JADRAN d.d.
Bana Jelačića 16, Crikvenica

ANNUAL REPORT FOR THE COMPANY FOR 2019

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Independent auditor's report

To the Shareholders of Jadran d.d.

Report on the audit of the separate financial statements

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of Jadran d.d. (the "Company") as at 31 December 2019, and its separate financial performance and its separate 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 June 2020.

What we have audited

The Company's separate financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2019;
- the statement of financial position as at 31 December 2019;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the 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 separate 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 Company 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 Company 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 Company, in the period from 1 January 2019 to 31 December 2019, are disclosed in note 40 to the separate financial statements.

Our audit approach

Overview

Materiality	• Overall Company materiality: HRK 2,955 thousand, which represents 3% of total revenues.
Key audit matters	• Useful life of fixed assets

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

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

Materiality

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

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

Overall Company materiality	HRK 2,955 thousand
How we determined it	3 % of total revenues
Rationale for the materiality benchmark applied	We chose total revenue as the benchmark because the Company is in a restructuring phase with emphasis on growth, in terms of both their market share and customer base. In addition, net profit/loss for previous years was volatile, while revenues are a more consistent measure of performance.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Useful life of fixed asset *See Note 16 to the separate financial statements under the heading "Property, plant and equipment" and note 2.25 under the heading "Correction of errors in prior period financial statements".* As described in Note 2.25 to the separate financial statements, the Company 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 Company 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 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 separate financial statements.

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 separate financial statements and our auditor's report thereon.

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

In connection with our audit of the separate 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 separate 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 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 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 Company and its 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 separate financial statements

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

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

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

Auditor’s responsibilities for the audit of the separate financial statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor’s report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group on 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
30 June 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 Crikvenica
Hoteli
i kampovi

JADRAN d.d.

Statement of the Management Board's responsibilities

Pursuant to the Croatian Accounting Act in force, the Management Board of Jadran d.d., Crikvenica, Bana Jelačića 16 (the "Company") is responsible for ensuring that annual separate financial statements are prepared for 2019 in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, in order to give a true and fair view of the financial position, operating results, changes in equity, cash flows of the Company for the period and the notes.

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

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

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

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

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

The Management Board authorised the Annual Report for issuance on 30 June 2020.

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

Jadran
dioničko društvo
za hotelijerstvo i turizam
Crikvenica

JADRAN Joint Stock Company for hotel industry and tourism Crikvenica

ANNUAL SEPARATE FINANCIAL STATEMENTS 2019

Separate statement of other comprehensive income

For the year ended 31 December 2019 (All amounts in HRK)

	Note	2018 Restated	2019
Revenue	6	86,480,408	98,585,084
Other income	7	5,172,327	10,541,327
Total operating revenue		**91,652,735**	**109,126,411**
Cost of goods sold		(230,021)	(180,654)
Costs of materials and supplies	8	(19,528,379)	(19,334,816)
Cost of services	9	(20,353,126)	(25,154,893)
Staff costs	10	(33,855,355)	(35,090,276)
Depreciation and amortization	16,17,34	(12,982,962)	(16,981,502)
Net losses on impairment of financial assets	11	(9,883,893)	(1,628,904)
Other operating expenses	12	(6,672,654)	(12,530,784)
Total operating expenses		**(103,506,390)**	**(110.901.829)**
Finance income	13	1,760,237	807,717
Finance costs	13	(3,288,489)	(3,806,668)
Net loss from financing activities		**(1,528,252)**	**(2,998,951)**
Loss before tax		**(13,381,907)**	**(4,774,369)**
Income tax	14	-	-
Net loss		**(13,381,907)**	**(4,774,369)**
Other comprehensive income		-	-
Total other comprehensive income		**(13,381,907)**	**(4,774,369)**
Loss per share	15	(0.33)	(0.17)

