JADRAN d.d.

Bana Jelačića 16, Crikvenica

ANNUAL REPORT FOR THE GROUP FOR 2019

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Independent auditor's report

To the Shareholders of Jadran d.d.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Jadran d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 29.6.2020.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the 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 opinion.

Independence

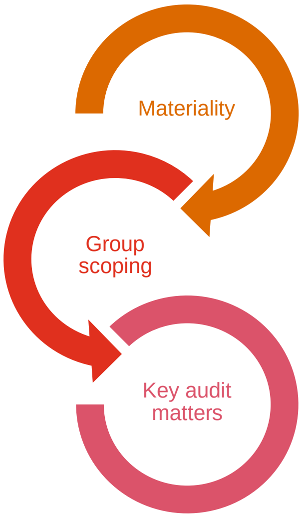
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, in the period from 1 January 2019 to 31 December 2019, are disclosed in note 38 to the consolidated financial statements.

Our audit approach

Overview



- Overall materiality for the financial statements of the Group as a whole: HRK 3,520 thousand, which represents 3% of total revenues.

- Our audit scope addressed 100% of the Group's revenues and 100% of the Group's absolute value of underlying profit.

- Useful life of fixed assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the 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 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 consolidated financial statements as a whole.

Overall Company [Group] materiality	The Group: HRK 3,520 thousand
How we determined it	The Group: 3 % of total revenues
Rationale for the materiality benchmark applied	We chose total revenue as the benchmark because the Group is in a restructuring phase with emphasis on growth, and this is an indicator against the success of the Group's operation is measeured, 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Useful life of fixed asset *See Note 17 to the separate financial statements under the heading "Property, plant and equipment" and note 2.26 under the heading "Correction of errors in prior period financial statements".* As described in Note 2.26 to the separate financial statements, the Group restated accumulated depreciation of buildings and properties in the amount of HRK 104,985 thousand by reducing the value of fixed assets as of 1 January 2018. To support this restatement, the Group re-calculated historical depreciation based on the expected useful life of each individual component of buildings and property. We focused on this area due to the frequency of adaptation and reconstruction of fixed assets and their significance to the financial statements as well as the fact that Group management used judgement and assumptions to identify and assess individual components of buildings and properties.	To support the calculation of the restatement, management prepared a calculation including detailed breakdown of significant components by individual building and property, and we reconciled the related amounts with the general ledger and fixed asset register as at 1 January 2018. To verify the accuracy of the restatement calculation, on a sample basis, we agreed the input data used in the model to the historical financial statements, including opening balances and significant additions and disposals. We reviewed the assumptions used in the model (identification of significant components and their useful lives) by comparing them to assessments performed by independent experts engaged by management. We also checked the reasonableness of assumptions used by comparing the relative sizes of significant components of buildings within similar types of objects. To assess the reasonableness of the useful lives of the significant components, we held discussions with the management to gain an understanding of assumptions used in determining useful life and their business plans in terms of future adaptions and reconstruction of buildings. On a sample basis, we also recalculated the depreciation for years 2018 and 2019 of selected fixed assets and their components. In respect to the restatement of accumulated depreciation and depreciation for the years presented, we verified the completeness and appropriateness of the disclosures in the notes to the consolidated financial statements.

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.

Reporting on other information including the Management Report

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

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 is prepared in accordance with the requirements of Article 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 consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

If based on the work we have performed on the other information that we obtained prior to the date of this auditor's report and in light of the knowledge and understanding of the Group and their environment obtained in the course of the audit, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the 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 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 Group on 28 September 2018. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 26 August 2019, representing a total period of uninterrupted engagement appointment of 2 years.

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

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
17 July 2020

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 "Group") is responsible for ensuring that annual separate and consolidated financial statements for each financial year are prepared 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 and operating results of Jadran d.d. and its subsidiaries (the Group). The Management Board has a reasonable expectation that the Group has 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 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 financial 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 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 and the Management Report. 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 annual report were authorised for issue by the Management Board on 17 July 2020.

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
FINANCIAL STATEMENTS
FOR 2019

	Note	2018 restated	2019
Revenue	6	86,480,407	117,301,269
Other income	7	5,172,327	22,997,027
Bargain purchase gains	2.26	50,966,700	-
Total operating revenue		**142,619,434**	**140,298,296**
Cost of goods sold		(230,021)	(187,438)
Costs of raw materials and supplies	8	(19,528,379)	(24,624,613)
Costs of services	9	(20,353,095)	(28,158,675)
Staff costs	10	(33,855,355)	(45,060,479)
Depreciation and amortisation	17,18	(12,982,962)	(19,481,192)
Net losses on impairment of financial assets	11	(318,338)	(2,643,730)
Other net gains	12	-	(1,586,043)
Other operating expenses	13	(6,672,685)	(14,162,371)
Total operating expenses		**(93,940,835)**	**(135,904,541)**
Operating profit/(loss)		**48,678,599**	**4,393,755**
Finance income	14	1,760,236	607,410
Finance costs	14	(3,288,489)	(3,890,099)
Net loss from financing activities		**(1,528,251)**	**(3,282,689)**
Profit before tax		**47,150,348**	**1,111,066**
Income tax	15	-	(3,198,974)
Net profit / loss		**47,150,348**	**(2,087,908)**
Other comprehensive income		-	-
Total other comprehensive income		**-**	**-**
Earnings / (loss) per share	14	1,69	(0.07)

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

	Note	1 January 2018 restated	31 December 2019 restated	31 December 2019
Assets				
Non-current assets				
Goodwill	39	-	-	1,316,765
Property, plant and equipment	17	524,130,781	718,209,007	832,772,599
Intangible assets	18	196,720	126,959	255,333
Financial assets	19	1,847,038	-	-
Other non-current assets		-	9,530	9,530
Right-of-use assets	35	-	-	16,059,093
Deferred tax assets	15	334,471	334,471	-
Total non-current assets		**526,509,010**	**718,679,967**	**850,413,320**
Current assets				
Inventories	20	461,667	3,541,992	542,543
Trade receivables	21	658,654	1,616,792	4,426,268
Receivables from the government		1,172,009	379,905	977,662
Other receivables	22	3,288,890	3,836,154	69,295,195
Cash and cash equivalents	23	2,652,470	133,743,250	23,256,989
Total current assets		**8,233,690**	**143,118,093**	**98,498,657**
TOTAL ASSETS		**534,742,700**	**861,798,061**	**948,911,977**

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

	Note	1 January 2018 restated	31 December 2018 restated	31 December 2019
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital		491,316,690	482,507,730	482,507,730
Capital reserve		25,401,322	234,210,922	234,210,922
Retained earnings/(Accumulated loss)		(101,266,217)	(54,115,871)	(56,474,901)
Total capital and reserves	24	**415,451,795**	**662,602,781**	**660,243,751**
Non-current liabilities				
Provisions	25	885,032	482,414	489,419
Liabilities to financial institutions	26	84,935,656	74,875,663	171,956,525
Other non-current liabilities	27	9,549,918	271,454	61,720
Lease liabilities	35	-	-	16,209,899
Total non-current liabilities		**95,370,606**	**75,629,531**	**188,717,563**
Current liabilities				
Trade payables	28	9,767,460	20,536,272	25,394,438
Liabilities for advances, deposits and guarantees	29	4,176,318	4,081,983	6,257,275
Liabilities to employees	30	2,096,448	27,206,336	4,672,347
Liabilities to the government	31	961,428	6,194,242	3,436,291
Liabilities to banks and other financial institutions	26	4,453,581	41,368,703	44,955,627
Derivative financial instruments		-	10,000,000	-
Other current liabilities	32	2,368,547	14,178,213	10,901,549
Lease liabilities	35	-	-	1,134,163
Income tax liability		96,517	-	3,198,973
Total current liabilities		**23,920,299**	**123,565,749**	**99,950,663**
TOTAL CAPITAL AND LIABILITIES		**534,742,700**	**861,798,061**	**948,911,977**

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

	Note	Subscribed capital	Total reserves	Retained earnings/ (Accumulated loss)	Total
Balance at 31 December 2017		**491,316,690**	**25,401,322**	**3,718,511**	**520,436,523**
Loss for the period – Restated (Note 2.26)		-	-	(104,984,728)	(104,984,728)
Total comprehensive income for the year – Restated (Note 2.26)		-	-	(104,984,728)	(104,984,728)
Balance at 1 January 2018 restated		**491,316,690**	**25,401,322**	**(101,266,218)**	**415,451,794**
Share capital decrease and reserves formation	24	(208,809,600)	208,809,600	-	-
Share capital increase	24	200,000,640	-	-	200,000,640
Profit for the period		-	-	47,150,347	47,150,347
Total comprehensive income for the year		-	-	*47,150,347*	*47,150,347*
Balance at 31 December 2018		**482,507,730**	**234,210,922**	**(54,115,871)**	**662,602,781**
Loss for the period	24	-	-	(2,087,908)	(2,087,908)
Total comprehensive income for the year	24	-	-	(2,087,908)	(2,087,908)
Other		-	-	(271,122)	(271,122)
Balance at 31 December 2019		**482,507,730**	**234,210,922**	**(56,474,901)**	**660,243,751**

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

	Note	2018 restated	2019
Cash flow from operating activities			
Profit after tax	15	47,150,348	1,111,067
Depreciation	17,18	12,982,962	19,442,238
Bargain purchase gain	39	(50,966,700)	
Net (profit)/loss from disposal and retirement of non-current assets		195,676	3,434,323
Change in long-term provisions		(402,618)	7,006
Interest income		-	(12,407)
Interest expenses		2,662,277	2,943,854
Net foreign exchange differences		1,067,110	351,249
Net impairment of receivables and other financial assets		495,039	2,643,730
Liabilities written-off			(10,278,409)
Impairment and write-off of non-current assets and small inventory		-	2,930,396
Other net gains/losses		-	174,390
(Increase)/decrease in trade receivables and other receivables		(16,321,567)	(63,681,190)
Decrease in inventories		9,197	816,375
Decrease in trade payables and other liabilities		(6,736,127)	(33,471,394)
Cash flow from operating activities		**(9,864,403)**	**(73,588,772)**
Interest paid		(2,622,443)	(2,641,631)
A. Net cash from operating activities		**(12,486,846)**	**(76,230,403)**
Cash flow from investing activities			
Acquisition consideration less acquired cash		(42,258,914)	-
Purchase of non-current tangible and intangible assets		(6,804,564)	(136,318,724)
Proceeds from sale of non-current tangible and intangible assets		-	145,469
Cash acquired on acquistion of Stolist – net of consideration		-	(875,487)
Interest received		-	12,397
B. Net cash from investment activities		**(49,063,478)**	**(137,036,345)**
Cash flow from financing activities			
Proceeds from issues of shares and other equity securities		200,000,640	-
Proceeds from borrowings		2,649,422	120,266,262
Repayment of borrowings		(9,998,907)	(17,183,706)
Repayment of leases		-	(302,068)
Repayment of finance leases		(10,051)	-
C. Net cash from financing activities		**192,641,104**	**102,780,488**
Net increase/(decrease) in cash		131,090,780	(110,486,260)
Cash and cash equivalents at the beginning of the period	23	2,652,470	133,743,250
Cash and cash equivalents at the end of the period	23	133,743,250	23,256,989

**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 2019, the average number of employees was 323 (2018: 304 employees).

Jadran Group comprises Jadran d.d., Crikvenica, and its subsidiary Club Adriatic d.o.o. and Stolist d.o.o. (the “Group”) 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 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 accounting policies were consistent with those used in the preceding fiscal year, except for accounting policies modified as a result of adopting the new IFRS 16 accounting standard that has been effective as of 1 January 2019.

The Group’s 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 applying 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 estimates and estimation uncertainty

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

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 depreciation of intangible assets and property, plant and equipment, impairment of assets, impairment of inventories, impairment of trade receivables and the disclosure of contingent liabilities.

2.3. Going concern and implementation of the bankruptcy plan

Bankruptcy proceedings were conducted between 2010 and 2014 against the Company. In the course of the bankruptcy proceedings, the Company conducted its business activities and continued to conduct them after its completion. The Commercial Court in Rijeka rendered its Decree No. 14 St-52/2010, which defined that an audit of bankruptcy plan implementation was to be performed and also rendered a Decree in February of 2017 terminating the audit of performance of bankruptcy administrator's, Creditors' Committees' and bankruptcy judge's duties in relation to the bankruptcy plan, which allowed the Company to continue as a going concern. All judicial proceedings brought for the purpose of challenging the bankruptcy plan have been completed.

In 2017 and 2018, the Company proceeded to enter into out-of-court settlements agreement to amicably resolve its disputes with all former employees who committed to withdraw their claims before courts and release the mortgages after their claims are settled, which the Company committed to do in 12 equal installments. The last of these installments became due and payable in September of 2019. The entry into such settlement agreements allowed the Company to continue as a going concern.

In earlier years, the Company invested substantial amounts in reconstructions of properties in its portfolio and in improving the portfolio of the services it provides to its customers. The COVID-19 pandemic halted certain investments planned by the Company and affected its financial performance figures in 2020. Details of the impact of COVID-19 are provided in Note 36.

2.3. Going concern and implementation of the bankruptcy plan (continued)

Aiming to minimize the negative impact of the pandemic on its business, the Group has taken measures to reduce its operating costs to the extent possible and adjust to the new situation. For the purpose of efficiently managing its liquidity, the Group has undertaken certain activities which ensure that it remains liquid all year, irrespective of revenue generated in the ordinary course of business in 2020:

- In June 2020, the Group agreed moratorium on payments with the Croatian Bank for Reconstruction and Development and is in the process of entering into moratorium agreements for loans from Privredna banka Zagreb.
- The Group entered into annexes to lease agreements, whereby it reduced its lease costs in 2020.
- The Group is in the process of arranging additional credit facilities with commercial bank in case it should require short-term liquidity.
- The Group holds sufficient funds in its bank account (HRK 41,166 thousand as of 27 June 2020).
- Depending on its operating revenue in 2020, the Group will undertake additional activities in 2021, such as divestment of certain properties if necessary.

The consolidated financial statements were prepared under the assumption that the Group will continue in business on a going concern basis. As of 31 December 2019, the Group's cumulative losses amounted to HRK 54,886 thousand and its current liabilities exceeded the current assets by HRK 1,455 thousand.

