bluesun
Hotels&Resorts

2021 Annual Report

SUNCE HOTELI d.d. and SUNCE HOTELI d.d. GROUP

Sunce hoteli d.d. Group at a glance

- Founded in 2004, today one of the largest tourist groups in Croatia.
- In April 2021, Eagle Hills Zagreb Real Estate d.o.o., with its registered office in the United Arab Emirates, entered into a Share and Purchase Agreement with Jaka Andabak, thus becoming the majority shareholder of Sunce hoteli d.d. with institutional investors as significant minority shareholders.

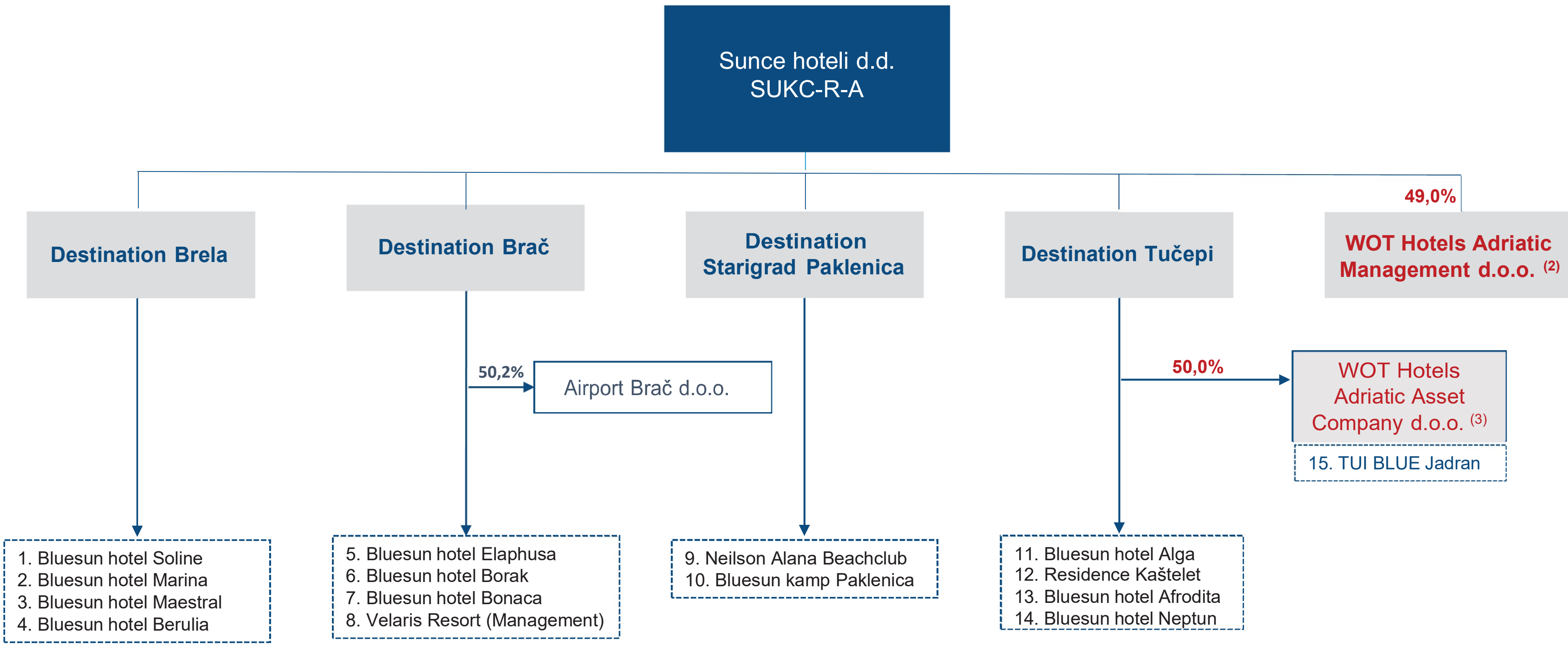
- **11 fully owned hotels, 1 camping resort, 1 hotel under Management and JV Company with TUI AG**
- **Prime beachfront** locations in middle Adriatic
- Long hospitality tradition in its destinations
- **Own Airport** on Island of Brač
- The first hotel chain in Croatia which started the **internal academy**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

>150.000 guests per year

> 900 employees

≈ 3.000 rooms

[(1)] As of Reporting date (31.12.2021.)



(1) *Data as of 31.12.2021; Sunce hoteli d.d. as a Group has some additional members, but they are immaterial for the Group's performance.*
(2) *Management Company established with TUI AG, where TUI AG holds 51% share.*
(3) *Joint Venture Company with TUI AG.*

Content

Introduction

General

Pursuant to Article 462 of the Croatian Capital Market Act, this Annual Report (“the Report”) present the results of operations, financial position, and cash flows of Sunce hoteli d.d. and its subsidiaries (collectively referred to in this Report as “we,” “us,”, “Sunce”, “Group” or “the Company”) for the fiscal year ended December 31, 2021 (“Reported period” or “Reporting date”).

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

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

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

This Report has been approved and released on April 30, 2022 and the Company and the Group have made disclosures about significant events that happened after the Reporting date.

Caution Regarding Forward-Looking Statements

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

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

Review of key information about the Group

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

Description of the Group

Sunce is the parent company of the Group, founded in 2004 which holds, operates and develops hotels and resorts on exceptional tourist destinations in Croatia (Brela, Tučepi, Brač and Starigrad Paklenica).

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

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

Bluesun Hotels & Resorts

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

Changes in the organisational structure of the Group

On March 22, 2021, Eagle Hills Zagreb Real Estate d.o.o., based in Zagreb, entered into an Agreement on the purchase and sale of shares and business stakes with the previous owners and other related parties as sellers. Pursuant to the said agreement, a total of 4,151,092 ordinary shares of the company were acquired, which represent 69.71% of the share capital of the Target Company.
Sunce hoteli d.d. made a decision to increase the share capital on December 20, 2021. Thus, the Issuer's share capital was increased from HRK 595,458,500.00 by HRK 119,021,700.00 to HRK 714,480,200.00 by issuing a total of 1,190,217 new ordinary shares of the Company in the name, in dematerialized form, in the nominal amount of HRK 100.00.

Company’s Shares

As at the reporting date, the Company's share capital consists of 7,144,802 ordinary Registered Shares in the nominal amount of HRK 100 each, all of which have been repaid in full. The shares were issued in dematerialized form and deposited with the Croatian Central Clearing and Depository Company d.d. (SKDD) as ordinary registered shares under the codes SUKC-R-A and ISIN HRSUKCRA0001.

The shares are listed on the Official Market of the Zagreb Stock Exchange and all give equal voting rights.

Apart from ordinary shares, the Company has not issued any
other equity or debt securities.

There are no options, call options or instruments that are exchangeable for shares or other agreements relating to existing shares of the Company or the issue of additional shares in any member of the Group.

As at 31 December 2021, the Company holds 1,163 treasury shares.

	General information on Company Shares as at December 31, 2021	
1	Type of share	Ordinary share
2	Trading symbol at CDCC	SUKC-R-A
3	Trading symbol at Zagreb Stock Exchange (ZSE)	SUKC
4	ISIN	HRSUKCRA0001
5	Share Capital	HRK 714,480,200.00
6	Total number of shares issued	7,144,802
7	Date of listing on a Regulated market	08.06.2017 (4,443,062 shares)
8	Market segment	Official Market (from 27.12.2018)

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

Dividend Policy

The Company has not distributed any dividends in the 2021 financial year. The Company has defined its dividend policy in its publicly announced financial guidelines on the basis of the Dividend payout ratio
- DPR in the range between 30% and 70% for the following three-year period. The Company will consider the policy in light of growth potential available to Group members and may revise said policy from time to time.

Company's Shareholder Structure

Sunce hotels d.d. is a joint stock company operating in the activities of the tourism and hotel sector. Sunce Hoteli d.d. and its subsidiaries are collectively referred to in this Report as "we", "Sun", "Group" or "Society". Following the takeover bid, Eagle Hills Zagreb Real Estate d.o.o. holds 1,758,553 ordinary shares of series A, while the associated company Sunce Investments holds 3,004,675 ordinary shares of series A in the company Sunce hoteli d.d. which together gives 4,763,225 ordinary shares representing a total of 79.99% of the share capital of the Target Company. Following the above, and all that on April 26, 2021, the transaction in question was completed, the company Eagle Hills Zagreb Real Estate d.o.o. has a significant influence in the company Sunce Hoteli d.d.

Top ten shareholders of the Company as at December 31, 2021

Shareholder	# of Shares	Ownership (%)
Sunce Ulaganja d.o.o.	3,004,389	42.05
Eagle Hills Zagreb Real Estate d.o.o.	2,755,036	38.56
Erste Plavi OMF category B	1,049,571	14.69
Erste Plavi OMF category A	42,154	0.59
CERP – Republic of Croatia	37,153	0.52
Erste plavi expert – voluntary pension fund	32,152	0.45
Splićanka Tours d.o.o.	7,145	0.10
Otp Banka d.d./Erste closed voluntary pension fund	7,145	0.10
Other shareholders	210,057	2.94

Source: Central Depository and Clearing Company (CDCC)

Investments in Associates and Joint Ventures

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

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

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

Acquisitions and Dispositions, Discontinued Operations

Acquisitions
No acquisitions of assets or entities in the Reported period.

Dispositions
No disposal of assets or entities in the Reported period.

Derivative Financial Instruments

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

Commitments and Contingencies

Lease agreements
The Group occupies one of its hotels under a lease agreement (Velaris Resort via Hoteli Zlatni rat d.d.). This is a long-term arrangement under which the Group leases a hotel, fixtures, furniture and equipment from a third-party property owner for a certain period of time for a fixed monthly rental payment. The lease agreement for Velaris Resort is valid until 31 December 2022.

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

Significant events after the Reported Period

During March 2022, the company recapitalized its subsidiary Aerodrom Brač d.o.o.. The recapitalization was performed in such a way that overdue receivables on short-term loans granted to the subsidiary in the total amount of HRK 3,300 thousand were converted into the share capital of the subsidiary. Overdue receivables on loans were realized in accordance with the Framework Agreement on Short-Term Loan from 2016 and its amendments from 2017, 2018, 2019 and 2020.

Sunce hoteli d.d., Radnička cesta 43, Zagreb, OIB: 06916431329 ("Sunce" or "Company"), hereby informs that Mr. Hrvoje Veselko on 19 January 2022, resigned as a member of the Management Board. The resignation was effective from January 20, 2022.

Conflict in Ukraine

The Company is directly exposed to the Ukrainian and Russian markets through its operations, and is also significantly exposed to economic and financial risks arising from the conflict between the Russian Federation and Ukraine or economic sanctions against many Russian individuals and legal entities. With the political and economic environment still in a state of considerable uncertainty, the Administration cannot rule out the impact of the conflict on declining economic activity, rising inflation and deteriorating other macroeconomic indicators, which spilled over into the real sector and caused a systemic crisis. Management is closely monitoring the situation and will respond, if necessary, to available measures to mitigate the adverse effects of any events or various circumstances. The negative impact on the Group and the Company was reflected in the slowdown in accommodation reservations for "summer" terms at the beginning of the "invasion", but the current trend of reservations shows a stable recovery while the primary challenge will be finding other EU and international markets.

Significant business events 2021

Change in ownership structure

Eagle Hills Zagreb Real Estate d.o.o. on March 22, 2021, entered into an Agreement on the purchase and sale of shares and business stakes with Jako Andabak and other related parties as sellers. Pursuant to the said contract, the Bidder, partly directly and partly indirectly, in terms of Art. 8 par. 3 of the Takeover of Joint Stock Companies Act ("ZPDD") acquired a total of 4,151,092 ordinary shares of SUNCE HOTELI d.d., code SUKC-R-A, ISIN: HRSUKCRA0001, with a nominal value of HRK 100.00 per share, representing 69.71% of the share capital of the Target Company.

Thus, the Bidder, partly directly and partly indirectly, acquired shares of the Target Company with voting rights that exceed the threshold of 25% of all shares with voting rights, which created the obligation to publish a takeover bid, in accordance with Art. 9 para. 1 of the ZPDD. Therefore, on the same day (March 22, 2021), the bidder submitted a notification on the occurrence of the obligation to publish a bid for the takeover of Sunce hotel d.d. as a target company in terms of ZPDD.

The main activities of the Provider and Eagle Hills Group are real estate investments and real estate development with a focus on emerging markets throughout Europe, the Middle East and Africa. The Eagle Hills Group designs and develops mixed-use facilities, including residential, commercial and catering facilities, shopping malls, retail and healthcare facilities.

On 26 April 2021, the transaction in question was completed, when, among other things, the entire receivables from related parties were collected in the total amount of HRK 91.9 million. In addition, the sellers at the same time undertook to release the Company from all guarantees under the loans of related parties within 60 days from the completion of the transaction. Until the date of publication of this report, repayment was made by the seller, on the basis of which the Company was released from all guarantees on loans to related parties.

On May 3, 2021, an extraordinary General Assembly was held at which the company received the resignations of members of the Supervisory Board, namely the President of the Supervisory Board Jako Andabak, Deputy Chairman of the Supervisory Board Sanja Gagulić, and members of the Supervisory Board Ružica Andabak and Ana Volk. A new Supervisory Board was elected with the following composition: Mr. Mohamed Ali Rashed Alabbar, Mr. Ping Low, Mr. Frederick William Howdon Durie, Mr. Mark Gordon Kirby, Ratomir Ivičić.

On 17 June 2021, the Croatian Financial Services Supervisory Agency issued a decision CLASS: UP / I 976-02 / 21-02 / 02, REG. NUMBER: 326-01-60-62-21-9 approving the Bidder's publication of the bid to take over Sunce Hotels d.d. Accordingly, the takeover bid was published on 18 June 2021 and is available via the following link: COI-SUKC-eb82dc01df235e4b05c4378163b24f8a.pdf (zse.hr).

On August 2, 2021, a takeover report was published showing that 523 shareholders accepted the takeover offer. Following the offer, the majority owner holds 4,763,225 ordinary Series A shares in Sunce hoteli d.d. which represents 79.99% of the share capital. The report is available via the following link: COI-SUKC-7a0a20b0246291edbb8dbbd43af72015.pdf (zse.hr).

Sunce hoteli d.d. was on November 2, 2021 with representatives of Erste & Steiermärkische Bank d.d. and OTP Banka d.d., signed an agreement on refinancing the financial debt of the Company. The total value of the transaction is EUR 71.5 million, with the largest part (EUR 56.5 million) related to the refinancing of the entire existing financial debt, while the rest relates to financing the Company's investments in raising the quality of its facilities for the 2022 season. this arrangement further improved the existing financing conditions while extending the maturity of its liabilities.

The Supervisory Board of the Company approved the investment for further improvement of quality and services in its facilities for 2022 in the amount of approximately 44.2 million euros. These investments are a confirmation of the intention of the majority shareholders of the Company regarding the development of future operations of the Company, through strengthening the market position by implementing new and developing existing capacities and services, as well as continuing investments to improve the accommodation of its employees. Out of a total of EUR 44 million of investments, approximately EUR 29 million the Company plans to raise through capital increases by issuing new shares for the purpose of which the Extraordinary General Meeting of the Company was convened on December 20, 2021. The Company plans to raise the remaining funds by borrowing from commercial banks, using the possibility of withdrawing funds for this purpose as agreed when refinancing the Company's financial liabilities from November 2, 2021.

An increase in the share capital (through the issuance of new shares) and amendments to the provisions of the Articles of Association based on the decision of the General Assembly of the Company dated 20

December 2021 were entered in the court register of the Commercial Court in Zagreb. Thus, the share capital of the Issuer was increased from HRK 595,458,500.00 by HRK 119,021,700.00 to HRK 714,480,200.00 by issuing a total of 1,190,217 new ordinary registered shares in the Company, in the individual intangible form of nominal amount of HRK 100.00.

Impact of COVID-19 on business

The negative impact of COVID-19 on business continued in 2021 due to difficult travel conditions, testing and epidemiological measures, which resulted in the later opening of most hotels due to a significant number of cancellations in the pre-season. Two hotels remained closed throughout 2021, namely the Bluesun Hotel Maestral in Brela and the Bluesun Hotel Borak in Bol.

In 2021, however, a scenario was avoided in which the season was interrupted in mid-August as in 2020, which allowed a longer season compared to 2020. The situation in foreign markets that had closed borders and a very limited number of flights were in our favor because of proximity and favorable epidemiological conditions for the EU market were the only summer holiday option available by car as a means of transport.

Flexible cancellation conditions have become the market standard in the face of difficult travel conditions. During 2021, the dynamics of booking had a very pronounced last minute trend that erupted during June 2021 in the form of a wave of reservations that eventually enabled the opening of most hotels in June and July. We recognized the trend of increasing the number of bookings on time and managed prices and available capacity in a timely manner in order to achieve optimal occupancy and maximize revenue in open hotels.

In June 2021, the Bluesun Hotel Soline in Brela, the Bluesun Hotel Alga in Tučepi and the Bluesun Hotel Elaphusa in Bol and the Bluesun Tourist Resort Alan in Starigrad, Paklenica were opened. In July 2021, the Bluesun Hotel Marina and the two Bluesun tourist resorts Aphrodite in Tučepi and Bonaca in Bol followed.

Bluesun Resort Velaris in Supetar was opened on March 1, 2021, and Bluesun Hotel Berulia in Brela on April 29, 2021 and Bluesun Hotel Neptun on May 22, 2021 and in the years of COVID-19 recognized our hotels as a safe destination.

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

Introduction

The following Management’s Discussion and Analysis of Financial Condition and Results of Operation (“MD&A”) presents an analysis of the consolidated financial condition of Sunce for the Reported period and should be read in conjunction with our consolidated financial statements and related notes.

This MD&A is the responsibility of management.

