	780	-	-
		267,473	**240,865**	**203,194**	**203,446**
Non-current liabilities					
Borrowings	19	97,544	113,062	-	-
Lease liabilities	13.2	2,208	-	-	-
Deferred tax liabilities	11	10,203	11,219	-	-
Government grants	22	10,764	11,772	-	-
Provisions	20	775	1,132	-	-
		121,494	**137,185**	**-**	**-**
Current liabilities					
Borrowings	19	24,664	59,089	-	5,000
Lease liabilities	13.2	601	-	-	-
Income tax liabilities		331	3,011	-	-
Trade and other payables	21	25,232	12,088	91	82
Total liabilities and equity		**50,828**	**74,188**	**91**	**5,082**
		439,795	**452,238**	**203,285**	**208,528**

Accompanying notes form an integral part of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

GROUP

(in thousands of HRK)		Share capital	Legal reserves	Treasury shares	Reserves for treasury shares	Other reserves	Retained earnings / (accumulated loss)	Non-controlling interest	Total equity
Balance at 1 January 2018		**202,769**	**3**	**-**	**-**	**39,134**	**(3,465)**	**665**	**239,106**
		-	-	-	-	-	-	-	-
Profit for the year		-	-	-	-	-	16,734	115	16,849
Other comprehensive income									
Exchange rate differences		-	-	-	-	(6,127)	-	-	(6,127)
Total comprehensive income		-	-	-	-	(6,127)	16,734	115	10,722
Transactions with owners directly in equity									
Acqusition of own shares	18	-	-	(8,963)	-	-	-	-	(8,963)
Transfer to reserves		-	4	-	8,963	885	(9,852)	-	-
Total transactions with owners directly in equity		-	4	(8,963)		885	(9,852)	-	(8,963)
Total transactions with owners directly in equity		**-**	**4**	**(8,963)**	**8,963**	**885**	**(9,852)**	**-**	**(8,963)**
Balance at 31 December 2018	**18**	**202,769**	**7**	**(8,963)**	**8,963**	**33,892**	**3,417**	**780**	**240,865**
Profit for the year		-	-	-	-	-	24,892	115	25,007
Other comprehensive income									
Foreign operations-foreign currency translation difference		-	-	-	-	1,601	-	-	1,601
Total comprehensive income		-	-	-	-	1,601	24,892	115	26,608
Transactions with owners directly in equity									
Transfer to reserves		-	482	-	-	1,389	(1,871)	-	-
Total transactions with owners directly in equity		-	**482**	-	-	**1,389**	**(1,871)**	-	-
Balance at 31 December 2019	**18**	**202,769**	**489**	**(8,963)**	**8,963**	**36,882**	**26,438**	**895**	**267,473**

Accompanying notes form an integral part of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

COMPANY

(in thousands of HRK)	Note	Share capital	Legal reserves	Treasury shares	Reserves for treasury shares	Retained earnings	Total equity
Balance at 1 January 2018		**202,769**	**3**	**-**	**-**	**(20,569)**	**182,203**
			-	-	-		
Profit for the year		-	-	-	-	30,206	30,206
Total other comprehensive income		**-**	**-**	**-**	**-**	**30,206**	**30,206**
Transactions with owners directly in equity							
			-	-	-		
Transfer from retained earnings		-	4	-	8,963	(8,967)	-
Acqusition of own shares	18	-	-	(8,963)	-	-	(8,963)
Total transactions with owners directly in equity		-	4	(8,963)	8,963	(8,967)	(8,963)
Balance at 31 December 2018		**202,769**	**7**	**(8,963)**	**8,963**	**670**	**203,446**
Profit/(loss) for the period		-	-	-	-	(252)	(252)
Total other comprehensive income		**-**	**-**	**-**	**-**	**(252)**	**(252)**
Transfer to reserves		**-**	**482**	-	-	(482)	-
Total transactions with owners directly in equity		**-**	**482**	**-**	**-**	**(482)**	**-**
Balance at 31 December 2019	18	**202,769**	**489**	**(8,963)**	**8,963**	**(64)**	**203,194**

CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)		2019 Group	2018 Group	2019 Company	2018 Company
Cash flow from operating activities					
Cash generated from operations	23	78,856	66,125	(171)	(8,258)
Income tax paid		(9,151)	(5,804)	-	-
Interest paid		(3,053)	(3,557)	(41)	(72)
Net cash flow from operating activities		**66,652**	**56,764**	**(212)**	**(8,330)**
Cash flow from investing activities					
Purchase of property, plant and equipment		(13,893)	(50,851)	-	-
Purchase of intangible assets		(117)	(1,037)	-	-
Proceeds from disposal of property, plant and equipment		-	156	-	-
Dividends		-	-	-	40,338
Investment in subsidiaries		-	-	-	(14,000)
Treasury shares purchase		-	(31,581)	-	(31,581)
Loans granted		-	(33,000)	-	(5,000)
Loans collected		33,000	-	5,000	-
Interest received		391	463	39	91
Net cash from/(used) in investing activities		**19,381**	**(115,850)**	**5,039**	**(10,152)**
Cash flow from financing activities					
Proceeds from borrowings		12,000	63,500	-	5,000
Repayments of borrowings		(61,988)	(47,256)	(5,000)	-
Net cash from/(used) in financing activities		**(49,988)**	**16,244**	**(5,000)**	**5,000**
Net increase/(decrease) in cash and cash equivalents		**36,045**	**(42,842)**	**(173)**	**(13,482)**
		-	-	-	-
Cash and cash equivalents at beginning of year		9,920	52,762	493	13,975
Cash and cash equivalents at end of year	17	**45,965**	**9,920**	**320**	**493**

Accompanying notes form an integral part of these financial statements.

NOTE 1 – GENERAL INFORMATION

FTB Turizam Group consists of FTB Tourism d.d. (parent company) and subsidiaries. The headquarters of subsidiaries, the shares of the parent company in ownership and businesses are as follows:

Name	Share	Headquarters	Business
Hoteli Cavtat d.d.	100%	Cavtat, Hrvatska	hotels and hospitality
Hoteli Metropol d.o.o.	100%	Portorož, Slovenija	hotels and hospitality
Remisens d.o.o.	67%	Zagreb, Hrvatska	business consulting and management

Management Board and Supervisory Board

Management Board

Jasnica Juroš	Director (since 22 September 2018)

The President of the Management Board represent the Company solely and independently.

Supervisory Board
Tin Dolički, President of the Supervisory Board
Darko Ostoja, Vice president
Joško Marić, Member

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

Financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").
The financial statements have been prepared under the historical cost convention. These financial statements have been prepared under the assumption that the Company will be able to continue as a going concern.

The preparation of financial statements in conformity with IFRS adopted by the EU requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

These financial statements represent the unconsolidated and consolidated financial position and results of the Company or the Group. Where the information in the financial statements is relevant and applicable both for the Group and the Company we refer to the Group. If the information for Group and the Company are different, then both information for Group and the Company are separately presented.

These are the first set of the Group's and Company's annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in note *2.1.1. (Changes in accounting policies and disclosures).*

2.1.1 Changes in accounting policies and disclosures

IFRS 16- Leases

The Group has adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 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.

i. Leases in which the Group is a lessee

The Group recognised new assets and liabilities for its concession of maritime domain and lease of vehicles. The nature of expenses related to those leases the Group is recognising as the depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group does not expect the adoption of IFRS 16 to impact its ability to comply with the loan covenant.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1.1 Changes in accounting policies and disclosures (continued)

IFRS 16- Leases *(continued)*

The Group applies IFRS 16 from 1 January 2019, using the modified retrospective approach.