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 Group 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 Group's financial statements or results, their impact is described below:

First-time adoption of new accounting standards

IFRS 16 Leases

IFRS 16, Leases (published on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The Group decided to apply the standard as of its required adoption date, i.e. 1 January 2019, by using a modified retrospective approach, without restating the comparative information and using certain simplifications permitted by the standard. Right-of-use assets are measured at lease liability as of the standard adoption date (adjusted for early repayments or accrued lease cost).

At initial application of IFRS 16, the Group used the following practical expedients permitted by the standard:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on prior assessments of whether leases are onerous as an alternative to impairment testing – there were no onerous leases as of 1 January 2019;
- statement of operating leases with a remaining term of less than 12 months as of 1 January 2019 as short-term leases;
- exclusion of initial direct costs from measuring right-of-use assets as of the initial application date; and
- using new information when determining the lease term if the lease allows for its extension or termination.

The Group also decided not to reassess whether a contract is or contains a lease as of the initial application date. Instead, the Group and the Group relied on their assessment made based on IAS 17 Leases and Interpretations (IFRIC) 4 Determining whether an Arrangement contains a Lease.

On 1 January 2019, the weighted average incremental borrowing rate applied by the Group to lease liabilities was 3.00%.

As at 1 January 2019, the Group has a finance lease that has been reclassified from Property, plant and equipment to right of use assets (Note 16), and there are no other operating leases that should be recognized in accordance with IFRS 16.

The following amended standards have been effective as of 1 January 2019, but did not have a material impact on the Group:

- IFRIC 23 Uncertainty over Income Tax Treatments (published on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)

2.4. Changes in accounting policies and disclosures *(continued)*

- Prepayment features with negative compensation – Amendments to IFRS 9 (published on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 Long-term interests in Associates and Joint Ventures (published on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – Amendments to IFRS 3, IFRS 11, IFRS 12 and IFRS 23 (published on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (published on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

Standards and interpretations not yet adopted

Several new accounting standards and interpretations were published, which were not required for reporting periods ending on 31 December 2019, and which the Group did not adopt early:

- **Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020).** The amended Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.
- **Definition of Material – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020)**. These amendments clarify the definition of material and how it should be applied to include the guidance that was earlier contained elsewhere in IFRS. Furthermore, the explanations accompanying the definition were improved. Finally, the amendments ensure that the definition of material is consistent across IFRSs. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is presently assessing the impact of these amendments on their financial statements.
- **Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (published on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).** These amendments resulted from the replacement of interest rate benchmarks such as LIBOR and other interbank offered rates (IBORs). The amendments allow for temporary relief from applying certain hedge accounting requirements to hedging relationships directly affected by the IBOR reform. According to IFRS 9 and IAS 39, hedge accounting requires that future hedged cash flows be “highly probable”. If such cash flows are dependent upon IBOR, the relief allowed by the amendments requires an entity to assume that the benchmark on which the hedged cash flows are based are not altered as a result of the reform. IAS 39 and IFRS 9 require an estimate of future events to apply hedge accounting. Regardless of the fact that cash flows to which IBOR rates and the rates replacing it are applied are expected to be mostly equal, which reduces any ineffectiveness, this may not be the case any longer as the reform date approaches. According to the amendments, an entity may assume that the benchmark underlying the cash flows of a hedged item, hedging instrument or hedged risk was not affected by the IBOR reform. As a result of the IBOR reform, a hedge may be outside the 80%-125% range mandatory in the context of retrospective testing in accordance with IAS 39. IAS 39 was therefore modified to allow relief from retrospective effectiveness testing by not terminating the hedge during the period of uncertainty caused by IBOR based purely on the fact that retrospective ineffectiveness is outside this range.

2.4. Changes in accounting policies and disclosures (continued)

However, even in such case it would be necessary to satisfy other requirements for applying hedge accounting, including an assessment of anticipated events. In some hedges, the hedged item or hedged risk relates to a component of IBOR not defined by contract. To apply hedge accounting, IFRS 9 and IAS 39 require that the determined risk component be separately identifiable and reliably measurable. According to these amendments, the risk component should be separately identifiable at the beginning of establishing a hedging relationship rather than continuously. In the context of macro hedges, where an entity frequently adjusts its hedging relationship, the relief applies as of the time the hedged item is originally determined as part of such hedging relationship. Any hedge ineffectiveness will continue to be recorded in the income statement under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties, including the nominal amount of the hedging instruments to which such reliefs apply, a description of significant assumptions or judgments made in applying the reliefs, and qualitative disclosures of how the IBOR reform is affecting the entity and how the transition process is being managed. The Group is currently assessing the impact of the amendments to financial statements.

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (published on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by IASB, not yet approved by the European Union).** These amendments address the inconsistency between the requirements of IFRS 10 and requirements of IAS 28 relating to the sale or contribution of assets between an investor and its associate or joint venture. The primary consequence of the amendments is that full gain or loss is recognized if the transaction constitutes a business. Partial gain or loss should be recognized if the transaction includes assets that do not constitute a business, even in case of assets of a subsidiary.
- **IFRS 17 Insurance Contracts (published on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021, not yet approved by the European Union).** IFRS 17 replaces IFRS 4 which allowed companies to continue to recognize their insurance contacts based on the existing practice. This is why investors met with difficulties in comparing the financial performance of otherwise similar insurance companies. IFRS 17 is a standard applying a single principle to the recognition of all types of insurance contracts, including insurers' reinsurance contracts. The standard requires that insurance contract groups be recognized and measured at: (i) the risk adjusted present value of future cash flows (fulfillment cash flows), which includes all available information about the fulfillment cash flows to align it with the available market information; plus (if this value is a liability) or less (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will recognizes profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk. If a group of contracts is or is expected to be onerous, an entity recognizes the loss immediately.

2.4. Changes in accounting policies and disclosures (continued)

- **Definition of a Business – Amendments to IFRS 3 (published on 22 October 2018 and effective for acquisitions that occur on or after annual reporting periods beginning on or after 1 January 2020, not yet approved by the European Union).** These amendments modify the definition of a business. A business must have inputs and a substantive process and the inputs and process must together significantly contribute to creating outputs. The new guidance provides an assessment framework if such inputs and substantive process exist, including companies in early stages of development, which have not yet generated any outputs. In absence of output, an organized workforce should exist for the purposes of being classified as a business. The amendments narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs. In addition, it is no longer necessary to assess if market participants can replace the missing elements or integrate the acquired activities and assets. An entity can apply a 'concentration test'. Where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. These amendments relate to future periods and the Group will apply them and assess their impact as of 1 January 2020.

Unless otherwise stated above, these new standards and interpretations are not expected to materially affect the Group's financial statements.

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	20-59 years
Buildings – buildings made of wood and other materials	20-59 years
Camp infrastructure	20-59 years
Furniture and technological equipment	2-10 years
Vehicles	7 years
Passenger cars	10 years
Office equipment	4-10 years
Caravan equipment	10 years
ICT equipment	5-10 years
Other equipment	2-10 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 Group manages its assets to generate cash flows – regardless whether the Group'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 Group's financial assets comprise receivables.

Impairment of financial instruments

The expected credit loss model (ECL) is based on reasonable and supportable best information available without undue cost or effort, including information about past events and current and foreseeable future conditions and circumstances. When estimating expected credit loss, historical probabilities of inability to collect are normally used, supplemented with future parameters relevant to credit risk.

A simplified approach to measuring expected credit loss is applied to trade receivables, i.e. measurement on a collective basis, depending on the type of customer, monitored by maturity structure. For example, maturity groups may be defined as follows: not yet due, overdue for 0-90 days, overdue for 90-180 days, etc. Maturity groups are defined in line with the steps taken in the process of collection.

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 construction 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 Group has 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 Group derecognizes 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 Group'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 reductions, the Group makes 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 salary expense when incurred. The Group is not required to provide any other post-employment benefits.

Termination benefits

The Group pays 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 Group recognizes 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.
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 Group has 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 Group expects 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 Group'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 Group'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 Group shareholders.

2.17. Revenue recognition

Revenue is generated from Group'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 Group expects to be entitled to in exchange for the transfer of the promised goods or services to the customer.

The Group recognizes revenue when the amount of revenue can be reliably measured, when future economic benefits will flow the Group and when criteria specific to all activities of 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 the 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

2.18.1. Leases – effective until 31 December 2018

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 Group 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 Group as the lessee
Assets held under a finance lease are recognized as 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.

2.18.2. Leases – effective from 1 January 2019

The Group as the lessee

When entering into a lease, the Group assess whether the lease conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If so, the contract is treated as a lease or as containing a lease. In case any terms of the contract are modified, it is rechecked that the above requirements are satisfied.

The Group determines the lease term as an irrevocable lease term together with the periods covered by the extension option if it is certain that such option will be exercised and periods covered by the termination option if it is certain that such option will not be exercised, with an obligation to reassess on occurrence of material events or material changes in circumstances.

As of the lease commencement date (on which the asset is handed over), the Group recognizes it as a right-of-use asset and lease liability.

A right-of-use asset is measured at cost including: the initially measured amount of the lease liability; all lease payments made on or before the lease commencement date less all lease incentives received; and all initial direct costs.

After the lease commencement date, such right-of-use asset is measured by using the cost method, i.e. by reducing the cost by accumulated depreciation on a straight-line basis, where the length of the depreciation period is equal to the lease term (3-15 years), and all accumulated impairment losses and adjustment for re-measurement of lease liabilities.

Lease liabilities at present value of the lease payments not paid by such date. Lease payments are discounted using the interest rate resulting from the lease or, if such rate cannot be directly determined, using the incremental borrowing rate.

The lease liability measurement includes: fixed payments less lease incentives received; variable lease payments depending on an index or a rate; amounts expected to be payable by the lessee under residual value guarantees; the price of exercising the purchase option if it is certain; and payment of penalty for lease termination if the lease term shows that the termination option will be exercised.

After the lease commencement date, the lease liability is measured with no regard for changes in interest, lease payments made, and reassessment or modification of the lease.

Short-term leases and leases with low-value underlying assets

The Group decided to apply the relief applicable to the recognition of short-term leases (up to 12 months with no purchase option) and leases where the value of the underlying asset is low (up to HRK 30,000). Lease payments for leases where the underlying asset has a low value are recognized as cost on a straight-line basis over the lease term. The Group will treat any short-term lease where the lease and/or the lease term are/is modified as a new lease. Such leases largely relate to photocopiers and fire extinguishers.

The Group as the lessor

Leases where the Group does not transfer substantially all risks and rewards incidental to ownership of an underlying asset are classified as operating leases. Lease income is accounted for on a straight-line basis in accordance with the terms of the lease and included in income in the Statement of Comprehensive Income due to its operational nature.

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 Group's shareholders by the average weighted number of ordinary shares during the year.

2.22. 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.
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 Group 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 Group 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.

2.23. 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.

2.24. 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.

2.25. Events after the end of the reporting year

Events after the end of the reporting year providing additional information about the position of 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.

2.26. Restatement of errors in prior year financial information

In accordance with the requirements of International Accounting Standard ("IAS") 8 Accounting Policies, Changes in Accounting Estimates and Errors, the following errors have been corrected in the prior year financial information shown in these financial statements:

a) In previous years, the Group did not calculate the depreciation of the hotel buildings based on the useful lives of separately identified significant components of these assets. During 2019, the Group performed an analysis to identify separate significant components and their useful lives in accordance with IAS 16 (Property, plant and equipment). Such analysis was performed based on industry experience in construction & renovation of hotels to identify significant components, and the calculation of the impact on depreciation was performed using historical accounting records dating back to 2003, including all significant additions and disposals up to the current date.
b) In addition, in the previous year, the Group did not record a bonus accrual which has been corrected.

The above identified errors have been corrected by restating each of the affected financial statement line items for the prior periods as presented in tables below.

2.27. Restatement of errors in prior year financial information *(continued)*

The effect of correction of errors on the Statement of financial position as at 1 January 2018 is as follows:

Statement of financial position			**Impact of restatement**	
At 1 January 2018		**As previously reported**	**Adjustments**	**As restated**
(in thousands of HRK)				
Buildings	*(a)*	299,981,503	(104,984,728)	194,996,775
Property, plant and equipment	(a)	629,115,508	(104,984,728)	524,130,781
Total assets	(a)	**639,727,428**	**(104,984,728)**	**534,742,700**
Retained earnings	(a)	3,718,511	(104,984,728)	(101,266,217)
Total equity	**(a)**	**520,436,523**	**(104,984,728)**	**415,451,795**

Statement of financial position		**Impact of restatement**		
At 31 December 2018		**As previously reported**	**Adjustments**	**As restated**
(in thousands of HRK)				
Buildings	*(a)*	311,189,296	(107,222,461)	203,966,835
Property, plant and equipment	(a)	825,431,468	(107,222,461)	718,209,007
Total assets	(a)	**969,020,522**	**(107,222,461)**	**861,798,061**
Liabilities towards employees	(b)	26,685,199	521,137	27,206,336
Total current liabilities	(b)	**123,044,612**	**521,137**	**123,565,749**
Retained earnings	(a,b)	53,627,727	(107,743,598)	(54,115,871)
Total equity		**770,346,379**	**(107,743,598)**	**662,602,781**

Statement of comprehensive income		**Impact of restatement**		
For the year ended 31 December 2018		**As previously reported**	**Adjustments**	**As restated**
(in thousands of HRK)				
Staff costs	(b)	(33,334,219)	(521,137)	(33,855,355)
Depreciation	(a)	(10,745,229)	(2,237,733)	(12,982,962)
Net profit/loss		**49,909,217**	**(2,758,870)**	**47,150,348**
Total comprehensive income		**49,909,217**	**(2,758,870)**	**47,150,348**

Statement of cash flows		**Reclassification**		
For the year ended 31 December 2018		**As previously reported**	**Adjustments**	**As restated**
Cash flow from operating activities				
Profit before tax		49,909,217	(2,758,870)	47,150,348
Depreciation	(a)	10,745,229	2,237,733	12,982,962
Increase / (decrease) in trade and other payables	(b)	(7,257,263)	521,137	(6,736,126)
Net cash from operating activities		**(12,486,846)**	**-**	**(12,486,846)**

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

As explained in Note 2.26, the Group, with the assistance of a court expert and specialists, performed an analysis of the useful lives of buildings and their individual components. Based on the performed analysis, the Group retroactively changed the life of the buildings and revised the financial statements for 2018. The new estimated useful life of buildings and the corresponding depreciation rates were applied in 2019 as well. When a significant investment in tourism properties (buildings) occurs, the useful life of buildings or their components is reassessed / reviewed.