MD&A refers to certain financial measures that are not determined in accordance with IFRS. Although these measures do not have standardized meanings and may not be comparable to similar measures presented by other companies, these measures are defined herein or can be determined by reference to our financial statements. The Company discusses these measures because it believes that they facilitate the understanding of the results of its operations and financial position.

Our business

With 11 beachfront hotels on the Adriatic coast, 1 camp site and 1 leased property compromising 2,973 units, its own airport on the Island of Brač and other tourism assets located in 4 popular touristic destinations in Croatia, Sunce is one of the leading tourism groups in Croatia. Additionally, its joint venture with TUI AG has one premium hotel property (TUI Blue Jadran) offering 161 units.

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

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

Properties are mostly managed and operated under an in-house brand, “Bluesun Hotels and Resorts”. A significant part of the Group’s units is booked through Allotment contracts with various global tour- operators. They provide guarantees for certain period of occupancy.

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

Overview of the Group Portfolio (as of Reporting date)

	Hotel	Category (*)	Number of rooms	Renovation 2022	Franchise partner
1	Bluesun hotel Maestral	3	69	x	
2	Bluesun hotel Soline	3	208	x	
3	Bluesun hotel Berulia	5	236		
4	Bluesun hotel Marina	3	283		
	Destination Brela		**796**		
5	Bluesun hotel Alga	4	377		
6	Residence Kaštelet	4	28	x	
7	Bluesun hotel Afrodita	4	155		
8	Bluesun hotel Neptun	3	252		
	Destination Tučepi		**812**		
9	Bluesun hotel Elaphusa	4	306	x	
10	Bluesun hotel Borak	3	184	x	
11	Bluesun hotel Bonaca	3	236	x	
12	Bluesun resort Velaris	3/4	177		
	Destination Brač		**903**		
13	Neilson Alana Beachclub	4	187		Neilson UK
14	Bluesun kamp Paklenica	-	275		
	Destination Starigrad		**462**		
	Total Group		**2,973**		
15	TUI Blue Jadran [1]	5	161		TUI AG
	WOT Hotels Adriatic Asset Company d.o.o.				

Source: Group

(1) Joint venture with TUI AG

Key Performance Measures Metrics Used by Management

Occupancy

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

Average Daily Rate ("ADR")

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

Revenue per Available Room ("RevPAR")

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

EBITDA and Adjusted EBITDA

EBITDA reflects the consolidated net profit of the Group prepared in accordance with IFRS before all provisions for taxes, depreciation, amortization, interest, commissions, discounts and other fees arising on any debt and all interest earned on debt. Adjusted EBITDA is calculated as EBITDA, as defined above, and is further adjusted to exclude certain exceptional, one-off, non-recurring or extraordinary items that represent a gain or loss, including those arising from:

a) restructuring the entity's activities and canceling any provisions for restructuring costs;

b) disposal, revaluation, write-off or impairment of fixed assets or any reversal of write-off or impairment; and

c) disposal of assets related to the discontinued operation.

We believe that EBITDA and Adjusted EBITDA provide investors with useful information about us and our financial position and results of operations for the following reasons: (i) these measures are part of the measures used by our management to assess the performance of our business; and (ii) these measures are frequently used by securities analysts and investors as common performance indicators to compare performance or value estimates of companies in our industry. It is important to note that EBITDA and Adjusted EBITDA are not recognized terms under IFRS and have limitations as analytical tools and should not be considered as alternatives, either individually or as a substitute, for net profit (loss), cash flow or other methods of analyzing our IFRS results. . Some of these limitations are as follows:

• EBITDA and Adjusted EBITDA do not reflect changes in, or monetary needs for, our working capital needs;

• EBITDA and Adjusted EBITDA do not reflect our interest expense or cash needs to settle interest or principal on our debt;

• EBITDA and Adjusted EBITDA do not reflect the provision for income taxes or the cash need to pay our taxes;

• Although depreciation is a non-monetary item, it will often be the case that depreciated assets need to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect the monetary needs for such replacements; and

• Other companies in our industry may calculate EBITDA and Adjusted EBITDA differently, limiting their usefulness as a measure of comparabilityrecurring or extraordinary items which represent gains or losses including those arising on:

the restructuring of the activities of an entity and reversals of any provisions for the cost of restructuring;

disposals, revaluations, write downs or impairment of non-current assets or any reversal of any write down or impairment; and

disposals of assets associated with discontinued operations.

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

EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;

EBITDA and Adjusted EBITDA do not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness;

EBITDA and Adjusted EBITDA do not reflect a provision for income taxes or the cash requirements to pay our taxes;

although depreciation and amortization are non- cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and

other companies in our industry may calculate EBITDA and Adjusted EBITDA differently, limiting their usefulness as comparative measures.

Results of Operations

In 2021, the Company generated HRK 326.5 million in operating revenues (2020: HRK 145.9 million), which is an increase of 124% compared to the same period last year. The Company generated positive EBITDA in the amount of HRK 75.1 million (2020: HRK 3.2 million), which is an increase of HRK 71.9 million compared to the same period last year, which was significantly under the negative impact of a pandemic. Adjusted EBITDA amounts to HRK 97.5 million, one-off items refer to the write-off of assets in preparation, ie project documentation that was abandoned during 2021 - HRK 14.6 million and one-time costs of processing loan obligations that were repaid early, ie refinanced - HRK 7.8 million. The impact on EBITDA in 2021 was partially amortized due to revenues from direct and indirect state aid for job preservation in the amount of HRK 28 million. Direct and indirect state aid is not recognised through the level of the Group's revenue but through a reduction in staff costs, which reduced the Group's operating costs.

Staff costs in 2021 increased significantly compared to the previous year due to the recovery of the business from the pandemic. The subject item for 2021 amounts to HRK 95 million including state aid for job preservation in the total amount of HRK 28 million, compared to 2020 staff costs increased by 68% with the important note that in 2021 a higher number of working days, more seasonal employees were employed and a larger number of hotels were operational. The item of material costs in the amount of HRK 99 million represents the largest share in the Group's operating expenses during the previous business year and represents an increase compared to the previous year of 64% due to the increased volume of activities, i.e. recovery from 2020.

Net financial expenses in 2021 amounted to HRK 15.9 million, which is a slight decrease compared to 2020 (HRK 20.3 million). Interest expenses amounted to HRK 10.1 million, which is approximately the same as in the previous year. Due to a significant decrease in the item "Value adjustment of financial assets", net financial expenses decreased slightly. The value adjustment of financial assets in the amount of HRK 5.8 million in 2020 refers to the investment in WOT Hotels Adriatic Asset Company d.o.o.

The share in the result of joint ventures amounted to HRK 482 thousand, and refers to the share of 50% in the profit of WOT Hotel Adriatic Asset Company d.o.o and 42% in the loss of Praona d.o.o.

The net loss in the period amounted to HRK 4,073 thousand, while in the same period last year a loss of HRK 35.9 million was recorded. Net financial debt amounted to HRK 190 million as at 31 December 2021 which represents a significant decrease of HRK 316 million compared to 2020 (HRK 507 million).

The business results for 2021 give reason for optimism and high expectations from the "2022 season" and a return to 2019 levels. After the 2020 pandemic, last year's operational results show that Bluesun Hotels & Resorts are a desirable destination for guests from the region and a desirable destination in the Group's standard emitting markets, as shown by the number of repeat guests.

Comparing the results with the "record-breaking" 2019, it can be seen that in 2021, with significant restrictions caused by the COVID-19 pandemic, the Group generated revenues of 73% and EBITDA of 76%.

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

Financial highlights - Sunce hoteli d.d. Group (consolidated audited)				
HRK thousand				
Financial performance	**12M 2021**	**12M 2020**	▲	**2021/2020**
Total Revenues	326,571	145,918	180,653	124%
Operating expenses	251,470	142,739	108,731	76%
EBITDA	75,101	3,179	71,922	
EBITDA margin %	23%	2%		
Adjustments	22,426	-		
Adjustment EBITDA	97,527	3,179	94,348	2.968%
Adjustment EBITDA margin %	29.86%	2.18%		
EBIT	12,848	-61,326	74,174	-121%
Interest & Fees	19,065	12,072	6,993	58%
Value adjustment of receivables	-	5,791		
Net income	-249	-35,737	35,488	-99%
Financial position	31.12.21	31.12.20		
Total assets	1,481,977	1,373,024	108,953	8%
Fixed assets	1,056,765	1,065,640	-8,875	-1%
Equity	242,185	17,993	224,192	1.246%
Total debt	988,701	769,879	218,822	28%
Net financial debt / (cash)	432,854	525,346	-92,492	-18%
Guarantees	190,669	507,353	-316,684	-62%
Financial Ratios[1]	67%	56%		
Equity / total assets	141%	121%		
Loan to Value Ratio	0.33	0.44		
Key operating indicators				
	2021	2020	▲	%
Number of accommodation units	2.973	2.973		
Overnights	627.217	268.405		
Occupancy rate (operating days)	70%	48%	-77,8	-7,84%
ADR (HRK)	915	992,8	303,7	93,07%
RevPAR (HRK)	630	326,3	-108,8	-25,00%

(1) The calculation of financial indicators is based on 12-month data prepared in accordance with IFRS..

COVID - 19 - impact on the Company's operations

Employee safety - During 2021, as in the second half of 2020, it is possible to work from the office while ensuring safety conditions such as wearing protective masks in common areas, greater distance between employees in the same office, increased care for disinfection of work space, etc. The company has a flexible approach to the way it works, and measures have been taken to protect the safety of employees. In future periods, the Management Board of the company will monitor the epidemiological situation in the Republic of Croatia and, if necessary, make decisions on working from home for some or all employees of the company Sunce hoteli d.d.

Employee salaries - During 2020, the Management Board actively managed the salary policy in accordance with the expectations and development of the COVID-19 crisis, as well as by monitoring economic activity and the tourist summer 2020 season. In the period from April 1, 2020, the salary of all employees was initially reduced, including the Management Board, and from that period onwards the Management Board actively made new decisions on the amount of employee remuneration, taking into account primarily job preservation, taking into account short business activity during 2020 and a decline in revenue compared to 2019. Until 31 May 2021, the decision of the Management Board was in force, by which the Company's employees received a salary in the amount of 80% of gross salary, and not less than HRK 4,000 net. As of June 1, 2021, all employees are working and have full salaries until the end of the current year. In June 2021, the company made a decision and paid net compensation of HRK 1,000 for all employees who worked for the company in July and August.

Liquidity - Considering the transaction, collection of receivables from related parties in the amount of HRK 91.9 million in April this year and solid results of the tourist season, the Company's liquidity situation is positive. Management is not considering new liquidity borrowings. The company has sufficient funds for regular repayment of existing loans in line with the current repayment plan. Furthermore, the General Assembly of the Company on December 20, 2021 makes a decision to increase the share capital of the Company Sunce hoteli d.d. whereby the share capital was increased from the amount of HRK 595,458,500.00 by the amount of HRK 119,021,700.00 to the amount of HRK 714,480,200.00 by issuing a total of 1,190,217 new ordinary shares of the Company in the name, in dematerialized form, of individual nominal amount of HRK 100.00.

Aid for job preservation - the company used measures of the Government of the Republic of Croatia related to aid for job preservation during 2021, and majority aid was realized and collected. Furthermore, as a continuity of the use of grants from 2020, the Company received grants for the months of January, February, March, April, May, June 2021. The company additionally exercised its right during the 3rd quarter and collected full support for the month of July 2021.

Capital investments - In the current year, the Company has invested around HRK 7 million in assets to prepare for the 2021 season. The Management Board has prepared a future investment plan for the existing portfolio for the coming periods. During the fourth quarter, significant financial resources were allocated for project preparation. The Supervisory Board of the Company approved the investment for further improvement of quality and services in its facilities for 2022 in the amount of approximately 44.2 million Euros. These investments are a confirmation of the intention of the majority shareholders of the Company regarding the development of future operations of the Company, through strengthening the market position by implementing new and developing existing capacities and services, as well as continuing investments to improve the accommodation of its employees. Out of a total of EUR 44 million of investments, approximately EUR 29 million is planned to be raised by the Company through a capital increase by issuing new shares for the purpose of which the Company's Extraordinary General Meeting was convened on 20 December 2021. The Company plans to raise the remaining funds by borrowing from commercial banks, using the possibility of withdrawing funds for this purpose as agreed when refinancing the Company's financial liabilities from November 2, 2021.

Due to the mentioned capital investments, the Company abandoned previous projects initiated by the former owners, the projects were related to property improvements, ie hotels in Bol and Brela, the total amount of written off projects amounted to HRK 14 million.

EU taxonomy

According to the nature of the business of Sunce Hoteli d.d., the activities of the Company cannot be included in economic activities that contribute to climate goals, described in the delegated acts adopted pursuant to Article 10 (3) (Significant contribution to climate change mitigation) and Article 11. paragraph 3. Pursuant to the above, according to Article 10 of Regulation (EU) 2021/2178, Sunce Hoteli d.d. declares that it has no share of exposure to taxonomically acceptable economic activities in its total revenues and capital and operating expenses. Total revenues, investments and costs attributable to taxonomically ineligible activities are presented in the accompanying financial statements.

Information on the impact on the environment and society.

Corporate values and culture, policies and procedures of the company are key indicators of the relationship between the company and its employees. The company pays great attention to the promotion of human rights among employees and strongly supports the right of association of its employees and the work of its unions. A large number of the Company's employees are covered by the company's collective agreement. The Company's employment policy is designed to prevent discrimination based on race, nationality or gender in the employment of new employees, and this policy is implemented throughout the employment of all employees of the Company. The Company recognizes the importance of investing in reducing the negative impact of operations on the environment, and in 2021 the Company's Management Board approved investments in the amount of approximately EUR 44.2 million. A large part of the investment was spent on the renovation of the hotel in preparation for the 2022 season, and one of the goals of the renovation was to increase the energy efficiency of the building.

Risk Factors

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

Risks Related to Our Business and Industry

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

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

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

Macroeconomic and other factors beyond our control

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

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

Risks Relating to Debt Financing

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

Market risk

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

Interest Rate Risk

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

Foreign Currency Exchange Rate Risk

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

Corporate Governance

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

Company Management Structure

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

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

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

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

General Assembly (Shareholders' Assembly)

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

Articles of association

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

Supervisory Board

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

Management Board

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

The Company's Committees

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

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

External supervision

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

Corporate Governance Statement

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

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

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

These requirements are met through the annual corporate governance questionnaire, whose latest version is available on our WEB page for investors.

On October 15, 2019, HANFA and the Zagreb Stock Exchange adopted a new Corporate Governance Code (the "Code"). The new Code replaces the previous edition of the Code published in 2010 and Issuers began applying it on January 1, 2020.

The Company respects and applies the measures prescribed by law corporate governance, which is reflected in detail in the annual questionnaire which is published in accordance with the regulations on the website of the Zagreb Stock Exchange and the website of the Bluesun Hotel and Resort.

The Company is in the process of harmonization of its corporate governance acts with the new Corporate Governance Code in the applicable extent. In its practice so far, the Company has complied with the provisions of the 2010 Code, with the exception of those provisions whose application is not practicable at a given time or does not materially affect the transparency of business operations or the Company's risk profile.

Consolidated and Separate Financial Statements for 2021

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

RESPONSIBILITY FOR THE PREPARATION AND AUTHORIZATION OF ANNUAL CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

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

In preparing consolidated and separate financial statements, the responsibilities of the Management Board include ensuring that:

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

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

Signed on behalf of the Company and the Group:

President of the Board
Shaikh Mubarak Ali Abdulla Hamad Alkhalifa

29 April 2022
SUNCE HOTELI d.d.
Radnička cesta 43
Zagreb

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMETNS

In accordance with provisions of Law on Capital MarketsShaikh Mubarak Ali Abdulla Hamad Alkhalifa Chairman of the Board in charge of finance as the person responsible for compiling the annual reports of the Company Sunce Hoteli d.d. Zagreb, Radnička cesta 43, OIB 06916431329 (hereinafter: Company), hereby make the following

STATEMENT

According to our best knowledge the annual audited consolidated and separate financial statements for 2021, are prepared in accordance with applicable standards of financial reporting and give true and fair view of the assets and liabilities, profit and loss, financial position and operations of the Company and its subsidiaries (together – „Group").

Report of the Company's Management board for the period from 1 January to 31 December 2021 contains the true presentation of development, results and position of the Company and Group, with description of significant risks and uncertainties which the Company and Group are exposed.

Zagreb, 29 April 2022

President of the Board
Shaikh Mubarak Ali Abdulla Hamad Alkhalifa

Building a better working world

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To the Shareholders of Sunce hoteli d.d.

Opinion
We have audited the separate financial statements of Sunce hoteli d.d. (the Company), and consolidated financial statements of Sunce hoteli d.d. (the Company) and its subsidiaries (together "the Group"), which comprise the separate and consolidated statement of financial position as at 31 December 2021, the separate and consolidated statement of comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and the Group as at 31 December 2021 and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (IFRS as adopted by the EU).

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

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

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

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. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

Key Audit Matter	How we addressed Key Audit Matter
Impairment of tourism property *See note 2.11 Property, plant and equipment and 2.13. Impairment of tangible and intangible assets* The Company and the Group have a significant balance of property, plant and equipment in its separate and consolidated statement of financial position which mostly consists of tourism properties and related assets in total amount of HRK 967,314 thousand at 31 December 2021. These assets are included in the separate and consolidated statement	Audit procedures included understanding of the process relating to property, plant and equipment and evaluation of design of the controls implemented in the process, including identification of impairment indicators. We obtained understanding of the methodology used by the external valuer to estimate fair values of tourism properties and methodology used by management to estimate values in use.

of financial position at mostly historical cost less accumulated depreciation and impairment, . Therefore, the assessment of the recoverability of the carrying amount of property, plant and equipment, including assessing of impairment indicators, may have a significant impact on the financial position and the financial performance of the Company and the Group, making it important that selection and application of relevant accounting policies and estimates is performed properly. Due to the level of judgment involved, current market environment and trends in hospitality industry influenced by the COVID-19 pandemic and significance to the Company's and Group`s financial position, we consider this matter as a key audit matter.	Also, we engaged internal specialists who assisted us in analysis of the methodologies applied for the valuation of the most significant assets including the historical accuracy and consistency of management's assumptions. We also considered the appropriateness of the fair values estimated by the external valuer based on the knowledge and trends in hospitality industry, including possible impacts of Covid-19, and also considered the potential impact of reasonably possible changes in key assumptions and inputs on the result of the tests. We performed audit procedures on the mathematical correctness of calculations used in these models. We also assessed adequacy of the related disclosures in the separate and consolidated financial statements and their compliance with IFRS as adopted by EU.

