



2022 Annual Report

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

This report has been approved and released on 19 April 2023.

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, became the majority shareholder of Sunce hoteli d.d. with institutional investors as significant minority shareholders.



>800.000 guests per year



> 900 employees

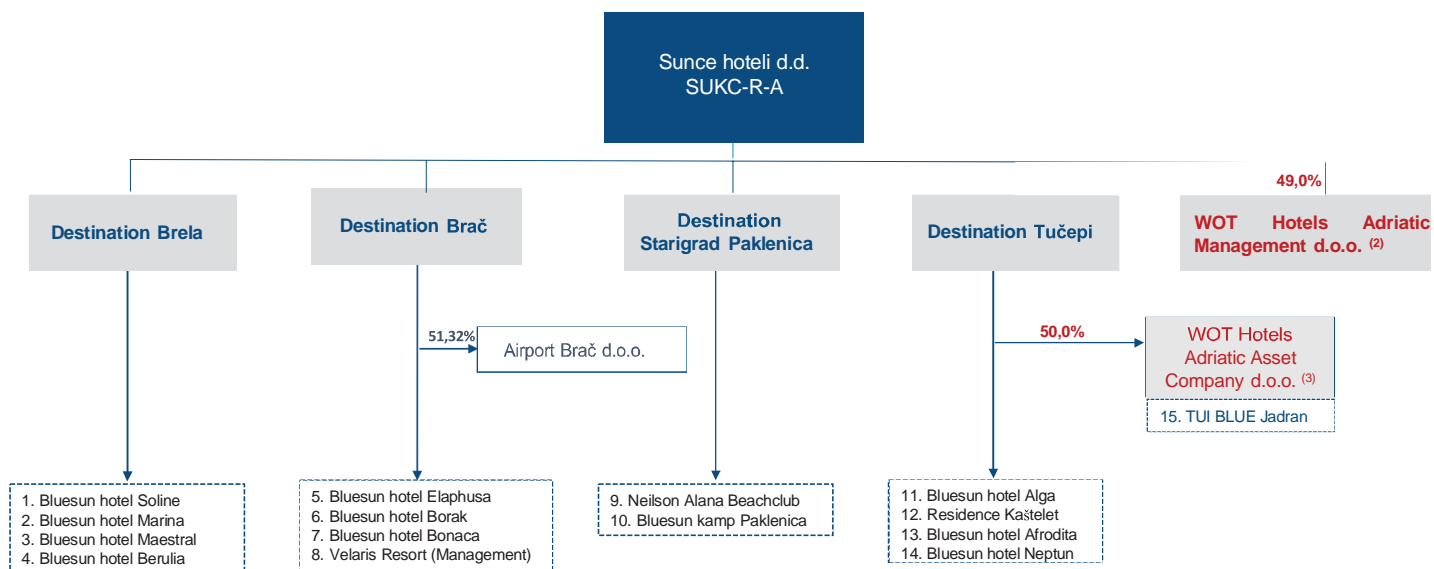


≈ 3.000 rooms

- ▶ **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 on 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

⁽¹⁾ As of Reporting date (31.12.2022.)

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



(1) Data as of 31.12.2022; Sunce hoteli d.d. as a Group has additional member companies, 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.....	5
Review of key information about theGroup	6
Significant business events 2022.....	9
Management's Discussion and Analysis of Financial Condition and Results of Operation	Error!
Bookmark not defined.	
EU taxonomy.....	15
Risk Factors.....	16
Corporate Governance.....	18
Consolidated and Separate Financial Statements for 2022.....	20

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, 2022 (“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 19 April 2023 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”).

Group key information

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 d.d. manages its properties.

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 2022, the Company holds 1,163 treasury shares.

General information on Company Shares as at December 31, 2022		
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 2022 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", "Sunce", "Group" or "Company. During 2022, majority owner purchased 1,134,549 shares from institutional investors (Erste plavi mandatory pension fund category A, Erste plavi mandatory pension fund category B, Erste plavi expert voluntary pension fund, Closed voluntary road pension fund, Erste closed voluntary pension fund, Nestlé closed voluntary pension fund, Pošta closed voluntary pension fund, Police closed voluntary pension fund).

Top ten shareholders of the Company as at December 31, 2022

Shareholder	Number of Shares	Ownership (%)
Eagle Hills Zagreb Real Estate d.o.o.	3,889,630	54.44%
Sunce ulaganja d.o.o.	3,004,389	42.05%
CERP/Republika Hrvatska	21,434	0.30%
Splićanka tours d.o.o.	7,145	0.10%
Ostali dioničari	222,204	3.11%

Source: Central Depository and Clearing Company (CDCC)

Investments In Associates And Joint Ventures

Joint ventures

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

Associates

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

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

Acquisitions And Disposals, Discontinued Operations

Acquisitions

No acquisitions of assets or entities in the Reported period.

Disposals

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

During 2022, the company occupied 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 was valid until 31 December 2022 with no further prolongation.

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 reporting period

After the date of the financial statements, there have been no events that require adjustments or disclosure in the financial statements.

Significant business events in 2022

Hotel renovations

In accordance with the announced and approved investments at the end of 2021, the Group finalized investments in hotels in the destinations of Brela, Tučepi and Bol on the island of Brač during 2022, based on the signed contract with contractors.

The investments in question are confirmation of the intention of the majority shareholders regarding the development of the Group's future operations, through strengthening the market position by implementing new and developing existing capacities and services, as well as continuing to invest in raising the quality of accommodation for its employees. Out of approximately 44 million euros of investments, approximately 29 million euros were used through the increase of the share capital by issuing new shares at the end of 2021. The rest of the funds were used by borrowings from commercial banks during 2022, as agreed during the refinancing of existing financial liabilities from November 2021.

Hotel renovation includes those hotels that have not been the subject of capital investments for longer period, as well as hotels of mid and low quality.

The hotels that are included in the described renovations, per destinations, are:

- Brela: Soline, Maestral
- Tučepi: Kaštelet
- Bol: Elaphusa, Borak and the newly built hostel for employees.

As a continuation of the described renovations, in 2023, the Group continues with the cycle of investments, and for these purposes contracts with external contractors worth approximately HRK 220 million have been concluded.

Digitalization

Following the change of the ultimate owner in 2021, the Group realized several projects in 2022 related to the modernization and digitization of the existing organization with the aim of increasing the efficiency of operations through all operational sectors.

For this purpose, the Group concluded contracts with domestic and foreign external IT consultants.

Digitization and improvement projects of the existing organization refer to the introduction of operating systems that enable the monitoring of individual business segments through "on screen live data" that are updated on a daily basis, which improves and accelerates the process of decision making and decisions in general that are key to the business.

The projects includes existing processes related to flow and availability of relevant documentation. The introduction of an intelligent documentation management system resulted in immediate availability and quick and easy searching of relevant documentation, which greatly reduced the need for physical documentation.

The described projects are of great importance for the Group, given their location in different destinations.

Group results - management report

Introduction

The following Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") presents an analysis of the consolidated financial position 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 comprising 2,951 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 (lease expired at December 31, 2022).

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 mid 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 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.

Overview of the Group Portfolio as of reporting date

Hotel	Category (*)	Number of rooms	Renovation 2022	Renovation 2023
1 Bluesun hotel Maestral	4	70	X	
2 Bluesun hotel Soline	4	208	X	
3 Bluesun hotel Berulia	5	236		
4 Bluesun hotel Marina	3	283		
Destination Brela		797		
5 Bluesun hotel Alga	4	377		X
6 Residence Kaštelet	4	28	X	
7 Bluesun hotel Afrodita	4	155		X
8 Bluesun hotel Neptun	3	252		X
Destination Tučepi		812		
9 Bluesun hotel Elaphusa	4	307	X	
10 Bluesun hotel Borak	3	137	X	
11 Bluesun hotel Bonaca	3	284		X
12 Bluesun resort Velaris	3/4	177		
Destination Brač		905		
13 Neilson Alana Beachclub	3	187		
14 Bluesun kamp Paklenica	4	250		
Destination Starigrad		437		
Total Group		2,951		
15 TUI Blue Jadran ⁽¹⁾	5	161		
WOT Hotels Adriatic Asset Company d.o.o.				

(1) Zajednički pothvat sa TUI AG

Key performance measures 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, thereby limiting their usefulness as a measure of comparability.

Results of operations

In 2022, the Group generated **HRK 466.9 million in operating revenues** (2021: HRK 326.6 million), which is an **increase of 43%** compared to the same period last year. The Group generated **positive EBITDA in the amount of HRK 126.6 million** (2021: HRK 75.1 million), which is an increase by HRK 51.5 million compared to the same period last year, which was to certain extent under the negative impact of a pandemic. **Adjusted EBITDA amounts to HRK 132.2 million**, one-off items refer to the asset write-off, i.e. project documentation related to previous unrealized projects that the Group abandoned in 2022, and assets that were determined to be unusable. A significant impact on EBITDA in 2022 relates to the renovations of selected hotels on which the Group realized a higher ADR compared to 2021, as well as the number of overnight stays.

Staff costs in 2022 increased significantly compared to the previous year due to the recovery of the business from the pandemic. The item for 2022 amounts to HRK 144.7 million, compared to 2021 staff costs increased by 52% with the important note that in 2022 more seasonal employees were employed. **Material costs** in the amount of HRK 145.4 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 by 46% due to the increased volume of activities.

Net financial expenses in 2022 amounted to HRK 11.7 million, which is a slight decrease compared to 2021 (HRK 15.9 million). Interest expenses amounted to HRK 10.1 million, which is approximately the same as in the previous year.