**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
ASSETS				
Non-current assets				
Property, plant and equipment	16	524,130,781	517,826,466	631,788,145
Intangible assets	17	196,720	126,959	130,748
Financial assets	18	1,847,038	-	-
Investments in subsidiaries	19	-	60,500,000	61,476,685
Right of use assets	34	-	-	16,059,093
Deferred tax assets		334,471	334,471	-
Total non-current assets		**526,509,010**	**578,787,896**	**709,454,671**
Current assets				
Inventories	20	461,667	452,470	397,008
Trade receivables	21	658,654	1,387,318	5,718,868
Receivables from related parties	21	-	8,543,650	9,413,982
Receivables from the government		1,172,009	319,463	977,663
Other receivables	22	3,288,890	2,977,135	68,463,199
Receivables for loans made to related parties	23	-	-	14,250,728
Cash and cash equivalents	24	2,652,470	125,502,164	21,261,200
Total current assets		**8,233,690**	**139,182,200**	**120,482,648**
TOTAL ASSETS		**534,742,700**	**717,970,096**	**829,937,319**

**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)	(114,648,124)	(119,422,493)
Total equity	25	**415,451,795**	**602,070,528**	**597,296,159**
Non-current liabilities				
Provisions	26	885,032	482,414	489,419
Liabilities to banks and other financial institutions	27	84,935,656	74,875,663	171,956,525
Other non-current liabilities	28	9,549,918	271,454	61,720
Lease liabilities	34	-	-	16,209,899
Total non-current liabilities		**95,370,606**	**75,629,531**	**188,717,563**
Current liabilities				
Trade payables	29	9,767,460	9,692,580	19,337,444
Liabilities for advances, deposits and guarantees	30	4,176,318	3,633,165	2,323,408
Liabilities to employees	31	2,096,448	3,346,698	3,927,786
Liabilities to the government	32	961,428	1,432,559	817,439
Liabilities to banks and other financial institutions	27	4,453,581	8,260,983	14,764,498
Derivative financial instruments		-	10,000,000	-
Other current liabilities	33	2,368,547	3,904,054	1,618,856
Lease liabilities	34	-	-	1,134,163
Income tax liability		96,517	-	-
Total current liabilities		**23,920,299**	**40,270,039**	**43,923,594**
TOTAL EQUITY AND LIABILITIES		**534,742,700**	**717,970,098**	**829,937,316**

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

	Note	Share capital	Capital reserves	Retained earnings/(Accumulated loss)	Total
As at 31 Dec 2017		**491,316,690**	**25,401,322**	**3,718,511**	**520,436,523**
Loss for the year, restated (Note 2.25.)				(104,984,728)	(104,984,728)
Total comprehensive loss for the year , restated (Note 2.25.)				*(104,984,728)*	*(104,984,728)*
As at 1 Jan. 2018, restated		**491,316,690**	**25,401,322**	**(101,266,217)**	**415,451,795**
Decrease in share capital and transfer to reserves	25	(208,809,600)	208,809,600	-	-
Share capital increase	25	200,000,640	-	-	200,000,640
Loss for the year, restated		-	-	(13,381,907)	(13,381,907)
Total comprehensive loss for the year (Restated)		-	-	*(13,381,907)*	*(13,381,907)*
As at 31 Dec 2018, restated		**482,507,730**	**234,210,922**	**(114,648,124)**	**602,070,528**
Loss for the year		-	-	(4,774,369)	(4,774,369)
Total comprehensive income for the year		-	-	*(4,774,369)*	*(4,774,369)*
As at 31 December 2019		**482,507,730**	**234,210,922**	**(119,422,493)**	**597,296,159**