Other information included in the Company's and the Group's Annual Report for year 2021
Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report and Corporate Governance Statement, other than 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 including the Management report and Corporate Governance Statement.

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

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

1. the information given in the enclosed Management report for the 2021 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

2. the enclosed Management report for 2021 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

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

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's and the Company's annual report for the year 2021 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

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

Responsibilities of management and Audit Committee for the separate and consolidated financial statements
Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of 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 the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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 control.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

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

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

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

From the matters communicated with Audit Committee, 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Company on 29 August 2017. Our appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 30 August 2021, representing a total period of uninterrupted engagement appointment of five years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 28 April 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Report based on Delegated Regulation (EU) 2018/815 on supplementing Directive 2004/109/EZ of European parliament and Council related to regulatory technical standard for specification of single electronic reporting format of reporting

Independent report on the compliance of annual separate and consolidated financial statements (further: financial statements) prepared pursuant to Article 462 (5) of the Capital Market Act (Official Gazette 65/18, 17/20 and 83/21) applying the requirements of the Delegated Regulation (EU) 2018 / 815 on establishing of single electronic reporting format for issuers (hereinafter: the ESEF Regulation).

We have conducted a reasonable assurance engagement on whether the financial statements, as contained in the attached electronic file f8289bbecf82905fb58bd3b378111d26741680275a70ccbe224bc6e0d7f09487, are prepared, for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, in all material respects in accordance with the requirements of the ESEF Regulation.

Responsibilities of the Management and those charged with governance

Management is responsible for the preparation of the financial statements in accordance with ESEF Regulation.

Furthermore, Management is responsible for maintaining an internal control system that reasonably ensures the preparation of financial statements without material non-compliances with ESEF Regulation requirements, whether due to fraud or error.

The Management is also responsible for:

- the public disclosure of financial statements in ESEF format
- selecting and using XBLR codes in accordance with ESEF regulation

Those charged with governance are responsible for overseeing the preparation of the financial statements in ESEF format as part of the financial reporting process.

Auditor's responsibilities

Our responsibility is to express a conclusion, based on the audit evidence gathered, as to whether the financial statements are free from material non-compliances with the requirements of the ESEF Regulation. We conducted our reasonable assurance engagement in accordance with International Standard for Assurance Engagements ISAE 3000 (revised) - Assurance engagements other than audits or reviews of historical financial information.

Work performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high degree of assurance, however it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with ESEF regulation.

In respect of the subject matter, we have performed the following procedures:

- we read the requirements of the ESEF Regulation,
- we have gained an understanding of the Company's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or error; and
- Based on this, devise and implement procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:

- the financial statements, which are included in the annual report, are prepared in the relevant XHTML format,
- the information contained in the financial statements required by the ESEF Regulation is marked and all markings meet the following requirements:
    - the XBRL markup language was used,
    - the basic taxonomy elements listed in the ESEF Regulation with the closest accounting significance have been used, unless an additional taxonomy element has been created in accordance with Annex IV. ESEF Regulation,
    - the labeled elements comply with the common labeling rules under the ESEF Regulation.

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

Building a better working world

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Conclusion

Based on the procedures performed and evidence gathered, the financial statements presented in ESEF format for the year ended on 31 December 2021, contained in the aforementioned attached electronic file and prepared pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, are prepared in all material respects in line with the requirements of Articles 3, 4 and 6 of the ESEF Regulation.

Further to this conclusion as well as opinion contained in part of this report related to accompanying financial statements and annual report for the year ended 31 December 2021, we do not express any opinion on the information contained in these presentations or on any other information contained in the aforementioned file.

The partner in charge of the audit resulting in this independent auditor's report is Zvonimir Madunić.

Zvonimir Madunić
Member of the Board and certified auditor

Ernst&Young d.o.o.
Radnička cesta 50
Zagreb, Croatia
30 April 2022

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

		Group		Company	
(in thousands of HRK)	**Note**	**2021**	**2020**	**2021**	**2020**
Revenue	4	317,634	135,404	314,763	133,795
Other income	5	8,937	10,514	8,097	9,841
Operating income		**326,571**	**145,918**	**322,860**	**143,636**
Cost of materials and services	6	(99,907)	(61,035)	(99,022)	(60,301)
Employee costs	7	(95,028)	(56,664)	(93,449)	(54,701)
Depreciation and amortisation	13, 13.1, 14	(62,253)	(64,505)	(60,889)	(63,170)
Other operating expenses	8	(56,535)	(25,040)	(56,190)	(24,762)
Operating expenses		**(313,723)**	**(207,244)**	**(309,550)**	**(202,934)**
Operating profit		**12,848**	**(61,326)**	**13,310**	**(59,298)**
Finance expense – net	9	(15,908)	(20,369)	(16,369)	(20,299)
Share in loss of associates and joint ventures	15	482	(5,806)	482	(5,104)
Profit before taxes		**(2,578)**	**(87,501)**	**(2,577)**	**(84,701)**
Income tax	10	4,629	51,580	4,629	51,580
Profit for the year		**2,051**	**(35,921)**	**2,052**	**(33,121)**
Profit attributable to:					
Owners of the Parent Company		2,286	(34,889)	2,052	(33,121)
Non-controlling interest		(235)	(1,032)	-	-
Earnings per share (in HRK) - basic and diluted	11	**0.39**	**(5.87)**	**-**	**-**
Other comprehensive income		(2,300)	184	(2,300)	184
Total comprehensive income		**(249)**	**(35,737)**	**(248)**	**(32,937)**
Total comprehensive income attributable to:					
Owners of the Parent Company		(14)	(34,705)	(248)	(32,937)
Non-controlling interest		(235)	(1,032)	-	-

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

(in thousands of HRK)	Note	Group 31 Dec 2021	Group 31 Dec 2020	Company 31 Dec 2021	Company 31 Dec 2020
ASSETS					
Non-current assets					
Intangible assets	13	3,118	741	3,060	668
Right-of-use asset	13.1	7,319	22,274	7,319	22,274
Property, plant and equipment	14	1,056,765	1,065,640	1,020,292	1,028,377
Investment in associates and joint venture	15	75,852	75,371	75,852	75,371
Investment in subsidiaries	15.1	-	-	20,050	20,550
Loans	20	-	76,141	-	76,141
Deferred tax assets	12	61,378	56,749	69,104	64,475
Other non-current receivables	16	131	11,500	131	11,500
		1,204,563	**1,308,416**	**1,195,808**	**1,299,356**
Current assets					
Inventories	17	3,395	3,988	3,284	3,873
Trade receivables	18	6,466	9,639	6,230	9,381
Other receivables	19	25,368	32,988	25,179	32,832
Loans	20	-	-	2,938	2,418
Cash and cash equivalents	21	242,185	17,993	241,402	17,779
		277,414	**64,608**	**279,033**	**66,283**
Total assets		**1,481,977**	**1,373,024**	**1,474,841**	**1,365,639**
EQUITY AND LIABILITIES					
Share capital	22	714,481	595,459	714,481	595,459
Share premium		212,135	112,157	212,135	112,157
Other reserves		104,866	107,166	104,866	107,166
Retained earnings		(33,555)	(35,876)	(38,595)	(40,647)
		997,927	**778,906**	**992,887**	**774,135**
Non-controlling interest		**(9,226)**	**(9,027)**	**-**	**-**
Total equity		**988,701**	**769,879**	**992,887**	**774,135**
LIABILITIES					
Non-current liabilities					
Borrowings	23	380,320	422,374	380,304	422,320
Lease liabilities	13.1	640	15,934	640	15,934
Provisions	24	1,089	1,223	1,039	1,154
Deferred tax liabilities	25	742	1,247	742	1,247
		382,791	**440,778**	**382,725**	**440,655**
Current liabilities					
Borrowings	23	43,949	79,836	43,911	79,800
Lease liabilities	13.1	7,945	7,202	7,945	7,202
Provisions	24	277	224	277	224
Trade and other payables	26	34,748	50,862	32,112	47,894
Other liabilities	27	23,566	24,243	14,984	15,729
		110,485	**162,367**	**99,229**	**150,849**
Total liabilities		**493,276**	**603,145**	**481,954**	**591,504**
Total equity and liabilities		**1,481,977**	**1,373,024**	**1,474,841**	**1,365,639**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

(u tisućama kuna)	Share capital	Share premium	Reserves	Retained earnings	Total	Non-controlling interest	Total
For the year ended 31 December 2020							
Balance as at 1 January 2020	**539,385**	**67,837**	**10,879**	**100,722**	**718,823**	**86,793**	**805,616**
Transactions with owners:							
Merger of subsidiaries	56,074	44,320	96,103	(101,709)	**94,788**	(94,788)	-
Total transactions with owners	56,074	44,320	96,103	(101,709)	**94,788**	(94,788)	-
Loss for the current year	-	-	-	(34,889)	**(34,889)**	(1,032)	**(35,921)**
Other comprehensive income:							
Land revaluation	-	-	184	-	**184**	-	**184**
Total comprehensive income	-	-	*184*	*(34,889)*	***(34,705)***	*(1,032)*	***(35,737)***
Balance as at 31 December 2020	**595,459**	**112,157**	**107,166**	**(35,876)**	**778,906**	**(9,027)**	**769,879**
For the year ended 31 December 2020							
Balance as at 1 January 2021	**595,459**	**112,157**	**107,166**	**(35,876)**	**778,906**	**(9,027)**	**769,879**
Transactions with owners:							
Share capital increase	119,022	99,978	-	-	**219,000**	-	**219,000**
Total transactions with owners	**119,022**	**99,978**	-	-	**219,000**	-	**219,000**
Other adjustments	-	-	-	35	**35**	36	**71**
Profit/(Loss) for the current year	-	-	-	2,286	**2,286**	(235)	**2,051**
Other comprehensive income:							
Land revaluation	-	-	(2,300)	-	**(2,300)**	-	**(2,300)**
Total comprehensive income	-	-	*(2,300)*	2,286	**(14)**	(235)	**(249)**
Balance as at 31 December 2021	**714,481**	**212,135**	**104,866**	**(33,555)**	**997,927**	**(9,226)**	**988,701**

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SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of kunas)	Share capital	Share premium	Reserves	Retained earnings	Total
For the year ended 31 December 2020					
Balance as at 1 January 2020	**539,385**	**67,837**	**123**	**(7,526)**	**599,819**
Transactions with owners:					
Merger of subsidiaries	56,074	44,320	106,859	-	**207,253**
Total transactions with owners	**56,074**	**44,320**	**106,859**	**-**	**207,253**
Other comprehensive income:					
Land revaluation	-	-	184	-	**184**
Loss for the year	-	-	-	(33,121)	**(33,121)**
Total comprehensive income			184	(33,121)	**(32,937)**
Balance as at 31 December 2020	**595,459**	**112,157**	**107,166**	**(40,647)**	**774,135**
For the year ended 31 December 2021					
Balance as at 1 January 2021	**595,459**	**112,157**	**107,166**	**(40,647)**	**774,135**
Transactions with owners:					
Share capital increase	119,022	99,978	-	-	**219,000**
Total transactions with owners	**119,022**	**99,978**	-	-	**219,000**
Other comprehensive income:					
Land revaluation	-	-	(2,300)	-	**(2,300)**
Profit for the year	-	-	-	2,052	**2,052**
Total comprehensive income	-	-	(2,300)	2,052	**(248)**
Balance as at 31 December 2021	**714,481**	**212,135**	**104,866**	**(38,595)**	**992,887**

CONOSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Group		Company	
	2021	**2020**	**2021**	**2020**
	(in thousands of HRK)			
Cash flow from operating activities *(note 28)*	**102,089**	**(19,480)**	**101,439**	**(19,065)**
Interest paid	(20,877)	(203)	(20,873)	(198)
Tax paid	-	(1,357)	-	(1,357)
Net cash from operating activities	**81,212**	**(21,040)**	**80,566**	**(20,620)**
Purchase of property, plant and equipment *(note 14)*	(71,166)	(10,680)	(70,607)	(9,731)
Purchase of intangible assets *(note 13)*	(3,197)	(160)	(3,197)	(160)
Gains on sale of non-current assets	-	63	-	63
Acquisition of a subsidiary	-	-	-	8,494
Interest received	11,308	-	11,308	-
Loans granted to related parties	-	-	(520)	(1,182)
Loans received from related parties	76,141	-	76,141	330
Net cash outflow from investment activities	**13,806**	**(10,777)**	**13,125**	**(2,186)**
Cash flow from financing activities				
Share capital increase	219,000	-	219,000	-
Receipts of borrowings	427,410	45,887	427,410	45,887
Repayments of borrowings	(509,431)	-	(509,393)	-
Repayment of principal of lease liabilities	(7,007)	(5,446)	(7,007)	(5,446)
Repayment of finance leases	(78)	(168)	(78)	(69)
Net cash inflow / (outflow) from financing activities	**129,894**	**40,273**	**129,932**	**40,372**
Net increase / (decrease) in cash and cash equivalents	**224,192**	**8,456**	**223,623**	**17,566**
Cash and cash equivalents				
At beginning of year	17,993	9,537	17,779	213
At year end *(note 21)*	242,185	17,993	241,402	17,779
Net increase / (decrease)	**224,192**	**8,456**	**223,623**	**17,566**

NOTE 1 – GENERAL INFORMATION

The financial statements for the year ended 31 December 2021 include the financial statements of Sunce Hoteli d.d. (The "Company") and its subsidiaries (the "Group").

Sunce Hoteli d.d. ("Company") is a Company which manages hotels and provides a variety of consulting services related to the management and operation of companies including advertising and marketing services, real estate management, procurement, providing services in nautical, rural tourism, health services, congresses, sport activities and other forms of tourism (PIN: 06916431329; RN: 01069647). The Company was established as a private limited liability Company. The General Assembly reached a decision at its meeting held on 4 April 2007 to transform the Company from a limited Company to a public listed Company. Specific details of subsidiaries and the nature of their operations are noted in the table below:

The Group consists of following entities in 2021:

	Nature of Business	Ownership
Sunce Hoteli d.d.	Hotels	Parent Company
Zlatni rat - Poljoprivreda d.o.o.	Agriculture	80.99%
Zlatni rat - Servis d.o.o.	Maintenance	80.99%
Zlatni rat - Tenis centar d.o.o.	Tennis operator	80.99%
Plaža Zlatni rat d.o.o.	Beach operator	80.99%
Eko – promet d.o.o.	Transport	41.39%
Aerodrom Brač d.o.o.	Airport	50.19%
Sunce Vital d.o.o.	Medical services	100%
Brač 500 Plus d.o.o.	Cable car management	69.44%
Brela Jakiruša d.o.o.	Serving food and beverages	100%

The Group consists of following entities in 2020:

	Nature of Business	Ownership
Sunce Hoteli d.d.	Management activity	Parent Company
Zlatni rat - Poljoprivreda d.o.o.	Agriculture	80,99%
Zlatni rat - Servis d.o.o.	Maintenance	80,99%
Zlatni rat - Tenis centar d.o.o.	Tennis operator	80,99%
Plaža Zlatni rat d.o.o.	Beach manager	80,99%
Eko – promet d.o.o.	Transport	41,39%
Aerodrom Brač d.o.o.	Airport	50,19%
Sunce Vital d.o.o.	Health activity	100%
Brač 500 Plus d.o.o.	Cable car control	69,44%
Brela Jakiruša d.o.o.	Preparation and serving of food and beverages	100%

NOTE 1 – GENERAL INFORMATION (continued)

Sunce Hoteli d.d. is controlled by the Company Eagle Hills Real Estate Zagreb d.o.o. registered in Croatia, Hektorovićeva ulica 2, Zagreb.

Change in ownership structure 2021

On 23 March 2021, Eagle Hills Zagreb Real Estate d.o.o. entered into a share purchase agreement with Lucidus d.d. and holders of business shares of Sunce Ulaganja d.o.o. as sellers on the basis of which the Company Eagle Hills Zagreb Real Estate d.o.o. partly directly and indirectly acquired a total of 4,151,092 Ordinary shares of series A of the Company, designations SUKC-R-A with a nominal value of HRK 100 per share, which represent 69.71% of the share capital of the Company.

As at 31 December 2021, Eagle Hills Zagreb Real Estate d.o.o. has 38.56% of direct shares in Sunce Hoteli d.d. which represents 2,755,036 shares while the same Company through its 100% stake in Sunce Ulaganja d.o.o. has 42.05% of indirect shares, which represents a total of 80.61% of the total ownership of the Company Sunce Hoteli d.d.