Details of changes in accounting policies are set out below. Also, the disclosure requirements of IFRS 16 do not generally apply to comparative information.

A. Definition of lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in the notes.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Group has contracts for the lease of vehicles and leases of maritime assets (hereinafter referred to as concessions). The Group 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 Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

i. Leases classified as operating leases under IAS 17

Previously, the Group classified vehicles leases and leases of maritime assets 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 Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application: the Group applied this approach to all other leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets should be impaired.

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

- 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;
- did not recognise right-of-use assets and liabilities for leases of low value assets

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1.1 Changes in accounting policies and disclosures (continued)

IFRS 16- Leases *(continued)*

- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

ii. Leases classified as finance leases under IAS 17

The Group does not have leases classified as finance leases under IAS 17.

C. As a lessor

The Group leases out its investment property. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

D. Impact on financial statements

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

(in thousands of HRK)	**1 January 2019**
Right of use assets	
Concession of maritime domain	790
Vehicles	95
	885
Lease liabilities	
Current portion	296
Non-current portion	562
	858

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 1.68% based on loan interest rates in the Group..

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

The purchase method is used to report the acquisition of subsidiaries. Acquired recognizable assets, liabilities and contingent liabilities in the business combination are initially measured at fair value at the date of acquisition, irrespective of the non-controlling interest. The Group recognizes non-controlling interest in the acquired company by proportional share of the non-controlling interest in the net assets of the acquired company.

The transferred benefit for the acquired company is measured at the fair value of the transferred assets, issued equity instruments and liabilities incurred or assumed, including the fair value of the assets or liabilities from potential benefits, but excludes acquisition costs such as advisory, legal services, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuance of equity securities are deducted from equity; transaction costs incurred for the issue of debt as part of a business combination are deducted from the carrying amount of the debt and all other transaction costs related to the acquisition are recognized as an expense.

b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Group's entities operate ("the functional currency"). The financial statements are presented in Croatian kuna (HRK), which is the Company's functional and Group's 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 comprehensive income within "Finance income/costs".

Foreign exchange gains and losses relating to borrowings and cash and cash equivalents are recorded in the statement of comprehensive income within "Net finance costs". All other foreign exchange losses and gains are recorded in the statement of comprehensive income within "Finance income/costs".

(c) Member of the Group

The business results and the financial position of all the members of the Group whose functional currency differs from the reporting currency are translated into the reporting currency as follows:

(i) assets and liabilities for each balance sheet are translated at the closing exchange rate at the balance sheet date;
(ii) the income and expenses for each profit and loss account are translated at annual average rates; and
(iii) all foreign exchange gains arising are recognized at a separate position within the equity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Property, plant and equipment and investment property

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Investment property include property that is held for long-term rental yields or appreciation or for both purposes. Built-in equipment is considered an integral part of investment property. The cost of the purchase includes all costs directly attributable to the acquisition of that property.

Buildings that are an integral part of investment property are valued at cost less accumulated depreciation and impairment. Land that form an integral part of the investment property is valued at cost less impairment losses.

Subsequent costs are 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. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of replacement of larger items of property, plant and equipment is capitalised, and the carrying amount of the replaced part is derecognised.

Land, artwork 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 over their estimated useful lives, as follows:

Buildings (hotels)*	10-17 years
Plant and equipment	4 years
Hotel and office furniture	4-5 years

* Average estimated useful lives are determined on the basis of the estimated useful lives of individual building components.

Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant. The assets' 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.

2.4.1. Investment property

Investment property, principally comprising business premises, is held for long-term rental yields or appreciation and is not occupied by the Group. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment, where required. Investments in progress are not depreciated. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiary is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Other intangible assets

Intangible assets comprising investments in technical documentation and the value of computer software licences are stated at cost. These costs are amortised over their estimated useful lives of 5 years. Assets under construction are not amortised.

2.6 Investments in subsidiaries - Company

Impairment of investments in subsidiaries

The net carrying amount of investments in subsidiaries and associates is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income.

2.7 Financial assets

2.7.1 Classification

Trade and other receivables and loans granted that were classified as loans and receivables under IAS 39 are now in accordance with IFRS 9 classified at amortised cost.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument. The unwinding of discount in future periods is recognised as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

2.7.2 Measurement and recognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are recognised initially at fair value, plus transaction costs incurred. 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 all substantial risks and rewards of ownership. Available-for-sale financial assets are subsequently measured at fair value.

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

2.7.3 Impairment of non derivative financial assets

Financial instruments

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost;

The Group measures loss allowances at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group 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 Group's historical experience and informed credit assessment and including forward-looking information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 360 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or

- lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

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 Group expects to receive).

ECLs are discounted at the effective interest rate of the financial assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

2.7.3 Impairment of non derivative financial assets (*continued*)

Credit-impaired financial assets

At each reporting date, the Group 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being significantly past due;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 360 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

2.8 Inventories

Inventories of food, beverages and trade goods are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment.

2.10 Cash and cash equivalents

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Leases

The Group has 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 accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group 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 Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

— fixed payments, including in-substance fixed payments;

— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

— amounts expected to be payable under a residual value guarantee; and

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Leases (continued)

i. As a lessee (continued)

— the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in separate line items in the statement of financial position.

Short-term leases and leases of low-value assets

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

ii. As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Leases (continued)

ii. As a lessor (continued)

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other revenue’.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019

Leases where the significant portion of risks and rewards of ownership are not retained by the Group are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Assets leased out under operating leases are included in “Property, plant and equipment” in the statement of financial position. Assets are depreciated on the straight-line basis equal to other property and equipment. Rental income is recognised over the period of the lease using the straight-line method.

2.12 Share capital

Ordinary shares are classified as equity. Gains directly attributable to the issue of new shares are shown in equity as a deduction, net of transactions costs and income tax, from the proceeds.

2.13 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Borrowings are classified as current liabilities, unless the Group and the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In that case the tax is recognised directly in equity. The current income tax charge is calculated at a rate of 18% according to Croatian laws and regulations. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions, where appropriate, on the basis of amounts expected to be paid to the Tax Administration.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, the deferred 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 or loss.

Deferred tax assets and liabilities are 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 tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits falling due more than 12 months after the reporting date are discounted to their present value.

(c) Short-term employee benefits

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Group recognises liabilities for accumulated compensated absences based on unused vacation days at the reporting date, as well as labour hours realised from the reorganisation of working hours not utilised up to the balance sheet date.

(d) Long-term employee benefits

The Group recognises a provision for jubilee awards and termination benefits where contractually obliged or where there is a past practice that has created a constructive obligation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions for future operating losses are not recognised.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Government grants

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received. Consequently, the Group does not recognise government grants until there is reasonable assurance that the Group will comply either the conditions attaching to them, and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable. Grants related to tangible assets are recognised in profit or loss over the periods and in the proportions in which depreciation on those assets is recognised. In the statement of financial position, government grant is recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asses.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in hotels and apartments, campsites and restaurants of the Group. Revenue is shown net of value-added tax.
The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group’s activities as described below.

(a) Sales of services

The Group sells hotel and tourism services. These services are provided based on fixed-price contracts. Revenues from hotel and tourism services are recognised over time when the services are provided. The Group offers to its customers food and beverages in hotel rooms as well as in hotel restaurants. Revenues are recognized when services are provided at the point of time. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

2.21 Value added tax

Is recognised and disclosed in the balance sheet on a net basis. Where receivables have been impaired for the purpose of adjustment, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-maker is the Group's Management Board which is in charge of managing hotel and tourist facilities and contents.