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 Group did not have any impairment of non-current assets arising from the transactions described above.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Leases

As the interest rate included in a lease cannot be determined simply, the Group uses their incremental borrowing rate of 3.00% when calculating the lease liability for cash flow discounting purposes.

The Group defines a lease term as a period that cannot be canceled, together with the extension option and/or termination option periods, if it is reasonably certain that such option will be exercised (extension) or not exercised (termination).
The Group does not expect to exercise neither the termination nor the extension option and no potential economic effects were calculated to such options.

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 Group'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).

4. FINANCIAL INSTRUMENTS

Capital risk management

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

Classes of financial instruments

	31 December 2018	31 December 2019
Financial assets		
Trade receivables	1,616,792	4,426,268
Non-current financial assets	-	-
Cash and cash equivalents	133,743,251	23,256,989
Total	**135,360,043**	**27,683,257**
Financial liabilities		
Liabilities to financial institutions	116,244,365	216,912,152
Trade payables and other liabilities	20,536,272	25,394,438
Lease liabilities	-	17,344,062
Total	**136,780,637**	**259,516,489**

Financial risk factors

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

Market risk

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 Group's exposure to market risk or how risk is managed and measured.

4. FINANCIAL INSTRUMENTS *(CONTINUED)*

Currency risk management

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

	Assets		**Liabilities**	
	31 December 2018	**31 December 2019**	**31 December 2018**	**31 December 2019**
EUR	13,892,313	13,360,774	111,628,127	235,095,214

Analysis of foreign currency sensitivity

The Group is 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.

	2018	**2019**
EUR exchange rate variation by +10%		
Gain or loss	9,773,581	18,182,224
EUR exchange rate variation by -10%		
Gain or loss	(9,773,581)	(18,182,224)

Interest rate risk management

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

4. FINANCIAL INSTRUMENTS (*continued*)

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 Group is 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 Group uses 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 2019, the Group adjusted the useful life of its construction assets, including the relevant equipment and other assets, in line with the trends prevailing in the hotel industry.

If the useful life of property, plant and equipment were 10% longer/shorter, with all other variables held constant, net profit for the year would be higher/lower by HRK 1,464 thousand and the net carrying amount of property, plant and equipment would be higher/lower by HRK 1,786 thousand.

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 Group. The Group constantly monitors its 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 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 Group's needs for liquidity management. The Group manages 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.

4. FINANCIAL INSTRUMENTS (*continued*)

The table below details the remaining contractual maturities for 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 Group and the Group may be required to settle the liabilities.

Maturities of non-derivative financial liabilities

	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**	**Weighted average interest rate**
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**	**13,547,142**	**54,134,508**	**17,342,381**	**137,228,745**
2019								
Interest-free		-	18,987,068	13,948,220	-	-	-	32,935,288
Lease liabilities		-	816,412	16,043	816,412	11,043,874	7,347,709	20,040,450
Fixed interest rate	11.81%	-	-	1,469,968	-	-	-	1,469,968
Variable interest rate	3.38%	-	554,979	31,639,227	16,914,576	97,539,903	93,370,910	240,019,595
Total		**-**	**20,358,459**	**47,073,458**	**17,730,988**	**108,583,777**	**100,718,619**	**294,465,301**

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 business units Inter Coffe Shop, Rokan, Katarina Swimming Pools and Kačjak Beach as its reporting segments.

The segment information for the reporting segments for the period ended 31 December 2019 is as follows:

	Income by segment	Expenses by segment	Profit by segment
Operating segment	HRK	HRK	HRK
Hotels & Apartments	106,279,530	(89,378,685)	16,900,845
Camps	15,609,094	(6,661,652)	8,947,442
Other	5,522,157	(5,498,467)	23,690
	127,410,781	**(101,538,804)**	**25,871,977**

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	75,977,032	(61,193,455)	14,783,577
Camps	7,928,694	(4,320,527)	3,608,167
Other	5,806,542	(4,911,550)	894,992
	89,712,268	**(70,425,532)**	**19,286,736**

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 Board of 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:

Item	31 December 2018 restated HRK	31 December 2019 HRK
Operating income before taxes by segment	19,286,737	25,871,978
Unallocated operating revenue	1,942,158	12,522,419
Unallocated finance income	1,758,545	804,563
Unallocated operating expenses:	(23,517,408)	(34,646,216)
Costs of raw materials and supplies	*(297,808)*	*(1,615,369)*
Service costs	*(8,105,668)*	*(8,341,225)*
Staff costs	*(10,217,277)*	*(14,773,200)*
Depreciation	*(2,556,084)*	*(2,082,640)*
Impairment	*(318,338)*	*(4,050,788)*
Other operating expenses	*(2,022,233)*	*(3,782,994)*
Unallocated finance costs	(3,286,383)	(3,916,284)
Bargain purchase	50,966,700	
Income tax	-	(3,150,825)
Stolist	-	426,457
Profit for the year	**47,150,348**	**(2,087,908)**

The Group does not monitor its assets and liabilities by segment, which is why such information was not disclosed. The Group does not monitor revenues and expenses of the subsidiary Stolist d.o.o. by segment.

The hotels, apartments and camps (operating assets) are located in the Republic of Croatia.

The Group 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

	2018	2019
Accommodation	56,757,444	75,627,699
Food and beverage	27,432,424	38,955,271
Other hotel services	1,921,450	2,575,342
Trade goods	369,089	142,957
TOTAL	**86,480,407**	**117,301,269**

The Group provides its hotel/hospitality services and perform sales activities in Croatia with domestic and foreign customers. Group's revenues vary in customer geographies.

	2018	2019
Sales – domestic customers	11,455,574	22,378,358
Sales – foreign customers	61,548,160	82,022,366
Miscellaneous /i/	13,476,673	12,900,545
Total	**86,480,407**	**117,301,269**

/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 their sale to foreign or domestic customers.

7. OTHER OPERATING INCOMES

	2018	2019
Liabilities written-off (note 39)	-	10,278,409
Income from marketing services, etc.	-	5,045,474
Rental income	1,965,121	4,594,296
Recharged costs of lessees	811,756	769,400
Reversal of provisions	1,054,540	-
Insurance claims	442,701	251,213
Direct aid	131,326	153,013
Collection of amounts due as per judgement and out-of-court settlement	4,880	-
Collection of doubtful and bad debts	71,962	53,493
Disposal of non-current assets	-	204,794
Other operating income	690,041	1,646,935
TOTAL	**5,172,327**	**22,997,027**

8. COST OF RAW MATERIALS AND SUPPLIES

	2018	2019
Groceries consumed	9,146,081	10,661,760
Electricity	4,221,054	4,919,332
Small inventory written-off	856,795	2,842,135
Heating oil and gas	1,401,012	1,099,841
Water consumed	1,296,754	1,597,525
Alcoholic and soft drinks consumed	1,025,909	1,092,454
Consumables and cleaning supplies	1,012,927	1,477,915
Fuel for passenger and freight vehicles	129,367	272,670
Packaging	112,497	167,748
Office supplies	105,651	111,903
Other costs	220,332	381,330
TOTAL	**19,528,379**	**24,624,613**

9. COST OF SERVICES

	2018	2019
Investment and current maintenance	3,510,940	3,766,697
Contractor services	2,715,604	6,111,319
Intellectual services /i/	2,913,093	4,088,437
Commissions and banking services	2,180,070	6,402,850
Utilities	1,401,342	2,116,993
Telephone, internet and mail	960,281	1,134,457
Gross temporary service contract cost	1,226,977	556,645
Student employment agency services	1,066,041	473,512
Promotion	879,350	661,104
Rentals	364,484	934,300
Music and ZAMP fees	336,404	203,145
Transport services (road and maritime transport)	40,615	76,299
Recapitalization	1,631,091	-
Other services	1,126,803	1,632,917
TOTAL	**20,353,095**	**28,158,675**

10. STAFF COSTS

	2018 restated	2019
Net salaries	18,730,209	23,318,284
Contributions from salaries	5,298,572	6,430,138
Contributions on salaries	4,258,978	5,504,568
Taxes and surtaxes	1,829,299	2,730,307
Performance bonus and holiday pay	952,187	2,474,762
Transportation to and from work	789,850	1,310,215
Unused hours off – redistribution	146,860	307,455
Provisions for unused vacation days /i/	986,167	1,190,874
Non-current provisions for termination benefits and jubilee awards /i/	43,872	66,137
Termination benefits	89,339	572,668
Children's gifts, Christmas bonus, nontaxable voucher	464,072	501,746
Meal	233,474	354,289
Miscellaneous	32,476	299,036
UKUPNO	**33,855,355**	**45,060,479**

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

	2018	2019
Management Board	2,374,871	1,657,111
of which receipts in kind:	165,346	221,935
Supervisory Board	163,226	307,428
TOTAL	**2,538,097**	**1,964,539**

11. LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS

	2018	2019
Impairment of trade receivables	(318,338)	(2,630,401)
Write-off of trade receivables	-	(13,329)
TOTAL	**(318,338)**	**(2,643,730)**

12. OTHER NET GAINS/(LOSSES)

	2018	2019
Net gain/ (loss) from selling small inventory	-	(174,390)
Impairment of small inventory - net		(489,940)
Impairment of property, plant and equipment - net	-	(921,713)
TOTAL	**-**	**(1,586,043)**

13. OTHER OPERATING EXPENSES

	2018	2019
Non-depreciated value of retired assets	200,853	3,430,672
Municipal charges and concessions	1,743,358	2,866,506
Charges to Hrvatske vode	1,649,047	1,822,447
Subsequently identified previous years' costs	-	166,533
Reimbursement to students in practice and scholarships	196,373	325,124
Insurance premiums	695,060	831,716
Entertainment	99,566	189,720
Travel expenses, per diems, accommodation and field bonus	149,576	245,927
Aid to employees	80,000	118,000
Taxes and contributions irrespective of result	269,663	508,859
Professional training of employees	141,326	145,057
Employee accommodation	178,684	692,366
Animation and entertainment	122,197	26,000
Subscriptions and memberships	178,935	225,063
Charges for disabled persons	61,916	67,500
Other operating expenses	906,131	2,500,881
TOTAL	**6,672,685**	**14,162,371**

14. FINANCE INCOME AND COSTS

	2018	2019
Finance income		
Ordinary and default interest	1,705	12,418
Translation gains	1,758,531	594,992
	1,760,236	**607,410**
Finance costs		
Ordinary and default interest /i/	(2,594,283)	(2,418,434)
Translation losses	(635,306)	(946,240)
Lease interest costs	-	(525,425)
Interest on court judgments /ii/	(58,900)	-
	(3,288,489)	**(3,890,099)**
NET FINANCE (COSTS)/INCOME	**(1,528,251)**	**(3,282,689)**

/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.

15. INCOME TAX

The Group is a taxpayer 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.

	2018	2019
Accounting loss before tax	**47,150,348**	**1,111,066**
18% income tax	8,487,063	199,355
Expenses not recognized for tax purposes	132,873	9,775,727
Income not recognized for tax purposes	(9,268,228)	(20,066)
Effects of utilized losses from previous years	-	(6,921,658)
Unrecognized deferred tax assets	648,292	165,615
Income tax	-	3,198,973

15. INCOME TAX *(continued)*

The Tax Administration has not conducted any audits of the Group's income tax returns in the past several years. According to the relevant tax regulations, the Tax Administration may inspect Group'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.

As at 31 December 2019 temporary tax differences not recognized as deferred tax assets, which relate to property, plant and equipment, amounted to HRK 18,897 thousand. The Group will consider recognizing deferred tax assets in future periods in accordance with IAS 12.
Reconciliation of deferred tax assets is as follows:

	2018	2019
Balance at 1 January	334,471	334,471
Increase in deferred tax assets	-	-
Balance at 31 December	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:

Year incurred	Amount	Year of expiry
2017	(6,359,699)	2022
2018	(3,449,889)	2023
2019	(920,085)	2024
	(10,729,673)	

16. EARNINGS / (LOSSES) PER SHARE

	2018	2019
Profit/(loss) attributable to shareholders	**47,150,348**	**(2,087,908)**
Weighted average number of ordinary shares used to calculate basic/diluted earnings per share	27,971,463	27,971,463
Basic and diluted earnings per share	**1,69**	**(0.07)**

17. PROPERTY, PLANT AND EQUIPMENT

Description	Land	Buildings	Plant and equipment	Other assets	Tangible assets in progress	Total
COST						
Balance at 1 January 2018	**298,373,065**	**654,006,285**	**54,437,879**	**210,806**	**1,478,887**	**1,008,506,922**
Direct asset additions	-	200,049	2,930,994	-	3,622,979	6,754,022
Acquired by purchase of Club Adriatic d.o.o.	178,603,609	31,572,849	9,432,911	183,881	-	219,793,250
Retirement and disposal	-	-	(3,535,431)	-	-	(3,535,431)
Balance at 31 December 2018	**476,976,674**	**685,779,183**	**63,266,353**	**394,687**	**5,101,866**	**1,231,518,763**
Adjustment of the initial balance at application of IFRS 16 on 1 January 2019	-	-	(91,957)	-	-	(91,957)
Balance at 1 January 2019	**476,976,674**	**685,779,183**	**63,174,396**	**394,687**	**5,101,866**	**1,231,426,806**
Acquired - Stolist	-	-	197,221			197,221
Direct asset additions /i/	-	52,945,528	53,593,362	648,739	30,753,550	137,941,179
Retirement and disposal	-	(22,674,410)	(4,410,237)	-	-	(27,084,647)
Balance at 31 December 2019	**476,976,674**	**716,050,301**	**112,554,742**	**1,043,426**	**35,855,416**	**1,342,480,559**
ACCUMULATED DEPRECIATION						
Balance at 1 January 2018	**-**	**354,024,782**	**25,155,825**	**210,806**	**-**	**379,391,413**
Restatement	**-**	**104,984,728**	**-**	**-**	**-**	**104,984,728**
Balance at 1 January 2018, restated	**-**	**459,009,510**	**25,155,825**	**210,806**	**-**	**484,376,141**
Depreciation, restated	-	8,933,034	3,959,072	-	-	12,892,106
Retirement and disposal	-	-	(3,369,200)	-	-	(3,369,200)
Acquired by purchase of Club Adriatic d.o.o.		13,869,804	5,500,451	40,454		19,410,709
Balance at 31 December 2018, restated	**-**	**481,812,348**	**31,246,148**	**251,260**	**-**	**513,309,756**
Adjustment of the initial balance at application of IFRS 16 on 1 January 2019	**-**	**-**	**(32,875)**	**-**	**-**	(32,875)
Balance at 1 January 2019	**-**	**481,812,348**	**31,213,273**	**251,260**	**-**	**513,276,881**
Acquired - Stolist	-	-	76,982	-	-	76,982
Depreciation	-	9,482,593	8,248,508	61,154	-	17,792,255
Impairment	-	-	921,712	-	-	921,712
Retirement and disposal	-	(19,538,468)	(2,821,399)	-	-	(22,359,867)
Balance at 31 December 2019	**-**	**471,756,473**	**37,639,075**	**312,414**	**-**	**509,707,962**
NET BOOK VALUE						
Restated 1 January 2018	**298,373,065**	**194,996,775**	**29,282,054**	**-**	**1,478,887**	**524,130,781**
31 December 2018	**476,976,674**	**203,966,835**	**32,020,205**	**143,427**	**5,101,866**	**718,209,007**
1 January 2019	**476,976,674**	**203,966,835**	**31,961,123**	**143,427**	**5,101,866**	**718,149,925**
31 December 2019	**476,976,674**	**244,293,828**	**74,915,667**	**731,012**	**35,855,416**	**832,772,599**

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The additions in 2019 relate to: buildings HRK 52,945,528 relates to investments in hotel facilities (upgrading, improvement of camps and other construction work), equipment of HRK 51,241,671 relates to the purchase of equipment necessary for hotel and camp operations and in tangible assets in progress of HRK 30,753,550 relates to an investment in hotel properties and campsite improvement, which were not put into use in 2019.