**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			
Loss after tax	14	(13,381,907)	(4,774,369)
Depreciation and amortisation	16,17,34	12,982,962	16,981,502
Net (profit)/loss from disposal and retirement of non-current assets		195,676	3,529,831
Change in long-term provisions		(402,618)	7,006
Interest received		-	(263,125)
Interest paid		2,662,277	2,893,112
Net foreign exchange differences		1,067,110	368,965
Net impairment of receivables and other financial assets		13,395,016	1,628,904
(Increase) in trade receivables and other receivables		(19,655,989)	(5.067.193)
Decrease in inventories		9,197	55,463
(Increase) in trade payables and other liabilities		(6,736,126)	(4,161,255)
Cash flows from operating activities		**(9,864,403)**	**11,198,841**
Interest paid		(2,622,443)	(2,641,631)
Net cash from operating activities		**(12,486,846)**	**8,557,210**
Cash flow from investing activities			
Payments for non-current tangible and intangible assets		(6,804,564)	(133,509,873)
Interest received		-	12,397
Given loans		-	(14,000,000)
Acquistion of a subsidiary		(50,500,000)	(68,081,185)
Net cash from investment activities		**(57,304,564)**	**(215,578,661)**
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 finance lease		(10,051)	-
Repayment of lease liabilities		-	(302,068)
Net cash from financing activities		**192,641,104**	**102,780,488**
Net increase/(decrese) in cash		**122,849,694**	**(104,240,964)**
Cash and cash equivalents as at 1 January	24	2,652,470	125,502,164
Cash and cash equivalents at 31 December	**24**	**125,502,164**	**21,261,200**

**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 (expiration of mandate 22 May 2020), 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 266 (2018: 304 employees).

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 separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements are also in compliance with the Croatian Accounting Act which refers to the IFRS adopted 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 separate financial statements have been prepared under the accrual basis to which the effects of transactions are recognized when incurred and are presented in the financial statements for the relevant period and by aaplying the basic accounting assumption of going concern.
The financial statements are presented in the Croatian currency (Croatian Kuna, HRK), which is the Company's functional currency.

The Company will also prepare consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group"), which will be approved by the Management Board by 31 July 2020. In the consolidated financial statements, subsidiaries Club Adriatic and Stolist (Note 19) have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2019 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

2.2. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

2.3. Going concern

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.

The separate financial statements were prepared under the assumption that the Company will continue in business on a going concern basis. As of 31 Dec 2019, the Company's cumulative losses amounted to HRK 119.422 and its current assets exceeded the current liabilities by HRK 76.559.

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 38.

Aiming to minimize the negative impact of the pandemic on its business, the Company 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 Company 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 Company 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 Company entered into annexes to lease agreements, whereby it reduced its lease costs in 2020.
- The Company is in the process of arranging additional credit facilities with commercial bank in case it should require short-term liquidity.

2.3. Going concern (continued)

- The Company holds sufficient funds in its bank account (HRK 40,833 thousand as of 27 June 2020).
- Depending on its operating revenue in 2020, the Company will undertake additional activities in 2021, such as divestment of certain properties if necessary.

2.4. Changes in accounting policies and disclosures

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

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

First-time adoption of new accounting standards

IFRS 16 Leases

IFRS 16, Leases (published on 12 January 2016 and effective for annual periods beginning on or after 1 January 2019). The Company 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 Company 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;
- accounting for 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 Company also decided not to reassess whether a contract is or contains a lease as of the initial application date. Instead, the Company 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 Company to lease liabilities was 3.00%.

As at 1 January 2019, the Company 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.

2.4. Changes in accounting policies and disclosures (continued)

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

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

Several new accounting standards and interpretations were published, which were not required for reporting periods ending on 31 December 2019, and which the Company 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 Company is assessing the impact of these amendments on its 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.
- 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

2.4. Changes in accounting policies and disclosures (continued)

- 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 Company is assessing the impact of the amendments to its 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 Company 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 significantly affect the Company'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 and its value in use. For impairment estimating purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8. Financial assets

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

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

Impairment of financial instruments

In expected credit loss model (ECL) loss is measured on the basis of 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 Company have an unconditional right to defer the settlement of a liability for at least 12 months after the reporting date, such liabilities are classified as non-current liabilities.
The Company derecognize financials liabilities when, and only when, they have been discharged, canceled or have expired.