The share in the result of joint ventures amounted to HRK 1.6 million, and refers to the share of 50% in the profit of WOT Hotel Adriatic Asset Company d.o.o and 42% in the profit of Praona d.o.o.


Net profit of the Group amounted to **HRK 21.2 million**, while in the same period last year a loss of HRK 249 thousand was recorded. **Net financial debt amounted to HRK 357 million** as at 31 December 2022 which represents an increase by HRK 166 million compared to 2021 (HRK 191 million).

The business result for 2022 gives reason for optimism and further growth to the upcoming "2023 season". After the pandemic in 2020, the operating results from the past year show that the hotels in "Bluesun Hotels & Resorts" are a desirable destination for guests in the region and a desirable destination in the Group's emission markets, as shown by the number of repeat guests.


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

in thousands of HRK

Financial performance	12M 2022	12M 2021		%
Total Revenues	466,886	326,571	140,315	43%
Operating expenses	340,244	251,470	88,774	35%
EBITDA	126,642	75,101	51,541	69%
EBITDA margin %	27.12%	23.00%		
Adjustments	5,537	22,426	(16,889)	-75%
Adjusted EBITDA	132,179	97,527	34,652	36%
Adjusted EBITDA margin %	28.31%	29.86%		
EBIT	43,255	12,848	30,407	237%
Interest & Fees	10,938	19,065	-8,127	-43%
Net profit / (loss)	21,917	(249)	22,166	-8.902%
Financial position	31.12.22	31.12.21		
Total assets	1,535,208	1,481,977	53,231	4%
Fixed assets	1,260,571	1,056,765	203,806	19%
Cash and cash equivalents	109,145	242,185	(133,040)	-55%
Equity	1,011,941	988,701	23,240	2%
Financial debt	466,273	432,854	33,419	8%
Net financial debt	357,128	190,669	166,459	87%
Equity / Total assets	66%	67%		
Loan coverage with collateral assets	196%	141%		
Loan to Value Ratio	0.34	0.33		

Key operating indicators

	2022	2021		%
Number of accommodation units	2,973	2,973		
Overnights	832,496	627,217	205,279	32.7%
Occupancy rate (operating days)	69%	70%		
ADR (HRK)	1,062	915	147	16.1%
RevPAR (HRK)	731	630	101	16.0%

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

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 2022 the Company's invested 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 buildings.

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 to execute its business strategy and growth plans;
- increases in costs due to inflation or other factors that may not be fully offset by price increases in our business;
- changes in taxes and governmental regulations that influence or set wages, prices, interest rates or construction and maintenance procedures and costs;
- the costs and administrative burdens associated with complying with applicable laws and regulations;
- the ability of third-party internet and other travel intermediaries to attract and retain customers;
- the availability and cost of capital necessary for us to fund investments, capital expenditures and service debt obligations;
- delays in or cancellations of planned or future development or refurbishment projects;
- the financial condition of developers, tour operators, franchise owners and joint venture partner;
- relationships with tour operators, 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 three-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 since it 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 what is required under the law. The law also prescribes that the company must state whether it deviates from the application of the corporate governance code and explain reasons for such deviation.

These requirements are met through the annual corporate governance questionnaire, 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 is in the process of adjustment 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 2019 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.

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.

Consolidated and Separate Financial Statements for 2022

Statements of Management's Responsibility.....	21
Independent Auditor's Report.....	23
Consolidated and Separate Statement of Comprehensive Income.....	29
Consolidated and Separate Statement of Financial Position.....	30
Consolidated and Separate Statement of Changes in Shareholders' Equity.....	31
Consolidated and Separate Statement of Cash Flows.....	33
Notes to the Consolidated and Separate Financial Statements.....	34

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:



Chairman of the Board
Shaikh Mubarak Ali Abdulla Hamad Alkhalifa

19 April 2023
SUNCE HOTELI d.d.
Radnička cesta 43
Zagreb

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

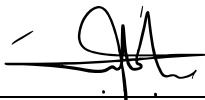
In accordance with provisions of Law on Capital Markets, Shaikh Mubarak Ali Abdulla Hamad Alkhalifa Chairman of the Board in charge of finance as the person responsible for compiling the annual reports of the Company Sunce Hoteli d.d. Zagreb, Radnička cesta 43, OIB 06916431329 (hereinafter: Company),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

STATEMENT

According to our best knowledge the annual audited consolidated and separate financial statements for 2022, 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 2022 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, 19 April 2023



Chairman of the Board
Shaikh Mubarak Ali Abdulla Hamad Alkhalifa

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sunce hoteli d.d.

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate financial statements of Sunce hoteli d.d. (the Company), and consolidated financial statements of Sunce hoteli d.d. and its subsidiaries (together - the Group), which comprise the separate and consolidated statement of financial position as at 31 December 2022, 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 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 2022 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 European Union (IFRS).

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), together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Croatia, 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
<p>Impairment of tourism property</p> <p><i>See note 2.11 Property, plant and equipment and 2.13. Impairment of tangible and intangible assets</i></p>	<p>Audit procedures included understanding of the process relating to property, plant and equipment and evaluation of design of the controls</p>



**Building a better
working world**

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<p>The Company and the Group have a significant balance of property, plant and equipment in its separate and consolidated statement of financial position which mainly consists of tourism properties and related assets in total amount of HRK 1,224,566 thousand (the Group: HRK 1,260,571 thousand) at 31 December 2022.</p> <p>These assets are included in the separate and consolidated statement of financial position at historical cost less accumulated depreciation and impairment, if necessary (except for a smaller portion related to land without buildings that is regularly revalued).</p> <p>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.</p> <p>Due to the level of judgment involved, current market environment and trends in hospitality industry and significance to the Company's and Group's financial position, we consider this matter as a key audit matter.</p>	<p>implemented in the process, including identification of impairment indicators.</p> <p>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.</p> <p>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.</p> <p>We also considered the appropriateness of the fair values estimated by the external valuer based on the knowledge and trends in hospitality industry and also considered the potential impact of reasonably possible changes in key assumptions and inputs on the result of the tests.</p> <p>We performed audit procedures on the mathematical correctness of calculations used in these models.</p> <p>We also assessed adequacy of the related disclosures in the separate and consolidated financial statements and their compliance with IFRS as adopted by EU.</p>
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Other information

Management is responsible for the other information. Other information comprises the Management Report and Corporate Governance Statement included in the Company's and Group's Annual Report, but does not include 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.

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 is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Article 22 and 24 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 and Corporate Governance Statement is consistent, in all material respects, with the enclosed separate and consolidated financial statements;

2. the enclosed Management Report is prepared in accordance with requirements of Article 21 and 24 of the Accounting Act;

3. the enclosed Corporate Governance Statement includes the information specified in Article 22 and 24 of the Accounting Act

In the light of the knowledge and understanding of the Company and Group and its environment obtained in the course of the audit of separate and consolidated financial statements, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. 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, 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 General Assembly of Shareholders, with the most recent reappointment on 26 August 2022, representing a total period of uninterrupted engagement appointment of six 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 19 April 2023 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 separate and consolidated financial statements prepared pursuant to Article 462 (5) of the Capital Market Act (Official Gazette 65/18, 17/20, 83/21 and 151/22) applying the requirements of the Delegated Regulation (EU) 2018 / 815 on establishing of single electronic reporting format for issuers (the ESEF Regulation).

We have conducted a reasonable assurance engagement on whether the separate and consolidated financial statements, as contained in the attached electronic file 7478000070X8LWJUBX45-2022-12-31-en.zip, 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 Audit Committee

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

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

Management is also responsible for:

- the public disclosure of separate and consolidated financial statements included in the annual report, in XHTML format and selecting and using XBRL codes in accordance with ESEF regulation

Audit Committee is responsible for overseeing the preparation of the separate and consolidated 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 separate and consolidated 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 separate and consolidated financial statements, which are included in the annual report, are prepared in the relevant XHTML format,
- the information contained in the separate and consolidated 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.

Conclusion

Based on the procedures performed and evidence gathered, the separate and consolidated financial statements presented in ESEF format for the year ended on 31 December 2022, 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 the opinion contained in this independent auditor's report related to accompanying separate and consolidated financial statements and annual report for the year ended 31 December 2022, 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

20 April 2023

Ernst & Young d.o.o.
Radnička cesta 50
Zagreb, Republic of Croatia

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME**FOR THE YEAR ENDED 31 DECEMBER 2022**

<i>(in thousands of HRK)</i>	Note	Group		Company	
		2022	2021	2022	2021
Revenue	4	454,612	317,634	450,557	314,763
Other income	5	12,274	8,937	11,066	8,097
Operating income		466,886	326,571	461,623	322,860
Cost of materials and services	6	(145,366)	(99,907)	(144,015)	(99,022)
Employee costs	7	(144,669)	(95,028)	(141,762)	(93,449)
Depreciation and amortisation	13, 13.1, 14	(84,807)	(62,253)	(82,402)	(60,889)
Other operating expenses	8	(50,209)	(56,535)	(49,631)	(56,190)
Operating expenses		(425,051)	(313,723)	(417,810)	(309,550)
Operating profit		41,835	12,848	43,813	13,310
Finance expense – net	9	(11,738)	(15,908)	(18,863)	(16,369)
Share in profit of associates and joint ventures	15	1,591	482	1,591	482
Profit before taxes		31,688	(2,578)	26,541	(2,577)
Income tax	10	(10,448)	4,629	(8,186)	4,629
Profit for the year		21,240	2,051	18,355	2,052
<i>Profit / (Loss) attributable to:</i>					
Owners of the Parent Company		22,144	2,286	18,355	2,052
Non-controlling interest		(904)	(235)	-	-
Earnings per share (in HRK) - basic and diluted	11	4.56	0.39	-	-
Other comprehensive income		677	(2,300)	677	(2,300)
Total comprehensive income		21,917	(249)	19,032	(248)
<i>Total comprehensive income attributable to:</i>					
Owners of the Parent Company		22,821	(14)	19,032	(248)
Non-controlling interest		(904)	(235)	-	-

