JADRAN d.d.
Bana Jelačića 16, Crikvenica

ANNUAL REPORT FOR THE COMPANY AND GROUP FOR 2018

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ANNUAL COMPANY AND GROUP MANAGEMENT REPORT 2018

Jadran d.d. za hotelijerstvo i turizam, Bana Jelačića 16, HR-51260 Crikvenica I www.jadran-crikvenica.hr

Crikvenica, 29 April 2019

Pursuant to Article 21 of the Accounting Act and Article 250 of the Companies Act, Jadran d.d. hereby issues this

ANNUAL COMPANY AND GROUP MANAGEMENT REPORT 2018

1. MANAGEMENT REPORT

In 2018, Jadran d.d. earned total revenue of HRK 91,521,423, which is 9 percent more than the year before. The Company obtained a positive business result exclusive of one-time costs relating to the acquisition of Club Adriatic d.o.o. and severance pay, totaling HRK 15,935,058.

Provided below is a summary of the Income Statements 2017 and 2018 exclusive of such costs.

Table 1

	Company	
In HRK	2017, restated	2018, excl. of one-time costs
Operating revenue	**83,691,077**	**91,521,423**
Sales revenue	79,323,786	86,480,407
Other operating revenue	4,367,291	5,041,016
Operating expenses	**88,861,122**	**88,146,885**
Material costs	40,367,422	38,512,269
Personnel costs	28,779,646	31,898,364
Depreciation	9,556,717	10,745,229
Impairment	1,472,344	318,338
Other operating expenses	8,684,993	6,672,685
Financial revenue	**1,387,571**	**1,891,549**
Financial expenses	**4,085,166**	**3,288,489**
Total revenue	**85,078,648**	**93,412,972**
Total expenses	**92,946,288**	**91,435,374**
Profit/loss for the period	**-7,867,640**	**1,977,598**

The table below presents the Income Statements 2017 and 2018 for the Company and the Group, inclusive of all costs:

Table 2

	Company		Group	
In HRK	2017, restated	2018	2017, restated	2018
Operating revenue	**83,691,077**	**91,521,423**	**83,691,077**	**142,488,123**
Sales revenue	79,323,786	86,480,407	79,323,786	86,480,407
Other operating revenue	4,367,291	5,041,016	4,367,291	5,041,016
Negative goodwill	-	-	-	50,966,700
Operating expenses	**88,861,122**	**104,081,943**	**88,861,122**	**91,181,966**
Material costs	40,367,422	40,111,495	40,367,422	40,411,495
Personnel costs	28,779,646	33,334,219	28,779,646	33,334,219
Depreciation	9,556,717	10,745,229	9,556,717	10,745,229
Impairment	1,472,344	13,218,315	1,472,344	318,338
Other operating expenses	8,684,993	6,672,685	8,684,993	6,672,685
Financial revenue	1,387,571	1,891,549	1,387,571	1,891,549
Financial expenses	4,085,166	3,288,489	4,085,166	3,288,489
Total revenue	**85,078,648**	**93,412,972**	**85,078,648**	**144,379,672**
Total expenses	**92,946,288**	**107,370,432**	**92,946,288**	**94,470,455**
Profit/loss for the period	**-7,867,640**	**-13,957,460**	**-7,867,640**	**49,909,217**

In the current year, the Company incurred loss of HRK 13,957,460 compared to HRK 4,230,650 in 2017, which was later readjusted to HRK 7,867,640. Such loss is a result of one-time costs and will not be a business liability next year. Exclusive of such one-time costs, the Company would have obtained net income of HRK 1,977,598 and EBITDA would have been HRK 14,119,767 in such case.

The following one-time costs were not excluded but classified as Other Extraordinary Costs:

- Quotation of shares on Zagreb Stock Exchange – HRK 310,000
- Recapitalization – HRK 1,631,091

The Balance Sheet 2018 structure is presented in the table below:

Table 3

	Company		Group	
In HRK	2017, restated	2018	2017, restated	2018
Noncurrent assets	**631,493,737**	**686,010,358**	**631,493,737**	**825,902,428**
Intangible assets	196,720	126,959	196,720	125,959
Tangible assets	629,115,508	625,048,928	629,115,508	825,431,468
Financial assets	1,847,038	-	1,847,038	-
Investments in subsidiaries	-	60,500,000	-	-
Other noncurrent assets	-	-	-	9,530
Deferred tax assets	334,471	334,471	334,471	334,471
Current assets	**8,233,691**	**135,847,777**	**8,233,691**	**143,118,093**
Inventories	461,667	452,470	461,667	3,541,992
Trade receivables	658,654	1,387,318	658,654	1,616,792
Receivables from related parties	-	5,209,228	-	-
Receivables from the government	1,172,009	319,463	1,172,009	379,905
Other receivables	3,288,891	2,977,135	3,288,891	3,836,154
Cash at bank and on hand	2,652,470	125,502,164	2,652,470	133,743,250
Total assets	**639,727,428**	**821,858,136**	**639,727,428**	**969,020,522**
Capital and reserve	520,436,523	706,479,703	520,436,523	770,346,379
Provisions	885,032	482,414	885,032	482,414
Noncurrent liabilities	94,485,574	75,147,117	94,485,574	75,147,117
Current liablities	23,920,299	39,748,902	23,920,299	123,719,078
Total liabilities	**639,727,428**	**821,858,136**	**639,727,428**	**969,020,522**

The debt owed by the related party Club Adriatic d.o.o. is a result of the purchase of accounts receivable as part CLUB ADRIATIC'S pre-bankruptcy settlement in 2018.

Selected financial information:

Table 4

	Company		Group	
In HRK	2017, restated	2018	2017, restated	2018
Selected Income Statement information				
Sales revenue	79,323,786	86,480,407	79,323,786	86,480,407
Operating costs	88,861,122	104,081,943	88,861,122	91,181,966
EBITDA	4,386,672	-1,815,291	4,386,672	62,051,386
EBITDA margin	5.5%	-2.1%	5.5%	71.8%
Operating income	(5,170,045)	(12,560,520)	(5,170,045)	51,306,157
Operating income margin	(6.5%)	(14.5%)	(6.5%)	59.3%
Net income	(7,867,640)	(13,957,460)	(7,867,640)	49,909,217
Net income margin	(9.9%)	(16.1%)	(9.9%)	57.7%
Selected Balance Sheet information				
Cash and current assets	2,652,470	125,502,164	2,652,470	133,743,250
Property, plant and equipment	629,115,508	625,048,928	629,115,508	825,431,468
Total assets	639,727,428	821,858,136	639,727,428	969,020,522
Financial liabilities	89,389,237	83,136,646	89,389,237	118,327,176
Equity and minority interests	520,436,523	706,479,702	520,436,523	770,346,379
Other key financial information				
ROE	(1.5%)	(2%)	(1.5%)	6.5%
ROIC	(1%)	(1.8%)	(1%)	6.7%
Turnover ratio	0.34	3.42	0.34	1.16
Financial liabilities/equity	0.17	0.12	0.17	0.15
Average number of employees	292	304	292	364

2. ACQUISITION OF CLUB ADRIATIC D.O.O.

On 6 November 2018, the Restructuring and Sale Center took its Decision to Accept a Binding Offer made by Jadran d.d. for the acquisition of three shares in Club Adriatic d.o.o., Zagreb, having a total nominal value of HRK 120,947,000 which accounts for 100% of the share capital, for a purchase price of HRK 50,500,000. The Club Adriatic d.o.o. Share Sale and Transfer Agreement was signed on 19 November 2018. Jadran d.d. paid HRK 50.5 million on 19 December 2018 and thus acquired control of Club Adriatic d.o.o..

Club Adriatic d.o.o., having its registered office at Savska cesta 41/V, Zagreb, PIN: 44661735229, undertakes the following core activities: provision of services in nautical, rural, medical, hunting, conference and other forms of tourism, provision of other tourism services, sport facility management, sport recreation and organization of sporting and cultural events, preparation of food and provision of food services, preparation and serving of drinks and beverages, provision of accommodation services, preparation of food to be consumed elsewhere (in vehicles, at events, etc.) and supply of that food (catering), etc.

The Company operates a hotel and a camp at Baško polje. Hotel Alem has 99 double rooms and 9 double suites and the annexes have 198 more double rooms. Baško Polje Camp, classified as 3 stars, has 600 pitches, 17 bungalows and 16 mobile homes.
Club Adriatic d.o.o. is undergoing a pre-bankruptcy settlement procedure, which was brought against it on 10 October 2014.
Jadran d.d. signed settlement agreements to purchase the debts owed by Club Adriatic d.o.o. to its creditors, whereby it undertook to pay the debt to such creditors as part of the pre-bankruptcy settlement agreement. By 31 December 2018, having signed the settlement agreements, Jadran d.d. purchase HRK 18,109,205 of debt. This amount was adjusted to HRK 12,899,977.

On 19 December 2018, Jadran d.d. signed an Agreement to Define Mutual Relations Resulting from Investments in Club Adriatic d.o.o. with Prosperus-Invest d.o.o., which defines that Prosperus is required to participate in the share capital increase in Club Adriatic d.o.o. by paying a cash stake of HRK 57,104,500, after which Prosperus-Invest will transfer the share so acquired to Jadran d.d. for a price of HRK 67,104,500. The execution of this Agreement allowed Jadran d.d. to recognize in its accounts a difference of HRK 10 million relating to the investment in a subsidiary and its liability to Prosperus.

The decision to acquire Club Adriatic d.o.o. was taken because the location was found to be highly attractive for further development however special attention was focused on potential synergic effects resulting from the consolidation of the companies.

It should be noted that this acquisition by no means impedes the planned investment cycle at Jadran and that Club Adriatic d.o.o. will be able not only to service its debts but also support the new investment cycle as early as 2021.

3. CONSTITUTIONAL CHANGES IN JADRAN D.D. AND CLUB ADRIATIC D.O.O.

In 2016 and 2017, the Company prepared for having its shares quoted on the regulated market of Zagreb Stock Exchange by having external providers conduct financial, tax and legal due diligence.

In early January of 2018, a prospectus was prepared for the issue and quotation of the shares on Zagreb Stock Exchange. The Company's shares were initially quoted on the official market of Zagreb Stock Exchange on 8 January 2018 and began to be traded on 10 January 2018.

In November of 2017, the Restructuring and Sale Center (hereinafter: RSC) took a decision to publicly collect proposals for Jadran d.d.. At RSC's request, the Company prepared all relevant documents for potential new owners. After the interested parties conducted their due diligence, on 15 January the binding proposals to acquire 34,754,768 shares, accounting for 70.74% of the Company's share capital, were publicly opened. One binding proposal was received from PBZ CROATIA OSIGURANJE obvezni mirovinski fond – kategorija B, represented by PBZ CROATIA OSIGURANJE d.d. za upravljanje obveznim mirovinskim fondovima, and one was received from ERSTE PLAVI OBVEZNI MIROVINSKI FOND KATEGORIJE B, ERSTE PLAVI OBVEZNI MIROVINSKI FOND KATEGORIJE A, and Erste Plavi Expert – dobrovoljni mirovinski fond, represented by ERSTE d.o.o. – društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima. These companies offered HRK 199,839,916, which was HRK 5,908,310.56 more than the initial price, including a requirement to recapitalize the Company in cash using own funds in the amount of HRK 200,000,000 within six months of the execution date of the Jadran d.d. Share Sale and Transfer Agreement. On 8 February 2018, RSC took a decision to accept this binding proposal and the Share Sale and Transfer Agreement was signed on 6 April 2018.

A new Supervisory Board was appointed at the Extraordinary General Meeting held on 22 May 2018, which then proceeded to appoint the Management Board.

On 24 August 2018, the General Meeting of Jadran d.d. passed its Resolution to Ordinarily Decrease the Share Capital ("Share Capital Decrease Resolution") and its Resolution to Ordinarily Increase the Share Capital by Cash Contributions ("Share Capital Increase Resolution").

The Company's share capital was decreased from HRK 491,316,690 by HRK 208,809,600 to HRK 282,507,090 as a result of transferring the proceeds of the capital decrease to reserve. After such share capital decrease, the value of one share was less than the minimum allowable amount defined in Article 163(2) of the Companies Act, after which the three common shares were combined into a single one in accordance with bankruptcy 324(4) of the Companies Act.

After such ordinary share capital decrease by share combination, the new share capital is HRK 282,507,090, divided into 16,377,223 common dematerialized shares with no nominal value. The Company's share capital decrease was registered in the Court Registry of the Commercial Court in Rijeka on 30 August 2018.
Pursuant to the Share Capital Increase Resolution, the share capital was increased by a cash payment. The Issuer's General Meeting determined the price of the New Shares to be HRK 17.25 per New Share. According to the General Meeting's Share Capital Increase Resolution, up to 16,390,360 New Shares were issued at a price of HRK 17.25, whereby the Issuer's share capital was increased from HRK 282,507,090 by up to HRK 282,733,710 to no more than HRK 565,240,800.
As required, the share capital increase was registered in the Court Registry of the Commercial Court in Rijeka on 3 October 2018.

Club Adriatic d.o.o. is undergoing a pre-bankruptcy settlement procedure, which means it is unable to change its share capital as this is envisaged by the Operating and Financial Restructuring Plan of the Company. The Company's share capital is HRK 120,947,400 and comprises three shares.

4. COMPANY AND GROUP

Jadran Joint Stock Company for hotel industry and tourism of Bana Jelačića 16, Crikvenica, is registered with the Commercial Court in Rijeka under reg. no. (MBS): 040000817. In 2018, the Company was managed by its Management Board and Supervisory Board.

The Supervisory Board comprised:

I 1 January 2018 to 23 January 2018:

- Ivo Bašić of Murter;
- Ivana Pavić of Zagreb;
- Marija Galjanić Sovar of Crikvenica;
- Silvia Crnić of Crikvenica;
- Sanja Medveščček of Crikvenica.

II 23 January 2018 to 26 January 2018:

- Ivo Bašić of Murter;
- Ivana Pavić of Zagreb;
- Sanja Medveščček of Crikvenica.

III 26 January 2018 to 22 February 2018:

- Ivo Bašić of Murter;
- Ivana Pavić of Zagreb;
- Franko Gržetić of Njivice;
- Sanja Medveščček of Crikvenica.

IV 22 February 2018 to 22 May 2018:

- Ivo Bašić of Murter;
- Ivana Pavić of Zagreb;
- Franko Gržetić of Njivice;
- Ivan Blažević of Crikvenica.

V 22 May 2018 to 31 December 2018:

- Tomislav Kitonić of Bojana;
- Ante Jelčić of Zagreb;
- Dragan Magaš of Crikvenica;
- Mirko Herceg of Zagreb;
- Ivan Blažević of Crikvenica.

Management Board:

I 17 January 2014 to 17 January 2018:

- Dino Manestar of Crikvenica, Kralja Tomislava 63/A, Chairman of the Management Board, representing severally and autonomously.

II 23 January 2018 to 22 May 2018:

- Pero Matić of Na Ljuti 1/A, Orašac, Chairman of the Management Board;
- Marija Galjanić Sovar of Basaričekova 45, Crikvenica, Management Board Member.

III From 22 May 2018 to date:

- Goran Fabris of Mate Balota 5, Poreč, Chairman of the Management Board
- Karlo Čulo of Prisoj 52, Zagreb, Management Board Member

The Company mostly engages in the provision of hospitality services including accommodation and food, where it earns most of its revenue.

The Company conducts its financial operations via bank accounts held with:

- Privredna banka d.d. HR4323400091110722690
- Zagrebačka banka d.d. HR3923600001102150140
- Erste & Steiermarkische bank d.d. HR3924020061100620496

Between 2010 and 2014, the Company was undergoing a bankruptcy procedure – on completion thereof, the Company continued to conduct its business, including in 2018 according to the Business Plan.

In 2018, Jadran d.d.:

- obtained a negative business result;
- used its available resources:
- tangible – the assets found have been safeguarded according to best practices to the extent possible;
- financial – all obligations have been performed;
- human – a rational organizational approach;
- retained and maintained the market position found;
- conducted the business process without interruption.

The Company's share capital is HRK 482,507,730 and is divided into 27,971,463 common shares with no nominal value, issued under ticker symbol JDRN-R-B. The Company's PIN is 56994999963 and its Reg. No. (MBS) is 040000817.

The largest single shareholders are PBZ CO OMF-KATEGORIJA B, which holds 57.19% of the shares, and ERSTE PLAVI OMF KATEGORIJE B, which holds 30.56% of the Company's shares.

Table 5: Shareholdings as at 31 December 2018:

Investor	Balance	[%]
ADDIKO BANK D.D./PBZ CO OMF - KATEGORIJA B (1/1)- Custodial account	15,995,780	57.19
OTP BANKA d.d. /ERSTE PLAVI OMF KATEGORIJE B- Custodial account	8,547,346	30.56
RESTRUCTURING AND SALE CENTER - CERP (0/1) REPUBLIC OF CROATIA (1/1) ZS	830,820	2.97
HRVATSKE VODE, PRAVNA OSOBA ZA UPRAVLJANJE VODAMA (1/1)	208,292	0.74
TOWN OF CRIKVENICA (1/1)	184,056	0.66
OTP BANKA D.D./ERSTE PLAVI EXPERT - DOBROVOLJNI MIROVINSKI FOND (1/1)- Custodial account	174,249	0.62
OTHER SHAREHOLDERS	2,030,920	7.26
Total:	27,971,463	100

(Source: CDCC)

On 17 February 2018, the Management Board took its Decision to Amend the Jadran d.d. Internal Organization and Operation Rules. According to these amendments, Jadran d.d. was organized in seven departments managed by Department Directors. In addition, the Hotel Operations Department operates ten profit centers and the Management Board operates its Management Board Office.

- Hotel Operations Department
  - PC Kačjak
  - PC Omorika
  - PC Esplanade
  - PC Ad Turres
  - PC Zagreb
  - PC International
  - PC Kaštel
  - PC Katarina
  - PC Kamp Selce
  - PC Slaven
- Procurement Department
- Technical Support & Maintenance Department
- Finance & Accounting Department
- HR, Legal & Administration Department
- Controlling Department
- Marketing & Sales Department
- Management Board Office

4.1. Accommodation capacities

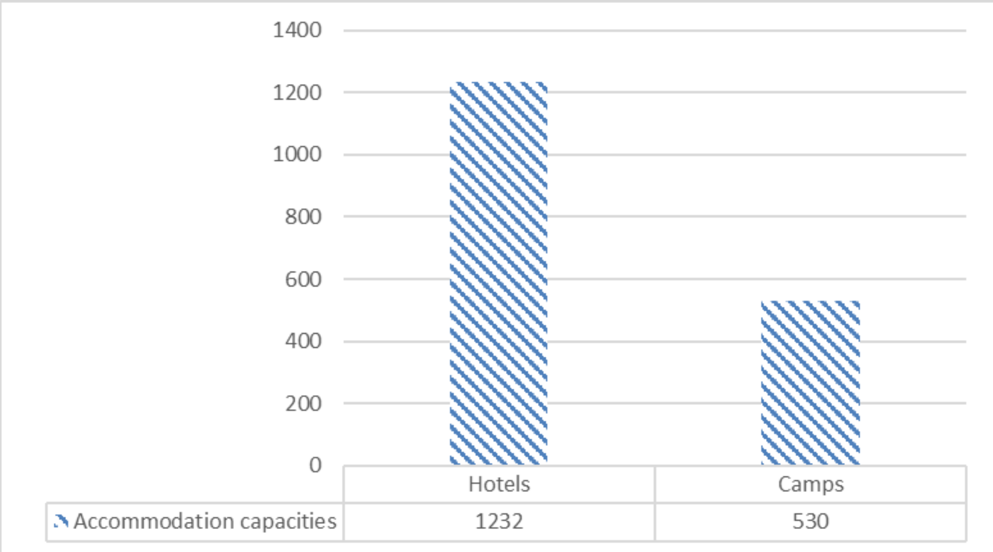
Jadran d.d. has a total of 1,762 accommodation units according to the current Classification Resolutions, 4,195 beds and 711 cots, which is a total of 4,906 beds. The hotels and resorts offer 1,232 accommodation units with 2,605 beds and the camps offer 530 accommodation units for 1,590 guests.

Table 6: List of Jadran d.d. properties, their capacities and current classifications as of 31 December 2018

No.	Property	Class	Number of units	Number of beds	Number of cots	Total beds
1.	AD TURRES		364	762	180	942
	hotel	**	40	114		114
	pavilions	rooms to let**	324	648	180	828
2.	ESPLANADE	***	38	76	10	86
3.	INTERNATIONAL	**	53	83	30	113
4.	KAČJAK		185	435	125	560
	pavilions	rooms to let**	132	332	72	404
	bungalows	rooms to let**	53	103	53	156
5.	KAŠTEL	***	74	178	24	202
6.	OMORIKA	****	115	248	60	308
7.	SLAVEN		211	407	170	577
	hotel	***	50	85	30	115
	pavilions	rooms to let**	161	322	140	462
8.	KATARINA (ex. Varaždin)	****	152	352	100	604
9.	ZAGREB	**	40	64	12	76
	Hotels		*1,232*	*2,605*	*711*	*3,316*
10.	SELCE	camp**	500	1,500		1,500
11.	KAČJAK	campsite	30	90		90
	Camps		530	1,590	0	1,590
TOTAL JADRAN D.D.			1,762	4,195	711	4,906

(Source: Jadran d.d.)