2.23 Standards issued but not yet effective

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of Business (Amendments to IFRS 3)
- Definition of Materiality (Amendments to IAS 1and IAS 8)

2.24 Determination of fair values

A number of the Group 's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and finance department in relation to the monitoring of all significant fair value measurements, consultation with external experts and the responsibility to report, with respect the above, to those charged with corporate governance.

Fair values are measured using information collected from third parties in which case the Board and the finance department 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 level in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Determination of fair values (continued)

- Level 1 – quoted prices (unadjusted) 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, pricing service, 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.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Company does not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Group’s Management Board.

The accounting policies for financial instruments have been applied to the line items below:

(in thousands HRK)	**31 December 2019 Group**	**31 December 2018 Group**	**31 December 2019 Company**	**31 December 2018 Company**
Assets at the balance sheet date - at amortised cost				
Loans and receivables				
Trade and other receivables	16,458	7,899	-	73
Loans given to related parties	-	33,000	-	5,000
Cash and cash equivalents	45,965	9,920	320	493
	62,423	**50,819**	**320**	**5,566**
Other long-term assets	142	143	-	-
	62,565	**50,962**	**320**	**5,566**
Liabilities at the balance sheet date - at amortised cost				
Trade and other payables	25,232	12,088	91	82
Lease liabilities	2,809	-	-	-
Borrowings	122,208	172,151	-	5,000
	150,249	**184,239**	**91**	**5,082**

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro (EUR). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The majority of foreign sales revenues and long-term debt is denominated in EUR. Therefore, movements in exchange rates between the euro and kuna may have an impact on the results of future operations and future cash flow.

Group	**31 December 2019**			**31 December 2018**		
(in thousands of HRK)	**EUR**	**HRK**	**Total**	**EUR**	**HRK**	**Total**
Financial assets						
Trade and other receivables	10,523	5,935	16,458	4,471	3,428	7,899
Cash and cash equivalents	8,836	37,129	45,965	7,882	2,038	9,920
Other assets	-	142	142	-	143	143
Financial liabilities						
Trade and other payables	701	24,531	25,232	5,767	6,321	12,088
Lease liabilities	-	2,809	2,809	-	-	-
Borrowings	89,725	32,483	122,208	134,651	37,500	172,151
Net exposure	**(71,067)**	**(16,617)**	**(87,684)**	**(128,065)**	**(38,212)**	**(166,277)**

Company	**31 December 2019**			**31 December 2018**		
(in thousands of HRK)	**EUR**	**HRK**	**Total**	**EUR**	**HRK**	**Total**
Financial assets						
Trade and other receivables	-	-	-	-	-	-
Loans given to related parties	-	-	-	-	5,000	5,000
Cash and cash equivalents	-	320	320	-	493	493
Financial liabilities						
Trade and other payables	-	91	91	-	57	57
Borrowings	-	-	-	-	5,000	5,000
Net exposure	**-**	**229**	**229**	**-**	**436**	**436**

As at 31 December 2019, if the euro had weakened/strengthened by 1% (2018: 1%), with all other variables held constant, the Group's net profit for the year would have been HRK 711 thousand higher/lower (2018: HRK 1,281 thousand higher/lower), mainly as a result of foreign exchange gains /losses on translation of EURO-denominated borrowings and foreign cash funds. EUR foreign exchange rate as at 31 December 2018 was HRK 7.442580 per 1 EURO (2018: 7.417575).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group has interest-bearing short-term cash deposits which are contracted at variable rates and expose the Group to risk of changes in interest rates. This risk is not significant given the low interest rates. The interest rate for time deposits for the Group was set at 0.01%-0.6%. (2018: 0.03%-0.85%).

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. As at 31 December 2019, the borrowings contracted at variable interest rates amount to HRK 123,988 thousand (2018: 134,651 thousand). The interest rates on borrowings from the banks are 3M EURIBOR plus 1.50% to 2.15%.

As at 31 December 2019, if interest rates on borrowings with variable interest rates had been 0.5 % lower/higher (2018: 0.5% lower/higher), with all other variables held constant, the Group's net profit for the year would have been HRK 611 thousand higher/lower (2018: HRK 673 thousand).

(iii) Price risk

As at 31 December 2019, the Group did not had investment in equity securities and was not exposed to price risk. The Group is not significantly exposed to commodity price risk.

(b) Credit risk

The maximum exposure of the Group to credit risk as at the reporting date:

As at 31 December 2019 (in thousands HRK)	**Net carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Assets non-interest bearing						
Other receivables	3,353	3,353	3,353	-	-	-
Trade receivables	13,105	13,105	13,105	-	-	-
	16,458	16,458	16,458	-	-	-
Assets bearing interest						
Cash and cash equivalents	45,965	45,965	45,965	-	-	-
	45,965	45,965	45,965	-	-	-
	62,423	**62,423**	**62,423**	**-**	**-**	**-**

As at 31 December 2018 (in thousands HRK)	**Net carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Assets non-interest bearing						
Other receivables	3,033	3,033	3,033	-	-	-
Trade receivables	4,866	4,866	4,866	-	-	-
	7,899	7,899	7,899	-	-	-
Assets bearing interest						
Loans given and deposits	33,000	33,375	33,375	-	-	-
Cash and cash equivalents	9,920	9,920	9,920	-	-	-
	42,920	43,295	43,295	-	-	-
	50,819	**51,194**	**51,194**	**-**	**-**	**-**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The credit quality of the Group's and Company's exposure is as follows:

	Group			Company		
(in thousands of HRK)	**Trade receivables**	**Cash and cash equivalents**	**Total**	**Trade receivables**	**Cash and cash equivalents**	**Total**
2019						
Neither past due nor impaired	1,621	45,965	**47,586**	-	320	**320**
Past due but not impaired	11,484	-	**11,484**	-	-	-
Past due and impaired	3,851	-	**3,851**	-	-	-
Impairment	(3,851)	-	**(3,851)**	-	-	-
	13,105	45,965	**59,070**	-	320	**320**

	Group			Company		
(in thousands of HRK)	**Trade receivables**	**Cash and cash equivalents**	**Total**	**Trade receivables**	**Cash and cash equivalents**	**Total**
2018						
Neither past due nor impaired	154	9,920	**10,074**	-	-	-
Past due but not impaired	4,712	-	**4,712**	-	-	-
Past due and impaired	1,663	-	**1,663**	-	-	-
Impairment	(1,663)	-	**(1,663)**	-	-	-
	4,866	9,920	**14,786**	-	-	-

The Group deposits its cash at banks with the following credit ratings by Standard & Poor's:

	31 December 2019	31 December 2018	**31 December 2019**	31 December 2018
(in thousands of HRK)	**Group**	Group	**Company**	Company
Cash at bank				
BBB+	45,871	9,826	320	493
BBB-	-	94	-	-
Other or without rating	94	-	-	-
	45,965	**9,920**	**320**	**493**

The Group has policies that limit the amount of credit exposure to any financial institution. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Group's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers, i.e. natural persons). The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. Trade receivables are impaired when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been impaired to their recoverable amount. The Group's trade and other receivables are mainly secured by collaterals. The majority of impaired trade receivables is subject to legal proceedings. Both the outcome of the proceedings related to disputed receivables or the extent to which they will be collected cannot be anticipated with certainty.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Receivables past due but not impaired as at the balance sheet date have the following maturities:

	31 December 2019	31 December 2018	**31 December 2019**	31 December 2018
(in thousands of HRK)	**Group**	Group	**Company**	Company
Up to one month	1,134	384	-	-
One to two months	513	204	-	-
Two to three months	2,477	808	-	-
Over three months	7,360	2,608	-	-
	11,484	4,004	**-**	**-**

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available. The Management Board monitors available cash resources based on reports on the balance of cash and liabilities on a daily basis.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2019 (in thousands HRK)	**Net carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Liabilities non-interest bearing						
Other liabilities	20,630	20,630	20,630	-	-	-
Trade payables	4,602	4,602	4,602	-	-	-
	25,232	25,232	25,232	-	-	-
Liabilities bearing interest						
Lease liabilities	2,809	3,094	645	645	1,044	760
Borrowings	122,208	126,056	26,211	25,787	68,858	5,199
	125,017	129,150	26,856	26,432	69,902	5,959
	150,249	**154,382**	**52,088**	**26,432**	**69,902**	**5,959**

As at 31 December 2018 (in thousands HRK)	**Net carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Liabilities non-interest bearing						
Other liabilities	3,665	3,665	3,665	-	-	-
Trade payables	8,423	8,423	8,423	-	-	-
	12,088	12,088	12,088	-	-	-
Liabilities bearing interest						
Borrowings	172,151	179,384	61,346	23,007	66,711	28,320
	172,151	179,384	61,346	23,007	66,711	28,320
	184,239	**191,472**	**73,434**	**23,007**	**66,711**	**28,320**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Group's and Company's objectives when managing capital are to safeguard the Group's and Company's ability to continue as a going concern in order to provide returns for the owner and to maintain an optimal capital structure to reduce the cost of capital. In accordance with the Companies Act, the Company is committed to maintain the level of capital above HRK 200 thousand as required for public limited companies.

3.3 Fair value estimation

Fair value represents the amount at which an asset could be exchanged or a liability settled between knowledgeable and willing parties acting in their best interest.

The carrying amounts of current trade and other receivables and trade payables approximate their fair value. The carrying amount of borrowings approximates their fair value due to market interest rates on borrowings.

NOTE 4 – USE OF JUDGEMENTS AND ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under existing circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated useful life of property, plant and equipment

By using a certain asset, the Company uses the economic benefits contained in this asset, which diminish more intensely with economic and technological ageing. Consequently, in the process of determining the useful life of an asset, in addition to assessing the expected physical utilisation, it is necessary to consider the changes in demand on the tourist market, which will cause a faster economic obsolescence as well as a more intense development of new technologies. Current business operations in the hotel industry impose the need for more frequent investments, and this circumstance contributes to the fact that the useful life of an asset is decreasing.

The useful lives of property, plant and equipment will periodically be revised to reflect any changes in circumstances since the previous assessment. An analysis in prior periods performed determined that the existing depreciation rates do not reflect estimated useful life of these assets in the accounting records. Taking into account the current capacity utilisation and the assessment of assets used in future periods, and based on the experience with similar hotels and market practice, the remaining useful life of building components was changed to weighted average of 13 years.

The Group regularly assess useful lives of properties for new properties and significant reconstructions. Taking into consideration current capacity utilisation, estimation of property usage in the upcoming period, and based on experience with similar hotels and market practice, useful life of building components for renovated hotels was estimated at 17 years.

NOTE 4 – USE OF JUDGEMENTS AND ESTIMATES (continued)

(b) Land ownership

Problems with respect to land ownership disputes are common for tourism entities in the Republic of Croatia. Their resolution is expected in accordance with and pursuant to the provisions of the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process, which entered into force on 1 August 2010 and which mandated companies to submit the relevant requirements under this Act within six months from the date of its entry into force (up to 1 February 2011). On 28 January 2011, regulations were issued elaborating in more detail the manner of complying with the above Act. On 31 January 2011, the Company submitted the relevant requirements to the relevant authorities in respect of the property on which the above-mentioned law can be applied. Until the date of this financial statements, nine disputes have been finalised, out of which eight are legally binding in favour of the Group.

The outcome of these proceedings is not expected to have a significant impact on the financial position or results of the Group.

(c) Going concern

The financial statements have been prepared on the going concern basis. Due to the COVID-19 pandemic, current and expected levels of operating results and cash flows from operations will not be sufficient to meet current liabilities, the Group's ability to continue as a going concern may depend on support from the Government of the Republic of Croatia and Slovenia through measures to assist the economy and the financial support from banks as explained in Note 26 *Events after the reporting date*.

The Management confirms the uncertainty surrounding the Group's ability to repay bank loans and settle liabilities when they fall due. However, by taking all of the above measures as set out in Note 26 *Events after the reporting date*, and adapting the business to future developments together with planning additional measures the Management believes that it will be able to maintain the Group's liquidity in the upcoming period.

The Management believes that the preparation of financial statements on a going concern basis is still appropriate. However, the specific and negative scenario related to events after the reporting date explained in more detail above and in Note 26 *Events after the reporting date* indicates that material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

NOTE 5 – SEGMENT INFORMATION

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group's Management, the chief operating decision-maker, which is responsible for allocating resources to the reportable segments and assessing its performance.

The Group records its operating revenue and costs by the type of services rendered in two basic segments: Croatia and Slovenia.

The segment information for the year ended 31 December 2019 is as follows:

2019

(in thousands of HRK)	**Croatia**	**Slovenia**	**Total**
Total sales	109,077	75,122	184,199
Inter-segment revenue	-	-	-
Revenue from external customers	109,077	75,122	184,199
Gross operating profit ("GOP")	52,513	25,651	78,164
Depreciation and amortisation	25,198	16,469	41,667
Income tax	3,762	1,693	5,455
Total assets	204,153	188,891	393,044
Total liabilities	119,011	42,002	161,013

2018

(in thousands of HRK)	**Croatia**	**Slovenia**	**Total**
Total sales	108,432	72,563	180,995
Inter-segment revenue	(726)	-	(726)
Revenue from external customers	107,706	72,563	180,269
Gross operating profit ("GOP")	56,191	26,570	82,761
Depreciation and amortisation	28,643	16,134	44,777
Income tax	4,318	1,740	6,058
Total assets	211,766	229,766	441,532
Total liabilities	150,522	45,489	196,011

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of segment assets and liabilities:

	31 December 2019		31 December 2018	
(in thousands of HRK)	**Assets**	**Liabilities**	Assets	Liabilities
Segment assets/liabilities	393,044	161,013	441,532	196,011
Unallocated:	46,751	11,309	10,706	15,362
- cash and cash equivalents	45,965	-	9,920	-
- income tax receivable	-	-	-	-
- deferred tax assets	786	-	786	-
- income tax liabilities	-	331	-	3,011
- deferred tax liabilities	-	10,203	-	11,219
- provisions	-	775	-	1,132
Total	**439,795**	**172,322**	452,238	211,373

NOTE 6 – REVENUE

Revenue streams

The Company generates revenue primarily from the accommodation services, food and beverages sales and provision of ancillary hotel services to its customers.