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION**AS AT 31 DECEMBER 2022**

<i>(in thousands of HRK)</i>	Note	Group		Company	
		31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
ASSETS					
Non-current assets					
Intangible assets	13	6,409	3,118	6,214	3,060
Right-of-use asset	13.1	1,649	7,319	1,649	7,319
Property, plant and equipment	14	1,260,571	1,056,765	1,224,566	1,020,292
Investment in associates and joint venture	15	77,443	75,852	77,443	75,852
Investment in subsidiaries	15.1	-	-	16,192	20,050
Loans	20	-	-	-	-
Deferred tax assets	12	50,930	61,378	60,918	69,104
Other non-current receivables	16	131	131	131	131
		1,397,133	1,204,563	1,387,113	1,195,808
Current assets					
Inventories	17	2,409	3,395	2,335	3,284
Trade receivables	18	8,056	6,466	7,999	6,230
Other receivables	19	18,465	25,368	18,373	25,179
Loans	20	-	-	1,040	2,938
Cash and cash equivalents	21	109,145	242,185	108,129	241,402
		138,075	277,414	137,876	279,033
Total assets		1,535,208	1,481,977	1,524,989	1,474,841
EQUITY AND LIABILITIES					
Share capital	22	714,481	714,481	714,481	714,481
Share premium		212,135	212,135	212,135	212,135
Other reserves		105,543	104,866	105,543	104,866
Retained earnings		(12,781)	(33,555)	(20,240)	(38,595)
		1,019,378	997,927	1,011,919	992,887
Non-controlling interest		(7,437)	(9,226)	-	-
Total equity		1,011,941	988,701	1,011,919	992,887
LIABILITIES					
Non-current liabilities					
Borrowings	23	410,958	380,320	410,958	380,304
Lease liabilities	13.1	1,051	640	1,051	640
Provisions	24	1,064	1,089	1,049	1,039
Deferred tax liabilities	25	890	742	890	742
		413,963	382,791	413,948	382,725
Current liabilities					
Borrowings	23	53,619	43,949	53,603	43,911
Lease liabilities	13.1	645	7,945	645	7,945
Provisions	24	221	277	189	277
Trade and other payables	26	24,832	34,748	24,583	32,112
Other liabilities	27	29,987	23,566	20,102	14,984
		109,304	110,485	99,122	99,229
Total liabilities		523,267	493,276	513,070	481,954
Total equity and liabilities		1,535,208	1,481,977	1,524,989	1,474,841

Sunce Hoteli d.d. and Sunce Hoteli d.d. Group

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

<i>(in thousands of HRK)</i>	Share capital	Share premium	Reserves	Retained earnings	Total	Non-controlling interest	Total
For the year ended 31 December 2021							
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 period	-	-	-	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
For the year ended 31 December 2022							
Balance as at 1 January 2022	714,481	212,135	104,866	(33,555)	997,927	(9,226)	988,701
Transactions with owners:							
Share capital increase	-	-	-	-	-	-	-
Capitalization of Aerodrom Brač d.o.o.	-	-	-	(1,370)	(1,370)	2,693	1,323
Total transactions with owners	-	-	-	(1,370)	(1,370)	2,693	1,323
Profit / (Loss) for the period	-	-	-	22,144	22,144	(904)	21,240
Other comprehensive income:							
Land revaluation	-	-	677	-	677	-	677
Total comprehensive income	-	-	677	22,144	22,821	(904)	21,917
Balance as at 31 December 2022	714,481	212,135	105,543	(12,781)	1,019,378	(7,437)	1,011,941

Sunce Hoteli d.d. and Sunce Hoteli d.d. Group

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousands of HRK)

	Share capital	Share premium	Reserves	Retained earnings	Total
For the year ended 31 December 2021					
Balance as at 1 January 2021	595,459	112,157	107,166	(40,647)	774,135
<i>Transactions with owners:</i>					
<i>Share capital increase</i>	119,022	99,978	-	-	219,000
<i>Total transactions with owners</i>	119,022	99,978	-	-	219,000
Land revaluation	-	-	(2,300)	-	(2,300)
Profit for the period	-	-	-	2,052	2,052
<i>Total comprehensive income</i>	-	-	(2,300)	2,052	(248)
Balance as at 31 December 2021	714,481	212,135	104,866	(38,595)	992,887
For the year ended 31 December 2022					
Balance as at 1 January 2022	714,481	212,135	104,866	(38,595)	992,887
<i>Transactions with owners:</i>					
<i>Share capital increase</i>	-	-	-	-	-
<i>Total transactions with owners</i>	-	-	-	-	-
<i>Other comprehensive income:</i>					
Land revaluation	-	-	677	-	677
Profit for the period	-	-	-	18,355	18,355
<i>Total comprehensive income</i>	-	-	677	18,355	19,032
Balance as at 31 December 2022	714,481	212,135	105,543	(20,240)	1,011,919

CONOSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS**FOR THE YEAR ENDED 31 DECEMBER 2022**

	Group		Company	
	2022	2021	2022	2021
	<i>(in thousands of HRK)</i>			
Cash flow from operating activities <i>(note 28)</i>	135,859	102,089	133,991	101,439
Interest paid	(10,001)	(20,877)	(9,999)	(20,873)
Tax paid	-	-	-	-
Net cash from operating activities	125,858	81,212	123,992	80,566
Purchase of property, plant and equipment <i>(note 14)</i>	(286,350)	(71,166)	(284,402)	(70,607)
Purchase of intangible assets <i>(note 13)</i>	(5,686)	(3,197)	(5,536)	(3,197)
Interest received	-	11,308	-	11,308
Loans granted to related parties	-	-	(480)	(520)
Loans received from related parties	-	76,141	-	76,141
Net cash (used) / generated from investment activities	(292,036)	13,086	(290,418)	13,125
Cash flow from financing activities				
Share capital increase	-	219,000	-	219,000
Receipts from borrowings	92,753	427,410	92,753	427,410
Repayments of borrowings	(53,501)	(509,431)	(53,501)	(509,393)
Repayment of principal of lease liabilities	(6,097)	(7,007)	(6,099)	(7,007)
Repayment of finance leases	(17)	(78)	-	(78)
Net cash used from financing activities	33,138	129,894	33,153	129,932
Net (decrease) / increase in cash and cash equivalents	(133,040)	224,192	(133,273)	223,623
Cash and cash equivalents				
At beginning of year	242,185	17,993	241,402	17,779
At year end <i>(note 21)</i>	109,145	242,185	108,129	241,402
Net (decrease) / increase	(133,040)	224,192	(133,273)	223,623

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 1 – GENERAL INFORMATION**

The financial statements for the year ended 31 December 2022 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 2022:

	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	51.32%
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 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%

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 1 – GENERAL INFORMATION (continued)

As at 31 December 2022, Sunce Hoteli d.d. is controlled by the company Eagle Hills Zagreb Nekretnine d.o.o. registered in Croatia, Ive Malina 11, Zagreb

Ownership structure 2022

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. had 38.56% of direct shares in Sunce Hoteli d.d. which represents 2,755,036 shares while the same Company through its 100% share 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.

As at 31 December 2022, the company Eagle Hills Zagreb Real Estate d.o.o. had 54.44% direct shares in Sunce Hoteli d.d. which represents 3,889,630 shares, while the same Company through its 100% share in Sunce Ulaganja d.o.o. has 42.05% indirect shares, which represents 96.49% of the total ownership of the Company Sunce Hoteli d.d.

Supervisory Board

Mohamed Ali Rashed Alabbar – Chairman of the Supervisory Board (since 25 June 2021)

Frederick William Howdon Durie – Deputy Chairman of the Supervisory Board (since 25 June 2021)

Ratomir Ivičić – Member of the Supervisory Board (until 16 November 2022)

Ping Low – Member of the Supervisory Board (since 14 June 2021 until 12 July 2022)

Rosa Mijailović – Member of the Supervisory Board (since 26 August 2022)

Management Board

Shaikh Mubarak Ali Abdulla Hamad Alkhalifa – President of the Management Board

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Company and the Group as of 1 January 2022:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- **Annual Improvements 2018-2020** make minor amendments to **IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture** and the Illustrative Examples accompanying **IFRS 16 Leases**

The adoption of these changes did not have a significant impact on the financial statements of the Company and the Group.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The adoption of these changes did not have a significant impact on the financial statements of the Company and the Group.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective and not early adopted

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The management estimates that the adoption of this amendment will not have a significant impact on the financial statements of the Company and the Group.

IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The management estimates that the adoption of this amendment will not have a significant impact on the financial statements of the Company and the Group.

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The management estimates that the adoption of this amendment will not have a significant impact on the financial statements of the Company and the Group.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current.

The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU. The management estimates that the adoption of this amendment will not have a significant impact on the financial statements of the Company and the Group.

IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU. The management estimates that the adoption of this amendment will not have a significant impact on the financial statements of the Company and the Group.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The management estimates that the adoption of this amendment will not have a significant impact on the financial statements of the Company and the Group.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022 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 2022, the exchange rate for 1 EUR amounted to 7,53450 HRK (31 December 2021: 7,517174 HRK).