The addition to tangible assets in 2018: buildings of HRK 200,049 relates to investments in hotel facilities (upgrading, improvement of camps and other construction work) and addition to equipment of HRK 2,930,994 relates to the purchase of equipment necessary for hotel and camp operations.

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; and a pledge was created over the properties registered in Land Registry File 5029 and 5021, Cadastral Municipality of Crikvenica, being Hotel Omorika, 2 pavilions and the Ad Turres Resort central restaurant. Loan amount as at 31 December 2019 = HRK 2,041,808
- HBOR Long-Term Loan DT-1/16 – for the renovation of part of Hotel Omorika and Hotel Katarina; and a pledge was created over the properties registered in Land Registry File 5029, Cadastral Municipality of Crikvenica, being Hotel Omorika. DT 1/16 Loan amount as at 31 December 2019 = HRK 13,780,150.
- HBOR Long-Term Loan DT-10/16 – for the completion of renovation of part of Hotel Katarina, and a pledge was created over the properties registered in Land Registry File 5029, Cadastral Municipality of Crikvenica, being Hotel Omorika. DT 10/16 Loan amount as at 31 December 2019 = HRK 8,029,819.
- 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 a pledge was created over the properties registered in Land Registry File 2605 and 2598, Cadastral Municipality of Selce, being Hotel Katarina and Slaven Resort, and over the properties registered and over the properties registered in Land Registry File 5036 and 4100, being hotel Ad Turres i hotel Esplanade. 5110217867 Loan amount as at 31 December 2019 = HRK 45,547,674.
- PBZ's long-term loan 5110228722– for the renovation of accommodations in Ad Turres Resort, Hotel Katarina, Selce Campsite, Hotel Omorika, Kačjak Resort, Hotel Slaven and Hotel Esplanade, and a pledge was created over the properties registered in Land Registry File 2605 i 2598, Cadastral Municipality of Selce, being Hotel Katarina and Slaven Resort, and over the properties registered in Land Registry File 5036 and 4100, being Hotel Ad Turres and Hotel Esplanade. 5110228722 Loan amount as at 31 December 2019 = HRK 46,933,551.
- Erste&Steiermarkische Bank d.d. long-term loan 5117407680 – for purchasing and other costs of acquiring Club Adriatic d.o.o., and a pledge was created over the properties registered in Land Registry File 1887, Cadastral Municipality of Crikvenica, being hotel International. The annotations of enforcements against properties owned by the Company are expected to be removed in 2020, after which a pledge over properties will be registered based on such loan, the properties being Hotel Kaštel and Kačjak Resort. 5117407680. Loan amount as at 31 December 2019 = HRK 70,024,274.
- Erste & Steiermarkische d.d. loan is secured by a lien over property registered in the land register folio no. 2485, cadastral plot no. 2988/69, being Baško Polje Forest Resort with a total surface area of 283,143 m2, registered in the cadastral municipality of Bast-Baška Voda. On 10 October 2014, pre-bankruptcy settlement proceedings were initiated against the company Club Adriatic d.o.o. and the non-current liabilities to banks thus became due and payable and were reclassified as current liabilities.

As at 31 December 2019, the carrying amount of the properties (hotels Omorika, Ad Turres, Esplanade, Katarina, International, Slaven Resort, pavilions and central restaurant as part of Ad Turres Resort) over which the pledge was created totals = HRK 176,551,511.

As at 31 December 2019, the carrying amount of the properties, which in nature represent Tourist resort Baško polje with camp, over which the pledge was created in favor of Erste & Steiermarkische d.d bank, totals = HRK 194,971,118.

As at 31 December 2019, the total amount of tangible assets fully depreciated and still used totals = HRK 30,351,414.

18. INTANGIBLE ASSETS

Description	Licenses, software and other rights	Total
COST		
Balance at 31 December 2017	**1,836,953**	**1,836,953**
Direct asset additions	50,542	50,542
Retirement and disposal	(196,958)	(196,958)
Acquired by purchase of Club Adriatic d.o.o.	2,518,343	2,518,343
Balance at 31 December 2018	**4,208,880**	**4,208,880**
Direct asset additions	218,559	218,559
Retirement and disposal	(62,190)	(62,190)
Balance at 31 December 2019	**4,365,249**	**4,365,249**
ACCUMULATED DEPRECIATION		
Balance at 31 December 2017	**1,640,233**	**1,640,233**
Amortisation	90,858	90,858
Retirement and disposals	(167,513)	(167,513)
Acquired by purchase of Club Adriatic d.o.o.	2,518,343	2,518,343
Balance at 31 December 2018	**4,081,921**	**4,081,921**
Amortisation	86,503	86,503
Retirement and disposals	(58,508)	(58,508)
Balance at 31 December 2019	**4,109,916**	**4,109,916**
NET BOOK AMOUNT		
31 December 2017	**196,720**	**196,720**
31 December 2018	**126,959**	**126,959**
31 December 2019	**255,333**	**255,333**

19. NON-CURRENT FINANCIAL ASSETS

	31 December 2018	31 December 2019
Hoteli Novi d.d. in bankruptcy	4,384,800	4,384,800
Impairment of shares	(4,384,800)	(4,384,800)
Receivables from Jadran usluge	2,979,663	-
Impairment of purchased receivables – Jadran usluge /i/	(2,979,663)	-
Loans given	-	2,495,015
Impairment of loans given	-	(2,495,015)
TOTAL	**-**	**-**

20. INVENTORIES

	31 December 2018	31 December 2019
Cost – low value items, tires in use	15,518,767	16,229,694
Raw materials and supplies in storage	886,445	343,728
Inventories – packaging	-	33,203
Trade goods	22,614	91,690
Impairment of low value items and tires	(12,885,834)	(16,155,772)
TOTAL	**3,541,992**	**542,543**

21. TRADE RECEIVABLES

	31 December 2018	31 December 2019
Trade receivables – domestic	4,609,477	9,219,342
Trade receivables – foreign /ii/	1,282,261	1,852,292
Impairment of trade receivables – foreign /ii/	(4,274,946)	(6,705,618)
Other trade receivables	-	60,252
TOTAL	**1,616,792**	**4,426,268**

/ii/ The carrying amount of foreign trade receivables was translated from euros (EUR).

21. TRADE RECEIVABLES *(continued)*

31 December 2019	**Not past due**	**Up to 30 days**	**31-90 days**	**91-180 days**	**181-270 days**	**Over 270 days**	**TOTAL**
Expected loss rate	3,1%	12,6%	31,7%	46,9%	72,6%	99,9%	44,5%
Gross trade receivables	1,439,549	674,515	1,548,302	2,322,702	551,103	4,595,716	11,131,886
Impairment of trade receivables	(44,476)	(84,695)	(491,445)	(1,089,297)	(400,212)	(4,595,494)	(6,705,618)
Net trade receivables	**1,395,073**	**589,820**	**1,056,856**	**1,233,405**	**150,891**	**224**	**4,426,268**
31 December 2018	**Not past due**	**Up to 30 days**	**31-90 days**	**91-180 days**	**181-270 days**	**Over 270 days**	**TOTAL**
Expected loss rate	1%	2.2%	12.6%	46.4%	55.8%	90.9%	72.6%
Gross trade receivables	338,022	112,706	553,333	449,447	123,498	4,314,732	5,891,738
Impairment of trade receivables	(3,399)	(2,434)	(69,641)	(208,727)	(68,964)	(3,921,780)	(4,274,946)
Net trade receivables	**334,623**	**110,272**	**483,692**	**240,719**	**54,533**	**392,953**	**1,616,792**

Based on the above calculation, the closing provision for losses on trade receivables is reconciled to the initial provision for losses as follows:

	2018	**2019**
Balance at 1 January	**(1,078,789)**	**(4,274,946)**
Increase of provision for losses recognized in statement of profit and loss in the period	(296,390)	(2,643,401)
Write-off of previously impaired receivables	221,144	237,044
Acquired – merger of Club Adriatic d.o.o.	(3,120,911)	-
Acquired – merger of Stolist d.o.o.	-	(3,132)
Other movements	-	(21,183)
Balance at 31 December	**(4,274,946)**	**(6,705,618)**

22. OTHER RECEIVABLES

	31 December 2018	31 December 2019
Receivables for advances given /i/	416,744	67,488,250
Recognized lessees' investments /ii/	596,278	341,864
Banking charges for loans	401,491	341,402
Prepayments – heating fuel	194,376	306,131
Prepayments – consulting	-	150,000
Prepayments – other costs	-	102,623
Suspense accounts for services accounted for	1,209,945	(109,315)
Other receivables	1,017,320	674,240
Total	**3,836,154**	**69,295,195**

/i/ The receivables for given advances relate to the advances that will be, through Prosperus, used for recapitalization of Club Adriatic in amount of HRK 57,104,500, a prepayment made to RR Concept d.o.o. of HRK 8,513,831 (contractor responsible for works on Ad Turres Resort and Omorika), and other prepayments made to suppliers.

/ii/ 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

	31 December 2018	31 December 2019
Bank balances - domestic currency	112,593,747	15,237,371
Bank balances - foreign currency /i/	21,129,611	8,014,761
Cash on hand	19,892	4,857
TOTAL	**133,743,250**	**23,256,989**

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

24. SUBSCRIBED CAPITAL AND RESERVES

The Group'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 Group's ID No. is 56994999963 and its Reg. No. (MBS) is 040000817. The share capital represents the Group's own sources of assets for its operating purposes.

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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 57.64% of shares and ERSTE PLAVI OMF KATEGORIJE B which holds 30.56% of Company's shares.

Table 1: Shareholdings as at 31 December 2019

Investor	**Balance**	**[%]**
ADDIKO BANK D.D./PBZ CO OMF – CATEGORY B (1/1) – Custodial account	16,121,391	57.64
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	673,666	2.41
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	2,062,463	7.37
Total:	**27,971,463**	**100**

25. PROVISIONS

	31 December 2018	31 December 2019
Provisions for termination benefits	199,080	151,448
Provisions for jubilee awards	283,334	337,971
TOTAL	**482,414**	**489,419**

Movements in provisions over years:

	Court disputes	Termination benefits	Jubilee awards	Total
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	**-**	**199,080**	**283,334**	**482,414**
Additional provisions based on estimate	-	-	54,637	54,637
Reversal of provisions	-	(47,632)	-	(47,632)
As at 31 December 2019	**-**	**151,448**	**337,971**	**489,419**

26. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2019
Liabilities per loan agreement – Croatia osiguranje /i/	-	-
Secured creditor – Croatia osiguranje /i/	3,436,816	-
Interest in currency	3,265,124	1,498,170
Long-term loans – HBOR-DT-6/15 /ii/	3,391,579	2,041,807
Long-term loans – HBOR-DT-1/16 /iii/	15,846,753	13,780,150
Long-term loans – HBOR-DT-10/16 /iv/	9,234,047	8,029,819
Long-term loan – PBZ – 2016 – 5110217867 /v/	51,038,035	45,547,674
Long-term loan – PBZ – 2019 – 5110228722 /v/	-	46,933,551
Long-term loan – ERSTE – 2019 – 5117407680 /vi/	-	70,024,274
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 /vii/	16,530,596	17,020,300
Short-term loan – Erste 2 /vii/	8,010,981	8,248,299
Short-term loan – Erste 3 /vii/	3,679,117	3,788,108
Finance lease	94,364	-
TOTAL LIABILITIES	**116,244,365**	**216,912,152**
Short-term loan – Erste 1 /vii/	-	(17,020,300)
Short-term loan – Erste 2 /vii/	-	(8,248,299)
Short-term loan – Erste 3 /vii/	-	(3,788,108)
Finance lease	-	-
Current maturities of long-term loans in the current year	(30,278,039)	(14,400,293)
Current maturities under finance leases in the current year	(28,376)	-
Interest in currency	(7,625,471)	(1,498,627)
Liabilities to Croatia osiguranje – secured	(3,436,816)	-
CURRENT LIABILITIES	**(41,368,702)**	**(44,955,627)**
NON-CURRENT LIABILITIES	**74,875,663**	**171,956,525**

26. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS *(continued)*

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

	31 December 2018	31 December 2019
EUR	107,938,326	215,413,982

/ii/ In 2015, the Group 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 Group 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 Group 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 Group 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. EUR 7,343,852 of the loan was drawn down and the loan start date was 20 July 2019.
/vi/ In 2019, the Group entered into a long-term loan agreement with Privredna banka Zagreb d.d. for a loan of EUR 12,250,000.00 repayable over 12 years, with an interest rate of 2.05%, to be used to improve properties and for reclassification to a higher class –Ad Turres Resort, Selce Campsite – swimming pool and allotment, Hotel Katarina, Hotel Omorika, Kačjak Resort, Slaven Pavilions and Hotel Esplanade (HRK 44,238,054 of the loan remains available for dawdown as of 31 December 2019)
/vii/ The loan with Erste & Steiermarkische d.d. is secured by a lien on the real estate land register no. 2485, kč.br. 2988/69 in kind Forest Baško polje Resort with a total area of 283,143 m2 registered in c.o. Bast-Baska Voda. On October 10, 2014 Club Adriatic d.o.o. entered a pre-bankruptcy settlement procedure and, accordingly, long-term liabilities to banks matured and were reclassified as short-term liabilities. All liabilities to Erste & Steiermarkische d.d bank were settled by payment under the pre-bankruptcy settlement, on March 5, 2020.
/viii/ Loans from Slatinska banka d.d. were settled by the purchase of the creditor's claim by the Group Jadran d.d., whereby Jadran became the new creditor in the pre-bankruptcy settlement.