(in thousands of HRK)	**2019**	**2018**
Revenue from hotel services		
Individual guests	43,550	43,657
Groups	18,260	21,778
Allotment	102,665	95,688
MICE	1,815	2,421
	166,290	**163,544**
Revenue from ancillary services		
Food and beverages - other than hotel guests	6,283	6,375
Revenue from services rendered to hotel guests	3,561	3,612
Other revenue	8,065	6,738
	17,909	**16,725**
Total sales revenue	**184,199**	**180,269**

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

(in thousands of HRK)	**2019**	**2018**
Revenue from domestic sales	16,317	17,452
Revenue from foreign sales	167,882	162,817
	184,199	**180,269**

NOTE 6 – REVENUE (continued)

Foreign sales	2019	%	2018	%
Germany	14,975	9	12,975	8
Austria	15,689	9	21,142	13
Italy	14,710	9	15,068	9
United Kingdom	38,630	23	36,385	22
Russia	2,126	1	1,925	1
France	28,465	17	21,701	13
Other EU members*	35,184	21	30,156	19
Other*	18,103	11	23,465	15
	167,882	**100**	**162,817**	**100**

*None of the individual customers' share in sales exceeds 10%.

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer. Details on revenue recognition are disclosed in Note 2.19.

NOTE 7 – COST OF MATERIALS AND SERVICES

(in thousands of HRK)	**2019 Group**	**2018 Group**	**2019 Company**	**2018 Company**
Food, beverages and other supplies	22,597	22,441	-	-
Energy and water used	8,868	8,843	-	-
	31,465	**31,284**	**-**	**-**
Maintenance costs	1,312	1,967	1	1
Advertising and promotion	889	880	-	-
Laundry services	4,091	4,187	-	-
Utility services	3,044	2,481	-	-
Rental expenses	394	470	3	3
Other expenses	5,962	3,042	115	439
	15,692	**13,027**	**119**	**443**
	47,157	**44,311**	**119**	**443**

NOTE 8 – STAFF COSTS

(in thousands of HRK)	**2019 Group**	**2018 Group**	**2019 Company**	**2018 Company**
Net salaries and wages	24,828	30,521	-	7,130
Tax expense and contributions from salaries	8,162	10,109	-	2,402
Contributions on salaries	5,013	5,135	-	-
	38,003	**45,765**	**-**	**9,532**
Number of employees	341	325	-	-

NOTE 9 – OTHER OPERATING EXPENSES

(in thousands of HRK)	**2019 Group**	**2018 Group**	**2019 Company**	**2018 Company**
Bank charges and membership fees	406	534	2	111
Utility and similar fees	3,906	2,632	2	1
Other staff costs /i/	7,109	5,973	-	-
Insurance premiums	851	846	-	-
Professional services	2,214	2,158	127	64
Write-off of property, plant and equipment and intangible	214	151	-	-
Agency services	4,315	5,217	-	-
Other expenses	3,453	4,266	-	-
Other	918	834	-	-
	23,386	**22,611**	**131**	**176**

/i/ Other staff costs comprise termination benefits, compensations for transportation costs, remunerations for temporary services, jubilee awards, etc.

Other expenses mainly comprise of student costs, recharged costs, entertainment, etc.

NOTE 10 – NET FINANCE INCOME/ (COSTS)

(in thousands of HRK)	**2019 Group**	**2018 Group**	**2019 Company**	**2018 Company**
Finance income				
Interest income	287	463	39	91
Dividend income	-	-	-	40,338
Net foreign exchange gains	391	1,812	-	-
	678	**2,275**	**39**	**40,429**
Finance costs				
Interest expense	2,688	3,557	41	72
Net foreign exchange losses	489	353	-	-
	3,177	**3,910**	**41**	**72**
Net finance income / (costs)	**(2,499)**	**(1,635)**	**(2)**	**40,357**

Interest expense for 2018 for the Group and the Company, includes cost of unwinding of discount for provision for management bonuses of HRK 1,206 thousand.

NOTE 11 – INCOME TAX

(in thousands of HRK)	**2019 Group**	**2018 Group**	**2019 Company**	**2018 Company**
Current tax expense	(6,471)	(7,071)	-	-
Deferred tax income				
Reversal of temporary differences	1,016	1,013	-	-
Tax expense	**(5,455)**	**(6,058)**	**-**	**-**

Deferred tax assets and liability is shown below:

	Assets		**Liabilities**		**Net**	
(in thousands of HRK)	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Property, plant and equipment	-	-	**(10,203)**	(11,219)	**(10,203)**	(11,219)
Other	**786**	786	-	-	**786**	786
	786	786	**(10,203)**	(11,219)	**(9,417)**	(10,433)

The other relates to temporary differences arising from the impairment of equity securities and other assets.

NOTE 11 – INCOME TAX (continued)

(in thousands of HRK)	**31 December 2018**	Recognized in profit or loss	**31 December 2019**
Property, plant and equipment	**(11,219)**	1,016	**(10,203)**
Other	**786**	-	**786**
Total	**(10,433)**	1,016	**(9,417)**

The tax on the Group's and Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 18% . The reconciliation of the tax expense per the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

(in thousands of HRK)	**2019 Group**	**2018 Group**	**2019 Company**	**2018 Company**
Profit/(loss) before tax	30,462	22,907	(252)	30,206
Tax rate of 18%	5,483	4,123	(30)	5,437
Non-deductible expenses	25	83	-	-
Tax exempt income	(56)	-	-	(7,261)
Effect of previously unrecognised tax losses	-	(12)	-	-
Prior period restatement (Note 2.1.2)	-	(3,727)	-	(3,727)
Tax losses not recognised as deferred tax asset	30	5,551	30	5,551
Tax relief	(117)	(29)	-	-
Effect of different tax rates	90	69	-	-
Income tax	5,455	6,058	-	-
Effective tax rate	17.9%	26.4%	0.0%	0.0%

As of 31 December 2019 carried forward tax losses of HRK 5,581 thousand with expiry in 2023 (2018: HRK 5,551 thousand) have not been recognised as deferred tax assets since it is not probable that they will be utilised.

In accordance with local regulations, the Tax Administration may at any time inspect the Group's books and records within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's Management Board is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 12 – EARNINGS PER SHARE (basic and diluted)

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares. Share capital of the Company as at 31 December 2019 comprises 302,641 ordinary shares *(31 December 2018: 302,641).*

NOTE 12 – EARNINGS PER SHARE (basic and diluted) (continued)

Diluted

Diluted earnings per share is equal to basic earnings per share, since the Group did not have any convertible instruments nor share options outstanding.

	2019	2018
	Group	**Group**
Profit for year (in thousands of HRK)	24,892	16,734
Weighted average number of shares (basic and diluted)	302,641	302,641
Earnings per share (basic and diluted) *(in HRK)*	82.25	55.29

NOTE 13.1 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

(in thousands of HRK)	Land	Buildings	Equipment	Assets under construction	Investment property	Artwork	Total
As at 31 December 2017							
Cost	99,562	737,626	38,232	7,474	18,463	83	901,440
Accumulated depreciation	-	(493,357)	-	-	(13,105)	-	(506,462)
Net carrying amount	**99,562**	**244,269**	**38,232**	**7,474**	**5,358**	**83**	**394,978**
For the year ended 31 December 2018							
Opening net carrying amount	99,562	244,269	38,232	7,474	5,358	83	394,978
Additions	-	3,417	3,142	41,167	-	-	47,726
Disposals and write offs	-	(6)	(142)	-	-	-	(148)
Transfer	-	21,477	19,843	(41,320)	-	-	-
Depreciation	-	(27,659)	(16,743)	-	(313)	-	(44,715)
Foreign exchange differences	(423)	(4,364)	(249)	(1,149)	(153)	(1)	(6,339)
Closing net carrying amount	**99,139**	**237,134**	**44,083**	**6,172**	**4,892**	**82**	**391,502**
As at 31 December 2018							
Cost	99,139	769,183	131,707	6,172	17,945	82	1,024,228
Accumulated depreciation	-	(532,049)	(87,624)	-	(13,053)	-	(632,726)
Net carrying amount	**99,139**	**237,134**	**44,083**	**6,172**	**4,892**	**82**	**391,502**
For the year ended 31 December 2019							
Opening net carrying amount	99,139	237,134	44,083	6,172	4,892	82	391,502
Additions	-	1,014	4,323	8,556	-	-	13,893
Disposals and write offs	-	-	(177)	-	-	-	(177)
Transfer	-	-	3,071	(3,071)	-	-	-
Depreciation	-	(22,731)	(17,785)	-	(313)	-	(40,829)
Foreign exchange differences	49	440	98	40	15	-	642
Closing net carrying amount	**99,188**	**215,857**	**33,613**	**11,697**	**4,594**	**82**	**365,031**
As at 31 December 2019							
Cost	99,188	770,637	139,022	11,697	17,960	82	1,038,586
Accumulated depreciation	-	(554,780)	(105,409)	-	(13,366)	-	(673,555)
Net carrying amount	**99,188**	**215,857**	**33,613**	**11,697**	**4,594**	**82**	**365,031**