In accordance with the "Law on the introduction of the euro as the official currency in the Republic of Croatia", the reporting currency of the Group and the Company for the period after 31 December 2022 is euro.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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.

**NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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.

**NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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:

	<u>2022.</u>	<u>2021.</u>
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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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 met:

- 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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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 measured 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Debt /i/	464,577	424,269	464,561	424,215
Lease liabilities	1,696	8,585	1,696	8,585
Cash and cash equivalents	(109,145)	(242,185)	(108,129)	(241,402)
Net debt	357,128	190,669	358,128	191,398
Equity /ii/	1,011,941	988,701	1,011,919	992,887
Net debt-to-equity ratio	35%	19%	35%	19%

/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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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:**2022**

	Cash, Loans and receivables	Financial assets	Financial assets through comprehensive income	Total
31 December 2022	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	131	-	-	131
Trade and other receivables	26,521	-	-	26,521
Loan receivables	-	-	-	-
Cash and cash equivalents	109,145	-	-	109,145
Total	135,797	-	-	135,797

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)****3.2 Significant accounting policies (continued)****The Company:****2022**

	Cash, Loans and receivables	Financial assets	Financial assets through comprehensive income	Total
31 December 2022	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	131	-	-	131
Trade and other receivables	26,372	-	-	26,372
Loan receivables	1,040	-	-	1,040
Cash and cash equivalents	108,129	-	-	108,129
Total	135,672	-	-	135,672

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

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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 2022 and 31 December 2021, 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 2022 are increased or decreased by 1 percentage point (p.p.) Amounts are shown in thousands of HRK.

2022	Increase / decrease in percentage	Effect on profit before taxes	
		HRK'000	
		Group	Company
HRK	+1 p.p.	(4,646)	(4,646)
HRK	-1 p.p.	4,646	4,646
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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)****3.3 Financial risk management (continued)***Foreign currency risk*

Until the end of 2022, the Company and the Group were 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 was managed through natural protection, such that the required amount of funds is kept in euros, in which long-term borrowings are denominated. Until the end of 2022, the Company and the Group were exposed to exchange rate changes in relation to the US dollar (USD), as part of the receivables from customers and income was denominated in the specified currency, but not in a significant amount. As of 31 December 2022, the Group and the Company are not exposed to exchange rate changes in relation to the euro (EUR), since, in accordance with the "Act on the introduction of the euro as the official currency in the Republic of Croatia", the reporting currency of the Group and the Company for the period after 31 December 2022 is EUR.

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

31 December	2022. 000' HRK	2021. 000' HRK
Trade receivables	7,752	6,466
Other receivables	3,095	3,258
Cash and cash equivalents	106,776	12,162
Borrowings	(464,576)	(424,269)
Lease liabilities	(1,696)	-
Trade and other payables	(4,346)	(6,045)
Net (EUR)	(352,995)	(408,428)

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

31 December	2022. 000' HRK	2021. 000' HRK
Trade receivables	7,735	6,230
Other receivables	3,095	3,258
Cash and cash equivalents	105,913	11,659
Borrowings	(464,561)	(424,215)
Lease liabilities	(1,696)	-
Trade and other payables	(4,346)	(6,045)
Net (EUR)	(353,860)	(409,113)

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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	
2022				
Financial assets	117,623	-	116,743	-
Financial liabilities	(58,610)	(412,008)	(58,595)	(412,008)
Total exposure	59,013	(412,008)	58,148	(412,008)
2021				
Financial assets	21,886	-	21,147	-
Financial liabilities	(64,849)	(365,465)	(64,811)	(365,449)
Total exposure	(42,963)	(365,465)	(43,664)	(365,449)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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 from 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 2022 and 2021 according to the contracted non-discounted payments:

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022						
Borrowings	464,576	504,595	62,077	121,128	174,130	147,260
Lease liabilities	1,696	1,696	645	1,051	-	-
Trade and other payables	24,832	24,832	24,832	-	-	-
Other liabilities	29,987	29,987	29,987	-	-	-
	521,091	561,110	117,541	122,179	174,130	147,260

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

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 2022						
Borrowings	464,561	504,595	62,077	121,128	174,130	147,260
Lease liabilities	1,696	1,696	645	1,051	-	-
Trade and other payables	24,583	24,583	24,583	-	-	-
Other liabilities	20,105	20,105	20,105	-	-	-
	510,945	550,979	107,410	122,179	174,130	147,260

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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, “à la carte”, airport services and other services.

Statement of comprehensive income for the year ended 31 December 2022 by business segments is as follows:

<i>(in thousands of HRK)</i>	Hotels	Other segments	Unallocated	Total
Total segment revenue	460,982	5,373	641	466,996
Inter segment revenue	(50)	(60)	-	(110)
Revenue from external costumers	460,932	5,313	641	466,886
Operating expenses	(335,407)	(4,837)	-	(340,244)
EBITDA	125,525	476	641	126,642
Depreciation and amortisation	(82,402)	(2,405)	-	(84,807)
EBIT	43,123	(1,929)	641	41,835
Share in profit of associates and joint ventures				1,591
Finance expense - net				(11,738)
Profit before taxes				31,688
Income tax				(10,448)
Profit for the year				21,240
<i>Attributable to:</i>				
Owners of the Parent Company				21,333
Non-controlling interest				(93)

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 subsequently approved credit notes.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 4 – SEGMENT INFORMATION (continued)**

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

<i>(in thousands of HRK)</i>	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	(60,889)	(1,364)	-	(62,253)
EBIT	12,872	(396)	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
<i>Attributable to:</i>				
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 re-invoicing, revenues from transport services, revenues from suppliers discounts and revenues from advertising services.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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	
	2022	2021	2022	2021
	<i>(in thousands of HRK)</i>			
Foreign sales	407,424	278,975	403,789	276,098
Domestic sales	47,188	38,659	46,768	38,665
	454,612	317,634	450,557	314,763

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

	2022		2021	
	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%
Germany	81,900	20%	57,191	21%
Great Britain	57,853	14%	20,000	7%
Bosnia and Herzegovina	28,388	7%	18,483	7%
Austria	29,039	7%	20,875	7%
Poland	25,551	6%	25,312	9%
Slovenia	25,405	6%	21,042	8%
Czech Republic	22,758	6%	22,973	8%
Sweden	18,111	4%	8,609	3%
Slovakia	16,981	4%	9,904	4%
Ukraine	6,111	2%	13,732	5%
Other countries	95,327	24%	60,854	22%
	407,424	100%	278,975	100%

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 5 – OTHER INCOME**

	Group		Company	
	2022	2021	2022	2021
	<i>(in thousands of HRK)</i>			
Rent income	2,918	2,791	2,764	2,677
Tourist agency fee income	1,513	818	1,514	818
Income from grants	1,456	1,069	771	557
Revenue from supplier approval	913	427	913	427
Revenue from approvals	467	97	467	97
Penalty income	49	288	49	288
Revenues from call center	-	9	-	9
Other income	4,958	3,438	4,588	3,224
	12,274	8,937	11,066	8,097

The category "Other revenues" in 2022 and 2021 includes revenues from write-offs of liabilities to suppliers, subsequently determined revenues, revenues from recharged costs, revenues from transport services and etc.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 6 – COST OF MATERIALS AND SERVICE**

	Group		Company	
	2022	2021	2022	2021
	<i>(in thousands of HRK)</i>			
Raw materials and supplies				
Raw materials and supplies	(59,007)	(38,413)	(58,896)	(38,365)
Energy and water	(24,376)	(11,760)	(24,099)	(11,571)
Small inventory	(4,503)	(3,047)	(4,474)	(3,017)
Cost of goods sold	(514)	(712)	(428)	(707)
	(88,400)	(53,932)	(87,897)	(53,660)
External services				
Communal fees	(12,033)	(8,891)	(11,943)	(8,828)
Advertising and promotion	(11,111)	(8,968)	(11,101)	(8,967)
Maintenance	(10,599)	(8,511)	(10,342)	(8,285)
Laundry and cleaning services	(6,147)	(4,397)	(6,147)	(4,397)
Animation and entertainment	(5,422)	(2,640)	(5,420)	(2,639)
Intellectual services /i/	(4,492)	(4,708)	(4,355)	(4,629)
Transportation and telecommunication	(1,903)	(1,897)	(1,747)	(1,822)
Rent	(1,584)	(3,222)	(1,563)	(3,198)
Other services /ii/	(3,705)	(2,741)	(3,500)	(2,597)
	(56,966)	(45,975)	(56,118)	(45,362)
Total costs of materials and services	(145,366)	(99,907)	(144,015)	(99,022)

/i/ Statutory audit services fees to the auditor of the Company's and the Group financial statements amounted to HRK 662 thousand (2021: HRK 541 thousand).

Fees for other audit services required by law, provided by Ernst & Young d.o.o. amount to HRK 84 thousand.

/ii/ Other services for 2022 and 2021 mainly consist of communal and environmental services, occupational safety and environmental services, external staff services and quality control services.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 7 – EMPLOYEE COSTS**

	Group		Company	
	2022	2021	2022	2021
	<i>(in thousands of HRK)</i>			
Net salaries	(78,426)	(68,544)	(76,780)	(67,063)
Contributions, taxes and surtax	(44,520)	(37,115)	(43,523)	(36,290)
Other employee costs /i/	(22,569)	(19,474)	(22,317)	(19,307)
Government support for employees /ii/	628	28,477	628	27,563
Accrued overtime and unused vacation	139	1,570	153	1,585
Termination benefits and jubilee awards	79	58	77	63
	(144,669)	(95,028)	(141,762)	(93,449)

Company and Group

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

/ii/ Income from government support for employees for 2021 represents state grants received under the measure " Preservation of jobs" caused by the impact of the "Covid-19" pandemic on the operations of the Group and the Company. For the year 2022, state subsidies refer to the "Permanent seasonal employee" measure.