Chart 1: Structure of accommodation capacities by accommodation facility type in 2018



(Source: Jadran d.d.)

The portfolio of properties owned by share has a total accommodation capacity of almost 5 thousand persons and stretches across Crikvenica Riviera in Selce, Crikvenica and Dramalj – according to all available indicators, Jadran d.d. has retained its leading position on Crikvenica Riviera in 2018.

Figure 1: Location of Jadran d.d. properties (source: Jadran d.d.)

(Source: Google Earth)

4.2. Group

The Group has a total of 2,685 accommodation units according to the current Classification Resolutions, 6,866 beds and 813 cots, which is a total of 7,769 beds. The hotels and resorts offer 1,762 accommodation units with 3,415 beds and the camps offer 1,147 accommodation units for 3,451 guests.

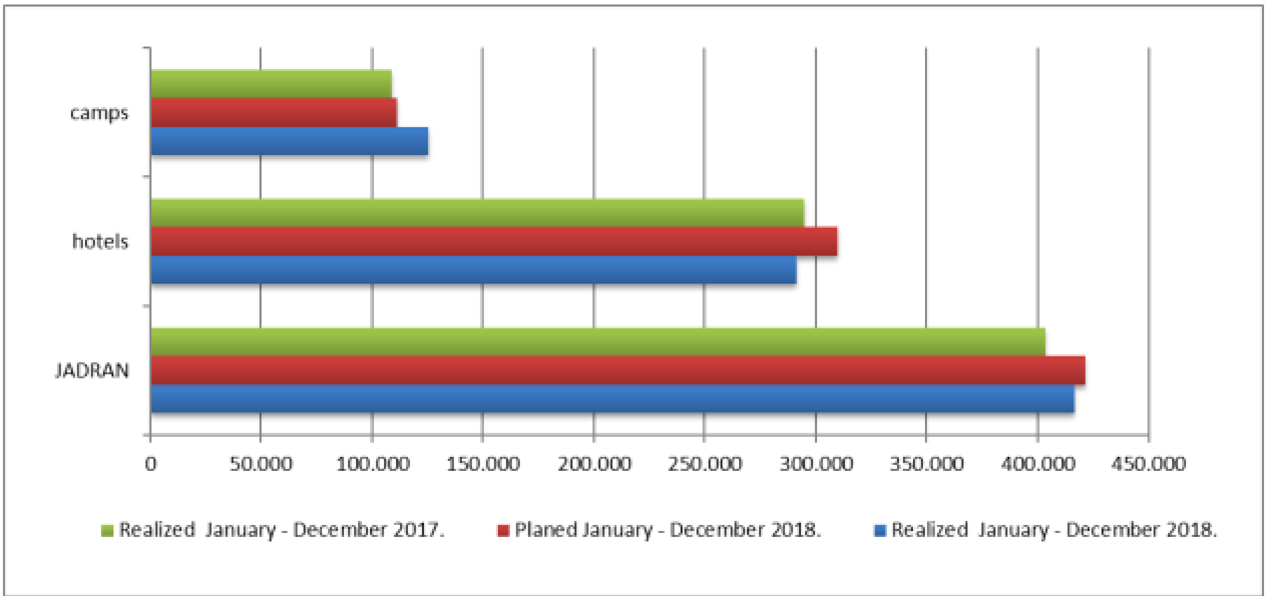
5. OVERNIGHTS

In 2018, Jadran d.d. recorded a total of 416,553 overnights, which is 1% more than planned and 3.25% more than in 2017.

The hotels recorded a total of 291,225 overnights, which is 6% less than planned and 1% less than in 2017.

The camps recorded a total of 125,328 overnights, which is 13% more than planned and 15% more than in 2017.

Chart 2: Tourist turnover in January-December 2018



(Source: Jadran d.d.)

Table 7: Overnights in 2018 by month and property

BUSINESS UNITS	CAPACITY	2018										Cumulative 2018				
		Jan-Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	ACCOMP.	Plan	ACCOMP.	INDEX	
												2017	2018	2018		
	rooms/pitches														2018/2017	2018/plan
ROOMS-KAČJAK PAVILION	435	0	0	150	8.646	12.759	12.809	3.163	0	0	0	38.458	39.117	37.527	98	96
KAČJAK CAMPSITE	90	0	257	378	1.131	2.683	2.572	646	0	0	0	6.726	6.973	7.667	114	110
OMORIKA	248	2.310	2.514	3.404	4.352	7.397	7.690	4.923	2.984	506	586	40.131	41.948	36.666	91	87
ESPLANADE	76	329	551	1.159	1.896	1.898	2.138	1.801	202	0		2.954	14.491	9.974	338	69
AD TURRES	762	0	995	4.078	11.702	18.980	20.117	5.248	0	0	0	65.493	61.113	61.120	93	100
ZAGREB	64	0	0	0	1.797	2.238	2.139	897	0	0		11.849	7.353	7.071	60	96
KAŠTEL	178	194	2.276	2.685	3.441	4.378	4.571	3.224	1.512	0	370	24.886	27.717	22.651	91	82
INTER	83	332	905	744	2.316	2.892	3.115	871	0	0	89	10.366	12.004	11.264	109	94
KATARINA	352	2.981	4.788	5.957	7.774	10.513	10.904	7.829	5.578	1.713	2.247	57.087	62.927	60.284	106	96
SLAVEN	407	0	588	1.992	8.477	13.816	13.934	5.064	616		181	43.295	43.345	44.668	103	103
KAMP SELCE	1.500	0	5.238	9.457	18.192	33.950	35.760	13.565	1.499	0	0	102.231	104.254	117.661	115	113
TOTAL JADRAN	**4.195**	**6.146**	**18.112**	**30.004**	**69.724**	**111.504**	**115.749**	**47.231**	**12.391**	**2.219**	**3.473**	**403.476**	**421.242**	**416.553**	**103**	**99**
Hotels	2.605	6.146	12.617	20.169	50.401	74.871	77.417	33.020	10.892	2.219	3.473	294.519	310.015	291.225	99	94
CAMPS	1.590	0	5.495	9.835	19.323	36.633	38.332	14.211	1.499	0	0	108.957	111.227	125.328	115	113
Hotels %	62%	100%	70%	67%	72%	67%	67%	70%	88%	100%	100%	73%	74%	70%	96	95
CAMPS %	38%	0%	30%	33%	28%	33%	33%	30%	12%	0%	0%	27%	26%	30%	111	114

(Source: Jadran d.d.)

344,208 overnights were recorded between June and September of 2018, which is 83% of all overnights recorded in 2018 and confirms the highly seasonal nature of business.

Table 8: Overnights and other indicators by segment

	OVERNIGHTS			OPERATING REVENUE			AVERAGE PRICE OF ACCOMMODATION (Ø)			AVERAGE PRICE OF OVERNIGHT (Ø)		
	2017	2018	IND.	2017	2018	IND.	2017	2018	IND.	2017	2018	IND.
	1	2	3(2/1)	1	2	3(2/1)	1	2	3(2/1)	1	2	3(2/1)
HOTELS	147.273	147.910	100	46.768.357	54.253.205	116	506,05	543,15	107	265,31	282,4	106
RESORTS	147.246	143.315	97	26.158.176	27.462.872	105	351,73	371,44	106	154,64	163,86	106
CAMPS	108.957	125.328	115	9.100.873	7.928.695	87	184,97	166,86	90	66,37	60,59	91
OTHER UNALLOCATED OPERATING REVENUE				1.663.671	1.876.651	113						
JADRAN	403.476	416.553	103	83.691.077	91.521.423	109	347,58	360,48	104	162,11	162,11	104

(Source: Jadran d.d.)

In 2018, operating revenue amounted to HRK 91,521,423, which is 9% more than the operating revenue earned in 2017. The greatest increase in operating revenue was recorded in the Hotels segment – 16% more than in 2017.

The decrease in revenue and average prices in camps is a result of a new methodology for accounting for revenue generated by MHs owned by Mediteran Kamp. In earlier years, the revenue generated by mobile homes was accounted for as sales revenue and then transferred to Mediteran Kamp, whereas Jadran received the revenue generated by pitch leasing – in 2018, only the revenue generated by leasing pitches on which MHs are situated was recorded as revenue.

On the Company level, the average price of an accommodation unit in 2018 was HRK 360.48, which is 4% more than in 2017. The greatest increase in average price of an accommodation unit was recorded in the Hotels segment.

On the Company level, the average price of an overnight in 2018 was HRK 168.95, which is 4% more than in 2017.
The Hotels and Resorts segments recorded the same average overnight price growth rates in 2018 compared to 2017 – 6%.

Table 9: Structure of overnights by sales channel in 2017 and 2018

	Structure I-XII 2017					Structure I-XII 2018				
Accommodation facilities	Agency guests	Fix	Groups	Ind.	Online booking	Agency guests	Fix	Groups	Ind.	Online booking
KAČJAK	41%	26%	16%	8%	9%	44%	26%	18%	7%	5%
OMORIKA	37%	4%	40%	8%	11%	41%	4%	39%	7%	9%
ESPLANADE	41%	0%	19%	18%	22%	63%	0%	3%	13%	21%
AD TURRES	29%	36%	22%	4%	9%	32%	30%	23%	3%	12%
ZAGREB	61%	3%	5%	16%	15%	41%	6%	8%	24%	21%
KAŠTEL	30%	0%	45%	14%	11%	28%	16%	32%	12%	12%
INTER	45%	4%	19%	22%	10%	40%	6%	26%	19%	9%
KATARINA	33%	7%	43%	5%	12%	42%	1%	38%	5%	14%
SLAVEN	39%	34%	10%	6%	11%	28%	37%	20%	6%	9%
TOTAL JADRAN	35%	19%	27%	8%	11%	37%	18%	27%	7%	11%

(Source: Jadran d.d.)

Like in 2017, in 2018 the most represented sales channels related were agencies, followed by groups, fixed booking and online booking and individuals.

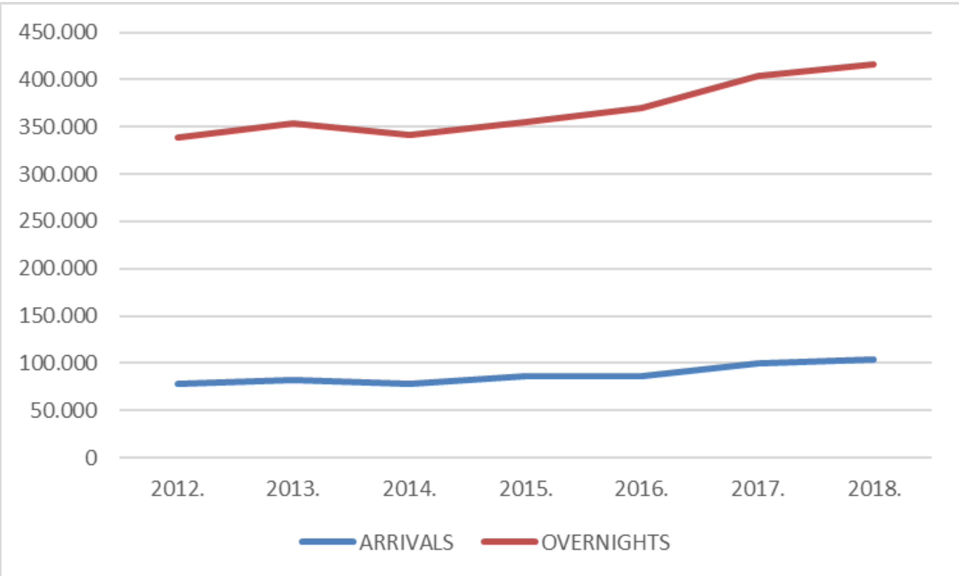
The greatest shares in overnights for fixed booking overnights were recorded at Slaven, Ad Turres and TN Kačjak, whereas the greatest shares in overnights for allotment arrangements were recorded at Hotel Esplanade and TN Kačjak, the greatest shares in group overnights were recorded at the Omorika, Katarina and Kaštel hotels, the greatest shares in overnights for individual guests were recorded at the Zagreb and International hotels, and the greatest shares in online booking were recorded at the Esplanade, Zagreb and Katarina hotels.

Table 10: Tourist turnover in Jadran d.d. 2012-2018

Year	Arrivals	IND	Overnights	IND	Length of stay in days
2012	78.209		338.466		4
2013	81.688	104,45	354.043	104,60	4
2014	78.338	95,90	341.329	96,41	4
2015	86.196	110,03	354.853	103,96	4
2016	86.546	100,41	369.595	104,15	4
2017	99.343	114,79	403.476	109,17	4
2018	103.923	104,61	416.553	103,24	4
Variation rate		4,85		3,52	

During the observed 2012-2018 period, the tourist arrival growth rate was 4.85% and overnights grew at a rate of 3.52%. The length of stay was identical for the entire period – 4 days, as presented in the chart below.

Chart 3: Tourist turnover trends in Jadran d.d. 2012-2018



(Source: Jadran d.d.)

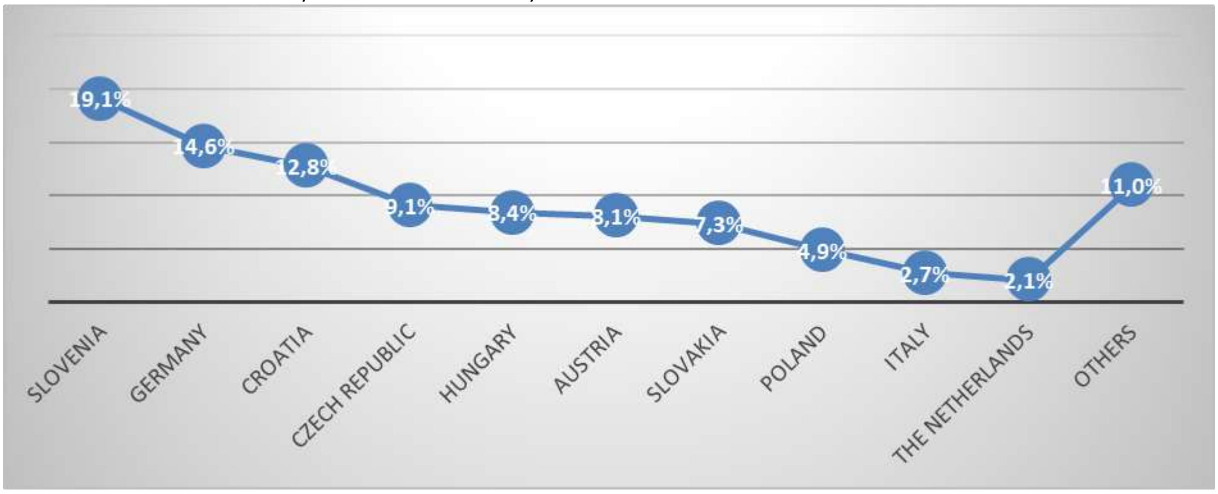
By nationality, most guests arrive from Slovenia, followed by those from Germany, Croatia and Czech Republic. The structure of guests by nationality in 2018 is presented in the table below:

Table 11: Top 10 countries in overnights for January-December 2018

No.	Guest country	Overnights	%
1	SLOVENIA	79,547	19.1%
2	GERMANY	60,941	14.6%
3	CROATIA	53,262	12.8%
4	CZECH REPUBLIC	37,822	9.1%
5	HUNGARY	34,841	8.4%
6	AUSTRIA	33,663	8.1%
7	SLOVAKIA	30,562	7.3%
8	POLAND	20,289	4.9%
9	ITALY	11,286	2.7%
10	THE NETHERLANDS	8,648	2.1%
11	Others	45,692	100.0%
	Grand total	416,553	100,0%

(Source: Jadran d.d.)

Chart 4: Nationalities by share for January-December 2018



(Source: Jadran d.d.)

On average, local guests accounted for 12.8% of all overnights and the Slovenians have the highest share among foreign guests (19.1%), followed by Germans with 14.6%, the Czech with 9.1% and others with 11% of all overnights.

The table above shows that Jadran d.d. and Crikvenica as a destination are focused mostly on foreign guests and tourists from Europe account for most of the tourism performance, which is why it is important to monitor trends on generating markets to be able to respond to changes in a timely and proper manner.

In terms of overnights recorded in 2018, Booking.com was the most important partner – they accounted for 25,527 overnights or 6.1% of all overnights recorded in 2018. They are followed by the Katarina Line agency with 22,282 overnights and Arx d.o.o. Amber Travel with 9,149 overnights.

6. HOTEL OPERATIONS

6.1. General information

The main objectives of the Company for 2018, as defined by its Strategy and Business Plan 2018, were successfully attained, as follows:

1. The Company's Prospectus was prepared for the purpose of having the shares quoted on Zagreb Stock Exchange's regulated market.
2. The Company was successfully privatized.
3. The Company was successfully recapitalized.
4. Costs were further reduced.
5. Intensified marketing activities and penetration of new markets.
6. Assets are managed in a way to allow uninterrupted and secure conduct of Company's business.
7. A level of liquidity was attained which is sufficient to meet Company's obligations without compromising its operations.

7. HUMAN RESOURCES - JADRAN D.D. AND CLUB ADRIATIC D.O.O.

In 2018, the Management Board continued to focus specifically on HR management, with a special emphasis on training and educating its permanent employees and some seasonal employees that have been hired for years, thus allowing these employees to refresh their knowledge, gain new knowledge, and improve their skills. Permanent employees are therefore required not only to improve and perfect their skills and knowledge but also to transfer them for the purpose of improving service quality.

7.1. Organization of Jadran d.d.

In early 2018, the Company was reorganized for the purpose of increasing its efficiency and optimizing its costs, so the organization is now divided into seven Departments (Hotel Operations, Supply, Finance & Accounting, HR, Legal & Administration, Marketing & Sales, Technical Support & Maintenance, and Controlling) and the Management Board Office. The Hotel Operations includes the Hotel Operations Service and the F & B Services, as well as the Kačjak, Omorika, Ad Turres, Esplanade, Zagreb, International, Kaštel, Katarina, Slaven and Camp Selce Profit Centers. The HR, Legal & Administration Department includes the Administration & Legal Service and the HR Service, the Supply Department includes the Supply Service and the Hotel Laundry Bank, the Finance & Accounting Department includes the Finance Service and the Accounting Service, the Technical Support & Maintenance Department includes the Technical Management Service and the ICT service, and the Controlling Department includes the Internal Control Service and the Organization, Planning and Analysis Service. To further develop and increase its efficiency, the Company will continue with its reorganization process in 2019, which is ultimately intended to define processes as clearly as possible and increase the degree of their computerization and automation, thus allowing for cheaper and more efficient management. The new organization of the Company will certainly reflect the new circumstances relating to the acquisition of Club Adriatic d.o.o., which provides opportunities for additional synergies in both companies' business.

Figure 2: Organizational Chart

(Source: Jadran d.d.)

7.2. Organization of Club Adriatic d.o.o.

Club Adriatic d.o.o. is organized through its Baško Polje Profit Center including Hotel Alem and Camp Baško Polje and through its Accounting & Finance Division, Operations Division, Sales & Marketing Division, Administration, Legal & HR Division, the Management Board Office, and the Planning, Controlling & IT Division. The Operations Division includes the Technical Department, the Supply Department and the F & B Department. The organization of the Company was established at a time the Company operated and conducted its business with six Profit Center – having regard for the fact that the Company now only operates one Profit Center (Hotel Alem and Camp Baško Polje), that some Divisions no longer have any or have much less employees and that Club Adriatic d.o.o. has become a subsidiary of Jadran d.d. after its ownership was transferred, it needs to be reorganized for the purpose of optimizing costs and increasing efficiency, which provides new operating opportunities.

8. ASSET MANAGEMENT – JADRAN D.D. AND CLUB ADRIATIC D.O.O.

8.1. Asset management in Jadran d.d.

Jadran d.d. manages the properties owned by it, namely eight hotels, a camp and a campsite, and two resorts. The low classification and relatively poor condition of the properties are also a reason for the highly seasonal nature of business.

After the shareholding structure of the Company changed, decisions were taken to launch an investment cycle for the purpose of upgrading the properties. In addition, regarding the management of assets owned by Jadran d.d., the Management Board aims to ensure efficient and transparent management and disposal of assets in the long term because their sustainability is important for Company's future business. The management of Jadran d.d.'s assets includes finding optimal solutions that will preserve the assets in the long term and generate revenue for the Company.

This investment cycle 2018 launched the following projects for the reconstruction of properties owned by the Company:

- Full reconstruction of 12 pavilions in AD Turres Resort, their classification as 3*, and classification of Hotel Ad Turres as 4*;
- Completion of the ongoing renovation of Hotel Omorika (interior redesign and refurbishment of the board restaurant);
- Renovation of outdoor swimming pools at Hotel Katarina;
- Renovation of the façade, railings and indoor swimming pool at Hotel Katarina;
- Construction of a swimming pools and pitch improvement at Camp Selce;
- Renovation of 2 pavilions at Hotel Slaven; and
- Renovation of a pavilion at the Kačjak Resort.