NOTE 1 - GENERAL INFORMATION (continued)

Supervisory Board

Mohamed Ali Rashed Alabbar - Chairman of the Supervisory Board (since 26 April 2021)

Frederick William Howdon Durie - Deputy Chairman of the Supervisory Board (since 26 April 2021)

Ping Low - Member of the Supervisory Board (since 4 April 2021)

Ratomir Ivičić - Member of the Supervisory Board (since 26 April 2021)

Jako Andabak - President of the Supervisory Board (from 13 June 2017 to 26 April 2021)

Sanja Gagulić - Deputy Chairman of the Supervisory Board (from 13 June 2017 to 26 April 2021)

Ružica Andabak - Member of the Supervisory Board (from 13 June 2017 to 26 April 2021)

Ana Volk - Member of the Supervisory Board (from 13 June 2017 to 26 April 2021)

Ratomir Ivičić - Member of the Supervisory Board (since 1 July 2019)

Management Board

Shaikh Mubarak Ali Abdulla Hamad Alkhalifa - President of the Management Board (since 27 December 2021)

Hrvoje Veselko - President of the Management Board (from 1 August 2020 to 27 December 2021)

Kristijan Gagulić - Member of the Management Board (from 13 June 2017 to 26 April 2021)

Ivan Potkrajčić - Member of the Management Board (from 13 June 2017 to 26 April 2021)

1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Adoption of new and amended International Financial Reporting Standards

Standards and interpretations in force in the current period

The following new standards and amended existing standards issued by the International Accounting Standards and Interpretations Committee issued by the International Financial Reporting Interpretations Committee and adopted by the EU are in force in the current period:

- Amendments to IFRS 16 Leases and Concessions Needed for the COVID-19 Pandemic, issued on 31 March 2021 (effective date for annual periods beginning on or after 1 April 2021).
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Reform of Interest Rate Measures - Phase 2, issued on 27 August 2020 (effective date for annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 4 Insurance Contracts - Deferral to IFRS 9, issued on 25 June 2020 (effective date for annual periods beginning on or after 1 January 2021).

The adoption of these standards and interpretations did not have a material impact on the Company's and the Group's financial statements.

Standards and interpretations issued by the International Accounting Standards Board, which have been approved in the EU but are not yet in force

- **Amendments to IFRS 3** Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, all issued on 14 May 2020 (effective for annual periods beginning on or after 1 January); January 2022).
- **Amendments** Annual Improvements 2018-2020, all issued on 14 May 2020 (effective date for annual periods beginning on or after 1 January 2022).
- **IFRS 17** Insurance Contracts, issued on 18 May 2017; includes amendments to IFRS 17 issued on 25 June 2020, (effective date for annual periods beginning on or after 1 January 2023).

1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Adoption of new and amended International Financial Reporting Standards (continued)

Standards and interpretations issued by the International Accounting Standards Board that have not yet been adopted in the EU

At the date of issue of these financial statements, the following standards, revisions and interpretations issued by the International Accounting Standards Board have not been adopted in the European Union. Approval is expected in 2022:

- Amendments to IAS 1 Presentation of Financial Statements, Classification of Liabilities as Short-Term or Long-Term, issued on 23 January 2020 and amended on 15 July 2020 (effective date for annual periods beginning on or after 1 January 2023). years).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Statement of Practice 2: Disclosure of Accounting Policies, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 12 Age Tax: Deferred Tax on Assets and Liabilities arising from Individual Transactions, issued on 7 May 2021 (effective date for annual periods beginning on or after 1 January 2023) .

The Company and the Group do not expect that the adoption of these standards and interpretations will have a material impact on the financial statements of the Company and the Group.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

Statement of compliance

Financial statements for the Company and the Group for the year ended 31 December 2021 have been prepared in accordance with the applicable laws in the Republic of Croatia and International Financial Reporting Standards as adopted by the European Union (IFRS).

Consolidated and separate financial statements have been prepared under the going concern basis, in which the effects of transactions are recognized when they are incurred and disclosed in the financial statements for the period to which they relate, and using the going concern basis.

The accounting policies have been consistently applied, unless otherwise noted. Consolidated and separate financial statements have been prepared using the historical cost method.

The financial statements for the Company and Group are denominated in Croatian Kuna (HRK) as the functional and reporting currency of the Group. At 31 December 2021, the exchange rate for 1 EUR amounted to 7,517174 HRK (31 December 2020: 7,536898 HRK).

These financial statements represent the financial position and results of the Company and the Group.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

a) Subsidiaries

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

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

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

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

b) Subsidiaries in separate financial statements

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

c) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. When the Group ceases to have control, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

2.2 Consolidation (continued)

c) Transactions with non-controlling interests (continued)

If an ownership interest in an associate is reduced but significant influence is retained, only a proportionate portion of the amounts previously recognized in other comprehensive income is reclassified to the statement of comprehensive income or loss when necessary.

d) Joint ventures

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

2.3 Investments in associates

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Goodwill / Bargain purchase

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

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

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

2.4.1 Merger of entities and transactions with companies under common control

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

2.5 Segment reporting

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Foreign exchange gains and losses are presented in the statement of comprehensive income under ‘Net financial expenses’.

2.7 Revenue from contracts with customers

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

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

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

Hotels in the ownership and lease

Primarily revenues arising from the operation of owned or leased hotels, including room rentals, food and beverage sales and other services, which are managed under the Company and Group's trademark. Revenue is recognized when rooms are used, food and beverages are sold or services are provided.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Revenue from contracts with customers (continued)

Contractual assets and liabilities

Contract assets

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

Trade receivables

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

Contract liabilities

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

2.8 Provisions

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial income and expenses

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

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

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

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

2.10 Taxation

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

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated and separate statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company and Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Taxation (continued)

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting date, the Company and Group reassesses unrecognized deferred tax assets and the appropriateness of the present value of tax assets.

Current and deferred taxes for the period

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

2.11 Property, plant and equipment

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

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

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

	2021.	2020.
Buildings (hotels, residential buildings)	20 – 66 years	20 – 66 years
Other buildings (playground, parking, news-stand etc.)	20 – 66 years	20 – 66 years
Vehicles	5 years	5 years
Computers	4- 5 years	4- 5 years
Plant and equipment	5 – 30 years	5 – 30 years
Furniture	5 – 20 years	5 – 20 years

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Property, plant and equipment (continued)

Land owned by the Company and Group where construction objects have not been built are revalued and are not amortized. Any increase in value utilized by revaluation of land is credited to the revaluation reserve for real estate, unless the increase reverses losses previously recognized in the statement of comprehensive income for the same asset, in which case the increase in value is recorded in the statement of comprehensive income up to the amounts previously recognized as losses.

Any revaluation increase arising on the revaluation of such land is credited in equity to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

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

2.12 Intangible assets

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

2.13 Impairment of tangible and intangible assets

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

Intangible assets with indefinite useful life and intangible assets that are not yet available for use are tested for impairment once a year and whenever there is an indication of possible impairment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of tangible and intangible assets (continued)

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

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

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

2.14 Lease

The Company and Group evaluates contracts to determine whether a contract contains a lease or not. That is, a lease is a contract (or part of a contract) that transfers the right to use the property (the subject property), for a certain period of time, in exchange for compensation.

Company and Group as lessee

The Company and Group applies a single recognition and measurement approach to all leases, except for short-term leases and low-value leases. The Company and Group recognizes lease obligations to pay leases and property, plant and equipment that represents the right to use the asset in question. There are two key concepts:

1. *Right-of-use asset*

The Company and Group recognize an right-of-use asset at the initial lease date (i.e., the amount of the initial measurement of lease liability). Right-of-use assets are measured at cost less accumulated depreciation and impairment losses, modified for any revaluation of lease obligations. The cost of a qualifying asset includes the amount of recognized lease liability, direct costs incurred any lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Lease (continued)

If ownership of the leased asset is transferred to the Company and Group at the end of the lease term or the cost reflects the exercise of the purchase option, depreciation is calculated taking into account the estimated useful life of the asset. Right-of-use asset are presented in a separate line of the statement of financial position.

Right-of-use assets are also subject to impairment. In accordance with accounting policies, depreciation is calculated as for Property, plant and equipment in accordance with IAS 16.

2. Lease liability

On the first date of the lease, the Company and Group recognizes lease obligations, measured at the present value of all lease payments that will arise during the lease term. Lease payments include fixed payments (including substantially fixed payments) less all lease incentive claims, variable lease payments that depend on an index or rate, and amounts expected to fall due under the guaranteed residual value. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which they are incurred or when the conditions that encourage payment are met. In calculating the present value of the lease, the Company and Group uses its own incremental borrowing rate at the inception of the lease because the interest rate included in the lease is not easy to determine. After the commencement date, the amount of the lease liability is increased to reflect the release of interest and is reduced by the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there are changes, changes in lease periods, changes in rent (e.g. changes in future payments resulting from changes in the index or rate used to determine such leases) or changes in the assessment of the option to purchase the asset. Lease liabilities are presented in a separate line of the consolidated and separate statement of financial position.

Short-term leases and low-value leases

The Company and Group applies the exemption for the recognition of short-term lease on its short-term leases (ie. leases that last 12 months or less). Leases that contain a purchase option cannot be classified as short-term leases. The Company and Group applies the asset recognition exemption to leases of office equipment that are considered to be of low-value. Rent for short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the term of the lease.

Company and Group as lessor

Leases in which the Company and the Group do not transfer substantially all the risks and rewards incidental to ownership of assets are classified as operating leases. Lease income is calculated on a straight-line basis over its lease terms and is included in income statement in the statement of comprehensive income due to its operational nature.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Inventories

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

2.16 Financial asset

Classification

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

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

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

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

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

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

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

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

(c) Financial assets at amortised cost

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Financial asset (continued)

Measurement and recognition

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

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

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

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

Impairment of financial assets

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade receivables

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

2.18 Cash and cash equivalents

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

2.19 Financial liabilities

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

During the preparation of the consolidated and separate financial statements, the management used certain judgements, estimates and assumptions that affect the carrying amount of assets and liabilities of the Company and the Group, disclosures of contingent items at the balance sheet date and income and expenses for that period.
Estimations have been used, but are not limited on: calculation of depreciation and useful lives, residual value of property, plant and equipment and tangible assets, estimation of recoverability of property, plant and equipment and recoverability of investments in subsidiaries, associates and joint ventures, value adjustment for inventories and doubtful receivables, provisions for employee benefits and legal cases.
More details on the accounting policies for these estimations are presented in other parts of notes, as well as other notes to the consolidated and separate financial statements. Future events and their effects cannot be estimated with a certainty. Due to that accounting estimates require judgement, and estimates that are used in the preparation of the financial statements are subject to changes from future events, additional experience, new additional information and changes in environment in which the Group operates. Actual results can differ from estimated results.

2.21 Contingent assets and liabilities

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

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

2.22 Government grants

According to the International Accounting Standard 20 – Government grants („IAS 20“), government grants are recognised when there is reasonable assurance that the grant will be received and any conditions attached to them have been fulfilled. According to IAS 20, the manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.

Due to the new circumstances caused by the COVID-19 pandemic, the Republic of Croatia has adopted a package of measures to preserve jobs in industries that are strongly affected by the pandemic, including government grants in the form of payment and/or liability reduction. The Company and Group is a recipient of certain government grants within the abovementioned package of measures in significant amount. Hence, an accounting policy concerning the presentment of government grants has been adopted in accordance with IAS 20. The Company and Group has selected to present the grants related to income as a deducted item of reported related costs in the same period. This approach is consistently applied to all similar government grants.
Also, government grants related to the acquisition of tangible assets are initially recognized as deferred income at fair value when there is reasonable assurance that they will be received and when the Company and the Company and Group comply with all conditions associated with them.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Government grants (continued)

The Company and Group has selected to present grants related to assets, as a deferred credit to be released to the profit or loss over the periods necessary to match the related depreciation charges.

2.23 Share capital

Share capital consists of ordinary shares. The consideration paid for treasury shares, including all directly attributable transaction costs, reduces the share capital attributable to shareholders of the Company and the Group until the shares are withdrawn, reissued or sold. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs, is included in equity attributable to shareholders of the Company and the Group.

2.24 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Company's shareholders by the weighted average number of ordinary shares issued during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

2.25 Events after the reporting date

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

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

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

3.1 Capital risk management

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

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

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

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of HRK)			
Debt /i/	424,269	502,210	424,215	502,120
Lease liabilities	8,585	23,136	8,585	23,136
Cash and cash equivalents	(242,185)	(17,993)	(241,402)	(17,779)
Net debt	**190,669**	**507,353**	**191,398**	**507,477**
Equity /ii/	988,701	769,879	992,887	774,135
Net debt-to-equity ratio	**19%**	**66%**	**19%**	**66%**

/i/ Debt consists of long-term and short-term loan liabilities. Short-term loan liabilities refer to the current maturity of long-term loans and short-term loans that fall due within one year after the balance sheet date.

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Significant accounting policies

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

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

The Group:

2021

	Cash, Loans and receivables	**Financial assets**	**Financial assets through comprehensive income**	**Total**
31 December 2021	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	131	-	-	131
Trade and other receivables	31,834	-	-	31,834
Loan receivables	-	-	-	-
Cash and cash equivalents	242,185	-	-	242,185
Total	**274,150**	**-**	**-**	**274,150**

2020

	Cash, Loans and receivables	**Financial assets**	**Financial assets through comprehensive income**	**Total**
31 December 2020	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	11,500	-	-	11,500
Trade and other receivables	42,627	-	-	42,627
Loan receivables	76,141	-	-	76,141
Cash and cash equivalents	17,993	-	-	17,993
Total	**148,621**	**-**	**-**	**148,621**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Significant accounting policies (continued)

The Company:

2021

	Cash, Loans and receivables	**Financial assets**	**Financial assets through comprehensive income**	**Total**
31 December 2021	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	131	-	-	131
Trade and other receivables	31,409	-	-	31,409
Loan receivables	2,938	-	-	2,938
Cash and cash equivalents	241,402	-	-	241,402
Total	**275,880**	**-**	**-**	**275,880**

2020

	Cash, Loans and receivables	**Financial assets**	**Financial assets through comprehensive income**	**Total**
31 December 2020	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	11,500	-	-	11,500
Trade and other receivables	42,213	-	-	42,213
Loan receivables	78,559	-	-	78,559
Cash and cash equivalents	17,779	-	-	17,779
Total	**150,151**	**-**	**-**	**151,151**

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Financial risk management

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

Market risk

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

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

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

Interest risk

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

The following table shows sensitivity of changes of interest rates relating to Company and Group's loans as of 31 December 2020 and 31 December 2019, with the assumptions that all other variables are constant, on income before taxes.

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

The average interest rates that applied in 2020 are increased or decreased by 1 percentage point (p.p.) Amounts are shown in thousands of HRK.

2021	**Increase / decrease in percentage**	**Effect on profit before taxes HRK'000**	
		Group	**Company**
HRK	+1 p.p.	(4,243)	(4,242)
HRK	-1 p.p.	(4,243)	(4,242)

2020	**Increase / decrease in percentage**	**Effect on profit before taxes HRK'000**	
		Group	**Company**
HRK	+1 p.p.	(5,020)	(5,020)
HRK	-1 p.p.	5,020	5,020

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Financial risk management (continued)

Foreign currency risk

The Company and the Group are mainly exposed to changes in the exchange rate against the Euro (EUR) because a significant part of trade receivables and income, cash and long-term borrowings are denominated in this currency. Other assets and liabilities are mostly denominated in HRK. This risk is managed through natural protection, such that the required amount of funds is kept in euros, in which long-term borrowings are denominated.

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

31 December	**2021.** **000' HRK**	**2020.** **000' HRK**
Trade receivables	6,466	3,456
Loans	-	-
Other receivables	3,258	1,489
Cash and cash equivalents	12,162	13,338
Borrowings	(424,269)	(494,010)
Lease liabilities	-	(23,136)
Trade and other payables	(6,045)	(19,536)
Other short term liabilities	-	-
Net (EUR)	**(408,428)**	**(518,399)**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Financial risk management (continued)

Foreign currency risk (continued)

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

31 December	2021. 000' HRK	2020. 000' HRK
Trade receivables	6,230	3,183
Loans	-	-
Other receivables	3,258	1,489
Cash and cash equivalents	11,659	13,301
Borrowings	(424,215)	(493,920)
Lease liabilities	-	(23,136)
Trade and other payables	(6,045)	(17,305)
Other short term liabilities	-	-
Net (EUR)	**(409,113)**	**(516,388)**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Financial risk management (continued)

Foreign currency risk (continued)

000' HRK	Group		Company	
	Short-term exposure	**Long-term exposure**	**Short-term exposure**	**Long-term exposure**
	EUR		EUR	
2021				
Financial assets	21,861	-	21,138	-
Financial liabilities	(64,849)	(381,596)	(64,811)	(381,580)
Total exposure	**(42,988)**	**(381,596)**	**(43,673)**	**(381,580)**
2020				
Financial assets	18,283	-	17,973	-
Financial liabilities	(98,373)	(438,309)	(96,105)	(438,256)
Total exposure	**(80,090)**	**(438,309)**	**(78,132)**	**(438,256)**

Sensitivity analysis

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

	Group		Company	
	2021 Effect on profit before taxes HRK'000	**2020** Effect on profit before taxes HRK'000	**2021** Effect on profit before taxes HRK'000	**2020** Effect on profit before taxes HRK'000
Weakening of HRK in relation to EUR by 1%	(4,204)	(5,133)	(4,210)	(5,113)

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

Credit risk

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

The Company and Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transaction concluded is spread amongst approved counterparties. The greatest part of credit risk is based on trade receivables.