As at 31 December 2019, land and buildings in the amount of HRK 197,114 thousand (2018: HRK 118,819 thousand) have been pledged as collateral for the repayment of borrowings (Note 19).

The land surface included in the Group's records as at 31 December 2019 comprised 188,837 m^2 (*2018: 188,837 m^2*) and together with the respective buildings has a net carrying value of HRK 315,045 thousand (*2018: HRK 344,618 thousand*).

NOTE 13.1 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (continued)

Of the total land surface, a surface of 16,722 m^2 (*2018: 16,722 m^2*) are not legally owned by the Company (according to land registry data), while 172,115 m^2 (*2018: 172,115 m^2*) is legally owned by the Company.

Asset under construction refers to investment in project documentation for Hotel Bel Moreto, part of Hotel Metropol, and project documentation and preparatory works for Hotel Albatros.

As at 31 December 2019, investment property is without pledge. The Group has estimated the value of investment property and considers that the carrying amounts are equal to their fair value.

The operating lease relates to the lease of hospitality facilities and stores. During 2019, the Group realised rental income in the amount of HRK 1,111 thousand (2018: HRK 1,238 thousand).

The aggregate lease payments receivable from operating leases is as follows:

(in thousands of HRK)	**2019**	**2018**
Up to 1 year	599	642
Between 2 and 5 years	1,092	1,263
Over 5 years	877	872
	2,568	**2,777**

In 2019, there were no contingent rents recognised as income in the statement of comprehensive income. Lease agreements have been concluded for a period from 1 to 3 years (mainly 3 years) and are renewable at the end of the lease period at market prices, i.e. the best bidder is selected after publishing the invitation to tender.

NOTE 13.2 - RIGHT OF USE OF ASSETS

Below is an overview of lease-related information where the Company is a lessee.
The statement of financial position shows the amounts for leases as follows:

(in thousands of HRK)	**Concessions**	**Vehicles**	**Total**
Year ended 31 December 2019			
Opening net carrying amount	790	95	885
Additions	1,750	679	2,429
Depreciation	(293)	(53)	(346)
Closing net carrying amount	**2,247**	**721**	**2,968**

(in thousands of HRK)	**31 December 2019**
Lease liabilities	
Current portion	601
Non-current portion	2,208
	2,809

NOTE 13.2- RIGHT OF USE OF ASSETS (continued)

The statement of comprehensive income presents the amounts for leases as follows:

(in thousands of HRK)	**2019**
Depreciation of assets with right of use	
Concessions of maritime domain	(293)
Vehicles	(53)
	(346)
Interest expense (included in financial expenses)	**18**

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	**Goodwill**	**Other intangible assets**	**Total**
For the year ended 31 December 2018			
Opening net carrying amount	4,708	1,685	6,393
Additions	-	1,037	1,037
Disposal	-	(3)	(3)
Depreciation	-	(62)	(62)
Foreign exchange differences	-	(248)	(248)
Closing net carrying amount	**4,708**	**2,409**	**7,117**
As at 31 December 2018			
Cost	5,136	3,519	8,655
Accumulated depreciation and impairment	(428)	(1,110)	(1,538)
Net carrying amount	**4,708**	**2,409**	**7,117**
For the year ended 31 December 2019			
Opening net carrying amount	4,708	2,409	7,117
Additions	-	117	117
Disposal	-	(20)	(20)
Depreciation	-	(492)	(492)
Foreign exchange differences	-	-	-
Closing net carrying amount	**4,708**	**2,014**	**6,722**
As at 31 December 2019			
Cost	5,136	3,616	8,752
Accumulated depreciation and impairment	(428)	(1,602)	(2,030)
Net carrying amount	**4,708**	**2,014**	**6,722**

Goodwill refers to investment in Hoteli Metropol d.o.o. The Group annually tests the goodwill for impairment by using the discounted cash flow method of a related entity that generates cash flows. These calculations use cash flow projections based on financial projections. The pre-tax discount rate of 8.54% (2018:*8.54%)*was used and growth rate of 1% (2018:*1%*) which reflect specific risks relating to the relevant segment (hotels) as a result of impairment test performed, the Group did not incur goodwill impairment.

NOTE 15 - INVESTMENTS IN SUBSIDIARIES

	2019	**2018**
(in thousands of HRK)	**Company**	**Company**
Investment in Hoteli Cavtat d.d.	202,962	202,962

Hoteli Cavtat has 100% ownership in Hoteli Metropol d.o.o. and 33% in Remisens Hotel Group d.o.o.

Hoteli Metropol d.o.o. has 33% share in Remisens Hotel Group d.o.o. The Group has effective interest of 66% in Remisens Hotel Group d.o.o.

NOTE 16 – TRADE AND OTHER RECEIVABLES

	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
(in thousands of HRK)	**Group**	**Group**	**Company**	**Company**
Trade receivables	16,956	6,529	-	-
Impairment of trade receivables	(3,851)	(1,663)	-	-
Trade receivables - net	13,105	4,866	-	-
Receivables from employees and members of the Company	298	458	-	-
State and other receivables	2,802	1,923	-	73
Other receivables	253	652	-	-
	16,458	**7,899**	**-**	**73**

Movements in the impairment of trade and other receivables are as follows:

	2019	**2018**	**2019**	**2018**
(in thousands of HRK)	**Group**	**Group**	**Company**	**Company**
As at 1 January	1,663	990	-	-
Increase	2,484	758	-	-
Write off	(296)	(85)	-	-
As at 31 December	**3,851**	**1,663**	**-**	**-**

NOTE 17 – CASH AND CASH EQUIVALENTS

	2019	2018	2019	2018
(in thousands of HRK)	Group	Group	Company	Company
Deposits up to 90 days	1,802	1,271	-	-
Foreign currency accounts	8,768	4,478	-	-
Cash in hand	69	52	-	-
Giro-accounts	35,326	4,119	320	493
	45,965	**9,920**	**320**	**493**

During the term of the deposit, the Group and the Company may call the funds with a prior notification of three days.

NOTE 18 – SHARE CAPITAL AND RESERVES (basic/diluted)

Share capital

As at 31 December 2019, the Company's share capital amounted to HRK 202,769 thousand (2018: HRK 202,769 thousand) and comprises 302,641 ordinary shares with a nominal value of HRK 670 per share (2018: HRK 670 per share). Ordinary shares have equal voting rights and rights to receive dividend.