In 2018, negotiations were undertaken with the owners of Hotel Delfin on the Island of Krk and 3 pavilions within Ad Turres Resort for the purpose of entering into long-term booking arrangements. These arrangements were formalized in early 2019.

8.2. Asset management in Club Adriatic d.o.o.

Club Adriatic d.o.o. owns and operates a single property – Hotel Alem and Camp Baško Polje in Baška Voda. The camp is classified as 3* and the hotel as 2* (the hotel needs to be reclassified ex officio). In 2002, the Company was assigned to operate the property by the Ministry of Defense, which had used it as a military holiday resort. The properties were built in the 1960s and no substantial investments therein have been made since, other than basic current maintenance. Substantial funds need to be invested in Hotel Alem, not only to improve its accommodation service quality, but also to continue to provide services until such time the necessary investment is completed. However, as the Company is still involved in a pre-bankruptcy settlement procedure, this fact largely prevents any investment cycles from being implemented, so any investments that may be made pending the effective completion of the pre-bankruptcy settlement procedure are limited to works necessary for the conduct of business, which mostly relates to current maintenance.

8.3. Disputes of Jadran d.d.

After the bankruptcy proceeding was completed in 2014, the Company continued to conduct all court disputes initiated at the time of bankruptcy, as well as those the Company did not manage to resolve during the bankruptcy period. Most legal actions related to claims brought by employees for failure to pay wages owed since before the year 2000. At the time the bankruptcy proceeding was initiated, 565 creditors notified the bankruptcy administrator that they were also secured creditors of the debtor in bankruptcy and that they held registered mortgages over Company's assets at the time the bankruptcy proceeding was opened. In the course of the bankruptcy proceeding, agreements for the release of mortgages were reached with most creditors however 99 creditors with registered mortgages over Company assets remained on completion of the bankruptcy proceeding. The bankruptcy administrator brought 22 legal actions against these creditors to challenge their right to separate satisfaction against Company assets. The Company was not successful in these disputes – in 2017 and 2018 the Company entered into out-of-court settlement agreements for amicable resolution of mutual disputes. These settlement agreements were entered into with all former employees who agreed to withdraw their legal actions and release the mortgages after their claims are paid, which the Company committed to pay in 12 equal installments. The last of these installments becomes due and payable in September of 2019.

In addition to these proceedings, the Company is a party to 32 court proceedings intended to establish title and resolve proprietary issues. These proprietary issues are a result of poorly executed transformation of the Company and deficiencies in the Property Statement Decree relating to the properties acquired by the Company in the transformation process.

At the end of the year, the Company took a series of legal actions for the delivery of possession of land/pitches at Camp Selce and Kačjak Campsite against mobile home owners. Mobile homes of third party owners are situated on these pitches, which they refuse to return to Company's possession. The repossession of these pitches by the Company is a requirement for the Company to continue with the initiated investment cycle at these two very attractive locations (Kačjak Resort and Camp Selce).

As regards other court proceedings, the Company is a party to proceedings for the restitution of and compensation for property seized and enforcement proceedings to collect debt owed to it by third parties.

8.4. Disputes of Club Adriatic d.o.o.

Club Adriatic d.o.o. has been undergoing a pre-bankruptcy settlement procedure since 10 October 2014 and all disputes for the collection of debt brought before the Commercial Court have been suspended pending effective completion of the pre-bankruptcy settlement procedure.

A Decree rendered by the Commercial Court in Zagreb interrupted the process of entering into a pre-bankruptcy settlement agreement pending effective completion of the administrative disputes brought by creditors before the Administrative Court in Zagreb for the annulment of the Decree Accepting the Operational and Financial Restructuring Plan of Club Adriatic d.o.o. A total of 8 administrative suits were submitted, of which three were withdrawn, one claim was rejected and such rejection is being appealed, and the remaining 4 administrative disputes are pending and expected to be resolved in favor of the Company. The Company is a party to enforcement and civil proceedings against third parties and a labor dispute for the annulment of extraordinary termination of employment. The Company is not involved in any proprietary disputes concerning the Baško Polje property.

9. LIKELY FUTURE DEVELOPMENT OF THE COMPANY AND THE GROUP

The Company continues with its intensive capital investments. The following investments are under way:

- Full reconstruction of 12 pavilions in AD Turres Resort, their classification as 3*, and classification of Hotel Ad Turres as 4*;
- Completion of the ongoing renovation of Hotel Omorika (interior redesign and refurbishment of the board restaurant);
- Renovation of outdoor swimming pools at Hotel Katarina;
- Renovation of the façade, railings and indoor swimming pool at Hotel Katarina;
- Construction of a swimming pools and pitch improvement at Camp Selce;
- Renovation of 2 pavilions at Hotel Slaven; and
- Renovation of a pavilion at the Kačjak Resort.

According to the Business Plan, the Company plans to make investments worth EUR 117 million by 2022, whereby the Company's facilities will be classified between 3* and 5*.

Club Adriatic d.o.o. is in the process of a pre-bankruptcy settlement and any capital investments will not be possible before the effective finalization of the pre-bankruptcy settlement procedure – pending this, the company must continue to regularly meet its obligations.

10. COMPANY'S AND GROUP'S RISK EXPOSURE

Primary risks in the business of Jadran d.d. are as follows:

a) Competition risk: Competition risk in the tourism market is very high because other similar tourism destinations have invested substantial funds in the growth and development of their capacities, as well as in other marketing activities focused on tourist arrivals. Among other things, competition is based on the prices, quality and substance of tourism offerings in Crikvenica Riviera and other domestic and foreign tourism destinations. To increase its market competitiveness, the Company launched a new investment cycle which includes not only investments in accommodations to increase the number of units and improve accommodation quality, but also investments in the destination through active involvement in all events and designing new attractions in Crikvenica Riviera.

b) Currency risk: Currency risk is very much present in the Company's business considering the large share of foreign business and negotiation of prices in a foreign currency. The Company also incurs costs based on a currency clause (loan obligations).

c) Interest rate risk: The Company is exposed to interest rate risk because it enters into loan agreements with variable interest rates.

d) Settlement risk: Settlement risk is present in all bilateral transactions. Considering that the performance of monetary obligations to the Issuer is one of the key elements necessary for uninterrupted business, the Company gives high importance to this risk. The Company has established stringent procedures to minimize collection risks.

e) Inflation risk: Inflation risk is present in contractual relationships where the price of a service or product is indexed and tied to Croatian National Bank's strong HRK policy. As this is an external risk, the ability to eliminate it is minimal. For the purpose of minimizing inflation risk, the Company insists on negotiating fixed terms of supply with all suppliers where possible. Suppliers of energy are an exception – their prices are subject to stock exchange variations.

f) Liquidity risk: The Company manages this risk by maintaining adequate reserves and by obtaining loans from banks and using other sources of funding, by constantly monitoring planned and actual cash flows, and by comparing maturity profiles of financial assets and liabilities. In the next period, the Company will not be exposed to such risk.

g) Risk of tax and concession legislation developments: The risk of tax and concession legislation developments is the likelihood that legislative authorities will amend tax legislation in a way that they adversely impact the Company's profitability. This risk is reflected in potential changes in tax rates and taxable assets, as well as in changes in regulations concerning concessions and concessional authorizations. The right to use a maritime domain is one of the significant conditions precedent to further operation of the Company and the Company has actively endeavored to establish new bases for cooperation with the local community in this segment.

h) Tourism industry risk: Tourism trends are largely affected by the broader political situation and growth of terrorism. As an industry, tourism is highly sensitive to the state of security at the destination and its surroundings. After the risk in some rival destinations was reduced (e.g. Turkey, Greece), the competitive position of both Croatian tourism and the Company has become additionally weakened. By launching the aforementioned investment cycle, the Company will endeavor to minimize the impact of adverse market trends and the resulting risks.

i) Environmental risk: Environmental risk may significantly affect the Company's performance, notably through the quality of the sea and coast where guests stay. Climate change may directly affect the length of stay in Company's accommodation facilities. This risk also includes other natural disasters.

j) Litigation risk: The Company is involved a number of disputes for the award of title, civil and enforcement proceedings and proceedings for the restitution of property. The Company is no longer involved in any high-risk disputes. In 2018, the Company entered into settlement agreements with all its secured creditors (former employees and Croatia osiguranje) and arranged for the debt to be paid to them in installments. As the last installments become due and payable in August and September of 2019, the Company expects to have the relevant mortgages and enforcement annotations over properties released by the end of 2019.

<u>Primary risks in the business of Club Adriatic d.o.o. are as follows:</u>

a) Competition risk: Due to being involved in a pre-bankruptcy settlement proceeding, Club Adriatic d.o.o. has not been (for the time being) able to invest in improving the quality of its accommodations and the 2* and 3* classification for the hotel and the camp, respectively, prevented the Company from competing with its most direct rivals in terms of prices and service quality.

b) Currency risk: The official currency of Club Adriatic d.o.o. is HRK however certain transactions in foreign currencies are translated to HRK according to the exchange rate applicable on the balance sheet date. The resulting foreign exchange differences are recorded as expenses or through profit and loss, but do not affect cash flow.

c) Liquidity risk: The management of liquidity risk includes maintaining sufficient amounts of cash and working capital. As Club Adriatic d.o.o. is involved in a pre-bankruptcy settlement proceeding, it is required to perform its obligations to its creditors and employees according to the agreed due dates. Most suppliers to whom Club Adriatic d.o.o. owes a debt under the pre-bankruptcy settlement demand payment based on a pre-invoice or within 8 days, so the Company needs to maintain sufficient funds to meet its regular obligations. What poses a risk to its business is the delay of the pre-bankruptcy settlement proceeding where there is risk that the Company will not be able to perform its obligation as they fall due during the winter period.

The primary risks arising from financial instruments of the Company are credit risk, currency risk and interest rate risk. The Management Board reviews and implements policies for the management of each of these risks.

Capital risk management

The Company and the Group manage their capital to ensure that they will be able to continue as a going concern while increasing return rates for the shareholders by optimizing the debt to equity ratio. The Company's and Group's capital structure comprises the share capital, statutory reserves, retained earnings and profit for the year.

Classes of financial instruments

Table 12

	Company		Group	
In HRK	31 Dec 2017 Restated	31 Dec 2018	31 Dec 2017 Restated	31 Dec 2018
Financial assets				
Trade receivables	658.654	6.596.546	658.654	1.616.792
Cash and cash equivalents	2.652.470	125.502.165	2.652.470	133.743.251
Noncurrent financial assets	1.847.038	-	1.847.038	-
Total	**5.158.162**	**132.098.711**	**3.311.124**	**135.360.043**
Financial liabilities				
Liabilities to financial institutions	89.389.237	83.136.646	89.389.237	116.244.365
Trade payables and other liabilities	9.767.460	9.692.580	9.767.460	20.536.272
Total	**99.156.697**	**92.829.226**	**99.156.697**	**136.780.637**

Financial risk factors

The activities undertaken by the Company and the Group expose them to various financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company and the Group have no formal risk management program in place and all risk management activities are undertaken by the Management Board and Company's and Group's management.

Market risk

Company's and Group's activities are primarily exposed to the financial risk of variations in exchange rates of foreign currencies and interest rates (see below). Exposure to market risk is managed by conducting sensitivity analyses. There were no changes in Company's and Group's exposure to market risk or how risk is managed and measured.

Currency risk management

The Company and the Group conduct certain transactions denominated in foreign currencies and are consequently exposed to foreign exchange variations. The book values of the Company's and Group's funds and liabilities denominated in foreign currencies are as follows:

Table 13
Company:

	Assets		Liabilities	
	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018
EUR	2.090.967	13.892.313	87.038.881	82.444.132

Table 14
Group:

	Assets		Liabilities	
	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018
EUR	2.090.967	13.892.313	87.038.881	111.628.127

Analysis of foreign currency sensitivity

The Company and the Group are exposed to currency risk in case the exchange rate for euro (EUR) changes. The table below presents an analysis of the effect of HRK exchange rate variations by 10% in relation to EUR. 10% is the rate used for Management Board's internal reporting of foreign currency risk and is a Management Board's assessment of the reasonably possible foreign exchange variations. Such analysis is only conducted for receivables and liabilities denominated in foreign currencies and presents their value adjustment at the end of the period for foreign exchange variations by 10%. The sensitivity analysis includes external loans denominated in a currency other that the lender's or borrower's currency. The positive/negative amounts below indicate an increase in profits or other capital if HRK gains in value in relation to another relevant currency by 10%. If HRK is devalued by 10% in relation to another relevant currency, the effect would be the same, only negative.

Table 15

Company:

In HRK	2017	2018
EUR exchange rate variation by +10%		
Gain or loss	8.703.888	8.244.413
EUR exchange rate variation by -10%		
Gain or loss	(8.703.888)	(8.244.413)

Table 16

Group:

In HRK	2017	2018
EUR exchange rate variation by +10%		
Gain or loss	8.703.888	9.733.581
EUR exchange rate variation by -10%		
Gain or loss	(8.703.888)	(9.733.581)

Interest rate risk management

The Company is exposed to interest rate risk because it enters into loan agreements with variable interest rates. Company's exposure to interest rates based on financial assets and liabilities is detailed under Liquidity Risk Management. The Company manages this risk my maintaining an appropriate ratio of loans with fixed and variable interest rates in its loan portfolio.

Interest rate sensitivity analysis

The cash flow interest rate risk is the risk that the cost of interest under financial instruments will change over time.

The Company and the Group are not exposed to interest rate risk because most financial liabilities have fixed interest rates.

Credit risk management

Credit risk relates to the risk that the counterparty will not perform its contractual obligations, which would result in financial loss for the Company and the Group. The Company and the Group constantly monitor their exposure to the parties they conduct business with and their credit ratings and distribute the total value of transactions among acceptable customers.

The book value of financial assets presented in the financial statements, less impairment losses, represents the maximum exposure of the Company and the Group to credit risks without accounting for the value of collateral received.

Liquidity risk management

The Management Board is ultimately responsible for liquidity risk management and the Management Board has established an appropriate liquidity risk management framework for the management of short-term, mid-term and long-term Company's and Group's needs for liquidity management. The Company and the Group manage this risk by maintaining adequate reserves, by obtaining loans from banks and other sources of funding, by constantly overseeing the forecast and actual cash flows, and by comparing maturity profiles of assets and liabilities.

11. RESEARCH & DEVELOPMENT ACTIVITIES

The Company constantly monitors developments in its environment and invests in market research, identification of business opportunities, and new acquisitions. The Company directs and supports its affiliate's activities.

12. OWN SHARE REDEMPTION

Pursuant to the Resolution of the General Meeting, the Company acquired 631 own shares in 2018 at the time the share capital amounted to HRK 282,507,090 and was divided into 16,377,223 common shares with no nominal value, which accounted for 0.0039% of the Company's share capital.

As of 31 March 2019, the Company's share capital was HRK 482,507,730.00, divided into 27,971,463 common dematerialized shares with no nominal value, and the Company held 631 own shares, which accounted for 0.0023% of the Company's share capital.

13. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 1 February 2019, the Company entered into a Lease Agreement for three pavilions with 81 accommodation units within Ad Turres Resort.

On 1 March 2019, the Company entered into a Lease Agreement for Hotel Delfin in Omišalj with 58 accommodation units.

Both Agreements were entered into for a term of 10 years.

14. CODE OF CORPORATE GOVERNANCE

In its business, Jadran d.d. applies and adheres to good corporate practice principles. The Company has not laid down its own Code of Corporate Governance but complies with the provisions of the Zagreb Stock Exchange Code, as reflected in an annual questionnaire it makes publicly available in accordance with the applicable regulations. The questionnaire with answers that clearly show which provisions of the Code the Company complies with and which provisions it does not is publicly available on the official website of Zagreb Stock Exchange (www.zse.hr).

Company's shares are quoted on the official market of Zagreb Stock Exchange and the shareholding report is part of the Annual Report.

Information about significant shareholders is available on a daily basis on the official website of Central Depositary and Clearing Company (www.skdd.hr).

The Company's share capital is HRK 482,507,730.00, divided into 27,971,463 common shares with no nominal value.

One share entitles to one vote and no securities have been issued that entail special rights or restrictions.

The General Meeting is convened and held entirely in accordance with the provisions of the Companies Act and the Company's Corporate Charter.

Each General Meeting notice and resolutions passed by the General Meeting are publicly disclosed in accordance with the Companies Act, the Capital Market Act and the Zagreb Stock Exchange Rules.

The Company had its shares quoted on the official market of Zagreb Stock Exchange in early 2018. As of the date its shares were first quoted on the stock exchange, the Company has not recorded profits and no dividend has thus been distributed.

The shareholders were not allowed to take part in and vote at the General Meeting using modern communication technology because this has not been found necessary yet.

Registrations for the General Meeting are limited in the way that each shareholder is required to notify his/her participation in accordance with the Companies Act.

The Management Board did not publicly disclose information about potential complaints about General Meeting's resolutions because no such complaints were made.

The Company does not maintain a long-term succession plan within the meaning of the Code, but has a general plan for the replacement of key function holders through ongoing training programs.

The remuneration paid to the Supervisory Board members was fixed by a General Meeting's resolution.

The remuneration and other benefits receivable by Management Board and Supervisory Board members are presented on a consolidated basis as part of the Annual Report, rather than separately for each Management Board and Supervisory Board member.

No transactions were conducted that involved any Supervisory Board or Administrative Board members or their related parties, or the Company or its related parties, which is why they were not specified in Company's reports. This also pertains to transactions involving Management Board members or Executive Directors or their related parties, or the Company or its related parties.

The Company does not have an Internal Audit Committee because it is not legally required to have one.

The Audit Commission did not monitor the nature or the amount of services other than auditing and the Company receives such services from an auditing company or its related parties because the law defines restrictions on the provision of services other than external auditing.

Details of all benefits and remuneration received by each Management Board member or Executive Director from the Company were not publicly disclosed in the Annual Report because the Company is not legally required to make such disclosure. The Rewarding Policy Statement was published separately from the Annual Report.

The general characteristics of risk management are specified in the Annual Report.

As part of its organization model in which it operates and in which all business processes are conducted the Company has developed internal control systems on all significant levels, which allow, inter alia, true and fair presentation of financial statements and management reports.

The rules for the appointment and removal of Management Board and Supervisory Board members are defined by the Corporate Charter and the Companies Act. Such appointment rules do not provide for any restrictions that may compromise diversity in terms of gender, age, profession, education, etc.

The rules for amending the Corporate Charter are defined by the Companies Act.

Management Board's powers are fully aligned with the provisions of the Companies Act.

In 2018, the Supervisory Board organized its committees and appointed their members. These include the Audit Committee, the Appointment and Rewarding Committee, and the Corporate Governance Committee. Most members of the Audit Committee are independent members of the Supervisory Board.

Management Board Member, Jadran d.d.	Chairman of the Management Board, Jadran d.d.
Karlo Čulo	Goran Fabris

Independent auditor's report

to the Shareholders of Jadran d.d.

Report on the audit of the separate and consolidated financial statements

Our qualified opinion

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying separate and consolidated financial statements give a true and fair view of the financial position of Jadran d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our qualified opinion is consistent with our additional report to the Audit Committee.

What we have audited

The separate and consolidated financial statements of the Company and the Group which comprise:

- Separate and consolidated statements of comprehensive income for the period ended 31 December 2018;
- Separate and consolidated statements of financial position as at 31 December 2018;
- Separate and consolidated statements of changes in equity for the year then ended;
- Separate and consolidated statements of cash flows for the year then ended; and
- The notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for qualified opinion

a) During 2018, as part of investments in property, plant and equipment, certain parts of buildings were demolished, removed and replaced. However, the Group/Company did not derecognise the carrying amount of the replaced parts of these assets in accordance IAS 16 "Property, plant and equipment" and was not able to provide the carrying value of the replaced assets. In the absence of information to assess the carrying value of these replaced assets, we were unable to satisfy ourselves as to the carrying amount of the related assets as at 31 December 2018 and corresponding loss arising from de-recognition for the year then ended.

b) The Company's and the Group's statement of financial position includes buildings and properties with a carrying amount of HRK 293,486 thousand, and HRK 311,189 thousand respectively, as at 31 December 2018. The Company's management has not carried out an assessment to identify separate significant components of the assets, that should be depreciated over its individual useful life in accordance with IAS 16 "Property, plant and equipment". In the absence of information to assess the depreciation expense of these assets, we were unable to satisfy ourselves as to the carrying amount of property, plant and equipment as at 31 December 2018 and the depreciation expense for the year then ended.