During 2022, the average number of staff employed by the Group was 1.060 (2021.: 985 employees).

Contributions paid in mandatory pension funds during 2022 amounted to HRK 20,721 thousand (2021.: HRK 18,991 thousand), to State pension funds amounts to 16,005 thousand (2021.: HRK 14,707 thousand) and private pension fund amounts to HRK 4,716 thousand (2021.: HRK 4,284 thousand).

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 8 – OTHER OPERATING EXPENSES**

	Group		Company	
	2022	2021	2022	2021
	<i>(in thousands of HRK)</i>			
Commission to travel agencies and credit cards institutions	(26,972)	(21,463)	(26,970)	(21,443)
Municipal and similar charges and contributions	(4,990)	(4,487)	(4,974)	(4,473)
Disposals of property, plant and equipment /i/	(4,722)	(14,601)	(4,722)	(14,601)
Insurance premiums	(2,470)	(3,461)	(2,218)	(3,298)
Bank fees	(1,872)	(2,679)	(1,835)	(2,671)
Business travel expenses	(1,278)	(805)	(1,270)	(761)
Representation cost (hosting)	(1,098)	(1,271)	(1,083)	(1,257)
Provisions for impairment of trade and other receivables (note 18)	(855)	(711)	(652)	(711)
Supervisory Board costs	(185)	(83)	(185)	(83)
Staff education cost and other similar cost	(156)	(305)	(156)	(252)
Net loss on sale of fixed assets	-	(2,041)	-	(2,041)
Value adjustment of tangible fixed assets	-	(1,689)	-	(1,689)
Legal proceedings costs	(30)	(114)	(30)	(114)
Other	(5,581)	(2,825)	(5,536)	(2,796)
	(50,209)	(56,535)	(49,631)	(56,190)

Company and Group

/i/ Company Sunce Hoteli d.d. at the end of 2022, wrote off a part of fixed assets in the amount of HRK 4,897 thousand. The written-off asset refers to project documentation related to previous unrealized projects that the Company abandoned in 2022 and to those assets that were determined by internal supervision to be unusable. The company also realized income from sale of such assets in the amount of HRK 174 thousand.

Company Sunce Hoteli 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 9 – FINANCIAL EXPENSES – NET**

	Group		Company	
	2022	2021	2022	2021
	<i>((in thousands of HRK))</i>			
Financial income				
Interest income	1	1,134	25	1,147
Other financial income	-	867	-	867
Net exchange rate differences	-	1,161	-	1,182
	1	3,162	25	3,196
Financial expenses				
Interest expense	(10,001)	(9,579)	(9,999)	(9,575)
Net exchange rate differences	(801)	-	(799)	-
Value adjustment of financial assets (Note 15) /ii/	-	(5)	(7,158)	(505)
Fee and other related costs /i/	(800)	(8,870)	(795)	(8,869)
Interest expense (IFRS 16)	(137)	(616)	(137)	(616)
	(11,739)	(19,070)	(18,888)	(19,565)
	(11,738)	(15,908)	(18,863)	(16,369)

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).

/ii/ Value adjustment of financial assets relates to impairment of investment in the subsidiary company Aerodrom Brač d.o.o., resulting from the impairment test performed by the company Sunce Hoteli d.d. at the end of 2022 (Note 15).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 10 – INCOME TAX**

Calculation of corporate income tax for the year ended 31 December 2022 is as follow:

	Group		Company	
	2022	2021	2022	2021
	<i>(in thousands of HRK)</i>			
Profit before tax	31,688	(2,578)	26,541	(2,577)
Non-deductible expenses	12,301	6,069	12,034	6,030
Tax deductible income	(2,514)	(30,100)	(2,511)	(29,167)
Taxable profit	41,473	(26,609)	36,063	(25,714)
Used tax losses carried forward from previous years	(41,473)	-	(36,063)	-
Tax basis	-	(26,609)	-	(25,714)
Income tax	-	-	-	-
Deferred taxes - <i>Utilization of tax losses carried forward for current income tax (note 12)</i>	(7,465)	-	(6,491)	-
Deferred taxes - <i>Utilization of tax incentives for additional income tax</i>	(2,983)	-	(2,983)	-
Deferred taxes - <i>Recognition on the basis of tax losses carried forward (note 12)</i>	-	4,629	1,288	4,629
Deferred tax	(10,448)	4,629	(8,186)	4,629
Income tax – expense for the period	(10,448)	4,629	(8,186)	4,629
Tax losses to be carried forward	136,205	177,678	137,187	173,250
Effective tax rate	32.97%	-	30.84%	-

The applicable corporate income tax rate for 2022 is 18% (2021: 18%).

These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2022 tax losses carried forward amount to HRK 136,205 thousand (Group) and HRK 137,187 thousand (Company) and can be used as follows:

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
2022	-	4,227	-	4,055
2023	-	32,682	466	32,474
2024	-	3,878	3,715	3,715
2025	109,154	109,840	107,292	107,292
2026	27,051	27,051	25,714	25,714
	136,205	177,678	137,187	173,250

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 10 – INCOME TAX (continued)**

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	
	2022	2021
Net profit attributable to owners of the parent Company (in thousands of HRK)	21,333	2,286
Weighted average number of shares (decreased by treasury shares)	7,144,802	5,938,271
Earnings per share (in HRK)	2.99	0.39

NOTE 12 – DEFERRED TAX ASSETS

	Group		Company	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
	<i>(in thousands of HRK)</i>			
Tax incentives for investments	29,285	32,268	29,285	32,268
Tax loss carried forward – Sunce Hoteli d.d.	21,645	23,941	22,619	23,941
Tax loss carried forward - Hotel Alan d.d. (merged Company)	-	5,169	-	5,169
Tax loss carried forward – Hoteli Zlatni Rat d.d. (merged Company)	-	-	7,726	7,726
Impairment of investment in subsidiary (Note 15.1)	-	-	1,288	-
As at 31 December	50,930	61,378	60,918	69,104

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 12 – DEFERRED TAX ASSET (continued)

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 and tax loss in 2021 in the amount of HRK 4,629 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. In 2022, the Company utilized the entire amount of the related deferred tax assets.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 13 - INTANGIBLE ASSETS

Group

<i>(in thousands of HRK)</i>	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
As at 1 January 2021					
	579	162	-	-	741
Additions	298	770	-	2,129	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	882	-	1,479	3,118
As at 31 December 2021					
Cost	7,792	1,813	2,326	1,479	13,410
Accumulated amortisation	(7,035)	(931)	(2,326)	-	(10,292)
Carrying amount	757	882	-	1,479	3,118
<i>(in thousands of HRK)</i>					
	Software	Licenses	Other	Assets under construction	Total
For the year ended 31 December 2022					
As at 1 January 2022					
Cost	7,792	1,813	2,326	1,479	13,410
Accumulated amortisation	(7,035)	(931)	(2,326)	-	(10,292)
Carrying amount	757	882	-	1,479	3,118
As at 1 January 2022					
	757	882	-	1,479	3,118
Additions	5,536	-	-	150	5,686
Sale and write-off	(177)	(209)	-	(740)	(1,126)
Transfers	887	-	-	(887)	-
Amortization	(1,269)	-	-	-	(1,269)
Sale and write-off	-	-	-	-	-
As at 31 December 2022	5,734	673	-	2	6,409
As at 31 December 2022					
Cost	14,038	1,604	2,326	2	17,970
Accumulated amortisation	(8,304)	(931)	(2,326)	-	(11,561)
Carrying amount	5,734	673	-	2	6,409

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 13 - INTANGIBLE ASSETS (continued)

Company

<i>(in thousands of HRK)</i>	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
As at 1 January 2021	500	168	-	-	668
Merger of subsidiaries	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
<i>(in thousands of HRK)</i>					
	Software	Right of use	Other	Assets under construction	Total
For the year ended 31 December 2022					
As at 1 January 2022					
Cost	1,409	941	-	1,478	3,828
Accumulated amortisation	(716)	(52)	-	-	(768)
Carrying amount	693	889	-	1,478	3,060
As at 1 January 2022	693	889	-	1,478	3,060
Additions	5,537	-	-	-	5,537
Sale and write-off	(177)	(209)	-	(741)	(1,127)
Transfers	737	-	-	(737)	-
Amortization	(1,256)	-	-	-	(1,256)
Sale and write-off	-	-	-	-	-
As at 31 December 2022	5,534	680	-	-	6,214
As at 31 December 2022					
Cost	7,506	732	-	-	8,238
Accumulated amortisation	(1,972)	(52)	-	-	(2,024)
Carrying amount	5,534	680	-	-	6,214

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
<i>(in thousands of HRK)</i>				
<i>Amounts recognized in the statement of financial position</i>				
Right-of-use asset				
Buildings (tourist resort) /i/	-	4,776	-	4,776
Office building	429	613	429	613
Other	1,220	1,930	1,220	1,930
	1,649	7,319	1,649	7,319
Lease liabilities				
Long – term	1,051	640	1,051	640
Short – term	645	7,945	645	7,945
	1,696	8,585	1,696	8,585
<i>Amounts recognized in the income statement and other comprehensive income for the period</i>				
Depreciation of property, plant and equipment	5,539	6,854	5,539	6,854
Interest (Note 9)	137	616	137	616
	5,676	7,470	5,676	7,470