The ownership structure as at 31 December 2019 was as follows:

	Number of shares	HRK	%
SNH Gama d.d.	184,782	123,803,940	61.06%
SN Pectinatus d.d.	75,660	50,692,200	25.00%
CERP Republic of Croatia	8,589	5,754,630	2.84%
Others	33,610	22,518,700	11.11%
	302,641	202,769,470	100%

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

	Number of shares	HRK	%
SNH Gama d.d.	187,189	125,416,630	61.85%
SN Pectinatus d.d.	75,660	50,692,200	25.00%
CERP Republic of Croatia	11,289	7,563,630	3.73%
Small shareholders	28,503	19,097,010	9.42%
	302,641	202,769,470	100%

Legal reserves

Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until total reserves together with the capital reserves reach 5% of the Group's share capital. Legal reserves are not distributable.

Other reserves

Other reserves relate mainly to the reserves from the de-merger of the Liburnia Riviera Hoteli d.d. and FTB Turizam d.d. and transfers from retained earnings The remainder refers to foreign exchange differences arising from the consolidation of a foreign subsidiary and amounts to HRK 4,106 thousand at 31 December 2019 (31 December 2018: HRK 5,707 thousand).

NOTE 18 – CAPITAL AND RESERVES (continued)

Treasury shares

As at 31 December 2019, the Company had 4,485 of own shares carried at cost in the amount of HRK 8,963 thousand (2018: HRK 8.963 thousand). The Company created reserve for treasury shares from retained earnings in the same amount.

Non-controlling interest

The following table summarizes the information relating to the members of the Group's subsidiary that has non-controlling interests.

Remisens Hotel Group d.o.o.

(in thousands of HRK)	**31 December 2019**	**31 December 2018**
% of non-controlling interest (%)	33.3%	33.3%
Current assets	1,729	1,421
Non-current assets	991	990
Current liabilities	(15)	(55)
Net assets	**2,705**	**2,356**
Net assets attributable to non-controling interest	902	785
Profit for the year	349	350
Profit attributable to non-controlling interest	115	115
Cash flows from operating activities	288	347
Cash flows from investment activities	-	-
Cash flows from financing activities	-	-
Net increase in cash and cash equivalents	**288**	**347**

NOTE 19 – BORROWINGS

(in thousands of HRK)	**31 December 2019 Group**	**31 December 2018 Group**	**31 December 2019 Company**	**31 December 2018 Company**
Non-current liabilities				
Secured bank loans	97,544	113,062	-	-
	97,544	**113,062**	**-**	**-**
Current liabilities				
Secured bank loans	24,664	21,589	-	-
Related party loans	-	37,500	-	5,000
	24,664	**59,089**	**-**	**5,000**

Loans are payable as follows:

(in thousands of HRK)	**31 December 2019 Group**	**31 December 2018 Group**	**31 December 2019 Company**	**31 December 2018 Company**
Up to 1 year	24,664	59,089	-	5,000
Between 1 and 2 years	41,725	38,942	-	-
Between 2 and 5 years	35,724	45,618	-	-
Over 5 years	20,095	28,502	-	-
Total	122,208	172,151	-	5,000

NOTE 19 – BORROWINGS (continued)

Bank loans are denominated in EUR with effective interest rates at the reporting date are: 1.5% +6m Euribor -1.65%+ treasury note MF 91d (2018:1.55% - 1.66% + 3m Euribor).

Related party loans are denominated in Croatian kuna with fixed interest rate of 3.96%. Bank loans are secured by a mortgage over land and a building (Note 13).

Reconciliation of movement in borrowings to cash flow from financing activities:

(in thousands of HRK)	**2019 Group**	**2018 Group**	**2019 Company**	**2018 Company**
Borrowings				
As at 1 January	**172,151**	**157,257**	**5,000**	**-**
Proceeds from borrowings	12,000	63,500	-	5,000
Repayments of borrowings	(61,626)	(47,256)	(5,000)	-
Foreign exchange differences	(317)	(1,350)	-	-
As at 31 December	**122,208**	**172,151**	**-**	**5,000**

NOTE 20 – PROVISIONS

Group *(in thousands of HRK)*	Termination benefits and jubilee awards	Other provisions	Total provisions
As at 1 January 2019	822	310	1,132
Unused amounts reversed	(47)	(310)	(357)
As at 31 December 2019	**775**	**-**	**775**

NOTE 21 – TRADE AND OTHER PAYABLES

(in thousands of HRK)	**31 December 2019 Group**	**31 December 2018 Group**	**31 December 2019 Company**	**31 December 2018 Company**
Domestic trade payables	3,901	3,050	91	57
Foreign trade payables	701	615	-	-
Total trade payables	**4,602**	**3,665**	**91**	**57**
Due to employees	1,812	2,296	-	-
Taxes and contributions payable	809	684	-	-
Advances payable	16,198	3,734	-	-
Other liabilities	1,811	1,709	-	25
	20,630	**8,423**	**-**	**25**
Total trade and other payables	**25,232**	**12,088**	**91**	**82**

NOTE 22 – GOVERNMENT GRANTS

Grants relate to the financial resources which Hoteli Metropol d.d. acquired from Hotel Lucia in 2008. The grant is released annually in proportion to the amount of depreciation charged. Release of the entire grant is expected by the end of 2034.
Annual use of provisions in the statement of comprehensive income is recorded through the position of other operating income and in 2019 amounts to HRK 704 thousand (*2018: HRK 523 thousand*).

NOTE 23 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

(in thousands of HRK)	**Note**	**2019**	**2018**	**2019**	**2018**
		Group	**Group**	**Company**	**Company**
Profit/(loss) before tax		25,007	16,849	(252)	30,206
Adjustments for:		-	-	-	-
Depreciation and amortisation		41,667	44,777	-	-
Write-off of disposed property, plant and equipment		-	-	-	-
Gains on sale of property, plant and equipment		197	(5)	-	-
Provision for impairment of trade receivables – net (note 16)		2,188	673	-	-
Net finance income/(costs) (note 10)		2,499	1,635	2	(40,357)
Changes in provisions - net		(357)	26	-	-
Unrealized foreign exchange differences		959	(890)	-	-
Income tax		5,455	6,058	-	-
Changes in working capital:		-	-	-	-
- trade and other receivables		(10,851)	(1,270)	70	(72)
- inventories		148	(348)	-	-
- deferred income		(1,008)	(523)	-	-
- trade and other payables		12,952	(857)	9	1,965
Cash generated from operations		**78,856**	**66,125**	**(171)**	**(8,258)**

NOTE 24 – CONTINGENCIES AND COMMITMENTS

Legal disputes

The Group is involved in a number of legal disputes, both as defendant and as plaintiff, arising from the ordinary course of business. The Group considers that disputes will not result in financial losses for the Group.

Land ownership

Cadastral plot no. 1902 k.o. Obod with area of 3.937 m^2 and no. 1903 k.o. Obod, with area of 14,639 m^2, was incorporated into the Company's share capital of Hoteli Cavtat d.d., by decision of CFP no. 93-247/1 on 15 April 1996. The aforementioned land was taken away from large number of individuals in 1986 by the decision of the then Municipality of Dubrovnik and allocated for the right to use and dispose of or to build a tourist resort to the predecessor HTP Dubrovnik. During 1994, the Office for Property and Legal Affairs of the County Dubrovačko-neretvanska brought many decisions for returning confiscated properties to individuals. Likewise, a land registry procedure was conducted at the ordinary court for the registration of ownership rights and a decision was made to register ownership rights in favour of individuals, on the basis of which decision entry of the ownership rights is executed in favour of several individuals. Hoteli Cavtat d.d.initiated litigation in 2015 and filed 26 lawsuits to establish ownership rights in favour of Hoteli Cavtat d.d. against registered owners in land registers on the respective properties and on 1 March 2020 out of fourteen disputes, twelve have been finalised in favour of the Group and are legally binding and one is in favour of the Group but still not legally binding, and one is in favour of private person.