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

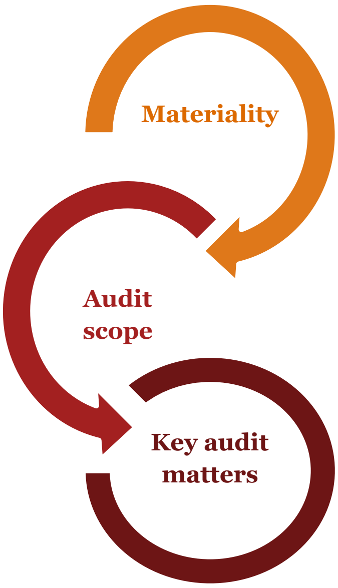
Independence

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

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Company and the Group in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall materiality for the financial statements of the Company as a whole: HRK 2,6 milion, which represents 3% of sales revenue.
- Overall materiality for the financial statements of the Group as a whole: HRK 2,6 milion, which represents 3% of sales revenue.

- The group engagement team conducted audit work at one reporting unit, the Company. The Company's subsidiary was audited by component auditor.
- Our audit scope addressed 100% of the Group's revenues and 100% of the Group's absolute profit before tax.

- Business combination

As part of designing our audit we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate and consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate and consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate and consolidated financial statements as a whole.

Overall materiality for the financial statements as a whole	The Company: HRK 2,6 milion The Group: HRK 2,6 milion
How we determined it	The Company: 3 % of sales revenue The Group: 3 % of sales revenue
Rationale for the materiality benchmark applied	We chose sales as the benchmark because the Company and the Group are currently in a restructuring phase with emphasis on growth, in terms of both their market share and customer base. In addition, net profit/loss for previous years was volatile while revenues are a more consistent measure of performance.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the Key audit matter
Business combination *Refer to note 39 "Acquisition of Club Adriatic" for related description and disclosure* On 19 December 2018, the Group acquired 100% ownership of Club Adriatic. This was a significant focus area for our audit due to the significance of management's judgements and estimates involved in accounting for this acquisition and the resulting overall impact on the consolidated financial statements. The key areas of judgement include the allocation of purchase price, the fair value assessment of identifiable assets and liabilities, and evaluation of total purchase price consideration.	We obtained an understanding of the details of the acquisition transaction through discussions with Company's management and reading of the supporting documents. We reconciled the purchase price consideration from the transaction agreements to the bank statements and the amounts recorded in the financial statements. We assessed the completeness and accuracy of identified assets and liabilities by comparison to the audited financial statements of Club Adriatic, our industry expertise and discussions with management. For real estate acquired, we reconciled fair values of acquired assets to valuation reports prepared by an independent appraiser. We involved our internal valuation specialists to review the methodology used in the valuation reports, and performed the following: - We tested the mathematical accuracy and consistency of calculations within the valuation reports. - In respect to land, we assessed the reasonableness of comparative market transactions used to determine fair value. - In respect to business premises (hotel buildings and other commercial properties), we compared the inputs used within the cost approach (such as replacement cost and remaining useful life) to an acceptable range based on available market information. We reconciled the estimated fair values of assumed liabilities to the proposed pre-bankruptcy plan of Club Adriatic and related transactions realised subsequent to the balance sheet date. We tested the purchase price allocation performed by Group management, re-calculated the resulting goodwill, and evaluated the completeness of disclosures made in the financial statements for compliance with IFRS 3 Business combinations.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at reporting units by us, as the group engagement team or component audit teams operating under our instructions. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

We identified 2 reporting units which were in scope of our audit procedures. The Group audit team performed audit procedures at the one reporting units (the Company) and the component audit team performed the audit of the Company's subsidiary, under the Group audit team's instructions and supervision.

Overall, our audit procedures covered almost 100% of the Group's revenues and 100% of the Group's profit before tax.

By performing the above procedures at components, combined with additional procedures at the Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Reporting on other information including Management Report and Corporate Governance Statement

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

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the separate and consolidated financial statements are prepared is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. As described in the "Basis for qualified opinion" paragraph, the Company did not derecognise the carrying amount of replaced assets and has not appropriately re-assessed the useful lives used for depreciation of their properties. We have concluded that the other information is materially misstated for the same reasons as described in the "Basis for qualified opinion" section above.

Responsibilities of management and those charged with governance 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 International Financial Reporting Standards as adopted in the European Union 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 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.

Those charged with governance are responsible for overseeing the Company 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 independent 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 scepticism 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 independent 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 independent 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Appointment

We were first appointed as auditors of the Company and the Group on 13 August 2018. Our appointment represents a total period of engagement appointment of 1 year.

The engagement partner on the audit resulting in this independent auditor's report is Tamara Maćašović.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
30 April 2019

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

JADRAN d.d.

Statement of the Management Board's responsibilities

Pursuant to the Croatian Accounting Act in force, the Management Board of Jadran d.d., Crikvenica, Bana Jelačića 16 (the "Company") is responsible for ensuring that annual separate and consolidated financial statements are prepared for 2018 in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, in order to give a true and fair view of the financial position, operating results, changes in equity, cash flows of the Company and the Group for the period and the notes.

The Management Board has a reasonable expectation that the Group and the Company 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 for the Company and the Group in preparing the annual financial statements.

In preparing annual financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently, in accordance with applicable finial reporting standards;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the annual financial statements are prepared on a going concern basis unless this assumption is inappropriate.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, operating results, changes inequity and cash flows of the Company and the Group and must also ensure that the financial statements comply with the Croatian Accounting Act in force and International Financial Reporting Standards. 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.

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare an Annual Report comprising the financial statements, Management Report and the Corporate Governance Statement. The Management Report was prepared in line with the requirements of Article 21 and 24 of the Accounting Act of the Republic of Croatia.

The financial statements were authorised for issue by the Management Board on 29 April 2019.

Member of the Management Board
Karlo Čulo
Jadran d.d.
Bana Jelačića 16, Crikvenica

Chairman of the Management Board
Goran Fabris
Jadran d.d.
Bana Jelačića 16, Crikvenica

JADRAN Joint Stock Company for hotel industry and tourism Crikvenica

ANNUAL CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS 2018

Separate and consolidated statement of other comprehensive income
As at 31 December 2018

(All amounts in HRK)

		Company		Group	
	Note	2017 Restated	2018	2017 Restated	2018
Revenue	6	79,323,786	86,480,407	79,323,786	86,480,407
Other income	7	4,367,291	5,041,016	4,367,291	5,041,016
Bargain purchase gains	39	-	-	-	50,966,700
Total operating revenue		**83,691,077**	**91,521,423**	**83,691,077**	**142,488,123**
Cost of goods sold		(102,543)	(230,021)	(102,543)	(230,021)
Costs of raw materials and supplies	8	(20,425,319)	(19,528,379)	(20,425,319)	(19,528,379)
Costs of services	9	(19,839,560)	(20,353,095)	(19,839,560)	(20,353,095)
Staff costs	10	(28,779,646)	(33,334,219)	(28,779,646)	(33,334,219)
Depreciation and amortisation	16,17	(9,556,717)	(10,745,229)	(9,556,717)	(10,745,229)
Net losses on impairment of financial assets	11	(1,472,344)	(13,218,315)	(1,472,344)	(318,338)
Other operating expenses	12	(8,684,993)	(6,672,685)	(8,684,993)	(6,672,685)
Total operating expenses		**(88,861,122)**	**(104,081,943)**	**(88,861,122)**	**(91,181,966)**
Operating profit/(loss)		**(5,170,045)**	**(12,560,520)**	**(5,170,045)**	**51,306,157**
Finance income	13	1,387,571	1,891,549	1,387,571	1,891,549
Finance costs	13	(4,085,166)	(3,288,489)	(4,085,166)	(3,288,489)
Net profit/(loss) from financing activities		**(2,697,595)**	**(1,396,940)**	**(2,697,595)**	**(1,396,940)**
Profit/(loss) before tax		**(7,867,640)**	**(13,957,460)**	**(7,867,640)**	**49,909,217**
Income tax	14	-	-	-	-
Net profit/loss		**(7,867,640)**	**(13,957.460)**	**(7,867,640)**	**49,234,751**
Other comprehensive income		-	-	-	-
Total other comprehensive income		-	-	-	-
Earnings per share	15	(0.16)	(0.34)	(0.16)	1.22

**The accompanying notes are an integral part of these financial statements.*
These financial statements have been approved and signed by the Management Board.

		Company		Group	
	Note	**31 December 2017 Restated**	**31 December 2018**	**31 December 2017 Restated**	**31 December2018**
ASSETS					
Non-current assets					
Property, plant and equipment	16	629,115,508	625,048,928	629,115,508	825,431,468
Intangible assets	17	196,720	126,959	196,720	126,959
Financial assets	18	1,847,038	-	1,847,038	-
Investments in subsidiaries	19	-	60,500,000	-	-
Other non-current assets		-	-	-	9,530
Deferred tax assets		334,471	334,471	334,471	334,471
Total non-current assets		**631,493,737**	**686,010,358**	**631,493,737**	**825,902,428**
Current assets					
Inventories	20	461,667	452,470	461,667	3,541,992
Trade receivables	21	658,654	1,387,318	658,654	1.616,792
Receivables from related parties	22	-	5,209,228	-	-
Receivables from the government		1,172,009	319,463	1,172,009	379,905
Other receivables	23	3,288,891	2,977,135	3,288,891	3,836,154
Current financial assets (time deposits)		-	-	-	-
Cash and cash equivalents	23	2,652,470	125,502,164	2,652,470	133,743,250
Total current assets		**8,233,691**	**135,847,778**	**8,233,691**	**143,118,093**
TOTAL ASSETS		**639,727,428**	**821,858,136**	**639,727,428**	**969,020,522**

**The accompanying notes are an integral part of these financial statements.*
These financial statements have been approved and signed by the Management Board.

		Company		Group	
	Note	**2017 Restated**	**2018**	**2017 Restated**	**2018**
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital		491,316,690	482,507,730	491,316,690	482,507,730
Capital reserve		25,401,322	234,210,922	25,401,322	234,210,922
Retained earnings/(Accumulated loss)		3,718,511	(10,238,949)	3,718,510	53,627,727
Total capital and reserves	24	**520,436,523**	**706,479,703**	**520,436,523**	**770,346,379**
Non-current liabilities					
Provisions	25	885,032	482,414	885,032	482,414
Liabilities to financial institutions	26	84,935,656	74,875,663	84,935,656	74,875,663
Other non-current liabilities	27	9,549,918	271,454	9,549,918	271,454
Total non-current liabilities		**95,370,606**	**75,629,531**	**95,370,606**	**75,629,531**
Current liabilities					
Trade payables	28	9,767,460	9,692,580	9,767,460	20,536,272
Liabilities for advances, deposits and guarantees	29	4,176,318	3,633,164	4,176,318	4,081,983
Liabilities to employees	30	2,096,448	2,825,561	2,096,448	26,685,199
Liabilities to the government	31	961,428	1,432,559	961,428	6,194,242
Liabilities to banks and other financial institutions	26	4,453,581	8,260,983	4,453,581	41,368,703
Derivative financial instruments	19	-	10,000,000	-	10,000,000
Other current liabilities	32	2,368,547	3,904,055	2,368,547	14,178,213
Income tax liability		96,517	-	96,517	-
Total current liabilities		**23,920,299**	**39,748,902**	**23,920,299**	**123,044,612**
TOTAL CAPITAL AND LIABILITIES		**639,727,428**	**821,858,136**	**639,727,428**	**969,020,522**

**The accompanying notes are an integral part of these financial statements.*
These financial statements have been approved and signed by the Management Board.

Separate statement of changes in equity
As at 31 December 2018

(All amounts in HRK)

Company					
	Note	**Subscribed capital**	**Total reserves**	**Retained earnings/(Accumulated loss)**	**Total**
Balance at 31 Dec. 2016		**491,316,690**	**25,401,322**	**11,586,150**	**528,304,162**
Loss for the period – *Restated (Note 2.24)*			-	(7.,867,639)	(7,867,639)
Total comprehensive income for the year – Restated (Note 2.24)		-	-	*(7,867,639)*	*(7,867,639)*
Balance at 31 Dec 2017		**491,316,690**	**25,401,322**	**3,718,511**	**520,436,523**
Share capital decrease	24	(208,809,600)	-	-	(208,809,600)
Share capital increase	24	200,000,640	-	-	200,000,640
Revalation surplus reserves		-	208,809,600	-	208,809.,600
Loss for the period		-	-	(13,957,460)	(13,957,460)
Total comprehensive income for the year		-	-	*(13,957,460)*	*(13,957,460)*
Balance at 31 December 2018		**482,507,730**	**234,210,922**	**(10,238,949)**	**706,479,703**

**The accompanying notes are an integral part of these financial statements.*
These financial statements have been approved and signed by the Management Board.

Group					
	Note	**Subscribed capital**	**Total reserve**	**Retained earnings/(Loss carried forward**	**Total**
Balance as at 31 December 2016		**491,316,690**	**25,401,322**	**11,586,150**	**528,304,162**
Loss for the period – *Restated (Note 2.24)*		-	-	(7,867,639)	(7,867,639)
Total comprehensive income for the year – Restated (Note 2.24)		-	-	*(7,867,639)*	*(7,867,639)*
Balance at 31 December 2017		**491,316,690**	**25,401,322**	**3,718,511**	**520,436,523**
Share capital decrease	24	(208,809,600)	-	-	(208,809,600)
Share capital increase	24	200,000,640	-	-	200,000,640
Revaluation surplus reserves		-	208,809,600	-	208,809,600
Loss for the period		-	-	49,909,217	49,909,217
Total comprehensive income for the year		-	-	*49,909,217*	*49,909,217*
Balance at 31 December 2018		**482,507,730**	**234,210,922**	**53,627,727**	**770,346,379**

Separate and consolidated statement of cash flows
For the year ended 31 December 2018

(All amounts in HRK)

		Company		Group	
	Note	**2017 Restated**	**2018**	**2017 Restated**	**2018**
Cash flow from operating activities					
Profit after tax	14	(7,867,640)	(13,957,460)	(7,867,640)	49,909,217
Depreciation and amortisation	16,17	9,556,717	10,745,229	9,556,717	10,745,229
Bargain purchase gains	39	-	-	-	(50,966,700)
Net (profit)/loss from disposal and retirement of non-current assets		1,538,678	195,676	1,538,678	195,676
Change in long-term provisions		45,619	(402,618)	45,619	(402,618)
Interest received		(35,579)	-	(35,579)	-
Interest paid		2,241,707	2,662,277	2,241,707	2,662,277
Net foreign exchange differences		333,870	1,067,110	333,870	1,067,110
Net impairment of receivables and other financial assets		1,472,344	13,395,016	1,472,344	495,039
(Increase)/decrease in trade receivables and other receivables		(217,311)	(16,321,567)	(217,311)	(16,321,567)
(Increase)/decrease in inventories		(104,347)	9,197	(104,347)	9,197
(Increase)/decrease in trade payables and other liabilities		3,150,136	(7,257,263)	3,150,136	(7,257,263)
Cash flows from operating activities		**10,114,194**	**(9,864.403)**	**10,114,194**	**(9,864,403)**
Interest paid		(2,740,258)	(2,622,443)	(2,740,258)	(2,622,443)
A. Net cash from operating activities		**7,373,936**	**(12,486,846)**	**7,373,936**	**(12,486,846)**
Cash flow from investing activities					
Acquisition consideration less acquired cash		-	-	-	(42,258,914)
Payments for non-current tangible and intangible assets		(52,440,869)	(6,804,564)	(52,440,869)	(6,804,564)
Interest received		35,579	-	35,579	-
Acquisition of a subsidiary	39	-	(50,500,000)	-	-
B. Net cash from investment activities		**(52,440,869)**	**(57,304,564)**	**(52,440,869)**	**(49,063,478)**
Cash flow from financing activities					
Proceeds from issues of shares and other equity securities		-	200,000,640	-	200,000,640
Proceeds from borrowings		46,457,482	2,649,422	46,457,482	2,649,422
Repayment of borrowings		(2,639,292)	(9,998,907)	(2,639,292)	(9,998,907)
Repayment of finance lease		(9,479)	(10,051)	(9,479)	(10,051)
C. Net cash from financing activities		**43,808,711**	**192,641,104**	**43,808,711**	**192,641,104**
Net increase/(decrease) in cash		(1,258,222)	122,849,695	(1,258,222)	131,090,780
Cash and cash equivalents at the beginning of the period	23	3,910,692	2,652,470	3,910,692	2,652,470
Cash and cash equivalents at the end of the period	23	2,652,470	125,502,164	2,652,470	133,743,250

**The accompanying notes are an integral part of these financial statements.*
These financial statements have been approved and signed by the Management Board.

1. SCOPE OF BUSINESS AND GENERAL INFORMATION ABOUT THE COMPANY

JADRAN Joint Stock Company for hotel industry and tourism, Bana Jelačića 16, Crikvenica (the "Company") is registered with the Commercial Court in Rijeka under Reg. No. (MBS): 040000817. The subscribed share capital of the Company is HRK 482,507,730. Its authorized representatives are Goran Fabris, Chairman of the Management Board, and Karlo Čulo, Management Board Member, who represent the Company solely and independently pursuant to the Decision dated 22 May 2018.
The Company's core business is the provision of accommodation services in hotels, resorts and camps, preparation of food and provision of food services, and preparation and serving of drinks and beverages.

In 2018, the average number of employees was 304 (2017: 292 employees).

Jadran Group comprises Jadran d.d., Crikvenica, and its subsidiary Club Adriatic d.o.o. in which Jadran d.d., Crikvenica, holds 100% of shares and voting rights.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the most significant accounting policies consistently applied in the current year and previous years is provided in the sections below:

2.1. Statement of compliance and basis of presentation

The Company's and Group's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the EU. The financial statements are also in compliance with the Croatian Accounting Act which refers to the IFRS endorsed by the EU.

The financial statements have been prepared under the accrual basis to which the effects of transactions are recognized when incurred and are presented in the financial statements for the relevant period and by aaplying the basic accounting assumption of going concern.
The financial statements are presented in the Croatian currency (Croatian Kuna, HRK), which is the Company's functional currency.

2.2 Critical accounting judgments and key sources of estimation uncertainty

Certain estimates were used in the preparation of the financial statements, which affect the presentation of the Company's and Group's assets and liabilities, income and expenses, and the disclosure of Company's and Group's contingent liabilities.

Future events and their impacts cannot be anticipated with certainty, which is why the actual results may be inconsistent with those estimated. The estimates used in the preparation of the financial statements are subject to change as new events occur, as more experience is gained, additional information and knowledge is obtained, and due to the changing environment in which the Company and Groups operate.

The key estimates used in the application of the accounting policies as part of the preparation of the financial statements relate to the accounting for amortisation and depreciation of non-current intangible and tangible assets, impairment of assets, impairment of inventories, and the disclosure of contingent liabilities.

2.3 Going concern and implementation of the bankruptcy plan

The Decree of the Commercial Court in Rijeka on the finalization of the bankruptcy proceedings became effective on 21 January 2014 and the resolution to finalize the bankruptcy proceeding and confirm the bankruptcy plan was registered in the Registry of the Commercial Court in Rijeka on 28 January 2014. A group of former employees of the Company and Veneto banka d.d. requested a revision from the Supreme Court of the Republic of Croatia of the Decree of the High Commercial Court of the Republic of Croatia which confirmed the Decree of the Commercial Court in Rijeka, which Decree confirmed the bankruptcy plan. On 25 January 2017, the Supreme Court of the Republic of Croatia rendered its Decree Ref. No. Revt 47/14 establishing that the applicants (former employees) withdrew its the revision application. Furthermore, Veneto banka d.d. withdrew its revision application by filing a Motion proposing a withdrawal of the revision application which has been provided to the Supreme Court of the Republic of Croatia on 13 December 2016. On 21 February 2017, in case No. 14 St-52/2010, the Commercial Court in Rijeka rendered its Decree terminating the supervision of plan owner's performance of obligations, for which the bankruptcy administrator, the Creditors' Committee and the bankruptcy judge were responsible, thus ensuring that the Company may continue as a going concern As of the bankruptcy finalization date, 99 creditors with registered mortgages over Company assets remained. The bankruptcy administrator brought 22 legal actions against these creditors to challenge their right to separate satisfaction against Company assets. The Company was not successful in these disputes – in 2017 and 2018 the Company entered into out-of-court settlement agreements for amicable resolution of mutual disputes. These settlement agreements were entered into with all former employees who agreed to withdraw their legal actions and release the mortgages after their claims have been paid, which the Company committed to pay in 12 equal installments. The last of these installments becomes due and payable in September of 2019.

The separate and consolidated financial statements were prepared under the assumption that the Company and the Group will continue in business on a going concern basis. As of 31 Dec 2018, the Company's cumulative losses amounted to HRK 10,239 and its current assets exceeded the current liabilities by HRK 101,099.

2.4 Changes in accounting policies and disclosures

The adopted accounting policies are consistent with those of the previous year, unless otherwise specified and disclosed.

During the year, the Company adopted the following new and amended IFRS and guidelines of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the EU. Where it is assessed whether or not the application of a standard or interpretation affects the Company's financial statements or results, their impact is described below:

First-time adoption of new accounting standards
IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39 relating to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments of 1 January 2018 resulted in changes to accounting policies.