Trade and other receivables

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

Liquidity risk

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

The following table shows the maturity of financial liabilities of the Company and Group at 31 December 2021 and 2020 according to the contracted non-discounted payments:

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Group	**Carrying value**	**Contracted cash flows**	**0 – 12 months**	**1 – 2 years**	**2 – 5 years**	**Over 5 years**
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2021						
Borrowings	424,269	464,801	51,719	50,822	147,496	214,764
Lease liabilities	8,585	8,585	7,945	640	-	-
Trade and other payables	34,748	34,748	34,748	-	-	-
Other liabilities	23,566	23,566	23,566	-	-	-
	491,168	**531,700**	**117,978**	**51,462**	**147,496**	**214,764**

Group	**Carrying value**	**Contracted cash flows**	**0 – 12 months**	**1 – 2 years**	**2 – 5 years**	**Over 5 years**
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2020						
Borrowings	502,210	543,612	88,011	68,590	198,363	188,648
Lease liabilities	23,136	25,173	8,061	10,395	6,717	-
Trade and other payables	50,862	50,862	50,862	-	-	-
Other liabilities	24,243	24,243	24,243	-	-	-
	600,451	**643,890**	**171,177**	**78,985**	**205,080**	**188,648**

Company	**Carrying value**	**Contracted cash flows**	**0 – 12 months**	**1 – 2 years**	**2 – 5 years**	**Over 5 years**
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2021						
Borrowings	424,215	464,831	51,749	50,822	147,496	214,764
Lease liabilities	8,585	8,585	7,945	640	-	-
Trade and other payables	32,112	32,112	32,112	-	-	-
Other liabilities	14,984	14,984	14,984	-	-	-
	479,896	**520,512**	**106,790**	**51,462**	**147,496**	**214,764**

Company	**Carrying value**	**Contracted cash flows**	**0 – 12 months**	**1 – 2 years**	**2 – 5 years**	**Over 5 years**
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2020						
Borrowings	502,120	543,612	88,011	68,590	198,363	188,648
Lease liabilities	23,136	25,173	8,061	10,395	6,717	-
Trade and other payables	47,894	47,894	47,894			
Other liabilities	15,729	15,729	15,729			
	588,879	**632,408**	**159,695**	**78,985**	**205,080**	**188,648**

NOTE 4 – SEGMENT INFORMATION

Basic reporting format – business segments

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

Statement of comprehensive income for the year ended 31 December 2021 by business segments is as follows:

(in thousands of HRK)	**Hotels**	**Other segments**	**Unallocated**	**Total**
Total segment revenue	322,488	3,835	372	326,695
Inter segment revenue	(64)	(60)	-	(124)
Revenue from external costumers	**322,424**	**3,775**	**372**	**326,571**
Operating expenses	(248,663)	(2,807)	-	(251,470)
EBITDA	**73,761**	**968**	**372**	**75,101**
Depreciation and amortisation	(60,084)	(2,169)	-	(62,253)
EBIT	**13,677**	**(1,201)**	**372**	**12,848**
Share in loss of associates and joint ventures				482
Finance expense - net				(15,908)
Profit before taxes				**(2,578)**
Income tax				4,629
Profit for the year				**2,051**
Attributable to:				
Owners of the Parent Company				2,286
Non-controlling interest				(235)

Non-allocated income mainly includes rental income, income from write-offs of trade payables, subsequently determined revenues, revenues from pre-invoiced costs, revenues from transport services and revenues from subsequent approvals.

NOTE 4 – SEGMENT INFORMATION (continued)

Statement of comprehensive income for the year ended 31 December 2020 by business segments is as follows:

(in thousands of HRK)	**Hotels**	**Other segments**	**Unallocated**	**Total**
Total segment revenue	142,970	2,342	666	145,978
Inter segment revenue	-	(60)	-	(60)
Revenue from external costumers	**142,970**	**2,282**	**666**	**145,918**
Operating expenses	(176,901)	(3,452)	37,614	(142,739)
EBITDA	**(33,931)**	**(1,170)**	**38,280**	**3,179**
Depreciation and amortisation	(63,170)	(1,335)	-	(64,505)
EBIT	**(97,101)**	**(2,505)**	**38,280**	**(61,326)**
Share in loss of associates and joint ventures				(5,806)
Finance expense - net				(20,369)
Profit before taxes				**(87,501)**
Income tax				51,580
Profit for the year				**(35,921)**
Attributable to:				
Owners of the Parent Company				(34,889)
Non-controlling interest				(1,032)

Non-allocated income mainly includes rental income, income from write-offs of trade payables, subsequently determined revenues, revenues from reinvoicing, revenues from transport services, revenues from suppliers discounts, revenues from advertising services and management fee for the hotel Salve Regina - Marija Bistrica d.o.o.

NOTE 4 – SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

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

	Group		**Company**	
	2021	**2020**	**2021**	**2020**
	(in thousands of HRK)			
Foreign sales	278,975	114,001	276,098	112,392
Domestic sales	38,658	21,403	38,665	21,403
	317,634	**135,404**	**314,763**	**133,795**

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

	2021		**2020**	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Germany	57,191	21%	34,906	31%
Poland	25,312	9%	12,471	11%
Czech Republic	22,973	8%	9,497	8%
Slovenia	21,042	8%	7,062	6%
Austria	20,875	7%	5,170	5%
Great Britain	20,000	7%	3,174	3%
Bosnia and Herzegovina	18,483	7%	5,105	4%
Ukraine	13,732	5%	10,249	9%
Sweden	8,609	3%	3,199	3%
Other countries	70,758	25%	23,168	20%
	278,975	**100%**	**114,001**	**100%**

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

NOTE 5 – OTHER INCOME

	Group		Company	
	2021	**2020**	**2021**	**2020**
	(in thousands of HRK)			
Rent income	2,791	3,027	2,677	2,922
Income from grants	1,069	1,846	557	1,367
Tourist agency fee income	818	173	818	173
Revenue from supplier approval	427	434	427	434
Penalty income	288	450	288	450
Revenue from approvals	97	2,071	97	2,071
Revenues from the call center	9	125	9	125
Management fee	-	316	-	316
Advertising income	-	116	-	116
Other income	3,438	1,956	2,224	1,867
	8,937	**10,514**	**8,097**	**9,841**

The category "Other revenues" in 2021 and 2020 includes revenues from write-offs of liabilities to suppliers, subsequently determined revenues, revenues from pre-invoiced costs, revenues from transport services and etc.

NOTE 6 – COST OF MATERIALS AND SERVICE

	Group		Company	
	2021	**2020**	**2021**	**2020**
	(in thousands of HRK)			
Raw materials and supplies				
Raw materials and supplies used	(38,413)	(18,428)	(38,365)	(18,395)
Energy and water used	(11,760)	(7,693)	(11,571)	(7,528)
Small inventory	(3,047)	(2,857)	(3,017)	(2,844)
Cost of goods sold	(712)	(360)	(707)	(351)
	(53,932)	**(29,338)**	**(53,660)**	**(29,118)**
External services				
Maintenance	(8,968)	(5,028)	(8,967)	(5,028)
Communal fees	(8,891)	(6,948)	(8,828)	(6,889)
Advertising and promotion	(8,511)	(7,486)	(8,285)	(7,294)
Intellectual services /i/	(4,708)	(3,905)	(4,629)	(3,848)
Laundry and cleaning services	(4,397)	(2,128)	(4,397)	(2,128)
Rent	(3,222)	(1,624)	(3,198)	(1,602)
Transportation and telecommunication	(2,640)	(1,373)	(2,639)	(1,371)
Animation and entertainment	(1,897)	(1,603)	(1,822)	(1,559)
Other services /ii/	(2,741)	(1,602)	(2,597)	(1,464)
	(45,975)	**(31,697)**	**(45,362)**	**(31,183)**
Total costs of materials and services	**(99,907)**	**(61,035)**	**(99,022)**	**(60,301)**

/i/ Statutory audit services fees to the auditor of the Company's and the Group financial statements amounted to HRK 541 thousand (2020: HRK 450 thousand).

Fees for other audit services required by law, provided by Ernst & Young d.o.o. amount to HRK 75 thousand.

/ii/ Other services for 2021 and 2020 mainly consist of communal and environmental services, occupational safety and environmental services, external staff services and quality control services.

NOTE 7 – EMPLOYEE COSTS

	Group		Company	
	2021	**2020**	**2021**	**2020**
	(in thousands of HRK)			
Net salaries	(68,544)	(56,395)	(67,063)	(54,922)
Contributions, taxes and surtax	(37,115)	(30,854)	(36,290)	(30,032)
Accrued overtime and unused vacation	1,570	2,936	1,585	2,981
Termination benefits and jubilee awards	58	(19)	63	(6)
Other employee costs /i/	(19,474)	(9,946)	(19,307)	(9,858)
Government support for employees (Covid 19)	28,477	37,614	27,563	37,136
	(95,028)	**(56,664)**	**(93,449)**	**(54,701)**

Company and Group

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

During 2021, the average number of staff employed by the Group was 985 (2019.: 820 employees).

Contributions paid in mandatory pension funds during 2021 amounted to HRK 18,991 thousand (2020.: HRK 14,354 thousand), to State pension funds amounts to 14,707 thousand (2020.: HRK 12,211 thousand) and private pension fund amounts to HRK 4,284 thousand (2020.: HRK 2,142 thousand).

Continuing from 2020, during 2021 the Company and the Group took a number of actions and measures in response to the disruption caused by the COVID-19 crisis to adapt to the new circumstances. The measures and actions taken refer to independent measures, but also those that are enabled by legal changes to help the tourism sector, which was adopted by the Government of the Republic of Croatia. In accordance with the measures for the preservation of jobs in the activities affected by COVID-19, grants were requested and approved to ensure a minimum wage of HRK 4,000 per employee, the total grants paid amount to HRK 19,368 thousand. In addition to the state aid in the form of payment for the part of the net salary of employees, incentive measures provide for the write-off of taxes and contributions for the percentage in which the Company has reduced revenue, the total amount of exemption for 2021 is HRK 9,109 thousand. The Company used the described measures to preserve jobs in the period from January to July 2021.

NOTE 8 – OTHER OPERATING EXPENSES

	Group		Company	
	2021	2020	2021	2020
	(in thousands of HRK)			
Commission to travel agencies and credit cards institutions	(21,463)	(8,277)	(21,443)	(8,266)
Disposals of property, plant and equipment	(14,601)	(885)	(14,601)	(885)
Municipal and similar charges and contributions	(4,487)	(4,277)	(4,473)	(4,262)
Insurance premiums	(3,461)	(3,194)	(3,298)	(3,107)
Bank fees	(2,679)	(1,285)	(2,671)	(1,277)
Value adjustment of other receivables from related parties	(2,041)	-	(2,041)	-
Value adjustment of tangible fixed assets	(1,689)	-	(1,689)	-
Representation cost (hosting and mediation)	(1,271)	(1,590)	(1,257)	(1,577)
Business travel expenses	(805)	(405)	(761)	(382)
Provisions for impairment of trade and other receivables (note 18)	(711)	(1,146)	(711)	(1,146)
Staff education cost and other similar cost	(305)	(479)	(252)	(428)
Legal proceedings costs	(114)	(619)	(114)	(619)
Supervisory Board costs	(83)	(111)	(83)	(111)
Other	(2,825)	(2,772)	(2,796)	(2,702)
	(56,535)	**(25,040)**	**(56,190)**	**(24,762)**

Company and Group

/i/ Sunce Hotels d.d. at the end of 2021 wrote off work in progress assets in the amount of HRK 14,601 thousand. The written-off assets refer to project documentation related to previous unrealized projects in the destinations of Bol and Brela, which the Company abandoned in 2021.

NOTE 9 – FINANCIAL EXPENSES – NET

	Group		Company	
	2021	2020	2021	2020
	((in thousands of HRK)			
Financial income				
Interest income	1,134	3,501	1,147	3,558
Other financial income	867	-	867	-
Net exchange rate differences	1,161	-	1,182	-
	3,162	**3,501**	**3,196**	**3,558**
Financial expenses				
Interest expense	(9,579)	(10,104)	(9,575)	(10,095)
Net exchange rate differences	-	(6,007)	-	(6,005)
Value adjustment of financial assets (Note 15)	(5)	(5,791)	(505)	(5,791)
Fee and other related costs	(8,870)	(1,028)	(8,869)	(1,026)
Interest expense (IFRS 16)	(616)	(940)	(616)	(940)
	(19,070)	(23,870)	(19,565)	(23,857)
	(15,908)	(20,369)	(16,369)	(20,299)

Company and Group
/i/ Fees and other related costs for 2021 mostly relate to the costs of processing previous loans (early repayment fee, loss of profit fee, etc.) incurred due to refinancing of existing loan liabilities during November 2021 (Note 23).

NOTE 10 – INCOME TAX

Calculation of corporate income tax for the year ended 31 December 2021 is as follow:

	Group		Company	
	2021	2020	2021	2020
	(in thousands of HRK)			
Profit before tax	**(2,578)**	**(87,501)**	**(2,577)**	**(84,701)**
Non-deductible expenses	6,069	17,763	6,030	17,083
Tax deductible income	(30,100)	(40,806)	(29,167)	(42,947)
Taxable profit	**(26,609)**	**(110,544)**	**(25,714)**	**(110,565)**
Used tax losses carried forward from previous years	-	-	-	-
Tax basis	**(26,609)**	**(110,544)**	**(25,714)**	**(110,565)**
Income tax (18%)		-		-
Deferred tax (note 12)	4,629	51,580	4,629	51,580
Income tax	**4,629**	**51,580**	**4,629**	**51,580**
Tax losses to be carried forward	**177,678**	**153,388**	**173,250**	**147,836**
Effective tax rate	**-**	**56.63%**	**-**	**-**

The applicable corporate income tax rate for 2021 was 18% (2020: 18%).

NOTE 10 – INCOME TAX (continued)

These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2020 tax losses carried forward amount to HRK 153,388 thousand (Group) and HRK 147,836 thousand (Company) and can be used as follows:

	Group		Company*	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	(in thousands of HRK)			
2021	-	2,761	-	300
2022	4,227	4,227	4,055	4,055
2023	32,682	32,682	32,474	32,474
2024	3,878	3,878	3,715	3,715
2025	109,840	109,840	107,292	107,292
2026	27,051	-	25,714	-
	177,678	**153,388**	**173,250**	**147,836**

* Of the total tax loss carried forward in the amount of HRK 147,836 thousand, HRK 28,472 thousand relates to the merged subsidiary Company Hotel Alan d.d..

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

NOTE 11 – EARNINGS PER SHARE

Basic and diluted

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

	Group	
	2021	**2020**
Net profit attributable to owners of the parent Company (in thousands of HRK)	2,286	(34,889)
Weighted average number of shares (decreased by treasury shares)	5,938,271	5,939,596
Earnings per share (in HRK)	**0,39**	**(5,87)**

NOTE 12 – DEFERRED TAX ASSETS

	Group		Company	
	31.12.2021	**31.12.2020**	**31.12.2021**	**31.12.2020**
	(in thousands of HRK)			
Tax incentives for investments	32,268	32,268	32,268	32,268
Tax loss carried forward – Sunce Hoteli d.d.	19,312	19,312	19,312	19,312
Tax loss carried forward- Hotel Alan d.d. (merged Company)	5,169	5,169	5,169	5,169
Deferreed tax asset 2021.	4,629		4,629	
Tax loss carried forward – Hoteli Zlatni Rat d.d. (merged Company)	-	-	7,726	7,726
As at 31 December	**61,378**	**56,749**	**69,104**	**64,475**

On June 29, 2020, based on the Certificate of the Ministry of the Economy, Entrepreneurship and Crafts in accordance with the Investment Promotion Act (OG 102/15, 25/18, 114/18, 32/20), the Company and the Group received the status of beneficiaries of tax incentives. CLASS: 404-01/16-01/43). The investment project refers to the reconstruction and renovation of the hotels Berulia (5 *), Soline (4 *), and Alga (4 *) at the locations of Brela and Tučepi. During 2017, 2018 and 2019, a total of HRK 130 million of eligible costs for incentives was invested in these hotels, on the basis of which a maximum aid intensity of HRK 32.3 million was obtained. The Company and the Group have the right to use the tax relief until the end of 2027.

The Company and the Group recognized deferred tax assets for the determined tax loss in 2020 in the amount of HRK 19,312 thousand.

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

NOTE 12 – DEFERRED TAX ASSET (continued)

In the process of merger in 2020, the Company acquired the deferred tax assets of the merged Company Hoteli Zlatni rat d.d. in the amount of HRK 7,726 thousand, which relates to non-tax deductible expense from the impairment of a loan to a related Company in the amount of HRK 42,922 thousand, which is a temporary difference whose tax effect was recorded by the Company.