/i/ The tourist resort refers to the lease of the "Velaris Resort" in Supetar on the island of Brač. Lease agreement expired on 31 December 2022 and was not extended.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 14 – PROPERTY, PLANT AND EQUIPMENT**

Group						
For the year ended 31 December 2021 <i>(in thousands of HRK)</i>	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
Additions	-	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)	-
Other transfers	-	564	-	-	(564)	-
Land revaluation	(2,805)	-	-	-	-	(2,805)
Depreciation	-	(39,650)	(565)	(14,849)	-	(55,064)
Sales and Disposal	-	214	5,241	25,761	-	31,216
Value adjustment	-	(1,689)	-	-	-	(1,689)
As at 31 December 2021						
Cost	113,566	1,480,793	6,689	308,670	61,912	1,971,630
Accumulated depreciation	(25)	(668,246)	(5,341)	(241,253)	-	(914,865)
Carrying amount	113,541	812,547	1,348	67,417	61,912	1,056,765

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

For the year ended 31 December 2022
(in thousands of HRK)

	Land	Buildings	Vehicles	Plant and equipment	Assets under construction	Total
As at 1 January 2022						
Cost	113,566	1,480,793	6,689	308,670	61,912	1,971,630
Accumulated depreciation	(25)	(668,246)	(5,341)	(241,253)	-	(914,865)
Carrying amount	113,541	812,547	1,348	67,417	61,912	1,056,765
Addition	18	2,723	92	5,215	278,302	286,350
Sales and Disposal	-	(4,037)	(284)	(18,738)	(1,554)	(24,613)
Transfers	-	239,043	-	73,811	(312,854)	-
Other transfers	-	(39,620)	-	39,620	-	-
Land revaluation	825	-	-	-	-	825
Depreciation	-	(52,857)	(387)	(24,755)	-	(77,999)
Sales and Disposal	-	2,254	206	16,783	-	19,243
Other transfers	-	(27,947)	-	27,947	-	-
As at 31 December 2022						
Cost	114,409	1,678,902	6,497	408,578	25,806	2,234,192
Accumulated depreciation	(25)	(746,796)	(5,522)	(221,278)	-	(973,621)
Carrying amount	114,384	932,106	975	187,300	25,806	1,260,571

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)****Company****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
Merger of subsidiaries	-	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)
Depreciation	-	(38,822)	(407)	(14,486)	-	(53,715)
Sales and Disposal	-	214	5,241	25,761	-	31,216
Value adjustment	-	(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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)****Company (continued)****For the year ended 31 December 2022**
(in thousands of HRK)

	Land	Buildings	Vehicles	Plant and equipment	Assets under construction	Total
As at 1 January 2022						
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
Addition	18	2,722	91	5,215	276,356	284,402
Sales and disposal	-	(4,037)	(226)	(18,565)	(1,554)	(24,382)
Transfers	-	237,123	-	73,811	(310,934)	-
Other transfers	-	(39,620)	-	39,620	-	-
Land revaluation	825	-	-	-	-	825
Depreciation	-	(51,369)	(180)	(24,058)	-	(75,607)
Sales and Disposal	-	2,254	149	16,633	-	19,036
Other transfers	-	(27,947)	-	27,947	-	-
As at 31 December 2022						
Cost	113,432	1,616,934	2,307	402,090	22,619	2,157,382
Accumulated depreciation	(25)	(713,640)	(2,116)	(217,035)	-	(932,816)
Carrying amount	113,407	903,294	191	185,055	22,619	1,224,566

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 1,933,851 thousand as at 31 December 2022 (2021: 1,330,302 thousand HRK). Appraisal values of real construction facilities and land are not lower than their carrying value. The appraised value of the Groups properties as of 31 December 2022, in addition to hotel facilities, also includes a significant number of properties categorized as "non-operating assets" for which the appraisal was made at the end of 2022, while as of 31 December 2021, the appraised value includes only hotel facilities.

As at 31 December 2022, the net book value of land and buildings pledged as collateral for the repayment of long-term borrowings (Note 23) amounted to HRK 914,696 thousand (2021: HRK 609,754 thousand).

The gross carrying value of property, plant and equipment which are fully depreciated and still in use as of 31 December 2022 amounts to HRK 131,496 thousand (2021: HRK 193,678 thousand).

Carrying value of Group's assets purchased on finance lease as at 31 December 2022 amounts to HRK 106 thousand (2021: HRK 259 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 asset in the amount of HRK 1,409 thousand (2021: HRK 1,409 thousand) and buildings on those assets in amount of HRK 1,440 thousand (2021: HRK 1,409 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).

In 2022, the Company initiated the "Componentization of long-term tangible assets" project. As part of the project, the Company, in cooperation with external consultants, reviewed the estimated useful life at the level of individual "categories" in the composition of fixed assets. The project resulted in a change in the useful life of certain "categories" of fixed assets in order to present the fixed assets and the cost of depreciation arising from them as fair as possible.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 15 – INVESTMENT IN ASSOCIATES AND JOINT VENTURE****Group**

	31.12.2022.		31.12.2021.	
	<i>(in thousands of HRK)</i>	Interest held	<i>(in thousands of HRK)</i>	Interest held
Praona d.o.o., Makarska	2,535	42%	2,200	42%
WOT Hotels Adriatic Asset Company d.o.o.	74,908	50%	73,652	50%
WOT Hotels Adriatic Management d.o.o.	-	49%	-	49%
	77,443		75,852	

Company

	31.12.2022.		31.12.2021.	
	<i>(in thousands of HRK)</i>	Interest held	<i>(in thousands of HRK)</i>	Interest held
Praona d.o.o., Makarska	2,535	42%	2,200	42%
WOT Hotels Adriatic Asset Company d.o.o.	74,908	50%	73,652	50%
WOT Hotels Adriatic Management d.o.o.	-	49%	-	49%
	77,443		75,852	

Movements on the group investments during 2022 and 2021 in associates and joint venture are as follows:

	31.12.2022.	31.12.2021.
	<i>(in thousands of HRK)</i>	
January 1	75,852	75,371
Share in profit / (loss) of associate (Praona d.o.o.)	335	(41)
Share in profit of joint venture (WOT Hotels Adriatic Asset Company d.o.o.)	1,256	523
Share in loss of WOT Hotels Adriatic Management d.o.o.	-	(1)
December 31	77,443	75,852

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 15 – INVESTMENT IN ASSOCIATES AND JOINT VENTURE (CONTINUED)**

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

	<u>2022</u>	<u>2021</u>
<i>Financial position</i>		
Current assets	5,486	1,835
Non-current assets	10,902	12,494
Short-term liabilities	(4,003)	(2,027)
Long-term liabilities	(6,496)	(6,995)
Net assets	<u>5,889</u>	<u>5,307</u>
 <i>Profit and loss account</i>		
Revenues	18,342	7,752
Expenses	(17,545)	(7,849)
Profit / (Loss)	<u>797</u>	<u>(97)</u>
Group share	<u>335</u>	<u>(41)</u>

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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.

	2022 (unaudited)	2021
Financial position		
Current assets	12,186	11,699
Non-current assets	254,305	240,753
Short-term liabilities	(21,013)	(19,366)
Long-term liabilities	(66,439)	(74,194)
Net assets	179,039	158,892
Profit and loss account		
Revenues	48,250	31,367
Expenses	(45,739)	(30,321)
Profit	2,511	1,046
Group share	1,256	523

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		Nature of business	Recognition method	Carrying amount as of 31 Dec 2022 (in thousands of HRK)
		2022	2021			
WOT Hotels Adriatic Asset Company d.o.o.	Tučepi, Croatia	50%	50%	Hospitality and tourism	Equity method	74,908

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 15.1 – INVESTMENT IN SUBSIDIARIES****Company**

	31 Dec 2022		31 Dec 2021	
	<i>(in thousands of HRK)</i>	Interest held	<i>(in thousands of HRK)</i>	Interest held
Aerodrom Brač d.o.o. /ii/	23,310	51%	20,010	50%
Brač 500 Plus d.o.o. /i/	-	69%	500	69%
Brela Jakiruš a d.o.o.	20	100%	20	100%
Sunce Vital d.o.o.	20	100%	20	100%
Value adjustment	(7,158)		(500)	
	16,192		20,050	

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

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

During March 2022, the Company additionally capitalized the subsidiary Aerodrom Brač d.o.o. by converting loan receivables in share capital of the subsidiary in the total amount of HRK 3,300 thousand.

In 2022, 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 13 years, with the last (13th) 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.

Test resulted in impairment of the investment in the subsidiary in the amount of HRK 7,158 thousand (Note 9).

Discount rate

Annual pre-tax discount rate used to discount the projected cash flows of Aerodrom Brač d.o.o. amounts to 9.70% (2021: 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 4.8% (2021: 3.7%) was used in the stated cash flow projection period.