The first and continued application did not have any material impacts on the financial statements and the new provisions of the standard include the following facts relevant to the Company as described below.

Classification and measurement
As of 1 January 2018 (first-time adoption of IFRS 9), the Company has classified its financial assets as assets measured at amortised cost. The classification is based on the Company's business model for managing financial assets and contractual cash flow characteristics.
The classification of financial instruments is provided in the table below:

Item	Measurement under IAS 39	Measurement under IFRS 9
Receivables	Depreciated cost	Depreciated cost

Impairment of financial instruments
The incurred loss model was abandoned and the Expected Credit Loss Model (ECL) was introduced. The measurement of the expected credit loss is based on reasonable and supportable information available without undue costs or effort, including information about past events and current conditions and forecasts of future conditions. Assessments of expected credit loss are normally based on historical probability of the inability to collect debts, supplemented by future parameters relevant to credit risk.

A simplified approach to measuring expected credit loss, i.e. measurement on a collective basis, is applied to trade receivables, depending on the type of customer, and monitored based on the maturity structure. For example, maturity groups may be defined as follows: not past due, due in 0-90 days, due in 90-180 days, etc. The maturity groups are defined according to the stages of the collection process.

2.4 Changes in accounting policies and disclosures (continued)

In 2017, that the impairment of trade receivables as estimated based on the incurred loss model and the credit risk relevant to trade receivables was assessed through the matrix of provisions for expected credit loss.

As of 31 December 2017 and 31 December 2018, the Company and the Group have not applied the effects of first—time adoption of IFRS 9 to trade receivables and cash and cash equivalents because the amounts are not material for the financial statements. The adoption of the new standard did not materially affect any other financial instruments, including derivative financial instruments.

IFRS 15 Revenue from Contracts with Customers
As of 1 January 2018, the Company and the Group adopted IFRS 15 Revenue from Contracts with Customers, which did not result in any material changes in accounting policies and the amounts recognized in the financial statements or the amounts recognized in the balance sheet on the first-time adoption date (1 January 2018) were not adjusted.

Standards and interpretations not yet adopted:

New accounting standards and interpretations have been published that are not mandatory for reporting periods ending on 31 December 2018, which have not been early adopted by the Company. The Company assesses the impact of these new standards and interpretations below:

- **IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, early adoption is permitted only if IFRS 15 is adopted at the same time)**

IFRS 16 was published in January of 2016. It resulted in lessees recognizing almost all their leases in the balance sheet as the distinction between operating and finance leases is removed. According to the new standard, the asset (right to use the leased asset) and the financial liability to pay the lease are recognized. Short-term and low-value leases are the only exception.

The Company and the Group established a project team that has reviewed all leasing arrangements during the preceding year, taking into account the new lease accounting rules of accounting for leases under IFRS 16. The Company and the Group do not expect the standard to have any material impact on consolidated and separate financial statements for 2019.

There are no other standards that are not yet effective and are expected to have a material impact on the entity in the present or future reporting periods and on future transactions.

2.5 Property, plant and equipment

Property, plant and equipment are presented in the Statement of financial position (balance sheet) at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price and all costs directly associated with the bringing of the asset to its condition for the intended use. The costs of current maintenance and repairs, replacements and minor investment maintenance are recognized as expense when incurred. The costs of substantial investment maintenance and replacements are capitalized.
Gains and losses resulting from the retirement or disposal of property, plant and equipment are presented in profit or loss for the period in which they were incurred.
Property under construction is presented at cost less any impairment losses. Depreciation is accounted for as of the time the asset is ready for its intended use. Depreciation is accounted for on a straight-line basis, based on the estimated useful life of the asset, as follows:

Buildings – buildings made of concrete, metal, stone and brick	100 years
Buildings – buildings made of wood and other materials	50 years
Camp infrastructure	20 years
Furniture and technological equipment	10 years
Vehicles	7 years
Passenger cars	10 years
Office equipment	8 years
Caravan equipment	10 years
ICT equipment	8 years
Other equipment	10 years
Landscaping	10 years

2.6 Intangible assets

Non-current intangible assets include licenses and are carried at cost less amortisation and any accumulated impairment losses. Subsequent costs are only capitalized if they increase future economic benefits associated with the asset. All other costs are carried as costs through profit or loss in the period in which they were incurred. Amortisation costs are recognized through profit or loss on a straight-line basis over the estimated expected useful life of each intangible asset, as of the date it becomes available for use. Intangible assets are amortised using the straight-line method over a period of 5 years.

2.7 Impairment of non-financial assets

Non-financial assets are tested for impairment where an event or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognized as the difference between the caring amount of an asset and its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell nd its value in use. For impairment estimating purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8 Financial assets

The business model reflects how the Company manages its assets to generate cash flows – regardless whether the Company's objective is: (i) solely to collect contractual cash flows from assets ("hold to collect contractual cash flows"); or (ii) both to collect contractual cash flows and cash flows resulting from the sale of assets ("hold to collect contractual cash flows and sell") and if neither is applicable, the financial asset will be classified as part of another business model and measured at fair value through profit or loss.

As at the reporting date, the Company's financial assets comprise receivables.

The Company and the Group continue to measure their receivables at amortised cost. The adoption of IFRS 9 did not result in any changes to the receivables measurement policy. See details in Note 2.4.

Accounting policies applicable until 1 January 2018

The Company classifies its financial assets as loans and receivables. The classification is based on the purpose for which the financial asset was acquired. Management classifies a financial asset at initial recognition and re-evaluate this classification at each reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payment, not quoted on an active market. They are included in current assets, except for assets with maturities greater than 12 months after the balance sheet date. Such assets are classified as a non-current assets.

Loans and receivables are carried at amortised cost by using the effective interest rate method.

Financial assets at fair value through profit or loss relate to derivatives used for hedging – foreign exchange contracts. Assets presented in this class are classified as current assets if they are expected to be realized within 12 months – otherwise, they are classified as non-current assets.

Receivables are initially recognized at fair value and subsequently measured at amortised cost using the effective interest rate method, less impairment. Trade receivables are impaired where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

2.8 Financial assets (continued)

Significant financial difficulties of the debtor, likelihood of debtor's bankruptcy and default or delinquency in payments are considered indicators of impairment of trade receivables. The amount of provision is determined as the difference between the reeivable's carrying aunt and the net recoverable amount. Management provides for doubtful and bad debts based on a review of the overall maturity structure of all receivables and significant individual amounts receivable.

2.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the average weighted price method. Net realisable value is an estimate of the selling price in the ordinary course of business less costs to sell.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash, sight deposits with banks and other short-term, highly liquid instruments maturing in three months or less.

2.11 Borrowings

Borrowings are initially recognized at fair value less transaction costs and subsequently at amortised cost using the effective interest rate method. Interest is recognized as expense, except in the case of onstruction of a qualifying asset, when it is capitalized as part of the asset's cost.
The effective interest rate method is a method to calculate the amortised cost of a financial liability and allocate interest expenses over the accounting period.
Borrowings are classified based on the agreed maturity as current liabilities, or non-current liabilities if they mature in more than 12 months. If the Company and the Group have an unconditional right to defer the settlement of a liability for at least 12 months after the reporting date, such liabilities are classified as non-current liabilities.
The Company and the Group derecognize financials liabilities when, and only when, they have been discharged, canceled or have expired.

2.12 Trade payables

Trade payables are amounts relating to goods and services purchased in the ordinary course of business. If the relevant payment is expected within one year, the liability is recognized as a current liability – otherwise, it is recognized as a non-current liability. Trade payables are initially recognized at fair value and carried at amortised cost in future periods by using the effective interest rate method.

2.13 Taxes

The tax expense resulting from income tax is the aggregate amount of the current tax liability and deferred taxes. The current tax liability is based on taxable profit for the year. Taxable profit is different from profit for the period presented in the Income statement because it does not include items of income and expense taxable in other years or nontaxable, i.e. not recognized as expense for income tax purposes. The Company's current tax liability is calculated at the rates effective on the reporting date.

Deferred tax is the amount expected to result in liability or refund based on the difference between the carrying amount of the assets and liabilities in the financial statements and the relevant tax base used to calculate taxable income and is accounted for using the balance sheet liability method. Deferred tax liabilities are normally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent it is likely that taxable income will be available, against which deductible temporary differences and tax losses may be utilised.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that a sufficient amount of taxable profits will be available to allow all or part of the tax asset to be recovered. Deferred tax is recognize as an expense or income in profit or loss, unless it relates to items credited or debited directly to equity, in which case deferred tax is also presented as part of equity.

2.14 Employee benefits

Pension obligations and other post-employment benefits

In the ordinary course of business through salary eductions, the Company and the Group make regular payments to mandatory pension funds on behalf of its employees being members as required by law. Such mandatory contributions paid to funds are carried as salay expnse when incurred. The Company and the Group are not required to provide any other post-employment benefits.

Termination benefits

The Company and the Group pay one-time termination benefits to their employees at retirement. The liability and costs of such benefits are determined using the projected unit credit method and discounted to their present value based on calculations made at the end of each reporting period, which take into account the assumptions of the number of employees estimated to become entitled to termination benefits at regular retirement, the estimated cost of such termination benefits, and the discount rate defined as the average anticipated rate of return on investment in government bonds. Actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

Long-term employee benefits

The Company and the Group recognize the liability for long-term employee benefits (jubilee awards) evenly over the period in which such benefit is earned based on actual years of service. The long-term employee benefit liability is measured at the end of each reporting period based on the assumptions of the number of employees to whom such benefit is to be paid, the estimated cost of such benefits, and the discount rate defined as the average anticipated rate of return on investment in government bonds.

2.14 Employee benefits (continued)

Actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized immediately in profit or loss.

2.15 Provisions

Provisions are recognized if the Company or the Group have a present legal or constructive obligation as a result of past events and if it is likely that an outflow of resources will be required to settle the obligation and if the amount of the liability can be reliably estimated. The amounts of provisions are determined by discounting the expected future cash flows by using the discount rate before taxes reflecting the current market estimate of the time value of money and, where applicable, the risks specific to the liability. Where the Company and the Group expect a provision to be reimbursed, such reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

2.16 Share capital

The Company's share capital comprises ordinary shares. The consideration paid for treasury shares purchased, including all directly attributable transaction costs, is deducted from equity attributable to the Company's shareholders until the shares are withdrawn, reissued or disposed of. When such shares are subsequently disposd of or reissued, any consideration received, net of ay directly attributable transaction costs, is included in equity attributable to Company shareholders.

2.17 Revenue recognition

Revenue is generated from Company's ordinary business operations. A five-step model used for recognition of revenue from contracts with customers is presented below:

Step 1: identify the contract(s) with a customer
Step 2: identify the performance obligations in the contract
Step 3: determine the transaction price
Step 4: allocate the transaction price to the performance obligations in the contract
Step 5: recognize the revenue when (or as) the entity satisfies a performance obligation
Revenue is recognized for each performance obligation in the contract in the amount of the transaction price. The transaction price is the amount of agreed consideration the Company expects to be entitled to in exchange for the transfer of the promised goods or services to the customer.
The Company applied IFRS 15 retrospectively and the comparative information was not restated. This is why the presented comparative information is still accounted for according to the former accounting policy of the Company.

2.17 Revenue recognition (continued)

The adoption of IFRS 15 did not have a material impact on the Company's or Group's financial statements. More in Note 2.4.

Accounting policies applicable until 1 January 2018

Revenue comprises the fair value of consideration received or receivable for services sold in the ordinary course of Company's and Group's business. Revenue is shown net of value added tax.

The Company and the Group recognize revenue when the amount of revenue can be reliably measured, when future economic benefits will flow the Company and the Group and when criteria specific to all activities of the Company and the Group have been satisfied.

Service income
Income from hotel & tourism services is recognized in the period the services are provided.

Lease income
Lease income is recognized in the period t services are provided using the straight-line method over the term of the lease agreement with the lessors.

Interest income
Interest income is recognized on a time-proportion basis using the effective interest rate method.

2.18 Leases

Lease are classified as finance leases whenever substantially all the risks and rewards associated with the ownership of the asset are transferred to the lessee. All other leases are classified as operating leases.

The Company as the lessor
Income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs of negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the term of the lease.

The Company as the lessee
Assets held under a finance lease are recognized as Company's and Group's asset at fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The associated liability to the lessor is presented in the statement of financial position (balance sheet) as a finance lease liability. Lease payments are allocated among financial costs and the reduction of the lease liability so as to achieve a constant rate of interest on the outstanding amount of the liability. These financial costs are recognised directly in profit or loss for the period in which they were incurred.

2.19 Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of a qualifying asset, such asset being an asset which necessarily takes substantial time to be ready for the intended use or sale, are added to the cost of such asset until such time the asset is substantially ready for its intended use or sale. Investment income earned on the temporary investment of specific borrowings over the peiod of their expenditure on a qualifying asset is deducted from the borrowing costs that may be capitalized.
All other borrowing costs are recognized as costs for the period they were incurred in.

2.20 Foreign currencies

Transactions not denominated in Croatian Kuna are initially recognised at the exchange rate applicable at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the reporting date based using the exchange rate applicable at that date. Translation gains and losses are recognised in profit or loss for the period they were generated/incurred.

2.21 Earnings per share

Earnings per share are accounted for by dividing the profit or loss attributable to Company's and Group's shareholders by the average weighted number of ordinary shares during the year.

2.22 Investments in subsidiaries

Subsidiaries are all companies in which the Company has the power to direct financial and business policies, normally accompanied by the ownership of more than 50 percent of voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether or not the Company controls another entity. Investments in subsidiaries are carried at cost less impairment loss.

2.23 Business combinations

Subsidiaries are all companies controlled by the Group. The Group is considered to control an entity if the Group is exposed or entitled to variable returns on its association with the entity and is able to influence such returns through its power over the entity. Subsidiaries are fully consolidated as of the date control is transferred to the Group and deconsolidated as of the time such control ceases to exist.

2.23 Business combinations (continued)

The Group uses the acquisition method to account for business combinations. The consideration transferred at acquisition of a subsidiary is the fair value of the transferred asset, liabilities to former shareholders of the acquired company and Group's investments. Such transferred consideration also includes the fair value of the assets or liabilities resulting from a contingent consideration arrangement. The identifiable acquired asset, liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date. The Group recognizes any non-controlling interest in the acquired company on an acquisition-by-acquisition basis, or at fair value or at the proportionate share of the identifiable net assets of the entity being acquired. The costs associated with acquisition are recognized as costs for the period.

If a business combination is achieved in stages, earlier investments in the entity being acquired are revalued at fair value on the acquisition date through comprehensive income.

Any contingent consideration transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes in the fair value of a contingent consideration treated as an asset or a liability are recognized in accordance with IFRS 9 or as income or expense or as a change in other comprehensive income. A contingent consideration classified as equity is not be re-measured – its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the difference between the transferred consideration and the amount of non-controlling interest in the acquired entity in relation to the fair value of the identified net asset acquired. If such consideration is lower than the fair value of the net asset acquired, the difference is recognized in the statement of comprehensive income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

2.24 Consolidation

Intercompany transactions, balances, income and expenses resulting from transactions with Group entities are eliminated. Gains and losses from intercompany transactions recognized as assets are also eliminated. Accounting policies of subsidiaries have been amended where necessary to ensure consistency with the policies adopted by the Group.

2.25 Segment reporting

Operating segments are presented in accordance with the internal reports provided to the chief operating decision-maker. The chief operating decision-maker is a person or group allocating resources to operating segments and assessing the performance of a segment in a particular company. The chief operating decision maker is the Management Board of the Company and the Group.

2.26 Events after the end of the reporting year

Events after the end of the reporting year providing additional information about the position of the Company and the Group as at the date of the financial statements (adjusting events) are reflected in the financial statements. Events that are not adjusting events are disclosed in the notes to financial statements, if material.

2.27 Restatement of errors in the prior periods' financial statements

a) *Impairment of non-current receivables* – in 2017, the Company/Group incorrectly recognized the impairment of anon-current receivable despite objective evidence that the receivable was irrecoverable due to debtor's financial difficulties. According to IAS 39 "Financial Instruments: Recognition and Measurement", the impairment of such non-current receivable should have been recognized as at 31 December 2017.
b) *Derecognition of assets* – In 2017, the Company and the Group removed and replaced certain parts of a building. The Company/Group incorrectly failed to derecognize the carrying amount of the replaced parts of property, plant and equipment as required by IAS 16 "Property, Plant and Equipment".
c) *Recognition of non-current liabilities* – As at 31 December 2017, the Company and the Group incorrectly failed to recognize an additional liability for interest resulting from the court settlements for 2017. According to IAS 37 "Provisions, contingent liabilities and contingent assets", the Company should have recognized such interest as at 31 December 2017 because an outflow is likely to occur for the purpose of settling the liability.

As subsequent recognition does not affect the figures in the statement of financial position as at 1 January 2017, it is not necessary to present a third statement of financial position as at 1 January 2017.

The effect of errors on the consolidated and separate statement of comprehensive income for the period ending 31 December 2017 was as follows:

	2017 Disclosed	Impairment of non-current receivables (a)	Derecognition of assets (b)	Derecognition of non-current liabilities (c)	2017 Restated
Other operating expenses	6,413,205	-	1,273,211	998,577	8,684,993
Net losses from financial asset impairment	107,142	1,365,202	-	-	1,472,344
Profit/(loss) from ordinary business	**1,533,054**	**1,365,202**	**1,273,211**	**998,577**	**5,170,044**
Net profit/loss	**4,230,649**	**1,365,202**	**1,273,211**	**998,577**	**7,867,639**

The disclosed loss per share in 2017 was HRK (0.09) whereas restated loss per share was HRK (0.16).

2.27 Restatement of errors in the prior periods' financial statements (continued)

The effect of errors on the consolidated and separate statement of financial position as at 31 December 2017 was as follows:

	2017 Disclosed	Impairment of non-current receivables (a)	Derecognition of assets (b)	Derecognition of non-current liabilities (c)	As at 31 December 2017 Restated
Financial assets	3,212,240	(1,365,202)	-	-	1,847,038
Property, plant and equipment	630,388,719	-	1,273,211	-	629,115,508
Total non-current assets	**634,132,150**	**(1,365,202)**	**(1,273,211)**	**-**	**631,493,737**
TOTAL ASSETS	**642,365,841**	**(1,365,202)**	**(1,273,211)**	**-**	**639,727,428**
Other non-current liabilities	8,551,341	-	-	998,577	9,549,918
Total non-current liabilities	**94,372,029**	**-**	**-**	**998,577**	**95,370,607**
TOTAL LIABILITIES	**118,292,328**	**-**	**-**	**998,577**	**119,290,905**

The effect of errors on the consolidated and separate cash flow statement as at 31 December 2017 was as follows:

	2017 Disclosed	Impairment of non-current receivables (a)	Derecognition of assets (b)	Derecognition of non-current liabilities (c)	2017 Restated
Net (profit)/loss from sale and removal of non-current assets	265,467	-	1,273,211	-	1,538,678
Changes in other liabilities	2,151,559	-	-	998,577	3,150,136
Net impairment of receivables and other financial assets	107,142	1,365,202	-	-	1,472,344
Net cash from operating activities	**2,524,168**	**1,365,202**	**1,273,211**	**998,577**	**6,161,158**

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

In applying the accounting policies described in Note 2, management made certain judgments that had a material impact on the amounts presented in the financial statements (independently from those presented below). These judgments are detailed in the relevant notes and the most significant ones among them relate to:

Estimated useful life of property, plant and equipment

In 2015, management considered the application of the useful life of fixed assets, in particular the buildings. Considering the specific conditions of conducting its business in 2014 when the Company's bankruptcy proceeding was finalized on the basis of the adopted Bankruptcy Plan and the still reduced scope of using Company's assets due to the seasonal nature of its business, and having regard for the circumstances surrounding the Bankruptcy Plan where the debtor is planned to operate for five years and where the obligations to be paid by the Company to its creditors within such 5-year period, management made a decision to apply continuity of depreciation rates based on which the adopted Bankruptcy Plan was designed in the context of using the depreciation rates defined in the Bankruptcy Plan in such period. Management retained the existing depreciation rates for 2018.

Provisions for court disputes
The Company is a party to numerous court disputes resulting from its ordinary course of business. These provisions are recorded if there is a present obligation resulting from a past event (taking into account all available evidence, including legal opinions) where it is likely that the settlement of the obligation will require an outflow of resources and if the amount of such obligation can be reliably measured. As at 31 December 2018, provisions for court disputes amounted to HRK 0 (31 December 2017: HRK 446,490, see Note 24).