27. OTHER NON-CURRENT LIABILITIES

	31 December 2018	31 December 2019
Bankruptcy Plan /i/	61,720	61,720
Lessee's investment /ii/	209,734	-
TOTAL	**271,454**	**61,720**

/i/ The liabilities under the Bankruptcy Plan of HRK 61,720.31 relate to liabilities to secured creditors of the 2nd rank = HRK 31,224.55 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.

28. TRADE PAYABLES

	31 December 2018	31 December 2019
Domestic trade payables	14,142,198	25,082,361
Foreign trade payables	63,337	312,078
Trade payables – deafult interest	6,330,737	-
TOTAL	**20,536,272**	**25,394,439**

29. LIABILITIES FOR PREPAYMENTS, DEPOSITS AND GUARANTEES

	31 December 2018	31 December 2019
Advances received /i/	3,533,122	5,680,814
Deposits and guarantees	548,861	576,461
TOTAL	**4,081,983**	**6,257,275**

/i/ The liabilities for advances received mainly relate to Adriatic kampovi d.o.o. in the amount of HRK 3,158,675 and Katarina line d.o.o., Opatija, in the amount of HRK 667,080 (countervalue of EUR 89,630).

30. LIABILITIES TO EMPLOYEES

	31 December 2018	31 December 2019
Net salaries payable	1,908,762	1,480,823
Unused vacation days	986,167	1,190,874
Liabilities to employees – bonuses	521,138	1,393,817
Liabilities to employees – redistribution of working hours	146,860	307,454
Other liabilities to employees /i/	23,643,409	299,380
TOTAL	**27,206,336**	**4,672,347**

/i/ Other liabilities to employees include liabilities for employees' transportation to work in the amount of HRK 25,604, liabilities for unpaid salaries in previous years of HRK 85,652, liabilities for aid to employees in the amount of HRK 8,000, liabilities for retirement of HRK 169,983, and other liabilities of HRK 10,141.

31. LIABILITIES TO THE GOVERNMENT

	31 December 2018	31 December 2019
Contributions from and on salaries	5,604,918	1,325,604
Personal income tax and surtax	307,302	171,007
Other liabilities to the government	282,022	1,939,680
TOTAL	**6,194,242**	**3,436,291**

Other liabilities to government mainly relate to VAT liabilities in the amount of HRK 1,671,807.

32. OTHER CURRENT LIABILITIES

	31 December 2018	31 December 2019
Short-term lease liabilities /iii/	-	1,469,969
Accrual of received capital aid /i/	871,021	862,087
Deferred income	494,571	710,243
Other liabilities – investment in Camp Selce to be settled	209,734	209,734
Other liabilities- bank fees	-	44,711
Scholarships	4,800	35,200
Fees based on temporary service agreements	113,745	18,186
Other liabilities – unpaid to bankruptcy creditors	6,695	6,695
Other	-	3,871
Other liabilities-interest due to secured creditors	2,203,489	-
Liabilities – HOC Bjelolasica /ii/	10,245,992	7,540,853
Obligations based on court judgments	28,166	-
TOTAL	**14,178,213**	**10,901,549**

32. OTHER CURRENT LIABILITIES (continued)

/i/ The capital aid of HRK 862,087 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/ Other short-term liabilities stated in the balance sheet relate to obligations arising from the Management and Profit Tranfser Agreement entered into on 18 November 2011 between the Group and HOC Bjelolasica d.o.o.
Pursuant to the Decision of the Assembly of the subsidiary Club Adriatic d.o.o. on 26 June 2014, the Management and Profit Transfer Agreement of 18 November 2011 concluded between the subsidiary Club Adriatic d.o.o., as the parent company and HOC BJELOLASICA d.o.o. was terminated on 26 June 2014, as a subsidiary, due to the fact that on April 29, 2014 by the decision of the Commercial Court in Zagreb under number number: 40.St-231/04 bankruptcy proceedings were opened against the company HOC BJELOLASICA d.o.o.

/iii/ Short-term loan liabilities in the amount of HRK 1,102,340 relate to liabilities towards Centar za restrukturiranje i prodaju.

33. CONTINGENT LIABILITIES

After the bankruptcy proceeding was completed in 2014, the Group continued to conduct all court disputes initiated at the time of bankruptcy, as well as those the Group 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 Group'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 Group 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 Group assets. The Group was not successful in these disputes – in 2017 and 2018 the Group 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 Group committed to pay in 12 equal installments. The last of these installments is due in September 2019.

Pursuant to the settlement agreements signed, the Group made the relevant payments to its former employees and the relevant registered mortgages/pledged and annotations were removed from the land registry. The Group took legal action against a former employee with whom no settlement agreement was reached.

The process of Group's transformation and the Property Statement Resolution issued by the Croatian Privatization Fund resulted in unresolved proprietary matters. For the purpose of resolving such proprietary matters regarding its properties, the Group initiated individual corrective processes to align the land registry status with the actual status of the properties, as well as processes to establish title.

Modular structures owned by third parties were illegally mounted on part of assets owned by the Group, namely in Selce Campsite and Kačjak Camping Site. As the owners of such modular structures refuse to remove them and surrender the plots, the Group took legal action for the purpose of repossessing the land/plots. Group's repossession of these plots is a condition precedent to continuing its investment cycle at these two highly attractive locations (Kačjak Resort and Selce Campsite).

As regards other court proceedings, the Group 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 Group 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.

35. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS

In 2019, the Group entered into two commercial space leases – one dated 1 February 2019 for three pavilions within Ad Turres Resort and one dated 1 March 2019 for Hotel Delfin in Omišalj. Each lease has a term of 10 years.

The cost of interest on lease liabilities is included in Financial Expenses – Lease Interest Cost (Note 13).

Recognition and measurement methods described in Note 2.8.2:

LEASE LIABILITIES

	1 January 2019	31 December 2019
Non-current lease liabilities	65,987	16,209,899
Current lease liabilities	10,573	1,134,163
TOTAL	**76,560**	**17,344,062**

RIGHT-OF-USE ASSETS

	Vehicles	Buildings	Total
Carrying amount at 1 January 2019	**91,957**	**-**	**91,957**
Additions	-	17,569,570	17,569,570
Depreciation charge	(32,875)	(1,569,559)	(1,602,434)
Carrying amount at 31 December 2019	**59,082**	**16,000,011**	**16,059,093**

As stated in Note 2.18.2, the Group uses the relief allowed for short-term and low-value leases. In 2019, short-term leases and low-value leases. Short-term leases and low-value leases amounted to HRK 894,905 in 2019 (Note 9).

36. EVENTS AFTER THE BALANCE SHEET DATE

The impact of the COVID-19 pandemic

Up to the COVID-19 outbreak, the preliminary activities for the 2020 season had been successful. However, in March of 2020, after the pandemic escalated and special measures and recommendations were issued by the Croatian Civil Protection HQ and the relevant institutions in the neighboring countries, accommodation and convention bookings began to be canceled. The Group temporarily closed hotel facilities already opened and did not open the planned hotel facilities on/after 18 March 2020 until the first opening that occurred on 11 May 2020 (Inter Coffee Shop), then on 22 May 2020 (Selce Campsite), and then on 29 May 2020 (Hotel Esplanade and Kačjak Camping Site). The Group is certain to incur losses as a result of the pandemic and the prescribed measures and these can currently not be quantified considering the nature of the pandemic and dependence on decisions of relevant institutions. As regards revenue, the Group earned HRK 5,305,717 in the first five months of 2020 compared to HRK 16,139,755 as planned and HRK 13,385,743 earned last year. This is a result of missing the Easter Holiday season, the agreed MICE and arrivals of pre-season groups announced.

The COVID-19 pandemic has directly affected the Group's liquidity after the measures suspending hospitality activities were imposed, i.e. from mid-March 2020, during which period the Group obtained no revenue from its core business. To maintain a level of liquidity necessary to allow it to pay all its obligations to suppliers, employees, banks and other institutions, the Group drew down HRK 30,666,386 from Erste & Steiermärkische bank d.d.

Complying with such Government measures, the Group kept its hotels closed from March 2020 to May 2020. To face the economic burden of the containment measures on the economy, on 9 April 2020 the Croatian Government announced a program of state aids to contain the adverse effects of the COVID-19 outbreak on the economy. As part of this program, the Group applied for and received an employment protection and job preservation measure designed for industries affected by COVID-19. The aid was granted for the March-May 2020 period. The Group also applied for an extension of tax and contribution payments to maintain its current liquidity.

The leases where the Group appears as the lessee were renegotiated to protect liquidity, but also to ensure the financial feasibility of the leases.

The Group considers this as a event after balance sheet date that doesn't require adjustment.

Payments to creditors under a pre-bankruptcy settlement

In the period from March 5 to March 11 2020 Club Adriatic d.o.o. made payments to all creditors covered by the pre-bankruptcy settlement, in the amounts determined by the pre-bankruptcy settlement as amounts to be paid after write-off.

A small number of creditors, who were deleted from the court register or do not have open accounts, could not be paid and the amount of HRK 41,419.51 was stored in a special account and will be paid if the legal preconditions are met.

New leasing arrangements

On 20 February 2020 the Group, based on the lease contracts signed with the property owners, entered into possession of the accommodations, as follows:

- Hotel Lišanj, 168 accommodation units and Hotel Horizont, 60 accommodation units, in Novi Vinodolski;
- Hotel NOEMIA in Baška Voda, 63 accommodation units;
- Garden Palace Resort Bella Natura in Umag, 112 accommodation units - apartments.

36. EVENTS AFTER THE BALANCE SHEET DATE *(continued)*

The three-year lease contract for the Lišanj and Horizont hotels commenced on the date of signing, i.e. property handover (20 February 2020). The lease contract for the Noemia hotel has been signed for a term of 15 years, commencing on the effective date of the lease, which is 1 June 2020. The lease agreement for the Garden Palace Resort Bella Natura hotel complex has been signed for a term of 10 years commencing on the effective date of the lease, which is 1 April 2020.

New debt

In March 26th, 2020, the Group has withdrawn 30.666.385HRK as the second tranche of loan agreement with Erste & Steiermarkische Bank d.d. signed by the end of the 2019. Interest rate is EURIBOR 3M + 2,1%, with due date March 30th, 2032.

37. NET DEBT

The table presents changes in net debt:

	Cash	Liabilities to financial institutions	Lease liability
Net debt as at 31 December 2017	**2,652,470**	**89,389,237**	**-**
Cash flows	131,090,780	(9,981,978)	-
Principal amount repayment	-	*(10,008,957)*	-
Principal amount received	-	*2,649,422*	-
Interest	-	*(2,622,443)*	-
Translation differences	-	1,067,110	-
Acquired – Club Adriatic d.o.o.		33,107,720	
Other non-cash movements	-	2,662,277	-
Net debt as at 31 December 2018	**133,743,250**	**116,244,366**	**-**
Cash flows	(110,486,261)	100,977,516	(827,493)
Principal amount repayment	-	*(17,183,706)*	*(302,068)*
Principal amount received	-	*120,266,262*	-
Interest	-	*(2,105,040)*	*(525,425)*
Translation differences	-	368,965	-
Other non-cash movements	-	791,274	18,171,555
Net debt as at 31 December 2019	**23,256,989**	**218,382,121**	**17,344,062**

38. FEES DUE TO AUDITORS

In 2019, the auditors of Group's financial statements provided services worth HRK 345 thousand (2018: HRK 324 thousand). The services provided in 2018 and 2019 relate to audit of financial statements and examining the assessments of the effects resulting from the initial application of IFRS 9, IFRS 15 and IFRS 16 concerning the financial statements 2018.

39. BUSINESS COMBINATIONS

a) 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)**

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.

During 2019, the Company identified certain differences between the expected values of acquired liabilities in relation to recognized liabilities on 1 January 2019. In accordance with the criteria of IFRS 3, since the differences were identified after the measurement period, the Company recognized the decrease in these liabilities through Statement of profit and loss in the amount of HRK 10,278 thousand (Note 7).

b) STOLIST D.O.O.

On 19 June 2019, the Company acquired 100% of the shares in the Stolist d.o.o.

Transferred consideration	976,685
Fair value of acquired net assets	(340,080)
Result of acquisition – Goodwill	**1,316,765**

MANAGEMENT REPORT

1. KEY OPERATING INFORMATION

Key operating indicators for the Group

	2018	2019	2019/2018
Number of accommodations (capacity)	2,764	2,812	1.7%
Number of bed-places	6,842	6,890	0.7%
Full occupancy days	59	81	36.3%
Annual occupancy rate (%)	18%	22%	25.0%
Number of accommodations sold	179,615	228,375	27.1%
Number of overnights	405,237	556,037	37.2%
ADR (in HRK)	406	455	11.9%
RevPar (in HRK)	26,412	36,926	39.8%

* The key operating indicators for 2019 include the figures for Delfin Boarding House and 3 pavilions in Ad Turres

Key financial indicators for the Group

	2018[1]	2019	2019/2018
TOTAL REVENUE	**144,379,671**	**140,905,706**	**98%**
Sales revenue	86,480,407	117,301,269	136%
Other operating revenue	5,172,328	22,997,027	445%
Bargain purchase gains	50,966,700	-	-
TOTAL EXPENSES	**97,229,324**	**139,794,640**	**144%**
Operating expenses	93,940,835	135,904,541	145%
Material costs	40,111,526	52,970,727	132%
Personnel costs	33,855,355	45,060,479	133%
Depreciation	12,982,962	19,481,192	150%
Impairment	318,338	4,229,773	1329%
Other costs	6,672,654	14,162,371	212%
Financial income	1,760,237	607,410	35%
Financial expenses	3,288,489	3,890,099	118%
EBITDA	**61,661,562**	**23,874,946**	**39%**
EBITDA margin	43%	17%	30%
NORMALIZED EBITDA[2]	**25,236,590**	**36,131,299**	**143%**
Normalized EBITDA margin	17%	26%	182%
EBIT	**48,678,600**	**4,393,754**	**9%**
Normalized EBIT[3]	12,253,628	16,650,107	125%
EBT	**47,150,348**	**1,111,065**	**2%**

* The key operating indicators for 2019 include the figures for Delfin Boarding House and 3 pavilions in Ad Turres

[1] The figures for 2018 include adjustments of certain items.