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

NOTE 13 - INTANGIBLE ASSETS

Group

(in thousands of HRK)	Software	Licenses	Other	Assets under construction	Total
For the year ended 31 December 2020					
As at 1 January 2020					
Cost	7,391	1,144	2,326	-	10,861
Accumulated amortisation	(6,708)	(974)	(2,326)	-	(10,008)
Carrying amount	**683**	**170**	**-**	**-**	**853**
As at 1 January 2020	**683**	**170**	**-**	**-**	**853**
Additions	74	35	-	53	162
Sale and write-off	-	-	-	-	-
Transfers	53	-	-	(53)	-
Amortization	(231)	(43)	-	-	(274)
Sale and write-off	-	-	-	-	-
As at 31 December 2020	**(104)**	**(8)**	**-**	**-**	**(112)**
As at 31 December 2020					
Cost	7,518	1,179	2,326	-	11,023
Accumulated amortisation	(6,939)	(1,017)	(2,326)	-	(10,282)
Carrying amount	**579**	**162**	**-**	**-**	**741**

(in thousands of HRK)	Software	Licenses	Other	Assets under construction	Total
For the year ended 31 December 2021					
As at 1 January 2021					
Cost	7,518	1,179	2,326	-	11,023
Accumulated amortisation	(6,939)	(1,017)	(2,326)	-	(10,282)
Carrying amount	**579**	**162**	**-**	**-**	**741**
	579	**162**	**-**	**-**	**741**
Additions	298	771	-	2,128	3,197
Sale and write-off	(674)	(136)	-	-	(810)
Transfers	650	-	-	(650)	-
Amortization	(296)	(39)	-	-	(335)
Sale and write-off	200	125	-	-	325
As at 31 December 2021	**757**	**883**	**-**	**1,478**	**3,118**
As at 31 December 2021					
Cost	7,792	1,814	2,326	1,478	13,410
Accumulated amortisation	(7,035)	(931)	(2,326)	-	(10,292)
Carrying amount	**757**	**883**	**-**	**1,478**	**3,118**

NOTE 13 - INTANGIBLE ASSETS (continued)

Company

(in thousands of HRK)	**Software**	**Right of use**	**Other**	**Assets under constructi on**	**Total**
For the year ended 31 December 2020					
As at 1 January 2020					
Cost	548	146	-	-	694
Accumulated amortisation	(422)	(95)	-	-	(517)
Carrying amount	**126**	**51**	**-**	**-**	**177**
As at 1 January 2020	**126**	**51**	**-**	**-**	**177**
Additions	460	126	-	-	586
Sale and write-off	74	34	-	53	161
Merger Sunce Global d.o.o.	-	-	-	-	-
Transfers	53	-	-	(53)	-
Amortization	(213)	(43)	-	-	(256)
Sale and write-off	-	-	-	-	-
As at 31 December 2020	**500**	**168**	**-**	**-**	**668**
As at 31 December 2020					
Cost	1,135	306	-	-	1,441
Accumulated amortisation	(635)	(138)	-	-	(773)
Carrying amount	**500**	**168**	**-**	**-**	**668**

(in thousands of HRK)	**Software**	**Right of use**	**Other**	**Assets under construction**	**Total**
For the year ended 31 December 2021					
As at 1 January 2021					
Cost	1,135	306	-	-	1,441
Accumulated amortisation	(635)	(138)	-	-	(773)
Carrying amount	**500**	**168**	**-**	**-**	**668**
	500	**168**	**-**	**-**	**668**
Additions	298	771	-	2,128	3,197
Sale and write-off	(674)	(136)	-	-	(810)
Transfers	650	-	-	(650)	-
Amortization	(281)	(39)	-	-	(320)
Sale and write-off	200	125	-	-	325
As at 31 December 2021	**693**	**889**	**-**	**1,478**	**3,060**
As at 31 December 2021					
Cost	1,409	941	-	1,478	3,828
Accumulated amortisation	(716)	(52)	-	-	(768)
Carrying amount	**693**	**889**	**-**	**1,478**	**3,060**

NOTE 13.1 – RIGHT-OF-USE ASSET

This note contains information on leases where the Company and Group is the lessee:

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of HRK)			
Amounts recognized in the statement of financial position				
Right-of-use asset				
Buildings (tourist resort)	4,776	7,592	4,776	7,592
Office building	613	9,368	613	9,368
Other	1,930	5,314	1,930	5,314
	7,319	**22,274**	**7,319**	**22,274**
Lease liabilities				
Long – term	640	15,934	640	15,934
Short – term	7,945	7,202	7,945	7,202
	8,585	**23,136**	**8,585**	**23,136**
Amounts recognized in the income statement and other comprehensive income for the period				
Depreciation of property, plant and equipment	6,854	7,177	6,854	7,177
Interest (Note 9)	616	940	616	940
	7,470	**8,117**	**7,470**	**8,117**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

Group

For the year ended 31 December 2020 *(in thousands of HRK)*	**Land**	**Buildings**	**Vehicles**	**Plant and equipment**	**Assets under construction**	**Total**
As at 1 January 2020						
Cost	116,124	1,469,548	12,491	330,870	21,420	1,950,453
Accumulated depreciation	-	(587,568)	(9,206)	(240,956)	-	(837,730)
Carrying amount	**116,124**	**881,980**	**3,285**	**89,914**	**21,420**	**1,112,723**
Additions	-	3,604	86	2,290	4,700	10,680
Sales and Disposal	-	(12)	(68)	(6,309)	-	(6,389)
Transfers	-	2,029	39	1,306	(3,374)	-
Land revaluation	224	-	-	-	-	224
Depreciation	-	(39,553)	(869)	(16,632)	-	(57,054)
Sales and Disposal	(25)	-	58	5,423	-	5,456
As at 31 December 2020						
Cost	116,348	1,475,169	12,548	328,157	22,746	1,954,968
Accumulated depreciation	(25)	(627,121)	(10,017)	(252,165)	-	(889,328)
Carrying amount	**116,323**	**848,048**	**2,531**	**75,992**	**22,746**	**1,065,640**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

For the year ended 31 December 2021 *(in thousands of HRK)*	**Land**	**Buildings**	**Vehicles**	**Plant and equipment**	**Assets under construction**	**Total**
As at 1 January 2021						
Cost	116,348	1,475,169	12,548	328,157	22,746	1,954,968
Accumulated depreciation	(25)	(627,121)	(10,017)	(252,165)	-	(889,328)
Carrying amount	**116,323**	**848,048**	**2,531**	**75,992**	**22,746**	**1,065,640**
Addition	-	2,015	70	4,111	64,970	71,166
Sales and Disposal	-	(447)	(6,380)	(30,271)	(14,601)	(51,699)
Transfers	23	3,492	451	6,673	(10,639)	-
Land revaluation	-	564	-	-	(564)	-
	(2,805)	-	-	-	-	(2,805)
Depreciation						
Sales and Disposal	-	(39,650)	(565)	(14,849)	-	(55,064)
	-	214	5,242	25,761	-	31,216
As at 31 December 2021	-	(1,689)	-	-	-	(1,689)
Cost						
Accumulated depreciation						
Carrying amount	113,566	1,480,793	6,689	308,670	61,912	1,971,630
	(25)	(668,246)	(5,341)	(241,253)	-	(914,865)
	113,541	**812,547**	**1,348**	**67,417**	**61,912**	**1,056,765**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

For the year ended 31 December 2020 *(in thousands of HRK)*	**Land**	**Buildings**	**Vehicles**	**Plant and equipment**	**Assets under construction**	**Total**
As at 1 January 2020						
Cost	-	-	5,530	1,926	-	7,456
Accumulated depreciation	-	-	(3,704)	(1,484)	-	(5,188)
Carrying amount	**-**	**-**	**1,826**	**442**	**-**	**2,268**
Merger of subsidiaries	115,170	1,410,273	3,013	322,487	18,469	1,869,412
Addition	-	3,604	86	2,290	3,751	9,731
Sales and disposal	-	(12)	(68)	(6,309)	-	(6,389)
Transfers	-	1,257	39	1,304	(2,600)	-
Land revaluation	224	-	-	-	-	224
Depreciation		(557,521)	(2,562)	(236,504)		(796,587)
Sales and Disposal	-	(38,760)	(711)	(16,267)	-	(55,738)
	(25)	-	58	5,423	-	5,456
As at 31 December 2020						
Cost						
Accumulated depreciation	115,394	1,415,122	8,600	321,698	19,620	1,880,434
Carrying amount	(25)	(596,281)	(6,919)	(248,832)	-	(852,057)
	115,369	**818,841**	**1,681**	**72,866**	**19,620**	**1,028,377**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

For the year ended 31 December 2021 *(in thousands of HRK)*	**Land**	**Buildings**	**Vehicles**	**Plant and equipment**	**Assets under construction**	**Total**
As at 1 January 2021						
Cost	115,394	1,415,122	8,600	321,698	19,620	1,880,434
Accumulated depreciation	(25)	(596,281)	(6,919)	(248,832)	-	(852,057)
Carrying amount	**115,369**	**818,841**	**1,681**	**72,866**	**19,620**	**1,028,377**
Addition	-	2,015	70	4,111	64,411	70,607
Sales and disposal	-	(447)	(6,380)	(30,271)	(14,601)	(51,699)
Transfers	-	3,492	152	6,471	(10,115)	-
Other transfers	-	564	-	-	(564)	-
Land revaluation	(2,805)	-	-	-	-	(2,805)
Merger of subsidiaries	-	(38,822)	(407)	(14,486)	-	(53,715)
Depreciation	-	214	5,241	25,761	-	31,216
Sales and Disposal	-	(1,689)	-	-	-	(1,689)
As at 31 December 2021						
Cost	112,589	1,420,746	2,442	302,009	58,751	1,896,537
Accumulated depreciation	(25)	(636,578)	(2,085)	(237,557)	-	(876,245)
Carrying amount	**112,564**	**784,168**	**357**	**64,452**	**58,751**	**1,020,292**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Group

The Group has engaged independent appraisers for the purpose of assessing the value of construction facilities and land of the Group. Estimated value of the Group's property amounts to HRK 1,330,302 thousand as at 31 December 2021 (2020: 1,329,478 thousand HRK). Appraisal values of real construction facilities and land are not lower than their carrying value.

As at 31 December 2021, the net book value of land and buildings pledged as collateral for the repayment of long-term borrowings (Note 23) amounted to HRK 609,754 thousand (2020: HRK 636,487 thousand).

The gross carrying value of property, plant and equipment which are fully depreciated and still in use as of 31 December 2021 amounts to HRK 193,678 thousand (2020: HRK 209,145 thousand).

Carrying value of Group's assets purchased on finance lease as at 31 December 2021 amounts to HRK 259 thousand (2020: HRK 376 thousand).

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

The Company and Group has recognised in the statement of financial position land designated as maritime demesne in the amount of HRK 1,409 thousand (2020: HRK 1,409 thousand) and HRK 1,409 thousand (2020: HRK 3,158 thousand). These buildings were built by the Company and Group on this land before the land was designated maritime demesne. The usage of real estate on maritime demesne is determined based on concession rights. The Company and Group has not signed a concession agreement with the State and therefore it is not clear if the Company and the Group will be able to continue using these buildings without a concession agreement in place. The Company and the Group is not able to currently determine any potential liability for not paying any concession fees in the past for the usage of such land, or whether there is impairment in the value of these buildings.

The Company and Group discloses in its property certain properties on which ownership has not yet been resolved and the Company and Group is in the process of resolving various court disputes based on ownership of those properties. After the resolution of court disputes, if the final outcome is negative for the Company and Group, it may be necessary to recognize the impairment of land and buildings. Based on the Company and Group's best estimate, 1/5 of the mentioned properties are covered by court disputes, which is a common situation in the Republic of Croatia (note 29).

NOTE 15 – INVESTMENT IN ASSOCIATES AND JOINT VENTURE

Group

	31.12.2021.		31.12.2020.	
	(in thousands of HRK)	**Interest held**	*(in thousands of HRK)*	**Interest held**
Praona d.o.o., Makarska	2,200	42%	2,241	42%
WOT Hotels Adriatic Asset Company d.o.o.	73,652	50%	73,130	50%
WOT Hotels Adriatic Management d.o.o.	-	49%	-	49%
	75,852		**75,371**	

Company

	31.12.2021.		31.12.2020.	
	(in thousands of HRK)	**Interest held**	*(in thousands of HRK)*	**Interest held**
Praona d.o.o., Makarska	2,200	42%	2,241	42%
WOT Hotels Adriatic Asset Company d.o.o.	73,652	50%	73,130	50%
WOT Hotels Adriatic Management d.o.o.	-	49%	-	49%
	75,852		**75,371**	

Movements on the group investments during 2020 and 2019 in associates and joint venture are as follows:

	31.12.2021.	31.12.2020.
	(in thousands of HRK)	
January 1	**75,371**	**86,968**
Share in (loss) / profit of associate (Praona d.o.o.)	(41)	(760)
Share in loss of joint venture (WOT Hotels Adriatic Asset Company d.o.o.)	523	(4,971)
(Loss) / profit share of WOT Hotels Adriatic Management d.o.o.	(1)	(75)
Impairment of investments in WOT Hotels Adriatic Asset Company d.o.o. *(i)*	-	(5,791)
December 31	**75,852**	**75,371**

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

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

	2021	2020
Financial position		
Current assets	1,835	2,577
Non-current assets	12,494	13,949
Short-term liabilities	(2,027)	(2,446)
Long term liabilities	(6,995)	(8,744)
Net assets	**5,307**	**5,336**
Profit and loss account		
Revenues	7.752	2.322
Expenses	(7.849)	(4.131)
Loss	**(97)**	**(1,809)**
Group share	**(41)**	**(760)**

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

Summarized financial information for the company WOT Hotels Adriatic Asset Company d.o.o. is shown below.

	2021 (unaudited)	2020
Financial position		
Current assets	11,699	5,453
Non-current assets	240,753	248,927
Short-term liabilities	(19,366)	(16,630)
Long term liabilities	(74,194)	(79,917)
Net assets	**158,892**	**157,833**
Profit and loss account		
Revenues	31,367	19,171
Expenses	(30,321)	(29,112)
Profit / (Loss)	**1,046**	**(9,941)**
Group share	**523**	**(4,971)**

At 31 October 2017 Group has entered into a joint venture agreement in company WOT Hotels Adriatic Asset Company d.o.o. which was set up as a partnership together with TUI AG, Germany. The principal place of business of the joint venture is in Tučepi in Croatia.

The joint venture agreement requires the unanimous consent of both parties for all relevant activities. Partners have direct rights to the assets of a joint venture and are collectively and individually responsible for partnership obligations. The company is therefore classified as a joint venture and the Group recognizes the direct right to common assets, liabilities, revenues and expenses as described in Note 2.2.

Name of entity	Place of business/ country of incorporation	% of ownership interest 2021	% of ownership interest 2020	Nature of business	Recognition method	Carrying amount as of 31 Dec 2019 *(in thousands of HRK)*
WOT Hotels Adriatic Asset Company d.o.o.	Tučepi, Croatia	50%	50%	Hospitality and tourism	Equity method	73,652

NOTE 15.1 – INVESTMENT IN SUBSIDIARIES

Company

	31 Dec 2021		31 Dec 2020	
	(in thousands of HRK)	**Interest held**	*(in thousands of HRK)*	**Interest held**
Aerodrom Brač d.o.o.	20,010	50%	20,010	50%
Brač 500 Plus d.o.o.	500	69%	500	69%
Brela Jakiruša d.o.o.	20	100%	20	100%
Sunce Vital d.o.o.	20	100%	20	100%
Value adjustment /i/	(500)		-	
	20,050		**20,550**	

/i/ During 2021, the Company carried out a value adjustment of investments in the subsidiary Brač 500 Plus d.o.o. due to the irrecoverability of the initial investment.

Calculation of the recoverable amount of the investment in the subsidiary Aerodrom Brač d.o.o .:

In 2021, the Company conducted a test of the recoverability of investments in the subsidiary Aerodrom Brač d.o.o. The recoverable amount was determined based on their value in use. Value in use is determined by discounting future cash flows.

For the purposes of conducting the impairment test, the cash flow projection period is 7 years, with the last (7th) year used to calculate the residual value.

Projected cash flows are based on the best knowledge and beliefs of the Company and the Group, and in accordance with historical and expected future growth rates.

Discount rate

Annual pre-tax discount rate used to discount the projected cash flows of Aerodrom Brač d.o.o. amounts to 8.03% and reflects the market estimate of the weighted average cost of capital of the said Company.

For the purposes of the calculation, an average growth rate of 3.7% was used in the stated cash flow projection period. The discount rate was set at 8.03%.

Sensitivity to significant changes in assumptions

Residual value in the impairment test is reported based on the business performance of the Company in question, which in cash flow projections shows business results at levels higher before the impact of COVID-19 and which in the coming years include the previously mentioned growth rates. Residual value has a significant effect on the determination of the recoverable amount and the resulting positive difference between the recoverable amount and the carrying amount of the subsidiary. Possible reasonable changes in significant assumptions, including short-term changes in the expected recovery period and reasonable changes in cash flow of residual value, are unlikely to result in significant effects on established results and thus the need for impairment in the Company's books, assuming overall recovery expectations as before the impact of COVID-19.

NOTE 16 – LONG-TERM RECEIVABLES

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of HRK)			
Deposits in banks	110	132	110	132
Accrued expenses	21	-	21	-
Interest receivables from related parties /i/	-	11,308	-	11,308
Trade receivables	-	60	-	60
	131	**11,500**	**131**	**11,500**

/i/ Interest receivables relate to a loan granted to an affiliated Company Lucidus d.d. During April 2021, the Company and the Group collected the entire amount of interest receivables.

NOTE 17 – INVENTORIES

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of HRK)			
Raw materials and consumables	2,735	3,401	2,722	3,389
Small inventory and spare parts of tangible assets	444	346	444	346
Merchandise	216	241	118	138
Advances given to related companies	-	-	-	-
	3,395	**3,988**	**3,284**	**3,873**

NOTE 18 – TRADE RECEIVABLES

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of HRK)			
Trade receivables	34,104	35,380	33,516	34,826
Trade receivables – related companies	2,662	4,393	2,728	4,405
Less provision for impairment of trade receivables	(30,705)	(30,783)	(30,418)	(30,496)
Trade receivables – net	**6,061**	**8,990**	**5,826**	**8,735**
Advances given	405	649	404	646
Advances given to related companies	-	-	-	-
Trade receivables	**6,466**	**9,639**	**6,230**	**9,381**

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

As at 31 December 2021 past due trade receivables but not impaired relates to a number of several individual customers for whom Group and Company had no problems in collecting receivables in previous years.

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

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of HRK)			
Undue receivables	601	-	608	-
Less than 90 days	2,638	22	2,650	14
Between 90 and 180 days	605	3,725	596	3,654
Between 180 and 360 days	678	1,504	607	1,520
Later than 360 days	1,944	4,388	1,769	4,193
	6,466	**9,639**	**6,230**	**9,381**

The Company and Group as at 26 April 2021 has collected receivables from related parties in the amount of HRK 2,603 thousand which are presented above in “Later than 360 days” category.

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

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of HRK)			
EUR	6,466	3,456	6,230	3,183
HRK	-	6,183	-	6,198
	6,466	**9,639**	**6,230**	**9,381**

NOTE 18 - TRADE RECEIVABLES (continued)

Movements in the provisions for impairment of trade receivables:

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of HRK)			
At 1 January	**(30,783)**	**(30,261)**	**(30,496)**	**(2,117)**
Merger of subsidiaries		-		*(27,804)*
Charged/credited to the statement of comprehensive income (Note 8):				
Increase of impairment	(711)	(363)	(711)	(310)
Foreign exchange	108	(783)	108	(836)
	(603)	**(1,146)**	**(604)**	**(1,146)**
Receivables written-off		-		-
Collected receivables	681	624	681	571
At 31 December	**(30,705)**	**(30,783)**	**(30,418)**	**(30,496)**

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

NOTE 19 – OTHER RECEIVABLES

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of HRK)			
State receivable /ii/	9,673	3,965	9,501	3,819
Accrued income /i/	7,592	18,430	7,592	18,430
Prepaid expenses	6,127	7,428	6,109	7,424
Interest receivable from related parties (Note 31)	1,031	1,031	1,046	1,033
Receivables from employees	18	38	15	36
Other receivables from related parties	-	174	-	174
Other receivables	927	1,922	916	1,916
	25,368	**32,988**	**25,179**	**32,832**

/i/ Accrued income in the amount of HRK 7,317 thousand relates to COVID-19 aid for the protection of working places. Company and Group applied for grants and met the criteria for payment of direct aid and write-off of taxes and contributions, however as at 31 December 2021 direct aid in the amount of HRK 4,917 thousand was not paid and no tax and contribution exemptions in the amount of 2,400 thousands were implemented.