Impairment of non-current assets
An impairment test requires an estimate of the value in use of cash generating units if the carrying amount is lower than the net realisable value. Impairment is based on many factors such as changes in market conditions, expected industry growth, increase in capital costs, changes in financing opportunities, amounts paid in comparable transactions, and other changes in circumstances indicating the existence of impairment. The recoverable amount is the higher of the value in use and net realizable value.
Determination of impairment indicators and estimation of future cash flows and determination of fair value of an asset (or a group of assets) requires than management make significant estimates when identifying and valuing impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. The Company had no impairments arising from such transactions. After a bankruptcy proceeding was initiated in 2010, the Company hired a licensed valuer of the civil engineering profession to determine the market (fair) value of the properties owned and held by the Company.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Impairment of receivables

The Company and the Group classify their receivables in Stage 2 and Stage 3 classes. The Stage 2 class includes recognized expected credit losses possible for the entire life of the receivable (lifetime credit losses). Lifetime credit losses are calculated on the basis of a matrix for expected credit losses and applied collectively to all Stage 2 receivables. The Stage 3 class included receivables found to be irrecoverable after due analysis, the value of which will be individually adjusted up to the expected recoverable amount. At the end of each year, the Inventory Committee reexamines the recoverability of receivables and adjustments are made according to the information gathered from Sales and Legal Departments, depending on the maturity of the receivables.

The Company did not recognize any expected credit losses for receivables. See Note 2.4.

Fair value measurement

The carrying amount of trade receivables less provisions for the impairment and trade payables approximates their fair value. For long-term debts, market prices of similar instruments on an active market are used.

Fair value hierarchy

IFRS 13 determines the hierarchy of valuation techniques based on whether the inputs are observable or unobservable. Observable inputs reflect market information obtained from independent sources, whereas unobservable inputs reflect the Company's market assumptions. These two types of inputs result in the following fair value hierarchy:

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

Going concern assumption

In 2017 and 2018, the Company entered into out-of-court settlement agreements for the amicable resolution of disputes with all its former employees who committed to withdraw their claims and release the relevant mortgages after their claims have been paid, which the Company committed to pay in 12 equal installments. The last installment becomes due and payable in September of 2019. Such settlement agreements allowed the Company to continue as a going concern.

4. FINANCIAL INSTRUMENTS

Capital risk management

The Company and the Group manage their capital to ensure that they will be able to continue as a going concern while increasing the returns for shareholders by optimizing the debt-to-equity ratio. The Company's and Group's capital structure comprises the share capital, statutory reserves, retained earnings and profit for the year.

Classes of financial instruments

	Company		Group	
In HRK	**31 Dec 2017 Restated**	**31 Dec 2018**	**31 Dec 2017 Restated**	**31 Dec 2018**
Financial assets				
Trade receivables	658,654	6,596,546	658,654	1,616,792
Non-current financial assets	1,847,038	-	1,847,038	-
Cash and cash equivalents	2,652,470	125,502,165	2,652,470	133,743,251
Total	**5,158,162**	**132,098,711**	**3,311,124**	**135,360,043**
Financial liabilities				
Liabilities to financial institutions	89,389,237	83,136,646	89,389,237	116,244,365
Trade payables and other liabilities	9,767,460	9,692,580	9,767,460	20,536,272
Total	**99,156,697**	**92,829,226**	**99,156,697**	**136,780,637**

Financial risk factors

The activities undertaken by the Company and the Group expose them to various financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company and the Group have no formal risk management program in place and all risk management activities are undertaken by the Management Board and Company's and Group's management.

Market risk

Company's and Group's activities are primarily exposed to the financial risk of variations in exchange rates of foreign currencies and interest rates (see below). Exposure to market risk is managed by conducting sensitivity analyses. There were no changes in Company's and Group's exposure to market risk or how risk is managed and measured.

4. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk management

The Company and the Group conduct certain transactions denominated in foreign currencies and are consequently exposed to foreign exchange variations. The carrying amounts of the Company's and Group's assets and liabilities denominated in foreign currencies are as follows:

Company	Assets		Liabilities	
	31 Dec 2017	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**
EUR	2,090,967	13,892,313	87,038,881	82,444,132

Group	Assets		Liabilities	
	31 Dec 2017	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**
EUR	2,090,967	13,892,313	87,038,881	111,628,127

Analysis of foreign currency sensitivity

The Company and the Group are exposed to currency risk in case the exchange rate for euro (EUR) changes. The table below presents an analysis of the effect of HRK exchange rate variations by 10% in relation to EUR. 10% is the rate used for Management Board's internal reporting of foreign currency risk and is a Management Board's assessment of the reasonably possible foreign exchange variations. Such analysis is only conducted for receivables and liabilities denominated in foreign currencies and presents their value adjustment at the end of the period for foreign exchange variations by 10%. The sensitivity analysis includes third-party loans denominated in a currency other that the lender's or borrower's currency. The positive/negative amounts below indicate an increase in profit or other capital if HRK gains in value in relation to another relevant currency by 10%. If HRK weakens by 10% in relation to another relevant currency, the effect would be the same, only negative.

	Company:		***Group:***	
In HRK	2017	2018	2017	2018
EUR exchange rate variation by +10%				
Gain or loss	8,703,888	8,244,413	8,703,888	9,773,581
EUR exchange rate variation by -10%				
Gain or loss	(8,703,888)	(8,244,413)	(8,703,888)	(9,773,581)

4. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk management

The Company and the Group are exposed to interest rate risk as they enter into loan agreements with variable interest rates. Company's exposure to interest rates based on financial assets and liabilities is detailed under Liquidity Risk Management. The Company and the Group manage this risk my maintaining an appropriate ratio of loans with fixed and variable interest rates in its loan portfolio.

Interest rate sensitivity analysis

The cash flow interest rate risk is the risk that the cost of interest under financial instruments will change over time. The Company and the Group are not exposed to interest rate risk because most financial liabilities have fixed interest rates.

Analysis of sensitivity to changes in useful life

By using a particular asset, the Company and the Group use the economic benefits contained in that asset, which diminish more intensely as a result of its economic and technological aging. In addition to considering the anticipated use based on physical usage when determining the useful life of an asset, it is necessary to take into account any changes in demand on the tourism market, which will accelerate economic obsolescence and the intensity of new technology development.

Based on this, conducting business in the hotel industry requires making increasingly frequent investments, which corroborates the fact that the useful life of the asset is reduced.

The useful life of an asset must be periodically revised to see if there are any circumstances warranting a change in an estimate in relation to a previous estimate. If identified, such changes in estimate will be presented in future periods through an adjusted depreciation charge over the remaining revised useful life.

In 2018, the Company retained the existing useful life of construction assets, as well as equipment and other assets, with a tendency to conduct an analysis of and adjust the useful life in the next period, in line with the relevant hotel industry trends.

If the useful life of property, plant and equipment were 10% longer, with all other variables held constant, net profit for the year would be higher by HRK 874 thousand for the Company and the Group and the net carrying amount of property, plant and equipment would be higher by HRK 1,065 thousand for the Company and the Group.

If the useful life of property, plant and equipment were 10% shorter, with all other variables held constant, net profit for the year would be lower by HRK 874 thousand for the Company and the Group and the net carrying amount of property, plant and equipment would be lower by HRK 1,065 thousand for the Company and the Group.

4. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management

Credit risk relates to the risk that the counterparty will default on its contractual obligations, which would result in financial loss for the Company and the Group. The Company and the Group constantly monitor their exposure to the parties they conduct business with and their credit ratings and allocate the total value of transactions among acceptable customers.

The carrying amount of financial assets presented in the financial statements, less impairment losses, represents the maximum exposure of the Company and the Group to credit risks without accounting for the value of collateral received.

Liquidity risk management

The Management Board is ultimately responsible for liquidity risk management and the Management Board has established an appropriate liquidity risk management framework for the management of short-term, mid-term and long-term Company's and Group's needs for liquidity management. The Company and the Group manage this risk by maintaining adequate reserves, by obtaining loans from banks and other sources of funding, by continuous monitoring the forecast and actual cash flows, and by comparing maturity profiles of assets and liabilities.

The table below details the remaining contractual maturities for the Company for non-derivative financial assets. The table was made on the basis of undiscounted cash flows of financial assets including interest thereon to be earned, other than assets for which the Company expects cash flows to be generated in a different period.

The table below details the remaining contractual maturities for the Company and the Group for non-derivative financial liabilities. The table was made on the basis of undiscounted cash flows of financial liabilities based on the earliest date on which the Company and the Group may be required to settle the liabilities.

4. FINANCIAL INSTRUMENTS (CONTINUED)

Maturities of non-derivative financial liabilities

Company	Weighted average interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
2017							
Interest-free		9,216,766	550,694	-	-	-	9,767,460
Variable interest rate	3%	114,517	229,034	2,620,743	51,352,806	29,040,939	83,358,039
Fixed interest rate	10%	-	404,040	1,212,119	5,231,926	-	6,848,066
Total		**9,331,283**	**1,183,767**	**3,832,863**	**56,584,732**	**29,040,939**	**99,973,584**
2018							
Interest-free		9,082,809	609,771	-	-	-	9,692,580
Variable interest rate	3%	577,985	1,135,007	13,547,142	54,134,508	17,342,381	86,737,023
Fixed interest rate	10%	-	-	-	-	-	-
Total		**9,660,794**	**1,744,778**	**13,547,142**	**54,134,508**	**17,342,381**	**96,429,603**

Group	Weighted average interest rate	Matured	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
2017								
Interest-free		-	9,216,766	550,694	-	-	-	9,767,460
Variable interest rate	3%	-	114,517	229,034	2,620,743	51,352,806	29,040,939	83,358,039
Fixed interest rate	10%	-	-	404,040	1,212,119	5,231,926	-	6,848,066
Total		-	9,331,283	1,183,767	**3,832,863**	**56,584,732**	**29,040,939**	**99,973,584**
2018								
Interest-free		10,843,692	9,082,809	609,771	-	-	-	20,536,272
Variable interest rate	3.69%	28,238,497	577,985	1,135,007	13,547,142	54,134,508	17,342,381	114,975,520
Fixed interest rate	11.81%	1,716,953	-	-	-	-	-	1,716,953
Total		40,799,142	9,660,794	1,744,778	**13,547142**	**54,134,508**	**17,342,381**	**137,228,745**

5. SEGMENT INFORMATION

Operating segments are presented in accordance with internal reporting to the Management Board, which is responsible for making major business decisions and for allocating resources to reporting segments and evaluating their performance.

Management defined Hotels & Apartments, Camps, and Inter Coffee Shop, Rokan, Katarina Swimming Pools and Kačjak Beach as the reporting segments.

The segment information for the reporting segments for the period ended 31 December 2018 is as follows:

	Income by segment	Expenses by segment	Profit by segment
Operating segment	HRK	HRK	HRK
Hotels & Apartments	70,017,346	(57,070,339)	12,947,007
Camps	14,132,694	(9,398,297)	4,734,397
OS Inter Coffee Shop	3,169,585	(2,020,280)	1,149,305
OS Rokan	789,225	(930,421)	(141,196)
OS Katarina Swimming Pools	262,844	(614,831)	(351,987)
OS Kačjak Beach	1,337,273	(927,034)	410,239
	89,708,967	**(70,961,203)**	**18,747,764**

The segment information for the reporting segments for the period ended 31 December 2017 is as follows:

	Revenue by segment	Expenses by segment	Profit by segment
Operating segment	HRK	HRK	HRK
Hotels & Apartments	61,620,765	(55,826,390)	5,794,375
Camps	15,470,692	(11,068,907)	4,401,786
OS Inter Coffee Shop	3,071,556	(2,309,235)	762,321
OS Rokan	923,000	(946,343)	(23,343)
OS Katarina Swimming Pools	296,695	(666,063)	(369,368)
OS Kačjak Beach	1,027,136	(900,369)	126,767
	82,409,844	**(71,717,307)**	**10,692,537**

Profit by segment refers to the profit earned by each segment before allocation of other operating revenue, other operating expenses, financial income, financial expenses and income tax. This income is a benchmark provided to the Management Boards of the Company and the Group for the purpose of making decisions to allocate resources to such segment and evaluate its performance.

5. SEGMENT INFORMATIOM (CONTINUED)

The reconciliation of operating income before taxes and net profit is as follows:

Company and Group	31 December 2017	31 December 2018
Item	HRK	HRK
Operating income before taxes by segment	10,692,537	18,747,764
Unallocated operating revenue	1,281,233	1,812,456
Unallocated finance income	1,387,571	1,891,549
Unallocated operating expenses:	(17,143,815)	(33,120,740)
Cost of goods sold	*(102,543)*	*(230,021)*
Costs of raw materials and supplies	*(335,351)*	*(301,865)*
Service costs	*(4,880,548)*	*(7,937,974)*
Staff costs	*(5,815,518)*	*(9,115,995)*
Depreciation and amortisation	*(303,084)*	*(295,624)*
Other operating expenses	*(4,234,427)*	*(2,020,946)*
Net losses on impairment of financial assets	*(1,472,344)*	*(13,218,315)*
Unallocated finance costs	(4,085,167)	(3,288,489)
Profit for the year	**(7,867,639)**	**(13,957,460)**

The information about revenue and profit by segment for the Group is identical to that for the Company because the acquisition occurred on 31 December 2018.

The Company does not monitor its assets and liabilities by segment, which is why such information was not disclosed. The hotels, apartments and camps (operating assets) are located in the Republic of Croatia.
The Company performs its hotel/hospitality services and sales activities in Croatia with domestic and foreign customers.

6. REVENUE FROM THE SALE OF GOODS AND SERVICES ON THE MARKET

	Company		Group	
	2017	**2018**	**2017**	**2018**
Accommodation	51,372,974	56,757,444	51,372,974	56,757,444
Food and beverage	26,819,755	27,432,424	26,819,755	27,432,424
Other hotel services	974,958	1,921,450	974,958	1,921,450
Trade goods	156,099	369,089	156,099	369,089
TOTAL	**79,323,786**	**86,480,407**	**79,323,786**	**86,480,407**

The Company and the Group provide their hotel/hospitality services and perform sales activities in Croatia with domestic and foreign customers. Company's and Group's revenues vary in customer geographies.

	Company		Group	
	2017	**2018**	**2017**	**2018**
Sales – domestic customers	10,762,654	11,455,574	10,762,654	11,455,574
Sales – foreign customers	57,334,697	61,548,160	57,334,697	61,548,160
Miscellaneous /i/	11,226,435	13,476,673	11,226,435	13,476,673
Total	**79,323,786**	**86,480,407**	**79,323,786**	**86,480,407**

/i/ The Miscellaneous line item includes revenue from selling trade goods, alcoholic and nonalcoholic drinks, food and beverages, parking services, wellness services and other similar services where it is impossible to determine whether the revenue was earned from they sale to foreign or domestic customers.

7. OTHER INCOME

	Company		Group	
	2017	**2018**	**2017**	**2018**
Rental income	1,919,353	1,965,121	1,919,353	1,965,121
Recharged costs of lessees	734,350	811,756	734,350	811,756
Reversal of provisions	35,677	1,054,540	35,677	1,054,540
Insurance claims	214,575	442,701	214,575	442,701
Direct aid	58,684	131,326	58,684	131,326
Collection of amounts due as per judgement and out-of-court settlement	378,484	4,880	378,484	4,880
Collection of doubtful and bad debts	336,528	71,962	336,528	71,962
Disposal of non-current assets	30,108	-	30,108	-
Other operating income	659,532	558,730	659,532	558,730
TOTAL	**4.367.291**	**5.041.016**	**4.367.291**	**5.041.016**

8. COST OF RAW MATERIALS AND SUPPLIES

	Company		Group	
	2017	**2018**	**2017**	**2018**
Groceries consumed	9,656,698	9,146,081	9,656,698	9,146,081
Electricity	3,521,053	4,221,054	3,521,053	4,221,054
Heating oil and gas	1.322.219	1.401.012	1,322,219	1,401,012
Water consumed	1,227,229	1,296,754	1,227,229	1,296,754
Alcoholic and soft drinks consumed	894,784	1,025,909	894,784	1,025,909
Consumables and cleaning supplies	1,424,941	1,012,927	1,424,941	1,012,927
Write-off of small inventory	1,910,959	856,795	1,910,959	856,795
Fuel for passenger and freight vehicles	107,165	129,367	107,165	129,367
Packaging	148,692	112,497	148,692	112,497
Office supplies	121,086	105,651	121,086	105,651
Other costs	90,493	220,332	90,493	220,332
TOTAL	**20,425,319**	**19,528,379**	**20,425,319**	**19,528,379**

9. COST OF SERVICES

	Company		Group	
	2017	2018	2017	2018
Investment and current maintenance	4,110,764	3,510,940	4,110,764	3,510,940
Contractor services	3,158,957	2,715,604	3,158,957	2,715,604
Intellectual services /i/	2,388,460	2,913,093	2,388,460	2,913,093
Commissions and banking services	1,855,814	2,180,070	1,855,814	2,180,070
Utilities	1,270,663	1,401,342	1,270,663	1,401,342
Gross temporary service contract cost	415,538	1,226,977	415,538	1,226,977
Student employment agency services	1,320,158	1,066,041	1,320,158	1,066,041
Recapitalization	-	1,631,091	-	1,631,091
Telephone, internet and mail	905,134	960,281	905,134	960,281
Promotion	937,860	879,350	937,860	879,350
Rentals	294,486	364,484	294,486	364,484
Music and ZAMP fees	401,930	336,404	401,930	336,404
Mobile home rental	1,562,397	-	1,562,397	-
Transport services (road and maritime transport)	9,012	40,615	9,012	40,615
Other services	1,208,387	1,126,803	1,208,387	1,126,803
TOTAL	**19,839,560**	**20,353,095**	**19,839,560**	**20,353,095**

10. STAFF COSTS

	Company		Group	
	2017	**2018**	**2017**	**2018**
Net salaries	17,073,336	18,730,209	17,073,336	18,730,209
Transportation to and from work	793,023	789,850	793,023	789,850
Taxes and surtaxes	1,229,651	1,829,299	1,229,651	1,829,299
Contributions from salaries	4,629,616	5,298,572	4,629,616	5,298,572
Contributions on salaries	3,784,788	4,258,978	3,784,788	4,258,978
Unused hours off – redistribution	338,292	146,860	338,292	146,860
Provisions for unused vacation days /i/	460,758	986,167	460,758	986,167
Non-current provisions for termination benefits and jubilee awards /i/	45,618	43,872	45,618	43,872
Termination benefits	85,644	89,339	85,644	89,339
Children's gifts, Christmas bonus, nontaxable voucher	295,200	464,072	295,200	464,072
Performance bonus and holiday pay	-	431,050	-	431,050
Meal	34,872	233,474	34,872	233,474
Miscellaneous	8,848	32,477	8,848	32,477
TOTAL	**28,779,646**	**33,334,219**	**28,779,646**	**33,334,219**

/i/ The line item "Provisions" was reclassified to "Staff Costs" for the provisions for unused vacation days and non-current provisions for termination benefits and jubilee awards.

Remuneration for the Management Boards and Supervisory Boards of the Company and the Group:

	Company		Group	
	2017	**2018**	**2017**	**2018**
Management Board	426,046	2,374,871	426,046	2,374,871
of which receipts in kind:	20,748	165,346	20,748	165,346
Supervisory Board	178,651	163,226	178,651	163,226
TOTAL	**604,697**	**2,538,097**	**604,697**	**2,538,097**

11. LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS

	Company		Group	
	2017, restated	**2018**	**2017, restated**	**2018**
Impairment of trade receivables	107,142	318,338	107,142	318,338
Impairment of non-current receivables – Jadran usluge	1,365,202	-	1,365,202	-
Impairment – related parties	-	12,899,977	-	-
TOTAL	**1,472,344**	**13,218,315**	**1,472,344**	**318,338**

12. OTHER OPERATING EXPENSES

	Company		Group	
	2017, restated	**2018**	**2017, restated**	**2018**
Reimbursement to students in practice and scholarships	94,000	196,373	94,000	196,373
Insurance premiums	718,887	695,060	718,887	695,060
Municipal charges and concessions	1,748,884	1,743,358	1,748,884	1,743,358
Entertainment	107,510	99,566	107,510	99,566
Travel expenses, per diems, accommodation and field bonus	270,313	149,576	270,313	149,576
Aid to employees	49,312	80,000	49,312	80,000
Charges to Hrvatske vode	1,666,599	1,649,047	1,666,599	1,649,047
Taxes and contributions irrespective of result	254,574	269,663	254,574	269,663
Professional training of employees	250,066	141,326	250,066	141,326
Employee accommodation	70,331	178,684	70,331	178,684
Animation and entertainment	117,349	122,197	117,349	122,197
Subscriptions and memberships	174,062	178,935	174,062	178,935
Charges for disabled persons	49,140	61,916	49,140	61,916
Non-depreciated value of retired assets	1,355,863	200,853	1,355,863	200,853
Other operating expenses	1,758,103	906,131	1,758,103	906,131
TOTAL	**8,684,993**	**6,672,685**	**8,684,993**	**6,672,685**

13. FINANCE INCOME AND COSTS

	Company		Group	
	2017	**2018**	**2017**	**2018**
Finance income				
Ordinary and default interest	35,579	1,705	35,579	1,705
Translation gains	1,270,577	1,758,531	1,270,577	1,758,531
Other finance income	81,416	131,313	81,416	131,313
	1,387,571	**1,891,549**	**1,387,571**	**1,891,549**
Finance costs				
Ordinary and default interest /i/	(2,740,258)	(2,594,283)	(2,740,258)	(2,594,283)
Translation losses	(1,344,908)	(635,306)	(1,344,908)	(635,306)
Interest on court judgments /ii/	-	(58,900)	-	(58,900)
	(4,085,166)	**(3,288,489)**	**(4,085,166)**	**(3,288,489)**
NET FINANCE (COSTS)/INCOME	**(2,697,595)**	**(1,396,940)**	**(2,697,595)**	**(1,396,940)**

/i/ Default interest relating to a loan repayment agreement with Croatia osiguranje
/ii/ Interest applied to claims of secured creditors-former employees in the bankruptcy proceedings.