[2] EBITDA was normalized for one-time costs

[3] EBIT was normalized for one-time costs

2. GENERAL GROUP INFORMATION

The Jadran Group consists of Jadran d.d. and subsidiaries:

- Club Adriatic d.o.o in which company Jadran d.d. has 100% ownership.
- Stolist d.o.o in which company Jadran d.d. has 100% ownership.

Jadran, dioničko društvo za hotelijerstvo i turizam, Bana Jelačića 16, Crikvenica, is registered with the Commercial Court in Rijeka under registration number (MBS): 040000817. In 2019, the Company was managed by its Management Board and Supervisory Board.

The Supervisory Board of Jadran d.d. comprised the following members:

I. 1 January 2019 to 30 June 2019:

- Tomislav Kitonić from Bojana – Chairman of the Supervisory Board;
- Ante Jelčić from Zagreb – Deputy Chairman of the Supervisory Board;
- Dragan Magaš from Crikvenica – Supervisory Board Member;
- Mirko Herceg from Zagreb – Supervisory Board Member; and
- Ivan Blažević from Crikvenica – Supervisory Board Member.

II. 1 July 2019 to 26 August 2019:

- Tomislav Kitonić from Bojana – Chairman of the Supervisory Board;
- Dragan Magaš from Crikvenica – Supervisory Board Member;
- Mirko Herceg from Zagreb – Supervisory Board Member; and
- Ivan Blažević from Crikvenica – Supervisory Board Member.

III. 26 August 2019 to 31 December 2019:

- Tomislav Kitonić from Bojana – Chairman of the Supervisory Board;
- Karlo Došen from Zagreb – Deputy Chairman of the Supervisory Board as of 31 October 2019;
- Dragan Magaš from Crikvenica – Supervisory Board Member;
- Mirko Herceg from Zagreb – Supervisory Board Member; and
- Ivan Blažević from Crikvenica – Supervisory Board Member.

In 2019, the Company Jadran d.d. was managed by its Management Board comprising the following members:

- Goran Fabris from Mate Balota 5, Poreč – Chairman of the Management Board; and
- Karlo Čulo from Prisoj 52, Zagreb – Management Board Member.

Club Adriatic d.o.o. for tourism and services from Baška Voda, Petra Krešimira IV 11, is registered with the Commercial Court in Zagreb under the registration number of the entity 080391811, OIB of the Company is 44661735229, EUID: HRSR.080391811.

As of 19 December 2018 the only member of the Company is Jadran d.d., and on 12 February 2019 this change was registered in the Court Registry. The subscribed capital amounts to HRK 120,947,400.

On 13 January 2004 the share capital of the Company was increased from the amount of HRK 20,000.00 in cash, by the amount of HRK 107,988,500.00 in kind, to the amount of HRK 108,008,500.00 in cash and in kind based on the Decision on amending the Article of Association.

The share capital of the Company was increased from the amount of HRK 108,008,500.00 in cash and in kind, by the amount of HRK 12,938,900.00, to the amount of HRK 120,947,400.00, by entering the right of claim into the share capital of the Company based on the Decision of the General Assembly on the increase of the share capital by investing the rights from 21 December 2012.

By the decision of the Assembly dated 16 December 2019 the share capital of the company was decreased from the amount of HRK 120,947,400.00 by the amount of HRK 60,947,400.00 to the amount of HRK 60,000,000.00 to cover the losses carried forward, by reducing the nominal value of each business share. By the decision of the Assembly from 16 December 2019 the share capital of the Company is increased from the amount of HRK 60,000,000.00 by the amount of HRK 57,104,500.00 to the amount of HRK 117,104,500.00, by paying a new share in cash, by creating a new business share with a nominal value of HRK 57,104,500.00 taken over by a new member of the Company.

In 2019, the Company was managed by the Management Board and the Supervisory Board:

The Supervisory Board comprised the following members:

I. 1 January 2019 to 11 February 2019:

- Dragan Magaš from Crikvenica – Chairman of the Supervisory Board;
- Jadranka Čengija Šarić from Zagreb – Deputy Chairman of the Supervisory Board;
- Darko Lendić from Zagreb – Supervisory Board Member.

II. 12 February 2019 to 31 December 2019:

- Dragan Magaš from Crikvenica – Chairman of the Supervisory Board;
- Mirko Herceg from Zagreb – Deputy Chairman of the Supervisory Board;
- Darko Lendić from Zagreb – Supervisory Board Member.

In 2019, the Company was managed by the Management Board comprising the following members:

I. 1 January 2019 to 11 February 2019:

- Ivana Pavić from Zagreb, Kancelak 13 – Director

II. 12 February 2019 to 31 December 2019:

- Goran Fabris from Poreč, Mate Balota 5 - Director

Stolist d.o.o. for services and trade, tourist agency from Crikvenica, Frankopanska 22, is registered with the Commercial Court in Rijeka under the registration number 040270363, OIB of the Company is 20400393476, EUID: HRSR.040270363.

The only member of the Company is Jadran d.d. as of 18 June 2020, and on 28 June 2019 an entry was made in the Court Register. The share capital amounts to HRK 20,000.
In 2019, the company Stolist d.o.o. was managed by the Management Board:

- Natali Travaglia of Crikvenica, Ribarska 7 - Director

The Group predominantly engages in the provision of accommodation and food hospitality services and most of its revenue originates from these activities.

The Group conducts its financial affairs through corporate bank accounts held with:

- Privredna banka d.d. HR4323400091110722690
- Zagrebačka banka d.d. HR3923600001102150140
- Erste & Steiermärkische bank d.d. HR3924020061100620496
- Erste & Steiermarkische bank d.d. HR8624020061100094686
- Privredna banka d.d. Zagreb HR3623400091110076505
- Zagrebačka banka d.d. HR1023600001102807740

In 2019, the Group.:

- used available resources:
  - material – the assets were diligently protected to the extent possible;
  - financial – all obligations have been settled;
  - human resources – a rational organizational approach;
- retained and confirmed its market position; and
- its business processes ran smoothly.

As of 31 December 2019, the Group's share capital was HRK 482,507,730.00.

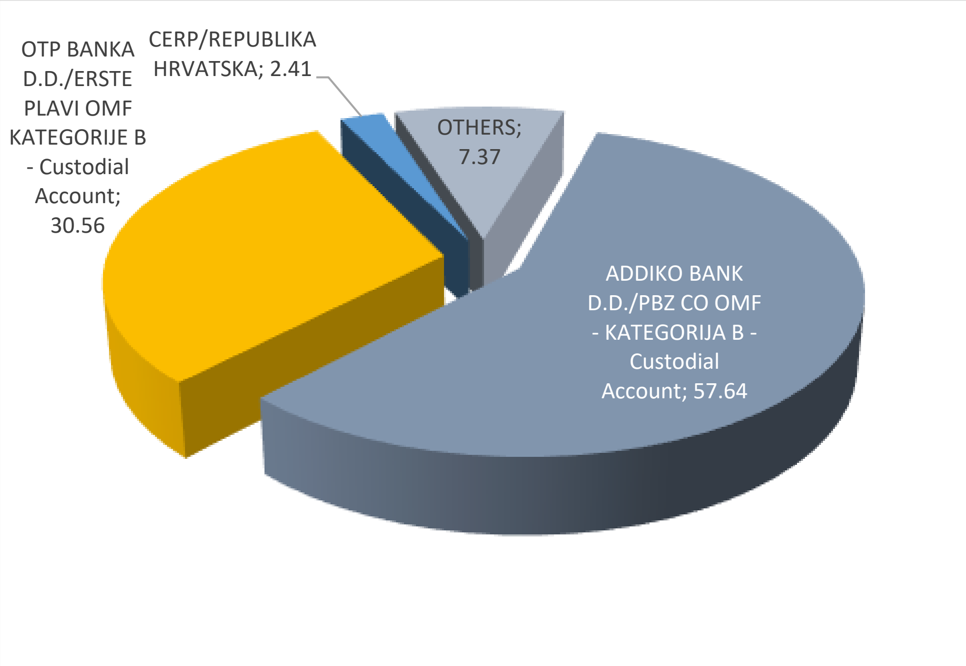
The largest individual shareholders of Jadran d.d. are PBZ CO OMF-CLASS B which holds 57.64% of shares and ERSTE PLAVI OMF CLASS B which holds 30.56% of Company's shares. Other shareholders of Jadran d.d. include the Restructuring and Sale Center/Republic of Croatia with 2.41% of shares, Hrvatske vode with 0.74 %, City of Crikvenica with 0.66%, OTP Banka dd/ERSTE PLAVI EXPERT with 0.62%, Aort with 0.58%, Eko-Murvica d.o.o. with 0.55%, Addiko bank/PBZ CO OMF-Class A with 0.43%, Crikvenica Tourist Board with 0.36%, as well as other shareholders holding 5.39% of shares.

Table 1: Shareholdings of company Jadran d.d. as at 31 December 2019

Investor	Status	Percentage held
ADDIKO BANK D.D./PBZ CO OMF - CLASS B – Custodial Account	16,121,391	57.64
OTP BANKA D.D./ERSTE PLAVI OMF KATEGORIJE B - Custodial Account	8,547,346	30.56
RESTRUCTURING & SALE CENTER/REPUBLIC OF CROATIA	673,666	2.41
HRVATSKE VODE, PRAVNA OSOBA ZA UPRAVLJANJE VODAMA	208,292	0.74
CITY OF CRIKVENICA	184,056	0.66
OTP BANKA D.D./ERSTE PLAVI EXPERT – VOLUNTARY PENSION FUND - Custodial Account	174,249	0.62
OTHER SHAREHOLDERS	2,062,463	7.37
TOTAL	**27,971,463**	**100.00**

Source: skdd.hr

Chart 1: Major shareholders of company Jadran d.d. as at 31 December 2019



Source: skdd.hr

The ownership structure of Club Adriatic d.o.o. on 31 December 2019:

- Jadran d.d. has 100% business shares in Club Adriatic d.o.o.

The ownership structure of company Stolist d.o.o. on 31 December 2019:

- Jadran d.d. has 100% business shares in Stolist d.o.o.

In 2019, the Group entered into leases with Šted-invest d.d. for 3 pavilions with a total of 81 accommodations in Crikvenica, which entered into effect on 1 February 2019, and into a lease for Hotel Delfin in Omišalj, the restaurant, Villa Codelli, Villa Ekskurzija and the beach café with a total of 48 accommodations, which entered into effect on 1 March 2019. As a result of these new leases, Group added 129 accommodations to its overall capacities.

In December of 2019, the Group entered into a lease with Mr. Jozo Skoko, a private person, for a property in Crikvenica comprising a kitchen with a restaurant, a pavilion, 3 bungalows and a parking lot for the purposes of accommodating seasonal workers and parking to be used by properties in the immediate vicinity.

Significant events for the Group in 2019 also were:

- On 18 June 2019, the Stolist d.o.o. Share Transfer Agreement was executed, whereby Jadran d.d. has become a sole shareholder in that company. As a result of acquiring Stolist d.o.o., Jadran d.d. became entitled to operate the beach in front of Hotel Kaštel until 22 November 2025.
- Club Adriatic d.o.o. continued with its pre-bankruptcy settlement procedure. All debts owed to present and former employees of Club Adriatic d.o.o. were paid in 2019.
- On 19 December 2019, the Commercial Court in Zagreb rendered its Decree No. Stpn-217/2015, which authorized the pre-bankruptcy settlement agreement between Club Adriatic d.o.o. as the debtor and its creditors. The Decree was not appealed within the statutory time limit, so the relevant payments were made pursuant thereto in March 2020.

In 2019 the Group had a total of 2,812 accommodation units, of which 1,665 in hotels and resorts and 1,147 in camps and the campsite. The Group has a total of 3,422 beds in hotels and resorts, and can accommodate 3,468 guests in camps and campsite, which means that the Group can accommodate a total of 6,890 guests in one day on basic beds.

3. REALIZED OVERNIGHTS

In 2019, the Group recorded a total of 556,037 overnights, of which 50% were recorded in hotels, 17% in resorts and 33% in camps and campsite.

The company Jadran d.d. in 2019 recorded total of 391,922 overnight stays, which is 3.29% less than the overnight stays that the Company recorded in 2018. Observed by types of facilities, hotels in 2019 recorded a total of 214,779 overnight stays, which is 11.53% more than in 2018, resorts recorded a total of 6.8% fewer overnight stays than in 2018 or 91,937 overnight stays, while camps recorded a total of 85,206 overnight stays or 25.27% fewer overnight stays than in 2018.

In late 2018 and throughout 2019, Jadran d.d. continued with its investment cycle including investments in Selce Camp, Hotel Katarina, Ad Turres Resort, Hotel Omorika, and Kačjak Resort. The investments in Hotel Omorika, Hotel Katarina (except for the outdoor pools) and in Kačjak Resort were completed before these properties were scheduled to open, whereas the investments in Ad Turres Resort and Selce Camp were completed by August (Ad Turres), but suspended in June in Selce Camp, which also affected the number of overnights recorded. In addition, as swimming pools are being built in Selce Camp at the location where camping plots were in 2018, the camp's capacities were reduced, which was the main reason for less overnights.

In addition to replacing furniture in rooms and interior and exterior joinery and renovating the restaurant, the 2018/2019 investment in Hotel Omorika resulted in complete refurbishment of 2 pavilions that belonged to Ad Turres Resort and were merged into Hotel Omorika in 2019. The capacity of Hotel Omorika was thus increased from 115 accommodations in 2018 by 54 accommodations in 2 annexes to a total capacity of 169 accommodations and 350 bed-places in 2019.