/ ii / Receivables from the State mainly relate to VAT and CIT receivables in the amount of HRK 7,662 thousand. The remaining amount mostly relates to receivables for exemption from the payment of contributions to and from salaries, related to state aid for the preservation of jobs that the Group and the Company received in the period January - July 2021.

NOTE 20 – LOANS

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of HRK)			
Long – term				
Loans to related parties (Note 31)	-	76,910	-	76,910
Loan loss allowance – IFRS 9 (Note 9)	-	(769)	-	(769)
	-	**76,141**	**-**	**76,141**
Short – term				
Loans to related parties (note 31)	-	-	2,938	2,418
	-	**-**	**2,938**	**2,418**
	-	**76,141**	**2,938**	**78,559**

Group and Company

On 26 April 2021, the Company and the Group collected the full amount of long-term loans granted from the related Company as part of the Company's sale transaction as described in Note 1.

Company

Short-term loans as at 31 December 2021 in the total amount of HRK 2,938 thousand relate to a loan granted to the subsidiary Aerodrom Brač d.o.o. in the amount of HRK 2,898 thousand, approved with an interest rate of 3.96% maturing in December 2022 and a loan granted to the subsidiary Sunce Vital d.o.o. in the amount of HRK 40 thousand approved with an interest rate of 3.96% maturing in December 2022. Loans are approved in local currency and secured by promissory notes.

NOTE 21 – CASH AND CASH EQUIVALENTS

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of HRK)			
Domestic currency accounts	229,992	4,628	229,719	4,467
Foreign currency accounts	12,162	13,338	11,659	13,301
Deposits in banks	22	-	22	-
Cash in hand	9	27	2	11
	242,185	**17,993**	**241,402**	**17,779**

NOTE 22 – SHARE CAPITAL

The authorized and registered share capital of the parent Company amounts to HRK 714,480 thousand and comprises 7,144,802 ordinary shares, with a nominal value of HRK 100 per share.

The ownership structure as at 31 December 2021 was as follows:

Shareholder	Number of shares	Nominal value	Share in %
Sunce Ulaganja d.o.o.	3,004,389	300,438,924	42.05
Eagle Hills Zagreb Real Estate d.o.o.	2,755,036	275,503,565	38.56
Erste Plavi OMF category B	1,049,571	104,957,141	14.69
Erste Plavi OMF category A	42,154	4,215,433	0.59
CERP – Republic of Croatia	37,153	3,715,297	0.52
Erste plavi expert – voluntary pension fund	32,152	3,215,161	0.45
Splićanka Tours d.o.o.	7,145	714,480	0.10
Erste closed voluntary pension fund	7,145	714,480	0.10
Other shareholders	210,057	21,005,719	2.94
	7,144,802	**714,480,200**	**100**

At the General Assembly held on December 20, 2021, the Company decided to increase the share capital from the amount of HRK 595,458,500 by HRK 119,021,700 to HRK 714,480,200 by issuing 1,190,217 ordinary shares. On 30 December, the Company received the Decision of the Commercial Court on the subscription of the share capital increase. The increase in share capital was made by cash payment by Eagle Hills Zagreb Real Estate d.o.o.

The ownership structure as at 31 December 2020 was as follows:

Shareholder	Number of shares	Nominal value	Share in %
Sunce Ulaganja d.o.o.	3,004,672	300,467,200	50.46
Lucidus d.d.	1,146,420	114,642,000	19.25
Erste plavi OMF category B	892,898	89,289,800	15.00
Raiffeisen OMF category B	156,134	15,613,400	2.62
PBZ CO OMF – category B	70,460	7,046,000	1.18
Raiffeisen voluntary pension fund	68,795	6,879,500	1.16
CERP – Republic of Croatia	59,031	5,903,100	0.99
Addiko Bank d.d. - custody account	30,682	3,068,200	0.51
Privredna Banka Zagreb d.d. - custody account	27,193	2,719,300	0.46
Erste plavi expert – voluntary pension fund	25,753	2,575,300	0.43
Other shareholders	472,547	47,254,700	7.94
	5,954,585	**595,458,500**	**100.00**

NOTE 23 – BORROWINGS

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of HRK)			
Non-current				
Bank borrowings	424,185	482,523	424,185	482,523
Finance lease	16	84	-	30
Less: Current portion of non - current borrowings	(43,881)	(60,233)	(43,881)	(60,233)
	380,320	**422,374**	**380,304**	**422,320**
Current				
Current portion of non - current borrowings	43,881	60,233	43,881	60,233
Bank borrowings	-	19,505	-	19,505
Finance lease	68	98	30	62
	43,949	**79,836**	**43,911**	**79,800**
	424,269	**502,210**	**424,215**	**502,120**

On November 2, 2021, a contract was signed to refinance the entire financial debt of Sunce Hoteli d.d. with Erste & Steiermärkische Bank d.d. and OTP banka d.d. as leading mandated arrangers and lenders and Erste & Steiermärkische Bank d.d. as an agent. The refinancing in question closed all previous credit obligations of Sunce Hoteli d.d. The total value of the transaction amounted to EUR 56 million, with both banks participating equally in the stated amount. Although the Loan Agreement was signed on November 2, 2021, the transaction was realized on November 15, 2021 after fulfilling all previous conditions under the Loan Agreement. The Group refinanced its entire debt to banks for a period of 10 years, assuming the maintenance of certain financial liabilities ('covenants'), which are common to transactions of this type, with the first calculation on 31 December 2022.
Covenants include the following financial obligations:

a) net debt to EBITDA ratio,
b) debt settlement ratio (DSCR),
c) Loan to value ratio,
d) interest coverage ratio (ICR) i
e) capitalization ratio.

The described refinancing implies two transactions, ie "Tranches" A and B. "Tranche" A refers to the above-described transaction of EUR 56 million, while "Tranche" B refers to the amount of EUR 15 million intended for financing capital investments at the beginning of 2022 . years. As of December 31, 2021, the Company did not use "Tranche" B.

NOTE 23 – BORROWINGS (continued)

Regular interest is calculated on the used but unpaid amount of the loan, at a variable annual rate calculated as the sum of the reference rate and margin, provided that the regular interest may in no case be lower than the margin. The margin on the day of concluding the described contract was 1.85 percentage points per year.

The margin will be adjusted downwards under the following conditions:

- if the ratio of net debt to EBITDA is equal to or lower than 3.0x, the margin will be 1.75 percentage points per year; and
- if the ratio of net debt to EBITDA is equal to or lower than 2.0x, the margin will be 1.65 percentage points per year.

The total amount of loans as at 31 December 2021 includes a long-term loan from Erste & Steiermärkische Bank d.d. and OTP banka d.d.

NOTE 23 – BORROWINGS (continued)

2021.	**Outstanding amount**	**Currency**	**Interest rate**	**Maturity**
		(in thousands of HRK)		
Bank				
Erste & Steiermärkische Bank d.d. and OTP banka d.d. - Tranche A	468,066	EUR	3M EURIBOR + 1.85%	2031
Erste & Steiermärkische Bank d.d. and OTP banka d.d. - Tranche B	112,500	EUR	3M EURIBOR + 1.85%	2031
	580,566			

2020.	**Outstanding amount**	**Currency**	**Interest rate**	**Maturity**
		(in thousands of HRK)		
Bank				
European Bank for Reconstruction and Development	114,036	EUR	6M EURIBOR + 2%	2028
Erste&Steiermärkische Bank d.d.	114,036	EUR	6M EURIBOR + 2%	2028
Privredna banka Zagreb d.d.	114,036	EUR	6M EURIBOR + 2%	2028
Zagrebačka banka d.d.	114,036	EUR	6M EURIBOR + 2%	2028
OTP banka d.d.	26,379	EUR	1.90%	2025
OTP banka d.d.	11,305	EUR	1.50%	2021
Podravska banka d.d.	8,200	HRK	3.80%	2021
	502,028			

Bank borrowings are secured by a mortgage over land and buildings (Note 14) with a net book value of HRK 609,754 thousand (2020.: HRK 636,487 thousand).

The effective interest rates at balance date was 2.5% (2020.: 2.01%).

NOTE 23 – BORROWINGS (continued)

Maturity of long-term borrowings is as follows:

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of HRK)			
Between 2–5 years	219,406	241,015	219,406	240,961
Over 5 years	160,914	181,359	160,898	181,359
	380,320	**422,374**	**380,304**	**422,320**

The carrying amounts of borrowings approximate their fair value.

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

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of HRK)			
EUR	424,269	494,010	424,215	494,010
HRK	-	8,200	-	8,110
	424,269	**502,210**	**424,215**	**502,120**

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

The present value of finance lease liabilities is as follows:

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of HRK)			
Less than a year	68	98	30	62
Between 1-5 years	16	84	-	30
Over 5 years	-	-	-	-
	84	**182**	**30**	**92**

NOTE 23 – BORROWINGS (continued)

Reconciliation in liabilities arising from financial activities

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

Group

(in thousands of HRK)	**At 1 January 2021**	Cash flow		Acquisition of a subsidiary	Foreign exchange	**At 31 December 2021**
		Increase	*Decrease*			
Borrowings	**502,210**	427,410	(509,431)	-	4,080	**424,269**

(in thousands of HRK)	**At 1 January 2020**	Cash flow		Acquisition of a subsidiary	Foreign exchange	**At 31 December 2020**
		Increase	*Decrease*			
Borrowings	**450,756**	45,887	(168)	-	5,735	**502,210**

Company

(in thousands of HRK)	**At 1 January 2021**	Cash flow		Merger of subsidiaries	Foreign exchange	**At 31 December 2021**
		Increase	*Decrease*			
Borrowings	**502,120**	427,410	(509,393)	-	4,078	**424,215**

(in thousands of HRK)	**At 1 January 2020**	Cash flow		Acquisition of a subsidiary	Foreign exchange	**At 31 December 2020**
		Increase	*Decrease*			
Borrowings	**17,930**	45,887	(69)	432,637	5,735	**502,120**

NOTE 24 – PROVISIONS

Group

(in thousands of HRK)	**Severance payments /i/**	**Legal claim /ii/**	**Jubilee awards /i/**	**Total**
At 1 January 2021	**654**	**-**	**793**	**1,447**
Additional provisions	146	-	466	612
Used during year	(174)	-	(519)	(693)
At 31 December 2021	**626**	**-**	**740**	**1,366**
		-		
Current portion	523	-	566	1,089
Non-current portion	103	-	174	277

Company

(in thousands of HRK)	**Severance payments /i/**	**Legal claim /ii/**	**Jubilee awards /i/**	**Total**
At 1 January 2021	**622**	**-**	**756**	**1,378**
Additional provisions	146	-	466	612
Used during year	(159)	-	(515)	(674)
At 31 December 2021	**609**	**-**	**707**	**1,316**
Current portion	506	-	533	1,039
Non-current portion	103	-	174	277

/i/ Provisions for jubilee awards and severance payments represent the present value of future payments of the obligation for jubilee awards and severance payments at the statement of financial position date. Present value is calculated using interest rates on government bonds. Provisions for jubilee awards and severance pay are recognized in the statement of comprehensive income in the period under "Wages and other material rights of workers".

NOTE 25 – DEFERRED TAX LIABILITY

The movement in deferred tax liabilities during the year 2021 and 2020 is as follows:

	Group	Company
	(in thousands of HRK)	
At 1 January 2020	**1,207**	**-**
Land revaluation during 2020	40	-
Merger of subsidiaries	-	1,247
At 31 December 2020	**1,247**	**1,247**
Land revaluation during 2020	(505)	(505)
At 31 December 2021	**742**	**742**

NOTE 26 – TRADE AND OTHER PAYABLES

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of HRK)			
Trade payables	30,156	26,055	27,520	23,094
Advances received	4,479	10,487	4,479	10,488
Interest payables – banks	-	11,298	-	11,298
Trade payables - related parties	113	3,022	113	3,014
	34,748	**50,862**	**32,112**	**47,894**

NOTE 27 – OTHER SHORT-TERM LIABILITIES

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of HRK)			
Deferred income	8,359	8,369	122	96
Liabilities to employees	5,370	4,525	5,213	4,417
Accrued overtime and unused vacations	3,495	5,499	3,435	5,454
Accrued expenses	2,787	2,513	2,784	2,508
Contributions from salaries	1,426	1,114	1,388	1,085
Contributions on salaries	1,085	834	1,053	810
Tax and surtax on salaries	415	351	403	343
Other taxes and contributions	342	495	336	489
Other liabilities – related parties	-	60	-	60
Other liabilities	287	483	250	467
	23,566	**24,243**	**14,984**	**15,729**

NOTE 28 – CASH GENERATED FROM OPERATIONS

Adjustment of profit with cash generated from operations:

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of HRK)			
Profit / (loss) after taxation	**2,051**	**(35,921)**	**(2,052)**	**(33,121)**
Adjustments for:				
Depreciation and amortisation (Notes 13,13.1,14)	62,253	64,505	60,899	63,170
Increase in provisions (Note 24)	612	107	612	93
Interest income (Note 9)	(1,134)	(3,501)	(1,147)	(3,558)
Interest expense (Note 9)	10,195	11,044	10,191	11,035
Value adjustment of financial assets (Note 15)	5	5,791	500	5,791
Income Tax	(4,629)	(51,580)	(4,629)	(51,580)
Share of (profit)/loss in associate and joint venture (Note 15)	(482)	5,806	(482)	5,104
Unrealised foreign exchange losses	4,159	5,724	4,156	5,719
Value adjustment / write-off of tangible fixed assets (Note 8)	16,290		16,290	
Other adjustments	-	1,022	-	172
Total adjustments	**87,269**	**38,918**	**86,380**	**35,946**
Cash flows from operating activities before working capital changes	**89,320**	**2,997**	**88,432**	**2,825**
Changes in working capital				
- trade receivables	3,172	2,166	3,151	41,646
- other receivables	7,678	(20,140)	7,715	(58,605)
- inventories	593	61	588	58
- trade and other payables	1,326	(4,564)	1,553	(4,989)
Cash generated from operations	**102,089**	**(19,480)**	**101,439**	**(19,065)**

NOTE 29 – CONTINGENCIES

Legal proceedings

At 31 December 2021, the Company and the Group are involved in certain litigation. In the event of loss of individual disputes, the Company and the Group may have outflows of funds..

Particularly significant legal proceedings are following:

1. Hotels Hotels Zlatni rat d.d. was sued on 30 December 2008 by natural persons for payment of compensation for the use of tennis courts in their possession, on the basis of lost rent. In parallel, the Company filed a counterclaim for the payment of the investment in the construction of the stadium. Following the previously conducted proceedings before the first and second instance courts, the Municipal Court in a retrial on 15 July 2016 issued a first instance judgment against the Company ordering the Company to pay the amount of HRK 9,292,725 in the amount of rent, together with default interest on certain monthly amounts, as well as the amount of HRK 1,339,494 for litigation costs.
The Company filed an appeal and on May 10, 2017, the Split County Court quashed the first-instance verdict and returned the case for retrial and decision-making to the first-instance court. The procedure (conducted under the new business number P-11518/2015) was suspended at the hearing on 20 February 2018 until the end of the procedure of determining ownership based on the Company's lawsuit under the new legal basis, the Associated Labor Act.
Date 03.09.2018. the first-instance verdict rejected the Company's claim in this ownership lawsuit based on the ZUR. The Company is 12.09.2018. had filed an appeal, which was rejected as unfounded by the decision of the second instance court in the case Gž-600/2018, however the case related to the payment is still pending because in the meantime the suspension was requested again due to the fact that the Company filed a new lawsuit (P- 435/2020).
The Municipal Court separated the proceedings initiated on the basis of the aforementioned counterclaim of the Company, which is now conducted under a different business number. A preparatory hearing and a hearing for the main hearing were held in the case on March 21, 2019, at which the court concluded the hearing.
The first-instance verdict of April 23, 2019. the counterclaim was rejected, and the Company filed an appeal against the verdict on May 22, 2019. The second instance court adopted on June 18, 2020. appeal in the case under business number Gž-1222/2019, and the case was returned for retrial and is being conducted under the new business number P-2400/2020.
In accordance with the Law on Unrated Construction Land and recent court practice, the Company filed on 30.07.2020. a new lawsuit based on a completely different conception, which case is registered under business number P-435/20. At the hearing held on March 9, 2021. the court issued a Decision instructing the parties to initiate conciliation proceedings without entering into the merits of the dispute, after which the Company sent a proposal to the competent court to refer the case to conciliation.
On April 15, 2021, the Municipality of Bol filed an appeal against the court's decision to refer the parties to the conciliation procedure. and the case on appeal is before the High Commercial Court of the Republic of Croatia (Pž-2704/2021), and the decision on the appeal has not yet been made.

NOTE 29 – CONTINGENCIES (continued)

Legal proceedings (continued)

Given the fact of filing a new lawsuit (P-435/2020), the Company on 29.09.2020. requested the termination of this procedure until the final conclusion of the ownership lawsuit, and the court terminated the procedure on March 17, 2021.