2.12. Trade payables

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

2.13. Taxes

The tax expense resulting from income tax is the aggregate amount of the current tax liability and deferred taxes.
The current tax liability is based on taxable profit for the year. Taxable profit is different from profit for the period presented in the Income statement because it does not include items of income and expense taxable in other years or nontaxable, i.e. not recognized as expense for income tax purposes. The Company's current tax liability is calculated at the rates effective on the reporting date.
Deferred tax is the amount expected to result in liability or refund based on the difference between the carrying amount of the assets and liabilities in the financial statements and the relevant tax base used to calculate taxable income and is accounted for using the balance sheet liability method. Deferred tax liabilities are normally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent it is likely that taxable income will be available, against which deductible temporary differences and tax losses may be utilised.
The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that a sufficient amount of taxable profits will be available to allow all or part of the tax asset to be recovered. Deferred tax is recognize as an expense or income in profit or loss, unless it relates to items credited or debited directly to equity, in which case deferred tax is also presented as part of equity.

2.14. Employee benefits

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

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

Long-term employee benefits
The Company recognize the liability for long-term employee benefits (jubilee awards) evenly over the period in which such benefit is earned based on actual years of service. The long-term employee benefit liability is measured at the end of each reporting period based on the assumptions of the number of employees to whom such benefit is to be paid, the estimated cost of such benefits, and the discount rate defined as the average anticipated rate of return on investment in government bonds. Actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized immediately in profit or loss.

2.15. Provisions

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

2.16. Share capital

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

2.17. Revenue recognition

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

Step 1: identify the contract(s) with a customer
Step 2: identify the performance obligations in the contract
Step 3: determine the transaction price
Step 4: allocate the transaction price to the performance obligations in the contract
Step 5: recognize the revenue when (or as) the entity satisfies a performance obligation
Revenue is recognized for each performance obligation in the contract in the amount of the transaction price. The transaction price is the amount of agreed consideration the Company expects to be entitled to in exchange for the transfer of the promised goods or services to the customer.

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

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

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

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

2.18. Leases

2.18.1. Leases – effective until 31.12.2018.

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

The Company as the lessee
Assets held under a finance lease are recognized as Company's 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 January2019

The Company as the lessee

When entering into a lease, the Company 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 Company determine 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 Company recognize 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 Company 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 Company 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 Company as lessors

Leases where the Company do 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 period of their expenditure on a qualifying asset is deducted from the borrowing costs that may be capitalized.
All other borrowing costs are recognized as costs for the period they were incurred in.

2.20. Foreign currencies

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

2.21. Earnings per share

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

2.22. Investments in subsidiaries

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

2.23. 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.

2.24. Events after the end of the reporting year

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

2.25. Correction 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 Company 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 Company 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 Company did not record a bonus accrual which has been corrected.

c) In 2018, the Company purchased receivables of Club Adriatic, that were part of pre-bankruptcy settlement, from its creditors in the total amount of HRK 18,109,205. In 2018, impairment of these receivables was recorded in the total amount of HRK 12,899,977. Based on proposed pre-bankruptcy settlement prepared by Club Adriatic, the Company will recover more of this purchased receivable so correction was made to decrease impairment in amount of HRK 3,334,422.

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

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**

2.25. Correction of errors in prior year financial information (continued)

Statement of financial position		**Impact of restatement**		
At 31 December 2018		**As previously reported**	**Adjustments**	**As restated**
(in thousands of HRK)				
Buildings	*(a)*	293,486,253	(107,222,461)	186,263,791
Property, plant and equipment	(a)	625,048,930	(107,222,461)	517,826,467
Receivables from related parties	*(c)*	5,209,228	3,334,422	8,543,650
Total assets	(a)	**821,858,136**	**(103,888,039)**	**717,970,096**
Liabilities towards employees	(b)	2,825,561	521,137	3,346,698
Total current liabilities	(b)	**39,748,902**	**521,137**	40,270,039
Retained earnings	*(a,b,c)*	(10,238,949)	(104,409,176)	(114,648,124)
Total equity		**706,479,703**	**(104,409,176)**	**602,070,528**