Hotel Omorika recorded the greatest increase in the number of overnights in 2019 compared to the preceding year, however, such increase in capacity was one of the reasons for the increase, so a realistic comparison of overnights will be possible from 2020 onwards.
Hotel International, which recorded 29.84% overnights more than it did in the preceding year, was used to accommodate workers hired for investments in Company's hotels until May, so this 30% increase is a result thereof.

The implementation of a more aggressive commercial policy including the establishment of an internal call center and turning to online agencies resulted in recording the greatest increase in the number of overnights in 2019 compared to the preceding year in the online segment for hotels and resorts. The number of allotment guests remained roughly on the same level as in 2018, whereas the number of guests arriving based on fixed bookings and groups decreased.

In 2019, foreign guests accounted for 79% of Jadran's overnights in 2019 and domestic guests accounted for 21%. In 2019, these foreign guests mainly arrived from Czech Republic, Slovenia, Germany, Slovakia, Hungary, Austria, Bosnia and Herzegovina, Poland, and Italy.

In 2019 *Club Adriatic d.o.o.* recorded a total of 164,115 overnight stays, which is 9.21% less than the overnight stays recorded in 2018. Observed by type of facility, in 2019 hotel Alem recorded 0.28% more overnight stays than in 2018, ie 64,758, while camp Baško polje recorded a total of 99,357 overnight stays or 14.5% less than in the same period in 2018.

Observing the recorded overnight stays by sales channels in hotel Alem, 71% of the total overnight stays in 2019 were recorded by guests under fixed bookings, 12% by guests under allotment agreements, 9% by groups and 8% by individuals, of which 7% from online booking , and 1% of walk in guests.
In camp Baško polje, 70% of overnight stays are made by guests on flate rate, 19% by individuals, of which 18% are walk in guests, and 1% are guests who have booked online and 10% are guests under allotment contracts.

Observed by country, the largest number of guests in hotel Alem, 40% of them come from the Czech Republic, 22% come from Slovakia, 20% come from Croatia, 9% from Bosnia and Herzegovina, while the remaining 8% of guests come from other, mostly European countries. In Camp Baško polje 37% of total guests come from the Czech Republic, 14% from Poland, 9% from Slovakia, 8% from Slovenia and Bosnia and Herzegovina, 7% from Croatia, 4% from Germany, while the remaining 13% come mainly from other European countries.

4. BUSINESS PERFORMANCE OF THE GROUP

From January to December 2019, the Group generated total revenue of HRK 140,905,706. Total expenses amounted to HRK 139,794,640. In 2019, the Group generated gross profit of HRK 1,111,065 and EBITDA in the same period amounted to HRK 23,874,946.

Information on revenues and expenses for the Group are identical to that for the Company because the acquisition of the company Club Adriatic d.o.o. occurred on 31 December 2018 and financial information has not been consolidated.

The Group's operating revenues in 2019 amounted to HRK 140,905,706, with sales revenues amounted to HRK 117,301,269, while other operating revenues amounted to HRK 22,997,027.

The Group's financial revenues in 2019 amounted to HRK 607,401.

The Group incurred total operating costs of HRK 135,904,541.

Material costs in 2019 amounted to HRK 52,970,726. Costs of services amounted to HRK 28,158,675 and primarily relate to planning, development and investment management costs, costs of raw materials and supplies amounted to HRK 24,624,613, and costs of goods sold amounted to HRK 187,438.

The personnel costs amounted to HRK 45,060,479. It should be considered that, between June and August 2019, Jadran d.d. paid its employees an incentive equaling 6% of their salaries, which increased the average salary paid by 12%, and paid its employees performance-based bonuses, children's gifts, holiday benefits and Christmas bonus totaling HRK 1,953,527, which means that the company Jadran d.d. paid a total of HRK 2,357,053 for these items this year.

The Group's depreciation in 2019 amounts to HRK 19,481,192 and has increased due to changes in the accounting policies of the useful life of assets and new leases.

Impairments amount to HRK 4,229,773, of which HRK 2,643,401 relates to net impairment losses on financial assets.

Other operating expenses incurred in 2019 amounted to HRK 14,162,371. This increase is for the most part a result of costs relating to business consolidation, development and investments, which are largely one-time costs.

The Group's financial expenses in 2019 amount to HRK 3,890,099.

Between January and December of 2019, the Group obtained operating EBITDA of HRK 23,874,946. Normalized EBITDA of the Group amounted HRK 36,131,299.

5. GROUP ASSET MANAGEMENT

5.1. Asset management

Jadran d.d. manages the immovable properties owned by it, namely eight hotels, a camp, a camping site, and two resorts.
In 2018, negotiations were launched 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 leases and were completed early in 2019, resulting in an increase in Company's capacities by 129 accommodations/177 bed-places.

In 2019, Jadran d.d. entered negotiations with the owners of Hotel Lišanj in Novi Vinodolski, including a hotel with 168 accommodations and Horizont Annex with 60 accommodations. Negotiations were also started with the owners of Hotel Noemia in Baška Voda with 63 accommodations and the owners of Garden Palace Resort Bella Natura in Umag, having a capacity of 112 accommodations (apartments).

On 20 February 2020, Hotel Lišanj in Novi Vinodolski with 168 accommodations was handed over pursuant to the Lease Agreement entered with Hotel Lišanj d.d. This agreement also provides for the lease of the hotel's Horizont Annex, which Jadran d.d. committed to take over as soon as it is renovated.

The Company Jadran d.d. entered a lease for a complex named Garden Palace Resort Bella Natura in Umag and for Hotel Noemia in Baška Voda, of which it notified the public via Zagreb Stock Exchange on 20 February 2020. The lease for the Garden complex in Umag was entered into for a term of 10 years after the lease start date, i.e. 1 April 2020, or the date the lessor obtains all required operating permits and authorizations. Until the handover date and the start date of the lease, Jadran d.d. will manage this property based on a so-called management agreement. The lease for Hotel Noemia was made for a term of 15 years following the property handover date. The handover is scheduled for 1 July 2020. The lease allows Jadran d.d. to transfer its rights and obligations under the lease to Club Adriatic d.o.o., which it did on 17 June 2020.

Including the new properties managed by the company Jadran d.d. since 2020, the company Jadran d.d. now manages a total of 2,279 accommodations and 5,538 bed-places. 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 Petra Krešimira IV 11, Baška Voda, 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.

Club Adriatic d.o.o. owns one property, which it manages, and consists of hotel Alem and camp Baško Polje in Baška Voda. The camp is categorized with three stars, and the hotel with two stars, and ex officio the recategorization of the hotel should be carried out in 2019.

The mentioned property Club Adriatic d.o.o. took over in 2002 from the Ministry of Defense, which was used as a military resort by the Ministry. The facilities were built in the 1960s and since then there have been no significant investments, except for basic ongoing maintenance.

A significant investment is needed in the real estate of hotel Alem, not only in order to increase the quality of accommodation services and raise the category, but also to continue providing services in the period until the realization of the necessary investment. However, as Club Adriatic was in the process of pre-bankruptcy settlement until mid-December 2019, which greatly prevented investment cycles, and until the final conclusion of the pre-bankruptcy settlement, the investment was limited in such a way that only the necessary work could be done, which mainly refers to basic maintenance, significant investments should be planned only after the completion of the pre-bankruptcy procedure.

On 19 December 2019, the Commercial Court in Zagreb issued Decision No. Stpn-217/2015 approving the conclusion of a pre-bankruptcy settlement between the debtor Club Adriatic d.o.o. and his creditors. No appeal was filed against the above-mentioned Decision, and on 15 January 2020 the Commercial Court in Zagreb issued Conclusion No. Stpn-217 / 2015-30 establishing that the Decision on Confirmation of the Pre-Bankruptcy Settlement became final on 8 January 2020.

5.2. Group's litigations

On completion of the bankruptcy proceeding in 2014, the company Jadran d.d. continued to conduct all judicial proceedings brought at the time it was bankrupt, as well as those it did not manage to resolve in the course of the bankruptcy proceeding. Most of these proceedings were claims submitted by employees for nonpayment of salaries for periods before the year 2000. At the time the bankruptcy was opened, 565 creditors had notified the bankruptcy administrator that they were also the debtor's secured creditors, i.e. that they held registered mortgages over Company's assets at the time the bankruptcy proceeding was brought.

In the course of the bankruptcy proceeding, agreements were reached with most of these creditors, based on which mortgages were released, however, 99 creditors holding mortgages over company Jadran d.d. assets remained as of the bankruptcy closure date. The bankruptcy administrator brought 22 legal actions to challenge their right of separate satisfaction against company Jadran d.d, assets. These legal actions did not have a positive outcome vis-à-vis the company Jadran d.d. and company Jadran d.d. entered into out-of-court settlement agreements to amicably resolve such disputes in 2017 and 2018. Settlement agreements were entered into with all former employees who had committed to withdraw their judicial claims and release the mortgages after their claims are settled, which the company Jadran d.d. committed to pay in 12 equal installments. The last of these installments became due and payable in September of 2019.

Pursuant to the settlement agreements reached, the company Jadran d.d. made the relevant payments to its former employees and the relevant mortgages/pledges and annotations were removed from the land registry. The company Jadran d.d. took legal action against a former employee with whom no settlement agreement was reached.

The process of the company Jadran d.d. transformation and the Property Statement Resolution issued by the Croatian Privatization Fund resulted in unresolved proprietary matters. For the purpose of resolving such proprietary matters regarding its properties, the company Jadran d.d. initiated individual corrective processes to align the land registry status with the actual status of the properties, as well as processes to establish title.

Modular structures owned by third parties were illegally mounted on part of assets owned by the company Jadran d.d., namely in Selce Camp and Kačjak Camping Site. As the owners of such modular structures refuse to remove them and hand over the plots, the Jadran d.d. took legal action for the purpose of repossessing the land/plots.
The company Jadran d.d. is involved in three judicial processes concerning the establishment of title to two restaurants that had been in Company's possession until 2006 and which the company Jadran d.d. then leased out. Pursuant to the Decision of Primorje-Gorski Kotar County, these properties were made available to third parties and the company Jadran d.d. received no indemnification, considering that the company Jadran d.d. had built and maintained these properties until they were leased. These processes are conducted against the City of Crikvenica and the Republic of Croatia.
The company Jadran d.d. is also involved in several disputes with the City of Crikvenica regarding proprietary matters.
The company Jadran d.d. needs to repossess the plots at Selce Camp and Kačjak Camping Site to be able to continue the investment cycle at these two highly attractive locations and further development of the investment cycle is contingent upon the resolution of the restaurants' status and disputes with the City of Crikvenica.

Regarding other court proceedings, the company Jadran d.d. 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.

Company Club Adriatic d.o.o. has been in the pre-bankruptcy settlement procedure since 10 October 2014, and all disputes pending the collection of receivables with the Commercial Court have been terminated until the conclusion of the pre-bankruptcy settlement. Since the pre-bankruptcy settlement was completed in December 2019, dispute resolution is expected to continue in 2020.

Company Club Adriatic d.o.o. conducts enforcement and civil proceedings against third parties, and one labor dispute for the annulment of extraordinary dismissal. The company has no property disputes over the Baško Polje property.

In one pavilion within resort Baško Polje, illegally inhabited private persons were found. Since these persons do not pay rent or utilities, the company Club Adriatic d.o.o. has initiated court disputes in previous years for the collection of utilities and for eviction, and final judgments have been rendered in favor of the company Club Adriatic d.o.o. Since these tenants do not respect the court's decision, the company Club Adriatic d.o.o. was forced to initiate enforcement proceedings to protect his interests and property.

6. FUTURE INVESTMENTS OF THE GROUP

In 2019, the company Jadran d.d. continued with its investment cycle launched in 2018 and successfully completed the following capital investments:

- full refurbishment of 12 pavilions within Ad Turres Resort classified as a 3* resort and Hotel Ad Turres classified as a 3* hotel.
- the renovation at Hotel Omorika, including interior redesign of rooms and renovation of the hotel restaurant, was completed.
- the outdoor swimming pools at Hotel Katarina were completed renovated.
- the south façade of Hotel Katarina was renovated, as well as the rails on south-facing balconies and the indoor swimming pool including the machine room.
- the pavilions at Kačjak Resort and Slaven were refurbished.
- the works on part of the plots at Selce Camp were completed, while the works on the swimming pools continue.

Following the 2019 season, in October, a new investment cycle was launched, which includes the following capital investments:

- work was started on the construction of a pool complex at Hotel Omorika but suspended after the first phase due to the COVID-19 outbreak, for the purpose of maintaining Company's liquidity.
- the works on the construction of new pitches at Selce Camp continued, sanitary facilities are being renovated and the works on the swimming pools continue for the purpose of having the camp reclassified to 4*.
- 33 new Mobile Homes had been planned to be purchased, however, only 13 Mobile Homes were purchase due to the COVID-19 outbreak for the purpose of maintaining Company's liquidity, while the rest were set up in cooperation with agencies/partners.
- the renovation works in two pavilions at Slaven continue, including full redesign of all bathrooms for the purpose of obtaining 3* status.
- the interior redesign works in the north-facing rooms and on the north façade of Hotel Katarina continue.
- the Company plans to fully redesign the outdoor swimming pool at Ad Turres Resort, including the machine room.

Company Club Adriatic d.o.o. only completed the pre-bankruptcy settlement procedure in December, and all capital investments are possible only from January 2020 onwards, when works are planned on the interior design of rooms, hotel entrances, restaurants and kitchens at hotel Alem, all due to hotel recategorization to 2 *. Investments in camp Baško polje in 2020 will relate to ongoing maintenance.

7. EXPOSURE TO RISKS

The primary risks in the business of the Group are:

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 Group launched a new investment cycle in 2018 and continued with it in 2019, 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.

Due to the pre-bankruptcy settlement the company Club Adriatic d.o.o. has not been able to invest in raising the quality of accommodation, while the category of 2 * for a hotel and 3 * for a camp the company Club Adriatic d.o.o. could not compete in price or quality of services to the nearest competitors.

Currency risk

Currency risk is very much present in the Group's business considering the large share of foreign business and negotiation of prices in a foreign currency. The resulting exchange differences are charged to operating expenses or credited to the income statement, but do not affect operating cash flow.