14. INCOME TAX

The Company and the Group are taxpayers according to the applicable tax laws and regulations of the Republic of Croatia. The tax base is determined as the difference between income and expenses for the period plus and net of income and expenses having a different tax treatment according to the tax regulations concerning the taxation of income. The income tax rate was 18% in all presented periods.

	Company		Group	
	2017 Restated	**2018**	**2017 Restated**	**2018**
Accounting loss before tax	**(7,867,640)**	**(13,957,460)**	**(7,867,640)**	**49,909,217**
18% income tax	(1,416,175)	(2,512,343)	(1,416,175)	8,983,659
Expenses not recognized for tax purposes	295,996	2,388,377	272,249	2,388,377
Income not recognized for tax purposes	(24,566)	(94,222)	(24,566)	(11,590,224)
Unrecognized deferred tax assets	1,144,746	218,188	1,168,492	218,188
Income tax	-	-	-	-

14. INCOME TAX (CONTINUED)

The Tax Administration has not conducted any audits of the Company's income tax returns in the past several years. According to the relevant tax regulations, the Tax Administration may inspect Company's books and records at any time within three years of the end of the year in which the relevant tax liability is presented and may impose additional tax liabilities and penalties. The Management Board is not aware of any circumstances that may give rise to a potential material liabilities in this respect.

Deferred tax assets are adjusted as follows:

	2017	2018	2017	2018
Balance at 1 January	**334,471**	**334,471**	**334,471**	**334,471**
Increase in deferred tax assets	-	-	-	-
Balance at 31 December	**334,471**	**334,471**	**334,471**	**334,471**

Deferred tax assets are calculated for provisions for jubilee awards and termination benefits for ordinary retirement not recognized for tax purposes, for costs temporarily not recognized for tax purposes and impairment of financial assets.

Tax losses available for carrying forward are presented below:

	Company		Group	
Year incurred	Amount	Year of expiry	Amount	Year of expiry
2017	(6,359,699)	2022	(6,359,699)	2022
2018	(1,212,156)	2023	(7,571,855)	2023
	(7,571,855)		**(7,571,855)**	

15. EARNINGS PER SHARE

	Company		Group	
	2017 Restated	**2018**	**2017 Restated**	**2018**
Profit/(loss) attributable to shareholders	**(7,867,640)**	**(13,957,460)**	**(7,867,640)**	**49,909,217**
Weighted average number of ordinary shares used to calculate basic/diluted earnings per share	49,131,669	40,831,220	49,131,669	40,831,220
Basic and diluted earnings per share	**(0.16)**	**(0.34)**	**(0.16)**	**1.22**

16. PROPERTY, PLANT AND EQUIPMENT

Company

Description	Land	Buildings *Restated*	Plant and equipment	Other assets	Tangible assets in progress	Total
COST						
Balance at 31 December 2016	**298,461,517**	**619,462,735**	**40,389,944**	**210,806**	**5,575,811**	**964,100,813**
Direct asset additions	0	40,911,894	15,914,195	0	(4,096,924)	52,729,165
Retirement and disposal *(Restated)*	(88,452)	(6,368,343)	(1,866,261)	0	0	(8,323,056)
Balance at 31 December 2017	**298,373,064**	**654,006,287**	**54,437,879**	**210,806**	**1,478,887**	**1,008,506,922**
Direct asset additions /ii/	0	200,049	2,930,994	0	3,622,979	6,754,022
Retirement and disposal	0	0	(3,535,431)	0	0	(3,535,431)
Balance at 31 December 2018	**298,373,064**	**654,206,334**	**53,833,442**	**210,806**	**5,101,866**	**1,011,725,514**
VALUE ADJUSTMENT						
Balance at 31 December 2016	**0**	**352,509,095**	**24,019,107**	**210,806**	0	**376,739,008**
Depreciation	**0**	6,515,170	2,921,817	0	0	**9,436,987**
Retirement and disposal *(Restated)*	**0**	(4,999,483)	(1,785,100)	0	0	**(6,784,583)**
Balance at 31 December 2017	**0**	**354,024,782**	**25,155,824**	**210,806**	0	**379,391,412**
Depreciation	**0**	6,695,299	3,959,072	0	0	**10,654,371**
Retirement and disposal	**0**	0	(3,369,200)	0	0	**(3,369,200)**
Balance at 31 December 2018	**0**	**360,720,081**	**25,745,696**	**210,806**	0	**386,676,583**

NET BOOK AMOUNT						
31 December 2016	**298,461,517**	**266,953,640**	**16,370,837**	**0**	**5,575,811**	**587,361,805**
31 December 2017	**298,373,064**	**299,981,503**	**29,282,055**	**0**	**1,478,887**	**629,115,508**
31 December 2018	**298,373,064**	**293,486,252**	**28,087,746**	**0**	**5,101,866**	**625,048,928**

/ii/ The addition to tangible assets/buildings of HRK 200,049 relates to investments in hotel facilities (upgrading, improvement of camps and other construction work).
/ii/ The addition to tangible assets/equipment of HRK 2,930,994 relates to the purchase of equipment necessary for hotel and camp operations.

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company is a party to the following loan agreements where loans are secured by Company's properties: HBOR Long-Term Loan DT-6/15 – for the renovation of part of Hotel Omorika and improvement of the Auto- Camp in Selce; a pledge over properties has been created, specifically over Hotel Omorika and Ad Turres Resort. DT 6/15 Loan amount as at 31 December 2018 = HRK 3,391,579
HBOR Long-Term Loan DT-1/16 – for the renovation of part of Hotel Omorika and Hotel Katarina; a pledge over properties has been created, specifically over Hotel Omorika and Hotel Katarina.DT 1/16 Loan amount as at 31 December 2018 = HRK 15,846,753
HBOR Long-Term Loan DT-10/16 – for the completion of renovation of part of Hotel Katarina; a pledge over properties has been created, specifically over Hotel Omorika and Hotel Katarina.
DT 10/16 Loan amount as at 31 December 2018 = HRK 9,234,047

PBZ's long-term loan 5110217867 – for the renovation of part of Hotel Katarina and Hotel Esplanade and to purchase the receivables of Veneto banka d.d. and create a pledge over properties, namely Hotel Ad Turres, Hotel Esplanade and Hotel Slaven.
5110217867 Loan amount as at 31 December 2018 = HRK 51,038,035

As at 31 December 2018, the carrying amount of the properties (the Omorika, Ad Turres, Esplanade, Slaven and Katarina hotels) over which the pledge was created totals = HRK 181,093,680.

As at 31 December 2018, the total amount of tangible assets fully depreciated and still used totals = HRK 38,631,082

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

Description	**Land**	**Buildings** *Restated*	**Plant and equipment**	**Other assets**	**Tangible assets in progress**	**Total**
PURCHASE VALUE						
Balance at 31 December 2016	**298,461,517**	**619,462,735**	**40,389,944**	**210,806**	**5,575,811**	**964,100,813**
Direct asset additions	-	40,911,894	15,914,195	-	(4,096,924)	52,729,165
Retirement and disposal	(88,452)	(6,368,343)	(1,866,261)	-	-	(8,323,056)
Balance at 31 December 2017	**298,373,064**	**654,006,287**	**54,437,879**	**210,806**	**1,478,887**	**1,008,506,922**
Direct asset additions /ii/	-	200,049	2,930,994	-	3,622,979	6,754,022
Retirement and disposal	-	-	(3,535,431)	-	-	(3,535,431)
Acquired CA	178,603,609	31,572,849	9,432,907	183,881	-	219,793,245
Balance at 31 December 2018	**476,976,674**	**685,779,184**	**63,266,348**	**394,687**	**5,101,866**	**1,231,518,758**
IMPAIRMENT						
Balance at 31 December 2016	**-**	**352,509,095**	**24,019,107**	**210,806**	-	**376,739,008**
Depreciation	**-**	6,515,170	2,921,817	-	-	**9,436,987**
Retirement and disposal	**-**	(4,999,483)	(1,785,100)	-	-	**(6,784,583)**
Balance at 31 December 2017	**-**	**354,024,782**	**25,155,824**	**210,806**	-	**379,391,412**
Depreciation	**-**	6,695,299	3,959,072	-	-	**10,654,371**
Retiremenet and disposals	**-**	-	(3,369,200)	-	-	**(3,369,200)**
Acquired CA	**-**	13,869,804	5,500,447	40,454	-	19,410,705
Balance at 31 December 2018	**-**	**374,589,886**	**31,246,143**	**251,261**	-	**406,087,290**

NET BOOK AMOUNT						
31 December 2016	**298,461,517**	**266,953,640**	**16,370,837**	**0**	**5,575811**	**587,361,805**
31 December 2017	**298,373,065**	**299,981,504**	**29,282,054**	**0**	**1,478,887**	**629,115,510**
31 December 2018	**476,976,674**	**311,189,299**	**32,020,204**	**143,426**	**5,101,866**	**825,431,468**

/ii/ The addition t tangible assets/buildings of HRK 200,049 relates to investments in hotel facilities (upgrading, improvement of camps and other construction work).

/ii/ The addition to tangible assets/equipment of HRK 2,930,994 relates to the purchase of equipment necessary for hotel and camp operations.

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group is a party to the following loan agreements where loans are secured by Group's properties:
HBOR Long-Term Loan DT-6/15 – for the renovation of part of Hotel Omorika and improvement of the Auto- Camp in Selce; a pledge over properties has been created, specifically over Hotel Omorika and Ad Turres Resort. DT 6/15 Loan amount as at 31 December 2018 = HRK 3,391,579
HBOR Long-Term Loan DT-1/16 – for the renovation of part of Hotel Omorika and Hotel Katarina; a pledge over properties has been created, specifically over Hotel Omorika and Hotel Katarina.
DT 1/16 Loan amount as at 31 December 2018 = HRK 15,846,753
HBOR Long-Term Loan DT-10/16 – for the completion of renovation of part of Hotel Katarina; a pledge over properties has been created, specifically over Hotel Omorika and Hotel Katarina.
DT 10/16 Loan amount as at 31 December 2018 = HRK 9,234,047
PBZ's long-term loan 5110217867 – for the renovation of part of Hotel Katarina and Hotel Esplanade and to purchase the receivables of Veneto banka d.d. and create a pledge over properties, namely Hotel Ad Turres, Hotel Esplanade and Hotel Slaven.
5110217867 Loan amount as at 31 December 2018 = HRK 51,038,035.
Loans received from Erste & Steiermärkische d.d. are secured by a pledge over properties registered in Land Registry File No. 2485, Cadastral Plot No. 2988/69, being Baško Polje Resort Forest having a total surface area of 283,143 m2, registered in the Cadastral Municipality of Bast-Baška voda. On 10 October 2014, a pre- bankruptcy settlement proceeding was brought against the Company and the non-current liabilities to banks thus became due and payable and were reclassified as current liabilities.

As at 31 December 2018, the carrying amount of the properties (the Omorika, Ad Turres, Esplanade, Slaven and Katarina hotels and Baško Polje Forest) over which the pledge was created totaled = HRK 377,400,334.

As at 31 December 2018, the total amount of tangible assets 100% depreciated and still used totaled = HRK 38,631,082.

17. INTANGIBLE ASSETS

Company

Description	Licenses, software and other rights	Intangible investments in progress	Total
COST			
Balance at 31 December 2016	**1,832,974**	**9,385**	**1,842,359**
Direct asset additions	16,663	(9,385)	7,278
Retirement and disposal	(12,684)	0	(12,684)
Balance at 31 December 2017	**1,836,952**	**0**	**1,836,952**
Direct asset additions	50,542	0	50,542
Retirement and disposals	(196,958)	0	(196,958)
Balance at 31 December 2018	**1,690,536**	**0**	**1,690,536**
VALUE ADJUSTMENT			
Balance at 31 December 2015	**1,420,035**	**0**	**1,420,035**
Amortisation	114,805	0	114,805
Retirement and disposal	(1,856)	0	(1,856)
Balance at 31 December 2016	**1,532,984**	**0**	**1,532,984**
Amortisation	119,730	0	119,730
Retirement and disposal	(12,481)	0	(12,481)
Balance at 31 December 2017	**1,640,232**	**0**	**1,640,232**
Amortisation	90,858	0	90,858
Retirement and disposals	(167,513)	0	(167,513)
Balance at 31 December 2018	**1,563,577**	0	**1,563,577**

NET BOOK AMOUNT			
31 December 2016	**299,990**	**9,385**	**309,375**
31 December 2017	**196,720**	**0**	**196,720**
31 December 2018	**126,959**	**0**	**126,959**

17. INTANGIBLE ASSETS (CONTINUED)

Group

Description	Licenses, software and other rights	Intangible investments in progress	Total
COST			
Balance as at 31 December 2016	**1,832,974**	**9,385**	**1,842,359**
Direct asset additions	16,663	(9,385)	7,278
Retirement and disposal	(12,684)	0	(12,684)
Balance as at 31 December 2017	**1,836,952**	**0**	**1,836,952**
Direct asset additions	50,542	0	50,542
Retirement and disposal	(196,958)	0	(196,958)
Acquired CA	2,518,343	-	2,518,343
Balance at 31 December 2018	**4,208,880**	**-**	**4,208,880**
VALUE ADJUSTMENT			
Balance at 31 December 2016	**1,532,984**	**0**	**1,532,984**
Amortisation	119,730	0	119,730
Retirement and disposal	(12,481)	0	(12,481)
Balance at 31 December 2017	**1,640,232**	**0**	**1,640,232**
Amortisation	90,858	0	90,858
Retirement and disposal	(167,513)	0	(167,513)
Acquired CA	2,518,343	-	2,518,343
Balance at 31 December 2018	**(954,765)**	**-**	**(954,765)**

NET BOOK AMOUNT			
31 December 2016	**299,990**	**9,385**	**309,375**
31 December 2017	**196,720**	**0**	**196,720**
31 December 2018	**126,959**	**0**	**126,959**

18. NON-CURRENT FINANCIAL ASSETS

	Company			Group		
	1 Jan. 2017 Disclosed	**31 Dec. 2017 Restated**	**31 Dec 2018**	**1 Jan. 2017 Disclosed**	**31 Dec. 2017 Restated**	**31 Dec 2018**
Hoteli Novi d.d. in bankruptcy	4,384,800	4,384,800	4,384,800	4,384,800	4,384,800	4,384,800
Iimpairment of shares	(4,384,800)	(4,384,800)	(4,384,800)	(4,384,800)	(4,384,800)	(4,384,800)
Receivables from Jadran usluge	4,650,000	4,650,000	2,979,663	4,650,000	4,650,000	2,979,663
Impairment of purchased receivables – Jadran usluge /i/	(1,437,760)	(2,802,962)	(2,979,663)	(1,437,760)	(2,802,962)	(2,979,663)
TOTAL	**3,212,240**	**1,847,038**	**-**	**3,212,240**	**1,847,038**	**-**

/i/ In 2018, the Management Board impaired a receivable purchased as a correction of a prior period error in 2017, up to the planned amount of settlement in the bankruptcy proceeding. An impairment was made in the amount of HRK 1,365,202 and, after HRK 1,670,337 was collected in 2018, the remaining amount of HRK 176,701 was transferred to cost for the period.

19. INVESTMENTS IN CLUB ADRIATIC

On 6 November 2018, the Restructuring and Sale Center rendered the Decision on Acceptance of the Binding Offer made by Jadran d.d. for the acquisition of three shares in CLUB ADRIATIC d.o.o., Zagreb, having a total nominal value of HRK 120,947,000 which accounts for 100% of the share capital, for a purchase price of HRK 50,500,000. The CLUB ADRIATIC d.o.o. Share Sale and Transfer Agreement was signed on 19 November 2018. Jadran d.d. paid HRK 50.5 million on 19 December 2018 and thus acquired control of Club Adriatic d.o.o.

CLUB ADRIATIC d.o.o., having its registered office at Savska cesta 41/V, Zagreb, Company ID. No.: 44661735229, performs the following principal activities: provision of services in nautical, rural, medical, hunting, conference and other forms of tourism, provision of other tourism services, sport facility management, sport recreation and organization of sporting and cultural events, preparation of food and provision of food services, preparation and serving of drinks and beverages, provision of accommodation services, preparation of food to be consumed elsewhere (in vehicles, at events, etc.) and supply of that food (catering), etc.

The Company operates a hotel and a camp at Baško polje. Hotel Alem has 99 double rooms and 9 double suites and the annexes have 198 more double rooms. Baško Polje Camp, classified as 3 stars, has 600 pitches, 17 bungalows and 16 mobile homes.
Club Adriatic d.o.o. is undergoing a pre-bankruptcy settlement procedure, which was brought against it on 10 October 2014.
Jadran d.d. signed settlement agreements to purchase the debts owed by Club Adriatic d.o.o. to its creditors, whereby it undertook to pay the debt to such creditors as part of the pre-bankruptcy settlement agreement. By 31 December 2018, having signed the settlement agreements, Jadran d.d. purchase HRK 18,109,205 of debt. This amount was adjusted to HRK 12,899,977 (Note 20).

19. INVESTMENTS IN CLUB ADRIATIC (CONTINUED)

On 19 December 2018, Jadran d.d. signed an agreement regulating mutual relations resulting from investments in Club Adriatic d.o.o. with Prosperus-Invest d.o.o., which defines that Prosperus is required to participate in the increase of share capital of Club Adriatic d.o.o. by paying a cash contribution of HRK 57,104,500, after which Prosperus- Invest will transfer the share thus acquired to Jadran d.d. for a consideration of HRK 67,104,500. The execution of this Agreement allowed Jadran d.d. to recognize in its accounts a difference of HRK 10 million relating to the investment in a subsidiary and its liability to Prosperus.

20. INVENTORIES

	Company		Group	
	31 Dec. 2017	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**
Raw materials and supplies in storage	448,206	429,856	448,206	886,445
Cost – low value items, tires in use	11,952,343	10,349,518	11,952,343	15,518,767
Impairment of low value items and tires	(11,952,343)	(10,349,518)	(11,952,343)	(12,885,834)
Trade goods	13,461	22,614	13,461	22,614
TOTAL	**461,667**	**452,470**	**461,667**	**3,541,992**

21. TRADE RECEIVABLES

	Company		Group	
	31 Dec. 2017	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**
Trade receivables - domestic	1.318.010	1.561.366	1.318.010	4.609.478
Trade receivables - foreign /ii/	419,434	979,987	419,434	1,282,261
Impairment of foreign trade receivables /ii/	(1,078,790)	(1,154,035)	(1,078,790)	(4,274,946)
Receivables from related parties	-	18,109,205	-	-
Impairment of trade receivables from related parties	-	(12,899,977)	-	-
TOTAL	**658,654**	**6,596,546**	**658,654**	**1,616,792**

/i/ The amounts due from the related party Club Adriatic d.o.o. is a result of purchasing claims as part of the pre-bankruptcy settlement process of Club Adriatic in 2018.
/ii/ The carrying amount of foreign trade receivables was translated from euros (EUR).

21. TRADE RECEIVABLES (CONTINUED)

Maturity structure of total trade receivables:

	Company		Group	
	31 Dec. 2017	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**
Not past due	184,551	338,022	184,551	338,022
Up to 30 days	268,131	5,276,544	268,131	67,316
31-60 days	22,218	215,369	22,218	215,369
61-90 days	25,030	288,221	25,030	288,221
91-180 days	52,239	265,245	52,239	265,245
181-365 days	66,372	103,098	66,372	103,098
365 days and more	40,112	110,047	40,112	339,521
TOTAL	**658,654**	**6,596,546**	**658,654**	**1,616,792**

Changes in adjustments for impairments were as follows:

	Company		Group	
	31 Dec. 2017	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**
Balance at 1 January	**(1,887,187)**	**(1,078,789)**	**(1,887,187)**	**(1,078,789)**
Impairment of receivables	(102,572)	(13,196,367)	(102,572)	(296,390)
Write-off of previously impaired receivables	574,442	221,144	574,442	221,144
Acquired – merger of Club Adriatic d.o.o.	-	-	-	(3,120,911)
Balance at 31 December	**(1,078,789)**	**(14,054,012)**	**(1,078,789)**	**(4,274,946)**

Management impairs doubtful and bad debts by reviewing the overall maturity structure of all receivables and significant individual amounts included in receivables.