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 16 – LONG-TERM RECEIVABLES**

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Deposits in banks	110	110	110	110
Accrued expenses	21	21	21	21
	131	131	131	131

NOTE 17 – INVENTORIES

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Raw materials and consumables	2,188	2,735	2,186	2,722
Merchandise	169	216	97	118
Small inventory and spare parts of tangible assets	52	444	52	444
	2,409	3,395	2,335	3,284

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 18 – TRADE RECEIVABLES**

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Trade receivables	36,073	34,104	35,490	33,516
Trade receivables – related companies	2,664	2,662	2,710	2,728
Less provision for impairment of trade receivables	(31,541)	(30,705)	(31,052)	(30,418)
Trade receivables – net	7,196	6,061	7,148	5,826
Advances given	860	405	851	404
Trade receivables	8,056	6,466	7,999	6,230

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

As at 31 December 2022 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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Undue receivables	1,240	601	1,240	608
Less than 90 days	3,801	2,638	3,801	2,650
Between 90 and 180 days	1,444	605	1,387	596
Between 180 and 360 days	269	678	269	607
Later than 360 days	1,302	1,944	1,302	1,769
	8,056	6,466	7,999	6,230

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

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
EUR	7,752	6,466	7,735	6,230
HRK	304	-	264	-
	8,056	6,466	7,999	6,230

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 18 - TRADE RECEIVABLES (continued)**

Movements in the provisions for impairment of trade receivables:

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
At 1 January	(30,705)	(30,783)	(30,418)	(30,496)
<i>Charged/credited to the statement of comprehensive income (Note 8):</i>				
Increase of impairment	(790)	(711)	(588)	(711)
Foreign exchange	(75)	108	(75)	108
	(865)	(603)	(663)	(604)
Receivables written-off				
Collected receivables	29	681	29	681
At 31 December	(31,541)	(30,705)	(31,052)	(30,418)

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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Prepaid expenses /i/	7,385	6,127	7,360	6,109
Accrued income /iii/	5,789	7,592	5,789	7,592
State receivable /ii/	3,377	9,673	3,293	9,501
Interest receivable from related parties (Note 31)	1,031	1,031	1,052	1,046
Receivables from employees	5	18	1	15
Other receivables	878	927	878	916
	18,465	25,368	18,373	25,179

/i/ Prepaid expenses for the Group and the Company refer to calculated provisions for overtime hours of permanent seasonal employees and prepaid operating costs.

/ii/ State receivable mainly refer to claims for paid VAT and income tax.

/iii/ Accrued income mostly refers to the 2021 COVID-19 support for the preservation of jobs. The Company and the Group applied for grants and met the criteria for payment of direct grants and write-offs of taxes and contributions, however, as of December 31, 2022, direct grants in the amount of HRK 4,917 thousand were not paid.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 20 – LOANS**

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Long – term				
Loans to related parties (Note 31)	-	-	-	-
Loan loss allowance – IFRS 9 (Note 9)	-	-	-	-
	-	-	-	-
Short – term				
Loans to related parties (note 31)	-	-	43,040	45,860
Loan loss allowance – IFRS 9 (Note 9)	-	-	(42,000)	(42,922)
	-	-	1,040	2,938
	-	-	1,040	2,938

Company

Short-term loans as at 31 December 2022 in the total amount of HRK 1,040 thousand relate to a loan granted to the subsidiary Aerodrom Brač d.o.o. in the amount of HRK 1 million, approved with an interest rate of 2.68% maturing in December 2023 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 2.68% maturing in December 2023. Loans are approved in local currency and secured by promissory notes.

During March 2022, the Company additionally capitalized the subsidiary Aerodrom Brač d.o.o. by converting loan receivables in share capital of the subsidiary in the total amount of HRK 3,300 thousand.

NOTE 21 – CASH AND CASH EQUIVALENTS

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Foreign currency accounts	106,776	12,162	105,913	11,659
Domestic currency accounts	2,368	229,992	2,216	229,719
Deposits in banks	1	22	-	22
Cash in hand	-	9	-	2
	109,145	242,185	108,129	241,402

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 22 – SHARE CAPITAL**

The authorized and registered share capital of the parent Company amounts to HRK 714,481 thousand and comprises 7,144,802 ordinary shares, with a nominal value of HRK 100 per share.

The ownership structure as at 31 December 2022 was as follows:

Shareholder	Number of shares	Nominal value	Share in %
Eagle Hills Zagreb Real Estate d.o.o.	3,889,630	388,963,021	54.44
Sunce Ulaganja d.o.o.	3,004,389	300,438,924	42.05
CERP – Republic of Croatia	21,434	2,143,441	0.30
Splićanka Tours d.o.o.	7,145	714,480	0.10
Other shareholders	222,204	22,220,334	3.11
	7,144,802	714,480,200	100

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 20 December 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.

During 2022, the majority owner purchased 1,134,549 shares from institutional investors (Erste blue mandatory pension fund category A, Erste blue mandatory pension fund category B, Erste blue expert voluntary pension fund, Closed voluntary road pension fund, Erste closed voluntary pension fund, Nestlé Closed Voluntary Pension Fund, Posta Closed Voluntary Pension Fund, Police Closed Voluntary Pension Fund).

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 23 – BORROWINGS**

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Non-current				
Bank borrowings	464,561	424,185	464,561	424,185
Finance lease	-	16	-	-
Less: Current portion of non - current borrowings	(53,603)	(43,881)	(53,603)	(43,881)
	410,958	380,320	410,958	380,304
Current				
Current portion of non - current borrowings	53,603	43,881	53,603	43,881
Finance lease	16	68	-	30
	53,619	43,949	53,603	43,911
	464,577	424,269	464,561	424,215

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.

After the calculation at the end of 2022, the Company and the Group are in compliance with the defined contractual obligations, i.e. covenants.

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 used for financing capital investments at the beginning of 2022.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022 includes a long-term loan from Erste & Steiermärkische Bank d.d. and OTP banka d.d.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 23 – BORROWINGS (continued)**

2022.	Outstanding amount	Currency	Interest rate	Maturity
			<i>(in thousands of HRK)</i>	
Bank				
Erste & Steiermärkische Bank d.d. and OTP banka d.d. - Tranche A	381,181	EUR	3M EURIBOR + 1.85%	2031
Erste & Steiermärkische Bank d.d. and OTP banka d.d. - Tranche B	83,380	EUR	3M EURIBOR + 1.85%	2031
	464,561			
2021.	Outstanding amount	Currency	Interest rate	Maturity
			<i>(in thousands of HRK)</i>	
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			

Bank borrowings are secured by a mortgage over land and buildings (Note 14) with a net book value of HRK 914,696 thousand (2021.: HRK 609,754 thousand).

The average effective interest rate was 2.4% (2021.: 2.5%).

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 23 – BORROWINGS (continued)**

Maturity of long-term borrowings is as follows:

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Between 2–5 years	268,016	219,406	268,016	219,406
Over 5 years	142,942	160,914	142,942	160,898
	410,958	380,320	410,958	380,304

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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
EUR	464,577	424,269	464,561	424,215
HRK	-	-	-	-
	464,577	424,269	464,561	424,215

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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Less than a year	16	68	-	30
Between 1-5 years	-	16	-	-
Over 5 years	-	-	-	-
	16	84	-	30

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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

<i>(in thousands of HRK)</i>	At 1 January 2022	Cash flow		Foreign exchange	At 31 December 2022
		<i>Increase</i>	<i>Decrease</i>		
Borrowings	424,269	92,753	(53,517)	1,072	464,577

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

Company

<i>(in thousands of HRK)</i>	At 1 January 2022	Cash flow		Foreign exchange	At 31 December 2022
		<i>Increase</i>	<i>Decrease</i>		
Borrowings	424,215	92,753	(53,501)	1,094	464,561

<i>(in thousands of HRK)</i>	At 1 January 2021	Cash flow		Acquisition of a subsidiary	Foreign exchange	At 31 December 2021
		<i>Increase</i>	<i>Decrease</i>			
Borrowings	502,120	427,410	(509,393)	-	4,078	424,215

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 24 – PROVISIONS****Group**

<i>(in thousands of HRK)</i>	Severance payments /i/	Legal claim /ii/	Jubilee awards /i/	Total
At 1 January 2022	626	-	740	1,366
Additional provisions	58	-	193	251
Used during year	(127)	-	(205)	(332)
At 31 December 2022	557	-	728	1,285
Current portion	470	-	594	1,064
Non-current portion	87	-	134	221

Company

<i>(in thousands of HRK)</i>	Severance payments /i/	Legal claim /ii/	Jubilee awards /i/	Total
At 1 January 2022	609	-	707	1,316
Additional provisions	58	-	193	251
Used during year	(124)	-	(205)	(329)
At 31 December 2022	543	-	695	1,238
Current portion	488	-	561	1,049
Non-current portion	55	-	134	189

/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".