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)
Net financial and contractual asset impairment losses	*(c)*	(13,218,315)	3,334,422	(9,883,893)
Depreciation	(a)	(10,745,229)	(2,237,733)	(12,982,962)
Net profit/loss		**(13,957,461)**	**575,553**	**(13,381,907)**
Total comprehensive income		**(13,957,461)**	**575,553**	**(13,381,907)**

The above described corrections did not result in any change to cash flows from operating, investing and financing activities:

Statement of cash flows		**Reclassification**		
For the year ended 31 December 2018		**As previously reported**	**Adjustments**	**As restated**
Cash flow from operating activities				
Profit after tax		(13,957,460)	575,553	(13,381,907)
Depreciation and amortisation	(a)	10,745,229	2,237,733	12,982,962
(Increase) / decrease in trade receivables and other receivables	(c)	(16,321,567)	(3,334,422)	(19,655,989)
(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 2.27, the Company, 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 Company 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.

Provisions for court disputes
The Company is a party to numerous court disputes resulting from its ordinary course of business. These provisions are recorded if there is a present obligation resulting from a past event (taking into account all available evidence, including legal opinions) where it is likely that the settlement of the obligation will require an outflow of resources and if the amount of such obligation can be reliably measured. As at 31 December 2019, provisions for court disputes amounted to HRK 0 (31 December 2018: HRK 0, see Note 25).

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.

Leases

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

The Company define 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 Company does not expect to exercise neither the termination nor the extension option and no potential economic effects were calculated in relation to such options.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Impairment of receivables

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

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

Fair value measurement

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

Fair value hierarchy

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

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

4. FINANCIAL INSTRUMENTS

Capital risk management

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

Classes of financial instruments

In HRK	31 Dec 2018 Restated	31 Dec 2019
Financial assets		
Trade receivables	1,387,318	5,718,868
Receivables from related parties	5,209,228	9,413,982
Cash and cash equivalents	125,502,164	21,261,200
Total	**132,098,711**	**36,394,050**
Financial liabilities		
Liabilities to financial institutions	83,136,646	186,721,023
Trade payables and other liabilities	9,692,580	19,337,444
Lease liabilities	-	17,344,062
Total	**92,829,226**	**223,402,530**

Financial risk factors

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

Market risk

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

Currency risk management

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

Company	Assets		Liabilities	
	31 Dec 2018	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**
EUR	13,892,313	8,713,988	82,444,132	205,485,562

4. FINANCIAL INSTRUMENTS (CONTINUED)

Analysis of foreign currency sensitivity

The Company 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.

In HRK	2018	2019
EUR exchange rate variation by +10%		
Gain or loss	9,633,644	21,419,955
EUR exchange rate variation by -10%		
Gain or loss	(9,633,644)	(21,419,955)

Interest rate risk management

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

Interest rate sensitivity analysis

The cash flow interest rate risk is the risk that the cost of interest under financial instruments will change over time.
The Company 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 Company use the economic benefits contained in that asset, which diminish more intensely as a result of its economic and technological aging. In addition to considering the anticipated use based on physical usage when determining the useful life of an asset, it is necessary to take into account any changes in demand on the tourism market, which will accelerate economic obsolescence and the intensity of new technology development.
Based on this, conducting business in the hotel industry requires making increasingly frequent investments, which corroborates the fact that the useful life of the asset is reduced.
The useful life of an asset must be periodically revised to see if there are any circumstances warranting a change in an estimate in relation to a previous estimate. If identified, such changes in estimate will be presented in future periods through an adjusted depreciation charge over the remaining revised useful life.
In 2019, the Company 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, with all other variables held constant, net profit for the year would be higher by HRK 1,261 thousand and the net carrying amount of property, plant and equipment would be higher by HRK 1,538 thousand.
If the useful life of property, plant and equipment were 10% shorter, with all other variables held constant, net profit for the year would be lower by HRK 1,261 thousand and the net carrying amount of property, plant and equipment would be lower by HRK 1,539 thousand.

4. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management

Credit risk relates to the risk that the counterparty will default on its contractual obligations, which would result in financial loss for the Company. The Company constantly monitor their exposure to the parties they conduct business with and their credit ratings and allocate the total value of transactions among acceptable customers.
The carrying amount of financial assets presented in the financial statements, less impairment losses, represents the maximum exposure of the Company to credit risks without accounting for the value of collateral received.

Liquidity risk management

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

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

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

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
2018 Interest-free		9,082,809	609,771	-	-	-	9,692,580
Variable interest rate	3%	577,985	1,135,007	13,547,142	54,134,508	17,342,381	86,737,023
Total		**9,660,794**	**1,744,778**	**13,547,142**	**54,134,508**	**17,342,381**	**96,429,603**
2019 Interest-free		18,987,068	350,376	-	-	-	19,337,444
Lease liabilities		816,412	-	816,412	11,043,874	7,347,709	20,024,407
Variable interest rate	3%	554,979	1,464,141	16,914,576	97,539,903	93,370,910	209,844,509
Total		**20.358.459**	**1,814,517**	**17,730,988**	**108,583,777**	**100,718,619**	**249,206,360**

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 Other (beach buffet Kačjak, caffe bar Inter, Pools- hotel Katarina, etc.).

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	94,248,022	(76,279,343)	17,968,679
Camps	7,872,484	(3,510,910)	4,361,574
Other	5,522,157	(5,498,467)	23,690
TOTAL	**107,642,663**	**(85,288,720)**	**22,353,943**

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
TOTAL	**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 Boards of the Company for the purpose of making decisions to allocate resources to such segment and evaluate its performance.

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

	31 December 2018 Restated	31 December 2019
Item	HRK	HRK
Operating income before taxes by segment	19,286,737	22,353,943
Unallocated operating revenue	1,942,158	1,486,914
Unallocated finance income	1,758,545	804,551
Unallocated operating expenses:	(33,082,963)	(26,144,127)
Costs of raw materials and supplies	*(297,808)*	*(279,399)*
Service costs	*(8,105,668)*	*(7,324,999)*
Staff costs	*(10,217,277)*	*(11,392,863)*
Depreciation and amortisation	*(2,556,084)*	*(1,847,006)*
Net losses on impairment of financial assets	*(9,883,893)*	*(1,624,403)*
Other operating expenses	*(2,022,233)*	*(3,675,457)*
Unallocated finance costs	(3,286,383)	(3,275,650)
Profit for the year	**(13,381,907)**	**(4,774,369)**

The Company does not monitor its assets and liabilities by segment, which is why such information was not disclosed. The hotels, apartments and camps (operating assets) are located in the Republic of Croatia.

The Company performs its hotel/hospitality services and sales activities in Croatia with domestic and foreign customers.

6. REVENUE

	2018	2019
Accommodation	56,757,444	61,545,944
Food and beverage	27,432,424	34,621,334
Other hotel services	1,921,451	1,955,777
Trade goods	369,089	462,029
TOTAL	**86,480,408**	**98,585,084**

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

	2018	2019
Sales – domestic customers	11,455,574	15,074,258
Sales – foreign customers	61,548,161	70,610,281
Miscellaneous /i/	13,476,673	12,900,545
Total	**86,480,408**	**98,585,084**

/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 INCOME

	2018	2019
Income from marketing and other services	202,166	5,045,474
Rental income	1,965,121	3,198,253
Recharged costs of lessees	811,755	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	-	107,321
Other operating income	487,876	963,160
TOTAL	**5,172,327**	**10,541,327**

8. COST OF RAW MATERIALS AND SUPPLIES

	2018	2019
Groceries consumed	9,146,081	8,787,861
Electricity	4,221,055	4,189,553
Heating oil and gas	1,401,012	971,927
Water consumed	1,296,754	1,058,538
Alcoholic and soft drinks consumed	1,025,909	1,052,775
Consumables and cleaning supplies	1,012,927	1,162,998
Write-off of small inventory	856,796	1,317,572
Fuel for passenger and freight vehicles	129,367	218,786
Packaging	112,497	162,254
Office supplies	105,651	98,221
Other costs	220,330	314,331
TOTAL	**19,528,379**	**19,334,816**