22. OTHER RECEIVABLES

	Company		Group	
	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018
Suspense accounts for services accounted for	1,239,629	1,209,945	1,239,629	1,209,945
Recognized lessees' investments /ii/	953,137	596,278	953,137	596,278
Banking charges for loans	461,580	401,491	461,580	401,491
Receivables for advances given	181,573	401,157	181,573	416,744
Prepayments – heating fuel	213,621	194,376	213,621	194,376
Other costs	239,351	173,888	239,351	1,017,320
TOTAL	**3,288,891**	**2,977,135**	**3,288,891**	**3,836,154**

/i/ Investment made by the lessee Mediteran kamp of HRK 419,468, investment made by the lessee Fit for Life of HRK 171,078, investment made by the lessee Panis of HRK 5,732. These investments made by lessees are released on an annual basis proportionate to the number of years of the lease term.

23. CASH AND CASH EQUIVALENTS

	Company		Group	
	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018
Bank balances - domestic currency	626,133	112,355,773	626,133	112,593,747
Bank balances - foreign currency /i/	2,022,258	13,141,226	2,022,258	21,129,611
Cash on hand	4,079	5,165	4,079	19,891
TOTAL	**2,652,470**	**125,502,164**	**2,652,470**	**133,743,250**

/i/ The carrying amount of cash in banks in foreign currencies was translated from euro (EUR).

24. SUBSCRIBED CAPITAL AND RESERVES

The Company's share capital is HRK 482,507,730 and is divided into 27,971,463 ordinary shares with no nominal value, issued under ticker symbol JDRN-R-B. The Company's ID No. is 56994999963 and its Reg. No. (MBS) is 040000817. The share capital represents the Company's own sources of assets for its operating purposes.

In 2018, new majority shareholders of the Company increased the share capital. The share capital was first decreased by HRK 208,809,600 to HRK 282,507,090, which created reserves. The Company's share capital was then increased by HRK 200,000,640, whereby the share capital was increased to HRK 482,507,730.

On 24 August 2018, the General Meeting of Jadran d.d. passed its Resolution on ordinary decrease of share capital Capital ("Share Capital Decrease Resolution") and its Resolution on ordinary increase of share capital by cash contributions ("Share Capital Increase Resolution").

The Company's share capital was decreased from HRK 491,316,690 by HRK 208,809,600 to HRK 282,507,090 as a result of transferring the proceeds of the capital decrease to the Company's reserves. After such share capital decrease, the value of one share was less than the minimum allowable amount defined in Article 163(2) of the Companies Act, after which the three common shares were combined into a single one in accordance with Article 342(4) of the Companies Act.

After such ordinary share capital decrease by share combination, the new share capital is HRK 282,507,090, divided into 16,377,223 ordinary dematerialized shares with no nominal value. The Company's share capital decrease was registered in the Court Registry of the Commercial Court in Rijeka on 30 August 2018.

Pursuant to the Share Capital Increase Resolution, the share capital was increased by a cash contribution. The Issuer's General Meeting determined the price of the New Shares to be HRK 17.25 per New Share. According to the General Meeting's Share Capital Increase Resolution, up to 16,390,360 New Shares were issued at a price of HRK 17.25, whereby the Issuer's share capital was increased from HRK 282,507,090 by up to HRK 282,733,710 to no more than HRK 565,240,800. As required, the share capital increase in share capital based on the commitment made was registered in the Court Registry of the Commercial Court in Rijeka on 3 October 2018.
Individual major shareholders are PBZ CO OMF – KATEGORIJA B which holds 57.19% of shares and ERSTE PLAVI OMF KATEGORIJE B which holds 30.56% of Company's shares.

24. SUBSCRIBED CAPITAL AND RESERVES (CONTINUED)

Table 1: Shareholdings as at 31 Dec 2018

Investor	Balance	[%]
ADDIKO BANK D.D./PBZ CO OMF - CATEGORY B (1/1)- Custodial account	15,995,780	57.19
OTP BANKA d.d. /ERSTE PLAVI OMF- CATEGORY B- Custodial account	8,547,346	30.56
RESTRUCTURING AND SALE CENTER - CERP (0/1) REPUBLIC OF CROATIA (1/1) ZS	830,820	2.97
HRVATSKE VODE, WATER MANAGEMENT CORPORATION (1/1)	208,292	0.74
TOWN OF CRIKVENICA (1/1)	184,056	0.66
OTP BANKA D.D./ERSTE PLAVI EXPERT - VOLUNTARY PENSION FUND (1/1)- Custodial account	174,249	0.62
OTHER SHAREHOLDERS	2,030,920	7.26
Total:	**27,971,463**	**100**

25. PROVISIONS

Company and Group	31 Dec. 2017 Restated	31 Dec. 2018
Provisions for termination benefits	168,844	199,080
Provisions for jubilee awards	269,698	283,334
Provisions for court disputes	446,490	-
TOTAL	**885,032**	**482,414**

/i/ The liabilities under the Bankruptcy Plan of HRK 61,720 relate to liabilities to secured creditors of the 2nd rank = HRK 31,224 and liabilities intended to be included in the share capital of HRK 30,496. The Bankruptcy Plan does not infringe on secured creditors' right to be paid from items subject to separate satisfaction.

Trends of provisions over years:

Company and Group	Court disputes	Termination benefits	Jubilee awards	Total
As at 31 December 2016	**446,490**	**162,109**	**230,814**	**839,413**
Additional provisions based on estimate	-	6,735	38,884	45,619
As at 31 December 2017	**446,490**	**168,844**	**269,698**	**885,032**
Additional provisions based on estimate	-	30,236	13,636	43,872
Reversal of provisions	446,490	-	-	446,490
As at 31 December 2018	**0**	**199,080**	**283,334**	**482,414**

26. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	Company		Group	
	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018
Loan agreement – Croatia osiguranje/i/	5,734,192	-	5,734,192	-
Secured creditor – Croatia osiguranje	-	3,436,816	-	3,436,816
Interest in currency	111,689	112,854	111,689	3,265,124
Long-term loans-HBOR-DT-6/15 /ii/	4,809,711	3,391,579	4,809,711	3,391,579
Long-term loans-HBOR-DT-1/16 /iii/	17,122,135	15,846,753	17,122,135	15,846,753
Long-term loans-HBOR-DT-10/16 /iv/	9,977,224	9,234,047	9,977,224	9,234,047
Long-term loan-PBZ – 2016 – 5110217867 /v/	51,547,674	51,038,035	51,547,674	51,038,035
Short-term loan – CERP	-	-	-	1,493,067
Short-term loan – R POLIS d.o.o.	-	-	-	71,502
Short-term loan – Hrvatske vode	-	-	-	152,384
Short-term loan – Erste 1	-	-	-	16,530,596
Short-term loan – Erste 2	-	-	-	8,010,981
Short-term loan – Erste 3	-	-	-	3,679,117
Finance lease	86,612	76,561	86,612	94,364
TOTAL LIABILITIES	**89,389,237**	**83,136,645**	**89,389.237**	**116,244,365**
Current maturities of long-term loans in the current year	(4,331,841)	(4,700,740)	(4,331,841)	(31,360,850)
Current maturities under finance leases in the current year	(10,051)	(10,573)	(10,051)	(28,376)
Interest in currency	(111,689)	(112,854)	(111,689)	(7,625,471)
Liabilities to Croatia osiguranje – secured	-	(3,436,816)	-	(3,436,816)
CURRENT LIABILITIES	**(4,453,581)**	**(8,260,983)**	**(4,453,581)**	**(41,368,702)**
NON-CURRENT LIABILITIES	**84,935,656**	**74,875,663**	**84,935,656**	**74,875,663**

26. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

A summary of long-term loans denominated in foreign currencies is presented below:

	Company		**Group**	
	31 Dec. 2017	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**
EUR	83,655,045	79,699,829	83,655,045	107,938,326

/i/ In 2015, the Agreement to Pay Obligations under Loan Agreement No. 1004107 was entered into with Croatia osiguranje d.d., a secured creditor, which was not disputed in the Bankruptcy Plan. The Agreement was entered into for a term of 7 years, with 10% default interest on the principal amount. The Agreement was fully performed in 2018.

/ii/ In 2015, the Company entered with the Croatian Bank for Reconstruction and Development into a long-term loan agreement for HRK 7 million, repayable over 5 years, 1-year grace period, 3% interest rate, for the renovation of facilities and upgrading of Hotel Omorika and Selce Auto-Camp.

/iii/ In 2016, the Company entered with Croatian Bank for Reconstruction and Development into a long-term loan agreement for HRK 17,400,000, repayable over 8 years, 1-year and 10 months grace period, 3% interest rate, for the renovation of facilities and upgrading of Hotel Omorika and Hotel Varaždin (Katarina).

/iv/ In 2016, the Company entered with Croatian Bank for Reconstruction and Development into a long-term loan agreement for HRK 10 million, repayable over 8 years, 1-year and 3 months grace period, 3% interest rate, for the renovation of facilities and upgrading of Hotel Varaždin (Katarina).

/v/ In 2016, the Company entered with Privredna banka Zagreb d.d. into a long-term loan agreement for EUR 7,400,000, repayable over 6 years, 1-year and 6 months grace period, 2.6% interest rate, for the renovation of facilities and upgrading of Hotel Varaždin (Katarina) and Hotel Esplanade and to purchase the receivables from Veneto banka d.d.. This Agreement was entered into in December of 2016 and the loan was drawn down in full by 31 December 2018 in the amount of HRK 51,035,035 (equivalence of EUR 6,880,690); the loan drawdown period was extended to 30 June 2019 (the loan amount outstanding at 18 April is EUR 519,310).

Liabilities to banks and other financial institutions acquired through the acquisition of Club Adriatic d.o.o.:

Borrower	Agreement no.	Execution date of Agreement	Agreed amount	Interest rate
Erste&Steiermaerkische bank d.d.	5105521186	21 Dec. 2010	EUR 2,400,000	EURIBOR+5.7%
Erste&Steiermaerkische bank d.d.	5107162040	14 May 2012	EUR 1,200,000	EURIBOR+5.7%
Erste&Steiermaerkische bank d.d.	5108861830	26 July 2013	EUR 496,000	EURIBOR+5.7%

All loans became immediately due and payable after the pre-bankruptcy settlement agreement was entered into.

27. OTHER NON-CURRENT LIABILITIES

	Company		Group	
	31 Dec. 2017 Restated	31 Dec. 2018	31 Dec. 2017 Restated	31 Dec. 2018
Bankruptcy Plan /i/	9,130,450	61,720	9,130,450	61,720
Lessee's investment /ii/	419,468	209,734	419,468	209,734
TOTAL	**9,549,918**	**271,454**	**9,549,918**	**271,454**

/i/ The liabilities under the Bankruptcy Plan of HRK 61,720 relate to liabilities to secured creditors of the 2nd rank = HRK 31,224 and liabilities intended to be included in the share capital of HRK 30,496. The Bankruptcy Plan does not infringe on secured creditors' right to be paid from items subject to separate satisfaction.
/ii/ Liabilities for investments credited to lessee Mediteran Kamp d.o.o.

28. TRADE PAYABLES

	Company		Group	
	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018
Domestic trade payables	9,725,604	9,629,243	9,725,604	14,142,198
Foreign trade payables	41,856	63,337	41,856	63,337
Trade payables – default interest	-	-	-	6,330,737
TOTAL	**9,767,460**	**9,692,580**	**9,767,460**	**20,536,272**

29. LIABILITIES FOR PREPAYMENTS, DEPOSITS AND GUARANTEES

	Company		Group	
	31 De. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018
Advances received /i/	3.675.372	3,084,303	3,675,372	3,533,122
Deposits and down payments	500,946	548,861	500,946	548,861
TOTAL	**4,176,318**	**3,633,165**	**4,176,318**	**4,081,983**

/i/ The liabilities for advances received mainly relate to Katarina line d.o.o., Opatija, in the amount of HRK 1,160,667 (countervalue of EUR 156,475.22) and Adria Mare Travel Agency j.d.o.o. in the amount of HRK 652,747 (countervalue of EUR 88,000).

30. LIABILITIES TO EMPLOYEES

	Company		Group	
	31 Dec. 2017	31 De. 2018	31 Dc 2017	31 Dec. 2018
Net salaries payable	1,235,661	1,561,737	1,235,661	1,908,762
Unused vacation days	460,758	986,167	460,758	986,167
Liabilities to employees – redistribution of working hours	338,292	146,860	338,292	146,860
Other liabilities to employees	61,737	130,797	61,737	23,643,409
TOTAL	**2,096,448**	**2,825,561**	**2,096,448**	**26,685,199**

/i/ Other liabilities of the Company to its employees include liabilities for employees transportation to work in the amount of HRK 33,146, liabilities for medical examinations in the amount of HRK 312, liabilities for aid to employees in the amount of HRK 8,000 and liabilities for termination benefs of HRK 89,339.
/i/ Other liabilities of eh op it's to employees include liabilities for employees transportation to work in the amount of HRK 44,653, liabilities for medical examinations in the amount of HRK 312, liabilities for aid to employees in the amount of HRK 15,567, liabilities for net salary garnishment of HRK 12,081, liabilities for unpaid salaries in previous years of HRK 23,383,519 and other liabilities of HRK 5,200.

31. LIABILITIES TO THE GOVERNMENT

	Company		Group	
	31/12/2017	31/12/2018	31/12/2017	31/12/2018
Contributions from and on salaries	614,289	857,537	614,289	5,604,918
Personal income tax and surtax	92,119	293,000	92,119	307,302
Other liabilities to the government	255.,020	282,022	255,020	282,022
TOTAL	**961,428**	**1,432,559**	**961,428**	**6,194,242**

32. OTHER CURRENT LIABILITIES

	Company		**Group**	
	31. 2017	**31 ec. 2018**	**31 De. 2017**	**31 Dec. 2018**
Other liabilities-interest due to secured creditors /ii/	1,069,021	2,203,489	1,069,021	2,203,489
Accrual of received capital aid /i/	879,954	871,021	879,954	871,021
Deferred income	175,791	494,571	175,791	494,571
Fees based on temporary service agreements	23,852	113,745	23,852	113,745
Scholarships	3,500	4,800	3,500	4,800
Other liabilities – unpaid to bankruptcy creditors	6,695	6,695	6,695	6,695
Other liabilities – investment in Camp Selce to be settled	209,734	209,734	209,734	209,734
Liabilities – HOC Bjelolasica /iii/	-	-	-	10,245,992
Court judgments	-	-	-	28,166
TOTAL	**2,368,547**	**3,904,055**	**2,368,547**	**14,178,213**

/i/ The capital aid of HRK 871,021 remitted by the Energy Efficiency and Environmental Protection Fund relate to the reconstruction of the heating system at Hotel Katarina in 2016 and are prorated to revenue on an annual basis.
/ii/ Interest due to secured creditors of HRK 2,203,489 relate to accrued interest to be paid to secured creditors/former employees of Jadran under the settlement agreements entered into with employees.
/iii/ The liabilities to HOC Bjelolasica stated in the alance sheet as at 31 December 2018 in the amount of HRK 10,245,992 relate to obligations arising from the Management and Profit Transger Agreement entered into on 18 November 2011 between the Group and HOC Bjelolasica d.o.o. These Group's liabilities, i.e. the debt owed to HOC Bjelolasica, were reported in the pre-bankruptcy settlement proceeding of Club Adriatic d.o.o.

33. CONTINGENT LIABILITIES

After the bankruptcy proceedings were completed in 2014, the Company continued to conduct all court disputes initiated at the time of bankruptcy, as well as those the Company did not manage to resolve during the bankruptcy period. Most legal actions related to claims brought by employees for failure to pay wages owed since before the year 2000. At the time the bankruptcy proceedinsg were initiated, 565 creditors notified the bankruptcy administrator that they were also secured creditors of the debtor in bankruptcy and that they held registered mortgages over Company's assets at the time the bankruptcy proceedings were opened. In the course of the bankruptcy proceedings, agreements for the release of mortgages were reached with most creditors however 99 creditors with registered mortgages over Company assets remained on completion of the bankruptcy proceeding. The bankruptcy administrator brought 22 legal actions against these creditors to challenge their right to separate satisfaction against Company assets. The Company was not successful in these disputes – in 2017 and 2018 the Company entered into out-of-court settlement agreements for amicable resolution of mutual disputes. These settlement agreements were entered into with all former employees who agreed to withdraw their legal actions and release the mortgages after their claims are paid, which the Company committed to pay in 12 equal installments. The last of these installments becomes due and payable in September of 2019.

In addition to these proceedings, the Company is a party to 32 court proceedings intended to establish title and resolve proprietary issues. These proprietary issues are a result of poorly executed transformation of the Company and deficiencies in the Property Statement Decree relating to the properties acquired by the Company in the transformation process.

As regards other court proceedings, the Company is a party to proceedings for the restitution of and compensation for property seized and enforcement proceedings to collect debt owed to it by third parties.

34. RELATED PARTY TRANSACTIONS

In 2017, the Company was controlled by the Republic of Croatia. Transactions conducted with companies and institutions owned by the Republic of Croatia are not material and are conducted on an arm's length basis.

On 6 April 2018, the Sale and Transfer Agreement was signed for 70.74% of the shares of JADRAN d.d. Crikvenica. The Agreement was signed by the Restructuring and Sale Center (CERP) as the seller and PBZ CROATIA OSIGURANJE mirovinski fondovi and ERSTE d.o.o. mirovinski fondovi as the transferees.

On 6 November 2018, the Restructuring and Sale Center took its Decision to Accept a Binding Offer made by Jadran d.d. for the acquisition of three shares in Club Adriatic d.o.o., Zagreb, having a total nominal value of HRK 120,947,000 which accounts for 100% of the share capital, for a purchase price of HRK 50,500,000.
The Club Adriatic d.o.o. Share Sale and Transfer Agreement was signed on 19 November 2018.

35. FUTURE COMMITMENTS

a) Operating lease commitments

The Company has assumed commitments under operating leases for two passenger cars, which expire in October of 2019.

	Company		Group	
	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018
Current year expense	65,178	65,344	65,178	65,344
TOTAL	**65,178**	**65,344**	**65,178**	**65,344**

36. EVENTS AFTER THE BALANCE SHEET DATE

No business events or transactions that may have a material impact on the financial statements as at or for the period ended 31 December 2018 or having such relevance to the Company's or Group's business that they should be disclosed in the notes to financial statements have occurred or are expected to occur.

37. CHANGES IN LIABILITIES RESULTING FROM FINANCIAL ACTIVITIES

The table below presents changes to liabilities resulting from financial activities.

	Company	Group
	Liabilities to financial institutions	Liabilities to financial institutions
As at 31 December 2017	89,389,237	89,389,237
Principal amount repayment	(10,008,957)	(10,008,957)
Principal amount received	2,649,422	2,649,422
Interest	(2,622,443)	(2,622,443)
Translation differences	1,067,110	1,067,110
Acquired – Club Adriatic d.o.o.	-	48,271,066
Other non-cash movements	2,662,277	2,662,277
As at 31 December 2018	83,136,646	132,082,178

38. FEES DUE TO AUDITORS

In 2018, the auditors of Company's and Group's financial statements provided services worth HRK 178 thousand (2017: HRK 223 thousand) for the Company and HRK 324 thousand for the Group (2017: HRK 432 thousand). The services provided in 2017 and 2018 relate to audits of financial statements.

39. ACQUISITION OF CLUB ADRIATIC D.O.O.

On 19 December 2018, the Company acquired 100% shares in Club Adriatic d.o.o. The acquisition and consolidation entered into effect on 31 December 2018. The acquisition effects are detailed in the tables below:

Transferred consideration	
-paid to CERP in cash	50,500,000
-deferred consideration (Prosperus)	10,000,000
	60,500,000

The deferred consideration relates to a payment obligation to Prosperus Invest d.o.o. for the transfer of rights and obligations in connection with the pre-bankruptcy settlement proceeding of Club Adriatic d.o.o. The consideration is planned to be paid in 2019, which is why the deferred consideration is presented in the financial statements in its undiscounted amount.

Fair value of assets and liabilities recognized as a result of acquisition:	
Property, plant and equipment	200,382,540
Cash and cash equivalents	8,241,086
Trade receivables	229,474
Inventories	3,089,522
Deferred tax assets	-
Other assets	928,992
Liabilities for loans	(48,271,066)
Trade payables	(13,789,551)
Liabilities for prepayments, deposits and guarantees	(448,819)
Liabilities to employees	(23,859,638)
Liabilities to the government	(4,761,683)
Other current liabilities	(10,274,158)
Fair value of net assets acquired:	111,466,700
Bargain purchase resulting from acquisition	**(50,966,700)**

39. ACQUISITION OF CLUB ADRIATIC D.O.O. (CONTINUED)

Gains from bargain purchase resulted from the difference between the transferred consideration for the acquisition of Club Adriatic d.o.o. and the fair value of the net asset as at the acquisition date. The acquisition resulted in gains on bargain purchase due to the anticipated positive impact of the completion of Club Adriatic d.o.o.'s pre-bankruptcy settlement proceedings in 2019. Negative goodwill is not presented in separate Company statements, but on a consolidated basis.