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 25 – DEFERRED TAX LIABILITY**

The movement in deferred tax liabilities during the year 2022 and 2021 is as follows:

	Group	Company
	<i>(in thousands of HRK)</i>	
At 31 December 2020	1,247	1,247
Land revaluation during 2021	(505)	(505)
At 31 December 2021	742	742
Land revaluation during 2022	148	148
At 31 December 2022	890	890

NOTE 26 – TRADE AND OTHER PAYABLES

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Trade payables	21,083	30,156	20,834	27,520
Advances received	3,749	4,479	3,749	4,479
Trade payables - related parties	-	113	-	113
	24,832	34,748	24,583	32,112

NOTE 27 – OTHER SHORT-TERM LIABILITIES

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Deferred income /i/	9,689	8,359	209	122
Liabilities to employees	6,306	5,370	6,170	5,213
Accrued overtime and unused vacations	5,413	3,495	5,338	3,435
Accrued expenses	4,467	2,787	4,381	2,784
Contributions from salaries	1,581	1,426	1,545	1,388
Contributions on salaries	1,250	1,085	1,220	1,053
Tax and surtax on salaries	516	415	499	403
Other taxes and contributions	510	342	496	336
Other liabilities	255	287	244	250
	29,987	23,566	20,102	14,984

/i/ Deferred income of the Group mostly relate to state support received as a result of investment in fixed assets of the subsidiary Aerodrom Brač d.o.o.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 28 – CASH GENERATED FROM OPERATIONS**

Adjustment of profit with cash generated from operations:

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of HRK)</i>			
Profit after taxation	21,240	2,051	18,355	2,052
Adjustments for:				
Depreciation and amortisation (Notes 13,13.1,14)	84,807	62,253	82,402	60,899
Increase in provisions (Note 24)	251	612	251	612
Interest income (Note 9)	(1)	(1,134)	(25)	(1,147)
Interest expense (Note 9)	10,138	10,195	10,136	10,191
Value adjustment of financial assets (Note 15)	-	5	7,158	500
Income Tax	10,448	(4,629)	8,186	(4,629)
Share of (profit)/loss in associate and joint venture (Note 15)	1,591	(482)	1,591	(482)
Unrealised foreign exchange losses	1,072	4,159	1,094	4,156
Value adjustment / write-off of tangible fixed assets (Note 8)	-	16,290	-	16,290
Other adjustments	4,364	-	1,892	(10)
Total adjustments	112,670	87,269	112,685	86,380
Cash flows from operating activities before working capital changes	133,910	89,320	131,040	88,432
Changes in working capital				
- trade receivables	(2,445)	3,172	(2,396)	3,151
- other receivables	6,903	7,678	6,806	7,715
- inventories	986	593	949	588
- trade and other payables	(3,495)	1,326	(2,408)	1,553
Cash generated from operations	135,859	102,089	133,991	101,439

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 29 – CONTINGENCIES

Legal proceedings

At 31 December 2022, 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:

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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 17 March 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 kindergarden; 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 the number Gž-ZK 1055/2021, the Company's appeal was accepted, the first-instance decision was changed and the registration of ownership in the name of the Company was allowed. On 1 March 2022 a second-level decision was implemented and SUNCE HOTELI d.d. are registered as the owners of the property in question for the whole.

On 25 May 2022. a proposal was submitted for the initiation and opening of an individual correct procedure for 1697, zk.ul. 212, k.o. Bol (off-book property), with the aim of harmonizing the state in the land registers with the real state. This case was filed in court under Z-22965/2022. The court has not yet acted in this case.

- 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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 30 – COMMITMENTS

Capital investment liabilities

In accordance with the announced and approved capital investments for the 2023 season, the Group and the Company entered into agreements with construction contractors whose value is estimated at approximately HRK 220 million.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****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.

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

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of kunas)</i>			
Trade receivables (note 18)				
WOT Hotels Adriatic Asset Company d.o.o.	2,624	2,618	2,624	2,618
WOT Hotels Adriatic Management d.o.o.	38	38	38	38
Sunce ulaganja d.o.o.	3	6	3	6
Jako Vino d.o.o.	-	31	-	31
Eagle Hills International Properties	-	20	-	20
Emaar Hospitality Group	-	10	-	10
Brač 500 Plus d.o.o.	-	-	19	2
Aerodrom Brač d.o.o.	-	-	4	60
Sunce Vital d.o.o.	-	-	23	59
	2,665	2,723	2,711	2,844

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 31 - RELATED PARTY TRANSACTIONS (continued)**

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of kunas)</i>			
Interest receivables (note 16, 19)				
WOT Hotels Adriatic Asset Company d.o.o.	1,031	1,031	1,031	1,031
Aerodrom Brač d.o.o.	-	-	16	-
Sunce Vital d.o.o.	-	-	4	-
	1,031	1,031	1,051	1,031

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of kunas)</i>			
Given loans (note 20)				
Sunce Vital d.o.o.	-	-	40	40
Aerodrom Brač d.o.o.	-	-	1,000	2,898
	-	-	1,040	2,938

	Group		Company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	<i>(in thousands of kunas)</i>			
Trade payables (note 26)				
Beograd na vodi d.o.o.	159	158	159	158
Jako Vino d.o.o.	-	515	-	515
Praona d.o.o.	-	113	-	113
Salve Regina – Marija Bistrica d.o.o.	-	58	-	58
Lucidus d.d.	-	31	-	31
	159	875	159	875

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 31 - RELATED PARTY TRANSACTIONS (continued)**

	Group		Company	
	31.12.2022.	31.12.2021.	31.12.2022.	31.12.2021.
	<i>(in thousands of kunas)</i>			
Sales revenue (note 4)				
WOT Hotels Adriatic Asset Company d.o.o.	122	-	122	-
Beograd na vodi d.o.o.	10	-	10	-
Jako Vino d.o.o.	-	97	-	97
Emaar Hospitality Group	-	67	-	67
Eagle Hills International Properties	-	10	-	10
Izvor upravljanje d.o.o.	-	3	-	3
Salve Regina – Marija Bistrica d.o.o.	-	2	-	2
Lječilište Bizovačke Toplice d.o.o.	-	1	-	1
Aerodrom Brač d.o.o.	-	-	50	121
Brač 500 Plus d.o.o.	-	-	-	18
	132	180	182	319

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)**

	Group		Company	
	31.12.2022.	31.12.2021.	31.12.2022.	31.12.2021.
	<i>(in thousands of kunas)</i>			
Interest income (note 9)				
Lucidus d.d.	-	1,113	-	1,113
Aerodrom Brač d.o.o.	-	-	23	-
Sunce Vital d.o.o.	-	-	1	-
	-	1,113	24	1,113

	Group		Company	
	31.12.2022.	31.12.2021.	31.12.2022.	31.12.2021.
	<i>(in thousands of kunas)</i>			
Other income (note 5)				
Sunce ulaganja d.o.o.	12	8	12	8
WOT Hotels Adriatic Asset Company d.o.o.	-	383	-	383
Salve Regina – Marija Bistrica d.o.o.	-	43	-	43
WOT Hotels Adriatic Management Company d.o.o.	-	11	-	11
Zlatni Rat d.d.	-	3	-	3
Sunčana Murvica d.o.o.	-	3	-	3
Sunce Vital d.o.o.	-	-	6	7
Brač 500 Plus d.o.o.	-	-	18	-
Aerodrom Brač d.o.o.	-	-	37	-
	12	451	73	458

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)**

	Group		Company	
	31.12.2022.	31.12.2021.	31.12.2022.	31.12.2021.
	<i>(in thousands of kunas)</i>			
Cost of sales (note 6)				
Jako Vino d.o.o.	-	136	-	136
	-	136	-	136

	Group		Company	
	31.12.2022.	31.12.2021.	31.12.2022.	31.12.2021.
	<i>(in thousands of kunas)</i>			
Rent expenses				
Nest plus d.o.o.	-	708	-	708
Lucidus d.d.	-	11	-	11
	-	719	-	719

	Group		Company	
	31.12.2022.	31.12.2021.	31.12.2022.	31.12.2021.
	<i>(in thousands of kunas)</i>			
Laundry (note 6)				
Praona d.o.o.	5,047	3,423	5,047	3,423
	5,047	3,423	5,047	3,423

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)**

	Group		Company	
	31.12.2022.	31.12.2021.	31.12.2022.	31.12.2021.
	<i>(in thousands of kunas)</i>			
Other expenses (note 8)				
Beograd na vodi d.o.o.	788	158	788	158
Emaar Hospitality Group	1	-	1	-
Nest plus d.o.o.	-	336	-	336
Salve Regina – Marija Bistrica d.o.o.	-	47	-	47
WOT Hotels Adriatic Asset Company d.o.o.	-	7	-	7
Praona d.o.o.	3	-	3	-
	792	548	792	548

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)****Key management, Management Board and Supervisory Board****Group:**

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Net salaries	6,043	2,365
Contributions	3,315	1,239
Tax and surtax	1,601	352
Bonuses	-	-
Other fees	276	231
Key management /i/	<u>11,235</u>	<u>4,187</u>
Management Board	2,379	2,421
Supervisory Board /ii/	<u>119</u>	<u>1,100</u>
Total	<u>13,733</u>	<u>7,708</u>

/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:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Net salaries	1,191	1,303
Tax and surtax	632	421
Contributions	552	694
Other fees /i/	5	3
Management Board	<u>2,380</u>	<u>2,421</u>
Supervisory Board	119	1,100
	<u>2,499</u>	<u>3,521</u>

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 32 – GOING CONCERN

The consolidated financial statements have been prepared under the going concern assumption. As at 31 December 2022, the Group presents current assets higher than current liabilities by HRK 28,771 thousand (2021: current assets higher than current liabilities by HRK 166,929 thousand).

Separate financial statements have been prepared under the going concern assumption. As at 31 December 2022, the Company presents current assets higher than current liabilities by HRK 38,754 thousand (2021: current assets higher than current liabilities by HRK 179,804 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 share capital increase made a significant contribution to the financing of capital liabilities during 2022, resulting from the "Investment Plan" for hotel renovations in the total amount of approximately EUR 44 million. After the renovations carried out in 2022, the Company is currently in a new investment cycle as part of preparations for the upcoming season. Management believes that the preparation of financial statements on a going concern basis is still appropriate.

NOTE 33 – EVENTS AFTER THE REPORTING DATE

After December 31, 2022, there were no events requiring adjustments or disclosure in the financial statements.

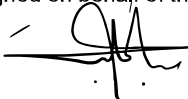
Sunce Hoteli d.d. and Sunce Hoteli d.d. Group

**NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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

Consolidation and separate financial statements here presented have been prepared and approved for issuing by the Management Board on 19 April 2023.

Signed on behalf of the Management Board:



President of the Board

Shaikh Mubarak Ali Abdulla Hamad Alkhalifa