9. COST OF SERVICES

	2018	2019
Investment and current maintenance	3,510,940	3,056,233
Contractor services	2,715,605	5,667,043
Intellectual services	2,913,094	3,794,131
Commissions and banking services	2,180,070	6,101,699
Utilities	1,401,342	1,402,178
Gross temporary service contract cost	1,226,977	428,376
Student employment agency services	1,066,041	453,574
Recapitalization	1,631,091	-
Telephone, internet and mail	960,281	982,149
Promotion	879,350	572,408
Rentals	392,728	894,905
Music and ZAMP fees	336,404	193,654
Transport services (road and maritime transport)	40,615	68,393
Other services	1,098,588	1,540,150
TOTAL	**20,353,126**	**25,154,893**

10. STAFF COSTS

	2018, restated	2019
Net salaries	18,730,209	17,941,613
Transportation to and from work	789,850	925,375
Taxes and surtaxes	1,829,299	2,123,246
Contributions from salaries	5,298,572	5,196,249
Contributions on salaries	4,258,978	4,016,026
Unused hours off – redistribution	146,860	94,003
Provisions for unused vacation days	986,167	1,116,777
Non-current provisions for termination benefits and jubilee awards	43,872	54,637
Termination benefits	89,339	272,668
Children's gifts, Christmas bonus, nontaxable voucher	464,072	351,446
Performance bonus and holiday pay	952,187	2,474,762
Meal	233,475	224,437
Miscellaneous	32,475	299,037
TOTAL	**33,855,355**	**35,090,276**

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

	2018	2019
Management Board	2.,374,871	1,657,111
of which receipts in kind:	165,346	221,935
Supervisory Board	163,226	179,159
TOTAL	**2,538,097**	**1,836,270**

11. NET LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS

	2018, restated	2019
Impairment of trade receivables	318,338	130,180
Impairment – related parties	9,565,555	1,498,724
TOTAL	**9,883,893**	**1,628,904**

12. OTHER OPERATING EXPENSES

	2018	2019
Reimbursement to students in practice and scholarships	196,373	325,124
Insurance premiums	695,060	766,521
Municipal charges and concessions	1,743,358	1,811,412
Entertainment	99,566	182,812
Travel expenses, per diems, accommodation and field bonus	149,576	209,987
Aid to employees	80,000	95,000
Charges to Hrvatske vode	1,649,047	1,822,447
Taxes and contributions irrespective of result	269,986	318,351
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	225,064
Charges for disabled persons	61,916	67,500
Non-depreciated value of retired assets	200,853	3,415,643
Other operating expenses	905,777	2,427,500
TOTAL	**6,672,654**	**12,530,784**

13. FINANCE INCOME AND COSTS

	2018	2019
Finance income		
Ordinary and default interest	1,705	263,125
Translation gains	1,758,532	544,592
	1,760,237	**807,717**
Finance costs		
Ordinary and default interest	(2.594.283)	(2,367,687)
Translation losses	(635,306)	(913,556)
Lease interest costs	-	(525,425)
Interest on court judgments	(58,900)	-
	(3,288,489)	**(3,806,668)**
NET FINANCE (COSTS)/INCOME	**(1,528,252)**	**(2,998,951)**

14. INCOME TAX

The Company is 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 Restated	2019
Accounting loss before tax	**(13,381,907)**	**(4,774,369)**
18% income tax	(2,408,743)	(859,387)
Expenses not recognized for tax purposes	1,881,985	713,837
Income not recognized for tax purposes	(94,222)	(20,066)
Unrecognized deferred tax assets	620,980	165,615
Income tax	-	-

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

14. INCOME TAX (CONTINUED)

As of 31 December 2019, the temporary tax differences that are not recognized as deferred tax assets and relate to Property, Plant and Equipment amounted to HRK 18,897 thousand. In the following periods, the Company will consider recognizing deferred tax assets as required by IAS 12.