Capital commitments

As at 31 December 2019, there were no capital commitments of the Group with respect to investments in tourist facilities *(31 December 2018: zero*).

NOTE 25 – 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 under common control or if it has significant influence over the other party in making financial or operational decisions. As of 31 December 2019, the Company is controlled by SNH Gama d.d., which is an ultimate parent and controlling company. There were no significant changes in ownership structure compared to 31 December 2018.

Related party transactions at the year-end are as follows:

	Group		Company	
(u tisućama kuna)	**2019**	**2018**	**2019**	**2018**
Revenues:				
Related companies	441	331	39	64
Other operating expenses:				
Liburnia Riviera Hoteli	278	1,273	16	5
Bogdanović&Dolički&Partneri	90	115	-	64
	368	1,388	**16**	69
Trade and other payables:				
Liburnia Riviera Hoteli	32	250	1	19
Bogdanović&Dolički&Partneri	-	17.0	-	-
	32	**267**	**1**	**19**
Trade and other receivables:				
Liburnia Riviera Hoteli	**113**	-	-	-
Loans receivables:				
SN Pectinatus	-	33,000	-	5,000
Liabilities for loans:				
Liburnia Riviera Hoteli	-	37,500	-	5,000

In 2019, the Group has a total of 9 members of administrative, management and supervisory bodies (2018: 14 members). Fees for administrative, management and supervisory bodies in 2019 amount to HRK 1,026 thousand (2018: HRK 10,499 thousand) and relate to the gross salary, benefits and bonuses.
For the year 2018, compensation to management, includes bonus to the Director of HRK 9,532 thousand, which was paid out based on the decision of the Supervisory board.
Bonus was granted in shares and the total gross amount was HRK 30,238 thousand.

Emergence and spread of pandemic caused by coronavirus (COVID-19) will significantly affect operations of FTB Group member companies in upcoming period.
From the current situation and the information at our disposal, it is impossible to predict when certain countries will reach the peak of the infection and, consequently, calm. In the countries which are the largest emitting markets of the Group (UK, France, Italy) it is doubtful when the recovery will follow. But when this happens, it is doubtful when it will cease and when all the consequences of the pandemic will be overcome, both in Croatia and in the guest countries.

NOTE 26 – EVENTS AFTER THE REPORTING DATE

The measures that the Management Board has already taken and will take are conditional on the occurrence and development of this unforeseen external event, which, depending on the volume and duration, will have a material adverse effect on the Group's operations.
All of the above results in the cancellation of reservations and consequently the inability to open and operate hotels in Cavtat and Portorož.

The Group is taking steps to reduce the negative impact of the spread of coronavirus (COVID-19) on its operations.

Impact on the business performance of Hoteli Cavtat dd, Cavtat;

- The hotels were not opened in April according to the work plan
- Decisions of the institutions of the Republic of Croatia have prescribed restrictions on the movement of citizens.
- The Company will make a decision on the eventual commencement of operation or change of the opening date of the facility, depending on the further development of the situation caused by the spread of the coronavirus infection. At this point, it is increasingly likely that the facilities will not even open in the 2020 season.

Accordingly, the measures taken by the Company are as follows:

- In relation to the above, most of our workers do not work, and only some work from home. In order to preserve the Company's liquidity in the coming period, we reduced our operations to the so-called "cold drive".

- Most of the workers do not work and only some work from home. In order to preserve the liquidity of the Company in the coming period the business is reduced to "cold drive"
- Within the prescribed deadlines, an application was made for receiving subsidies from the Government of the Republic of Croatia, which are applicable to the activity of the company - hotel business.
    - The Company obtained a measure from the Croatian Employment Service to preserve jobs for the period from March to May for all employees,
    - The Company has requested a deferral of payment of all taxes and contributions for the next 3 months,
    - The Bank has reached a moratorium on credit obligations (principal + interest) for a 6 + 6 month period,
    - The Company is in the process of seeking liquidity loans from the Commercial Bank, the realization of which is expected during June 2020.
    - The Company has signed annexes to the employment contract with the Management and all employees
    - The Management of the Company continuously monitors the adoption of all measures by the Republic of Croatia relating to assistance to the economy and also uses all legal possibilities to reduce costs and will continue to do so in the future to protect the interests of the Company.

By taking all the above measures, the Company believes that it will be able to maintain its liquidity in the coming period.
Impact on the business performance of Hotel Metropol Ltd., Portorož, R. Slovenia:

NOTE 26 – EVENTS AFTER THE REPORTING DATE (continued)

- At Hotel Metropol d.o.o. at the year level, guests with Italian citizenship account for 22% of the total number of overnight stays, which has a significant negative impact on the Company, since Italy is one of the focal points.
- Due to the fact that the infection is spreading in Slovenia there is a large decline in domestic guests. There has also been a decline in the entry of new bookings or an increase in cancellations from other major markets in which the Company operates (for example: Austria, Germany).
- The decision of the authorities of the Republic of Slovenia prohibits the supply and sale of goods and services directly to consumers in the territory of the Republic of Slovenia. This includes accommodation, catering, wellness, sports and recreation, cinematic, cultural, hairdressing, cosmetic and pedicure services, as well as gambling and other similar activities.
- All Company facilities are currently closed.
- Other countries, with the aim of suppressing infection, impose restrictions on the movement of their citizens, and the continuation of business will depend on the development in spread of the virus and the abolition of restrictions introduced in the countries that are our main emitting markets (Italy, Slovenia, Austria, Germany).

Due to the unpredictable nature of the further development of infection caused by coronavirus and related remedial measures adopted by the Government of the Republic of Slovenia, the Company applied for all available measures.

- All employees for whom there is no need to work are referred to the statutory waiting-home institute, for which, during the waiting period, workers are paid 80% of full pay. Within the framework of the measures for protection of jobs, the State has undertaken to settle all 80% of the salary on hold for a period of 3 months with the exemption of employers from the burden of taxes and contributions from salaries.
- The Company has terminated its employment contracts with seasonal workers.
- In order to preserve the Company's liquidity in the coming period, we reduced our operations to the so-called "cold drive".
- The Management of the Company continuously monitors the adoption of all measures by the Republic of Slovenia related to assistance to the economy and also uses all legal possibilities to reduce costs and will continue to do so in the future to protect the interests of the Company.

From the start of coronavirus infection, Group monitors the development of the situation, directing all resources and activities to take preventative measures to protect the health of guests and employees and to preserve liquidity for a longer period (due to uncertainty about the duration of the infection and its negative effects on business).

In the current circumstances in the country and in the world, it is not possible to predict with certainty the definitive negative effect and the effect on the business of the Group resulting from the pandemic of the COVID-19 disease, with particular emphasis on the emitting markets of both Companies. However, by taking all the aforementioned measures and adjusting its operations to the future development of the situation and planning additional measures, the Management believes that it will manage to preserve the liquidity of both Companies in the coming period.

Management believes that the preparation of financial statements on a going concern basis is still appropriate. However, the above conditions and circumstances indicate that there is significant uncertainty that creates significant doubt regarding the Group's ability to continue operating on a going concern basis.