Interest rate risk

The Group is exposed to interest rate risk because they enter into loan agreements with banks with variable interest rates, which exposes the Group to higher risk.

Settlement risk

Settlement risk is present in all bilateral transactions. Considering that the performance of monetary obligations to the issuers is one of the key elements necessary for uninterrupted business, the Group gives high importance to this risk. The Group has established stringent procedures to minimize collection risks. During the pandemic, certain partners may be further exposed to liquidity risk, which may result in higher settlement risk. In addition, settlement risk arising from executed contracts may be significantly increased if there is an option of terminating them on grounds of force majeure or in case free movement of persons and goods is interrupted during the pandemic.

Inflation risk (increase in consumer prices)

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 Group insist 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.

Liquidity risk
The Group 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. The Group is particularly focused on this risk due to increased uncertainty regarding revenues as a result of the pandemic's adverse impact on the free movement of guests, guests' spending power, and performance of contractual obligations by business partners.

Liquidity risk management involves maintaining a sufficient amount of cash and working capital. Since the company Club Adriatic d.o.o. was in the process of pre-bankruptcy settlement during 2019, it is obliged to settle obligations to creditors and employees in accordance with the agreed maturity dates. Most of the suppliers, to whom the company Club Adriatic d.o.o. in the pre-bankruptcy settlement procedure remained obliged to, request either advance payment or payments within 8 days, so the company Club Adriatic d.o.o. must have sufficient resources to meet regular obligations.

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 Group'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 Group and the Group has actively endeavored to establish new bases for cooperation with the local community in this segment. During the pandemic, the Group hopes that the legislator, the relevant executive authorities and the local community will, in addition to the measures absolutely necessary to protect people's health, offer various financial and operational reliefs to entities suffering a significant adverse impact of the pandemic.

Tourism industry risk
Tourism trends are largely affected by the broader political situation, growth of terrorism, the global financial crisis and the pandemic. 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 Group has become additionally weakened. By launching the aforementioned investment cycle, the Group will endeavor to minimize the impact of adverse market trends and the resulting risks. The global financial crisis may significantly reduce the spending power of individuals inclined to traveling, whereas a pandemic may also significantly reduce or completely eliminate the effects of tourist arrivals at the Group's destination as a result of the inability to travel outside one's own country or fear for own health and future.

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

8. EMPLOYEES

On 31 December 2019, Jadran d.d. employed a total of 178 employees. 150 of them were employed on a permanent basis and 28 were employed on a temporary basis. The average number of employees in 2019 was 266 (304 employees in 2018).
On 31 December 2019, Club Adriatic d.o.o. employed a total of 57 employees of which 2 of them were employed on a temporary basis.
In company Stolist d.o.o. one person was employed.
On 31 December 2019 the Group employed a total of 236 employees.

9. RESEARCH AND DEVELOPMENT ACTIVITIES

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

10. OWN SHARE REDEMPTION

On 31 December 2019, the share capital of company Jadran d.d. amounted 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.

11. SIGNIFICANT EVENTS AFTER THE YEAR END

On 19 December 2019, the Commercial Court in Zagreb rendered its Decree No. Stpn-217/2015, which authorized the pre-bankruptcy settlement agreement between Club Adriatic d.o.o. as the debtor and its creditors. The Decree was not appealed, so the Commercial Court in Zagreb rendered on 15 January 2020 its Resolution No. Stpn-217/2015-30 establishing that the Decree Confirming the Pre-Bankruptcy Settlement Agreement became effective on 8 January 2020.

Pursuant to the Shareholders' Meetings Resolution dated 16 December 2019, PROSPERUS-INVEST d.o.o., acting for and on behalf of PROSPERUS FGS, paid a contribution of HRK 57,104,500.00 on 11 February 2020, within 60 days of the effective date of the Decree authorizing the pre-bankruptcy settlement agreement.
This share capital increase by cash contribution was registered in the Court Registry of the Commercial Court in Zagreb on 27 February 2020 and Club Adriatic d.o.o. has as of that date been entitled to utilize the funds intended for share capital increase to pay creditor claims in such amounts as defined by the pre-bankruptcy settlement agreement.

Between 5 March 2020 and 11 March 2020, Club Adriatic d.o.o. made the relevant payments to all creditors included in the pre-bankruptcy settlement agreement, in such amounts as defined in the pre-bankruptcy settlement agreement to be paid after the relevant write-off.

It was impossible to make the relevant payments to a small number of creditors who had been removed from the Court Registry or have no bank accounts, so HRK 41,419.51 was deposited in an escrow account and will be disbursed subject to the relevant legal requirements.

Pursuant to the Lease Agreement with Hotel Lišanj d.d., Hotel Lišanj in Novi Vinodolski with 168 accommodations was handed over on 20 February 2020. This Agreement also provides for the lease of the hotel's Horizont Annex, which the Group committed to take over following its renovation.

The Group entered a lease for a complex named Garden Palace Resort Bella Natura in Umag and for Hotel Noemia in Baška Voda, of which it notified the public via Zagreb Stock Exchange on 20 February 2020.
The lease for the Garden complex in Umag was entered into for a term of 10 years after the lease start date, i.e. 1 April 2020, or the date the lessor obtains all required operating permits and authorizations. Until the handover date and the start date of the lease, the Group will manage this property based on a so-called management agreement.

The lease for Hotel Noemia was made for a term of 15 years following the property handover date. The handover is scheduled for 1 July 2020. The lease allows Jadran d.d. to transfer its rights and obligations under the lease to Club Adriatic d.o.o., which it did on 17 June 2020.

The preparatory activities undertaken up to 11 March 2020, when the World Health Organization announced the coronavirus (COVID-19) pandemic, were successful. In response to the potentially serious threat posed by COVID-19 to public health, the Government of the Republic of Croatia took measures to contain the epidemic, including restrictions on cross-border movement of people and on entry of foreign visitors, as well as a lockdown of certain industries pending further developments. Namely, railways stopped carrying passengers and schools, universities, hotels, restaurants, cinemas, theaters, museums, sporting facilities and retail establishments other than grocery stores and pharmacies were closed.

Complying with such Government measures, the Group kept its hotels closed from March 2020 to May 2020. To face the economic burden of the containment measures on the economy, on 9 April 2020 the Croatian Government announced a program of state aids to contain the adverse effects of the COVID-19 outbreak on the economy. As part of this program, the Group applied for and received an employment protection and job preservation measure designed for industries affected by COVID-19. The aid was granted for the March-May 2020 period. The Company also applied for an extension of tax and contribution payments to maintain its current liquidity.

To ensure business without interruption and maintain its liquidity, the Group's Management Boards implemented several measures to rationalize costs, capital expenditures and cash outflows. These measures include:

- Personnel cost rationalization – taking holidays and days of leave, work from home and, in agreement with our social partners, reduction of salaries for employees who do not work.
- Postponement of hiring seasonal workers (seasonal workers account for roughly 50 percent of the workforce).
- Suspension of investment to the extent that it does not compromise the operation of facilities and performance of obligations to business partners.
- Operating cost rationalization – purchases of low-value items were canceled, maintenance and landscaping costs were deferred and reduced, etc.
- The leases where the company Jadran d.d. appears as the lessee were adjusted to protect liquidity, but also to ensure the financial feasibility of the leases.

The Group operates in the hospitality industry which has been significantly affected by the COVID-19 outbreak. Based on information publicly available as of the date these financial statements were approved, the Management Board considered the potential spreading of COVID-19 and the anticipated impact on the Company and its economic setting, including measures already taken by the Government of the Republic of Croatia.

Despite reduced revenues and cash inflows in 2020, the Management Boards of the Group estimated that it would have sufficient funds available to meet its obligations becoming due and payable in the foreseeable future. Consequently, the Group does not anticipate any direct and significant adverse impact of the COVID-19 outbreak on its ability to continue as a going concern.

On 22 May 2020, the term awarded to Mr. Karlo Čulo as a Management Board Member expired.

12. CORPORATE GOVERNANCE STATEMENT

Pursuant to Article 250.b(4) and (5) and Article 272.p of the Companies Act (Official Gazette No. 111/93, 34/99, 121/99, 52/00 – Decision of the Constitutional Court of the Republic of Croatia, 118/03, 107/07, 146/08, 137/09,152/11 – Consolidated Text, 111/12, 68/13, 110/15, and 40/19), Jadran d.d. (hereinafter referred to as Jadran d.d. or the Company) hereby issues this Corporate Governance Statement.

In 2019, the Company applied the Code of Corporate Governance of Zagreb Stock Exchange, Inc. as published on the Stock Exchange website (www.zse.hr) and on the website of the Croatian Financial Services Supervisory Agency (www.hanfa.hr). The Company's application of the Zagreb Stock Exchange's Code is reflected in an annual questionnaire which is publicly disclosed in accordance with the applicable regulations. The answers in the Questionnaire clearly show which provisions of the Code are complied with by the Company and which are not and the Questionnaire is publicly available on Zagreb Stock Exchange's website (www.zse.hr).

The Company's shares have been quoted on the official market of the Zagreb Stock Exchange since January of 2018 and the shareholding report is part of the Annual Report. 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 Company's share capital is HRK 482,507,730.00, divided into 27,971,463 registered common dematerialized shares without nominal value, each entitling its holder to one vote. There are no holders of securities in the Company that entail special control rights or voting limitations to a specific percentage or number of votes. As of 31 December 2019, the Company held 631 own shares.

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

The Company applied the principle of equal treatment to all shareholders. The shareholders exercised their primary control rights by deciding on matters within their scope of responsibility via the General Meeting. The General Meeting is responsible for deciding on the following matters: election and removal of Supervisory Board Members, allocation of profits, granting discharge to Management Board Members, appointment of auditors, amendments to the Articles of Association, increasing and decreasing of share capital, and any other matters placed under its responsibility under the law. The shareholders exercise their rights via the General Meeting. In 2019, the General Meeting was convened and held in accordance with the Companies Act and the Company's Articles of Association. The General Meeting notice, the motions made to, and resolutions passed by the General Meeting are publicly disclosed in accordance with the Companies Act, the Capital Market Act, the Zagreb Stock Exchange Rules, and the Company's Articles of Association. Registrations for the General Meeting are limited insomuch as each shareholder is required to notify his/her participation in accordance with the Companies Act.

As of 31 December 2019, the Supervisory Board comprised the following persons:

- Tomislav Kitonić, Chairman of the Supervisory Board
- Karlo Došen, Deputy Chairman of the Supervisory Board
- Dragan Magaš, Supervisory Board Member
- Mirko Herceg, Supervisory Board Member
- Ivan Blažević, Supervisory Board Member (representative of employees)

The Management Board comprises two members who are authorised to represent the Company solely and independently. As of 31 December 2019, the Management Board comprised the following persons:

- Goran Fabris, Chairman of the Management Board
- Karlo Čulo, Management Board Member

Karlo Čulo's term as Management Board Member expired on 22 May 2020.

In 2019, the Management Board managed the Company's affairs in accordance with the Companies Act, the Articles of Association and other internal corporate documents, and fully complied with the provisions of the Code.

Pursuant to the Companies Act and the Articles of Association, the Supervisory Board takes its decisions at its meetings. In 2019, the Supervisory Board supervised the management of Company's affairs in accordance with the Companies Act, the Articles of Association and other internal corporate documents. The Supervisory Board held a total of 10 meetings, which is consistent with good corporate practices. The Supervisory Board operates three committees, which support the Supervisory Board by preparing decisions to be taken by the Supervisory Board and supervising their implementation. These committees are: the Audit Committee, the Remuneration Committee, and the Corporate Governance Committee.

The rules for appointing and removing Management Board Members and Supervisory Board Members are defined by the Articles of Association and the Companies Act.

No restrictions in terms of gender, age, education, profession, etc. apply in any executive, managing or supervisory organs or on any other level.

In 2019, the Management Board managed the Company's affairs in accordance with the Companies Act, the Articles of Association and other internal corporate documents, and fully complied with the provisions of the Code.

The Company complies with the provisions of the Code, except for those provisions that cannot be implemented at a given time. Such exceptions are as follows:

- the Company will not provide a proxy holder for shareholders who are unable to vote personally at the General Meeting for any reason. The Company has not received such requests from its shareholders to date but does provide its shareholders with a proxy form to help them empower a person of their choice;
- shareholders were not allowed to take part in and vote at the General Meeting using modern communication technology because there has been no need for this as yet;
- 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 not determined based on their contribution to the Company's performance but equals a fixed amount in line with the decision of the Shareholders' Meeting. It was found impossible to evaluate each Supervisory Board Member's contribution to the Company's performance, especially since the Supervisory Board Members are not actively involved in the management of Company's business;
- the Audit Committee is not mostly comprised of independent Supervisory Board Members. It was decided to implement an alternative solution offered by Article 65 of the Audit Act, so the Supervisory Board appointed all three members of the Audit Committee from among Supervisory Board Members. Of these

three Audit Committee members, one is an independent Supervisory Board member and his membership in this Committee reflects the relevant proportion of independent members in the Supervisory Board. All three Audit Committee members are financial experts;

- the Supervisory Board did not prepare an evaluation of its work in the past period, except for the review contained in the Supervision Report 2019 and the results of examining reports relevant to the closing of the fiscal year 2019;
- no transactions were conducted that involved any Supervisory Board Members or their related parties and 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 and the Company or its related parties;
- no contracts or agreements were entered into in 2019 between Supervisory Board Members or Management Board Members and the Company;
- the Audit Committee did not find it necessary to develop rules defining which services external auditors are not allowed to provide to the Company;
- the Company does not have any internal auditors and did not establish an Internal Audit Committee because its organizational model that encompasses all business operations and processes includes developed internal control systems on all relevant levels which, inter alia, provide a true and fair view of the financial statements and business reports. In 2019, the Audit Committee assessed the need to establish an internal audit function and decided that it needed to be established in 2020; and
- the Company did not create a calendar of key events because it did not find this necessary considering that it duly announces and discloses all information concerning such events.

As part of its organizational model that encompasses all business operations and processes, the Company maintains developed internal control systems on all relevant levels which, inter alia, provide a true and fair view of the financial statements and business reports.
Pursuant to the Capital Market Act, the Zagreb Stock Exchange Rules and other applicable regulations, Jadran d.d. duly discloses the required inside information and any changes thereto as soon as such changes occur.