The Company and Group are the unregistered owner of individual real estate in the following locations:

i. Brela (the Brela tourist zone is made up of 4 functional hospitality-tourist wholes which are interconnected by ownership and infrastructure, being: hotel Marina, a hospitality object named a „beach object“, hotel Maestral and hotel Soline, as well as of accompanying other objects: so-called Brelade, hotel Brela, laundry warehouse and tennis courts, and pizzeria restaurant Centar, hotel Pelegrin and UTC Pelegrin, Villa Primorka)),
ii. Bol on the island of Brač (a tennis stadium, a so-called gothic house; a grocery store, a kindergarten; and so-called barracks),

Regarding the real estate, the so-called "Baraka" The Company prepared a geodetic study for the implementation of final judgments by which the Company was previously allocated parts of the real estate in question, but expressed in ideal proportions. In order to implement the final judgments and the mentioned study, the Company on 12.10.2021. submitted to the court a Proposal for initiating and opening an individual correct procedure. After this procedure, the Company will be determined as the book owner of the newly formed real estate, the area of which will correspond to the current ideal co-ownership part.

Regarding the real estate, the so-called "Samoposluga Vrtić" in agreement with the Municipality of Bol, launched a condominium procedure in 2021, after which the Company will be determined as a co-owner of the land on which the building lies, and whose co-ownership will be associated with ownership of a special part of the property.

Regarding the real estate, the so-called “Gotička kuća “On 10 February 2021, in the procedure of a preliminary peaceful settlement of the dispute, the Company entered into a settlement with the Republic of Croatia represented by the State Attorney's Office. Based on the cited settlement, the Company initiated the registration procedure, which until 31.12.2021. was not completed because the Company's proposal for registration was rejected, as well as the Company's objection to the rejection decision, after which the Company filed an appeal with the court of second instance. In the second-instance case conducted under number Gž-ZK 1055/2021, the Company's appeal was adopted, the first-instance decision was amended and the registration of ownership in the Company's name was allowed, which should be carried out in a new land registry procedure during 2022.

iii. Tučepi (land registry plot no. 4221/1 cadastral municipality Tučepi – whereon, in reality, a pool, restaurant and a restaurant terrace have been built as an integral part of hotel Neptun)

The following is a short summary of ownership status of hotel Marina, hotel Maestral and hotel Soline as the most material objects in unregistered ownership. The mentioned status and manner of resolution of legal issues is applicable to other real estate in Brela as well.

NOTE 29 – CONTINGENCIES (continued)

In relation to the aforementioned hotels, in most cases, third parties (natural persons) are currently registered as land registry owners. Additionally, land registry status has not been aligned with the as-is condition established by construction of objects. The reason for such incorrect entry is the fact that the land registry has not tracked any actual changes which occurred to date since 1960 (after nationalisation), so the cadastral and land registry status corresponds to the old status from the 1960s.

At the time when seizure of ownership from registered owners was registered with the land registry on the basis of the Act on Nationalisation of Rented Buildings and Construction Land from 1959 (the “Nationalisation Act”), the land upon which the hotels have been built acquired social ownership status. By entry into force of the Nationalisation Act, all land within the boundaries of intended construction became construction land, and thereby, ex lege, social ownership in the constitutive sense, even in cases where the registration of cessation of ownership of registered owners and the concurrent registration of social ownership has not been registered with the land registry to date. Historic land registry excerpts show that social ownership was registered with respect to the aforementioned real estate in sheet “B”, with the concurrent cessation of ownership of registered owners and registration of those persons in sheet “C” as holders of right to use until possession of said property is seized by the competent body, which indisputably shows that former owners’ ownership in 1960 ceased by introduction of the Nationalisation Act. However, following the registration of nationalisation (cessation of ownership) and registration of social ownership, no facts which occurred in reality from 1960 have been registered with the land registry.

From 1963 to 1975, the competent municipality of Makarska issued resolutions pursuant to regulations on the basis of which it granted social ownership over said land to the social enterprise „HTP Brela“ - the Company’s predecessor, all for the purpose of the social enterprise acquiring ownership for construction of hotels and accompanying tourist objects in the area of the Brela tourist zone. “HTP Brela” had obtained building and other appropriate use permits for individual objects on the basis of such granted social ownership.

All said objects were appraised in the share capital of the social enterprise, the Company’s predecessor, in the transformation process which was concluded for „HTP Brela“ on the basis of a Resolution providing consent to transformation performance of 10 June 1994, and the value of these real estate (objects with the accompanying land) had been contributed into the share capital of the Company which was established in the transformation process.

However, the Resolution on real estate designated in the transformation process of 7 May 1996 does not indicate the exact appraised surface for certain plots, so the appraised value of certain plots could not have been determined to this day as the Resolution states that only a portion of a certain plot has been appraised, without stating the appraised surface.

The effects of acquisition of ownership to the benefit of HOTELI BRELA d.d. occurred upon conclusion of the transformation process and on the basis of the Act on Ownership and Other Real Property Rights (“Ownership Act”) which entered into force on 1 January 1997.

Pursuant to article 129 in connection with article 390.a of the Ownership Act, all preconditions for acquisition of ownership by the Company’s predecessor have been met, given that it is indisputable that on the date of the share capital appraisal in the transformation process real estate which could have been subject to acquisition of ownership were in fact in social ownership with the social enterprise’s right of management and that their value was appraised in the Company’s share capital.

NOTE 29 – CONTINGENCIES (continued)

Following implementation of denationalisation process pursuant to the Ownership Act, Land Registry Act and the Act of Compensation for Assets Seized during the Yugoslavian Communist Government, the land registry court deleted social ownership and right of use from sheet “C”, while re-registering natural persons as owners in sheet “B”, given that it was neither visible that said land was subject to disposal in favour of the social enterprise - the Company’s predecessor, nor visible that the land was brought to purpose by construction of hotels/other tourist objects.

Such registered property for the benefit of natural persons whose ownership ceased with the enactment of the Nationalization Act is a false and invalid registration, and such registered persons cannot oppose the Company which acquired the property in a constitutional manner, based on the law.

Therefore, regardless of whether registration of ownership in favour of the Company has been performed in the land registry, the Company did in fact acquire the right of ownership. Registration of ownership shall be of declaratory nature only and shall serve the principle of veracity and completeness of the land registry, as well as the purpose of proving ownership in legal transactions.

The Company endeavoured to resolve the land registry status in relation to certain real estate by initiating litigation for determination of ownership, but said litigation, although already pending for years, is still in its initial phase as the registered owners are of unknown residence (in most cases, abroad) and/or have unknown successors and/or probate proceedings have not yet been concluded, meaning papers cannot be properly served to respondents which is a procedural impediment for conducting the proceedings. It is to be expected that no final and binding judgments will be passed any time soon by which the Company would register ownership in its favour. The Company has succeeded to register its ownership with the land registry for only a handful of individual land plots.

Litigation is being conducted before the Commercial Court in Split on the lawsuit of the plaintiff of the Republic of Croatia, the Ministry of the Sea, Transport and Infrastructure against the Company as a defendant, under case no. P-678/2021 for the purpose of handing over to the plaintiff free of charge the facility - restaurant Jakiruša with the land belonging to cadastral plot no. 3858/11 k.o. Brela because it is located on the maritime domain, and which lawsuit was received on December 22, 2021. years. The Company was sued on January 13, 2022. filed a response to the lawsuit complaining about the prematureness of the lawsuit and by filing objections of the possessors who stop the request for the transfer of possession, all because the Company was not paid market compensation for real estate required to be handed over. We are of the opinion that the Republic of Croatia is very likely to succeed in this dispute. We expect that this year the Company will file a counterclaim against the Republic of Croatia, for the payment of HRK 7,100,000.00 (increased by statutory default interest that would run from the date of filing the lawsuit until payment) in compensation for the market value of the facility - restaurant Jakiruša for investment in the maritime good.

NOTE 29 – CONTINGENCIES (continued)

Given that the Act on Unappraised Construction Land entered into force in 2020, the Company has initiated proceedings on the basis of the Act with the purpose of aligning cadastral and land registry status with the actual unregistered ownership status which was established over hotels and accompanying land originating from social ownership. In said proceedings, the Company intends to register ownership in the land registry and cadastre pursuant to the parcelation/geodetic surveys previously confirmed by CERP (Centre for Restructuring and Sale), whose limits would correspond in form and surface in reality to the appraised object and land as described in their entirety or partially in the Resolution on real estate designated in the transformation process for HTP Brela, HTP Tučepi and HTP Bol. The procedure initiated by the Company under the Act on Unappraised Construction Land will significantly speed up the process and improve the Company's position in the existing litigation for registration of ownership in its favour.

The outcome of any of the above procedures is not expected to have a material impact on the Company and Group's financial position or performance.

NOTE 30 – COMMITMENTS

Capital investment liabilities

In accordance with the announced and approved capital investments for the 2022 season, the Group and the Company entered into agreements with construction contractors whose value is estimated at approximately HRK 257 million.

NOTE 31 - RELATED PARTY TRANSACTIONS

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

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

After the change of ownership of Sunce Hoteli d.d. on 26 April 2021, the ultimate previous owner Mr. Jako Andabak and related Companies ceased to be related parties to Sunce Hoteli d.d.

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

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of kunas)			
Trade receivables (note 18)				
WOT Hotels Adriatic Asset Company d.o.o.	2,618	2,075	2,618	2,075
WOT Hotels Adriatic Management d.o.o.	38	25	38	25
Jako Vino d.o.o.	31	758	31	754
Eagle Hills International Properties	20	-	20	-
Emaar Hospitality Group	10	-	10	-
Sunce ulaganja d.o.o.	6	-	6	-
Zlatni rat d.d.	-	74	-	74
Sunčana Murvica d.o.o.	-	51	-	51
Lucidus d.d.	-	596	-	596
Salve Regina – Marija Bistrica d.o.o.	-	767	-	767
Izvor upravljanje d.o.o.	-	30	-	30
Stubaki d.d.	-	17	-	17
Brač 500 Plus d.o.o.	-	-	2	4
Aerodrom Brač d.o.o.	-	-	60	4
Sunce Vital d.o.o.		-	59	8
	2,811	**4,393**	**2,932**	**4,405**

NOTE 31 - RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of kunas)			
Interest receivables (note 16, 19)				
WOT Hotels Adriatic Asset Company d.o.o.	1,031	1,031	1,031	1,031
Lucidus d.d.	-	11,308	-	11,308
Sunce Vital d.d.	-	-	-	2
	1,031	**12,339**	**1,031**	**12,341**

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of kunas)			
Given loans (note 20)				
Lucidus d.d.	-	76,141	-	76,141
Sunce Vital d.o.o.	-	-	40	40
Aerodrom Brač d.o.o.	-	-	2,898	2,378
	-	**76,141**	**2,938**	**78,559**

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of kunas)			
Receivables acquired by assignment and other receivables (note 19)				
Salve Regina – Marija Bistrica d.o.o.	-	109	-	109
Stubaki d.d.	-	65	-	65
	-	**174**	-	**174**

NOTE 31 - RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of kunas)			
Trade payables (note 26)				
Jako Vino d.o.o.	515	325	515	317
Beograd na vodi d.o.o.	158	-	158	
Praona d.o.o.	113	1,267	113	1,267
Salve Regina – Marija Bistrica d.o.o.	58	-	58	-
Lucidus d.d.	31	19	31	19
Nest plus d.o.o.	-	1,368	-	1,368
Drvo Trgovina d.o.o.	-	43	-	43
	875	**3,022**	**875**	**3,014**

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of kunas)			
Other liabilities (note 27)				
Jako Vino d.o.o.	-	60	-	60
	-	**60**	**-**	**60**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of kunas)			
Sales revenue (note 4)				
Jako Vino d.o.o.	97	465	97	465
Emaar Hospitality Group	67	-	67	-
Eagle Hills International Properties	10	-	10	-
Izvor upravljanje d.o.o.	3	2	3	2
Salve Regina – Marija Bistrica d.o.o.	2	288	2	288
Lječilište Bizovačke Toplice d.o.o.	1	7	1	7
Lucidus d.d.	-	5	-	5
WOT Hotels Adriatic Asset Company d.o.o.	-	48	-	48
Sunčane Toplice d.o.o.	-	3	-	3
Sunce Vital d.o.o.	-	2	-	2
Nest Plus d.o.o.	-	1	-	1
Aerodrom Brač d.o.o.	-	-	121	3
Brač 500 Plus d.o.o.	-	-	18	18
	177	**821**	**319**	**842**

	Group		Company	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
	(in thousands of kunas)			
Management fee (note 4)				
Salve Regina – Marija Bistrica d.o.o.	-	316	-	316
	-	**316**	**-**	**316**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of kunas)			
Interest income (note 9)				
Lucidus d.d.	1,113	3,499	1,113	3,499
	1,113	**3,499**	**1,113**	**3,499**

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of kunas)			
Other income (note 5)				
WOT Hotels Adriatic Asset Company d.o.o.	383	278	383	278
Salve Regina – Marija Bistrica d.o.o.	43	41	43	41
WOT Hotels Adriatic Management Company d.o.o.	11	19	11	19
Sunce ulaganja d.o.o.	8		8	
Zlatni Rat d.d.	3	19	3	19
Sunčana Murvica d.o.o.	3	8	3	8
Izvor Upravljanje d.o.o.	-	334	-	334
Jako Vino d.o.o.	-	39	-	39
Sunce Vital d.o.o.	-	6	7	6
Sunčane Toplice d.o.o.	-	2	-	2
Aerodrom Brač d.o.o.	-	-	-	36
	451	**746**	**458**	**782**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of kunas)			
Cost of sales (note 6)				
Jako Vino d.o.o.	136	628	136	628
Sunčane livade d.o.o.	-	464	-	464
	136	**1,092**	**136**	**1,092**

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of kunas)			
Rent expenses				
Nest plus d.o.o.	708	2,040	708	2,040
Lucidus d.d.	11	17	11	17
	719	**2,057**	**719**	**2,057**

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of kunas)			
Insurance (note 8)				
Izvor osiguranje d.d.	-	1,413	-	1,413
	-	**1,413**	**-**	**1,413**

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of kunas)			
Laundry (note 6)				
Praona d.o.o.	3,423	1,591	3,423	1,591
	3,423	**1,591**	**3,423**	**1,591**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	(in thousands of kunas)			
Other expenses (note 8)				
Nest plus d.o.o.	336	1,026	336	1,026
Jako Vino d.o.o.	158	-	158	-
Sunčane toplice d.o.o.	47	248	47	248
Salve Regina – Marija Bistrica d.o.o.	7	20	7	20
WOT Hotels Adriatic Asset Company d.o.o.	-	486	-	486
Praona d.o.o.	-	839	-	839
Hoteli Zlatni Rat d.d.	-	29	-	29
	548	**2,648**	**548**	**2,648**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

Key management, Management Board and Supervisory Board

Group:

	2021	**2020**
	(in thousands of HRK)	
Net salaries	2,365	5,005
Contributions	1,239	2,956
Tax and surtax	352	922
Bonuses	-	-
Other fees	231	265
Key management */i/*	**4,187**	**9,148**
Management Board	**2,421**	**2,507**
Supervisory Board */ii/*	**1,100**	**2,708**
Total	**7,708**	**14,363**

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

/ii/ Remuneration of the supervisory board relates to the remuneration for individual members of the supervisory board of the Company, received on the basis of signed contracts of employment.

Company:

	2021	**2020**
	(in thousands of HRK)	
Net salaries	1,303	1,329
Tax and surtax	694	480
Contributions	421	679
Other fees /i/	3	19
Management Board	**2,421**	**2,507**
Supervisory Board	1,100	2,708
	3,521	**5,215**

/i/ Other fees relate to Christmas bonuses and unused vacation pay.

NOTE 32 – GOING CONCERN

The consolidated financial statements have been prepared under the going concern assumption. As at 31 December 2021, the Group presents current assets higher than current liabilities by HRK 166,929 thousand (2020: current assets lower than current liabilities by HRK 97,759 thousand).

Separate financial statements have been prepared under the going concern assumption. As at 31 December 2021, the Company presents current assets higher than current liabilities by HRK 179,804 thousand (2020: current assets lower than current liabilities by HRK 84,566 thousand).

In April 2021, the ownership of the Company occurred with Eagle Hills Zagreb Real Estate d.o.o. (actual owner Mr. Mohamed Alabbar) as new owner. The new owner has future growth plans based on investments in the Company's existing assets, which shows the refinancing of previous borrowings in November 2021 and the share capital increase at the end of 2021, which significantly affected the Company's liquidity. The stable strategic investor gives a strong belief that all potential liquidity problems due to the impact of COVID-19 on revenues will be successfully resolved with financial assistance, as the new owner has a long-term vision of business development. Management believes that the preparation of financial statements on an indefinite basis is still appropriate.

NOTE 33 – EVENTS AFTER THE REPORTING DATE

Share capital increase of the subsidiary Airport Brač

During March 2022, the Company recapitalized its subsidiary Aerodrom Brač d.o.o. The recapitalization was performed in such a way that overdue receivables on short-term loans granted to the subsidiary in the total amount of HRK 3,300 thousand were converted into the share capital of the subsidiary. Overdue receivables on loans were realized in accordance with the Framework Agreement on Short-Term Loan from 2016 and its amendments from 2017, 2018, 2019 and 2020.

Impact of the conflict in Ukraine on the Company's and the Group's operations

The Company is directly exposed to the Ukrainian and Russian markets through its operations, and is also significantly exposed to economic and financial risks arising from the conflict between the Russian Federation and Ukraine or economic sanctions against many Russian individuals and legal entities. With the political and economic environment still in a state of considerable uncertainty, the Administration cannot rule out the impact of the conflict on declining economic activity, rising inflation and deteriorating other macroeconomic indicators, which spilled over into the real sector and caused a systemic crisis. Management is closely monitoring the situation and will respond, if necessary, to available measures to mitigate the adverse effects of any events or various circumstances. The negative impact on the Group and the Company was reflected in the slowdown in accommodation reservations for "summer" terms at the beginning of the "invasion", but the current trend of reservations shows a stable recovery while the primary challenge will be finding other EU and international markets.

NOTE 34 – PREPARATION AND APPROVAL OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENS

Consolidation and separate financial statements here presented have been prepared and approved for issuing by the Management Board on 29 April 2022.

Signed on behalf of the Management Board:

President of the Board
Shaikh Mubarak Ali Abdulla Hamad Alkhalifa