Deferred tax assets are adjusted as follows:

	2018, restated	2019
Balance at 1 January	**334,471**	**334,471**
Increase in deferred tax assets	-	-
Decrease in deferred tax assets	-	(334,471)
Balance at 31 December	**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, restated	(6,359,699)	2022
2018, restated	(3,449,889)	2023
2019	(920.085)	2024
	(10.729.673)	

15. LOSS PER SHARE

	2018 Restated	2019
Profit/(loss) attributable to shareholders	**(13,381,907)**	**(4,774,369)**
Weighted average number of ordinary shares used to calculate basic/diluted earnings per share	40,831,220	27,971,463
Basic and diluted loss per share	**(0.33)**	**(0.17)**

16. PROPERTY, PLANT AND EQUIPMENT

Description	Land	Buildings *Restated*	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**	**1,008,506,923**
Direct asset additions	-	200,049	2,930,994	-	3,622,979	6,754,022
Retirement and disposal	-	-	(3,535,431)	-	-	(3,535,431)
Balance at 31 December 2018	**298,373,065**	**654,206,334**	**53,833,442**	**210,806**	**5,101,866**	**1,011,725,513**
Adjustment of the initial balance at application of IFRS 16 on 1 January 2019	-	-	(91,957)	-	-	(91,957)
Balance at 1 January 2019	**298,373,065**	**654,206,334**	**53,741,485**	**210,806**	**5,101,866**	**1,011,633,556**
Direct asset additions /i/	-	52,945,528	48,580,249	647,166	30,753,550	132,926,493
Retirement and disposal	-	(22,674,410)	(3,877,191)	-	-	(26,551,601)
Balance at 31 December 2019	**298,373,065**	**684,477,453**	**98,444,543**	**857,972**	**35,855,416**	**1,118,008,449**
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)**
Balance at 31 December 2018, restated	**-**	**467,942,544**	**25,745,697**	**210,806**	-	**493,899,047**
Adjustment of the initial balance at application of IFRS 16 on 1 January 2019	-	-	(32,875)	-	-	(32,875)
Balance at 1 January 2019	**-**	**467,942,544**	**25,712,822**	**210,806**	**-**	**493,866,170**
Depreciation	-	8,147,056	7,175,052	57,476	-	15,379,584
Retirement and disposal	-	(19,538,468)	(3,486,984)	-	-	(23,025,452)
Balance at 31 December 2019	**-**	**456,551,132**	**29,400,890**	**268,282**	**-**	**486,220,304**

NET BOOK VALUE						
1 January 2018, restated	**298,373,065**	**194,996,775**	**29,282,055**	**-**	**1,478,887**	**524,130,781**
31 December 2018, restated	**298,373,065**	**186,263,790**	**28,087,745**	**-**	**5,101,866**	**517,826,466**
1 January 2019	**298,373,065**	**186,263,790**	**28,028,663**	**-**	**5,101,866**	**517,767,384**
31 December 2019	**298,373,065**	**227,926,321**	**69,043,653**	**589,690**	**35,855,416**	**631,788,145**

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The additions in 2019 relates to: buildings HRK 52,945,528 relates to investments in hotel facilities (upgrading, improvement of camps and other construction work), equipment of HRK 45,580,249 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 Company is a party to the following loan agreements where loans are secured by Company's properties:

- HBOR Long-Term Loan DT-6/15 – for the renovation of part of Hotel Omorika and improvement of the Auto- Camp in Selce; 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.

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 total amount of tangible assets fully depreciated and still used totals = HRK 28.320,179.

17. 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)
Balance at 31 December 2018	**1,690,537**	**1,690,537**
Direct asset additions	72,703	72,703
Retirement and disposal	(62,190)	(62,190)
Balance at 31 December 2019	**1,701,050**	**1,701,050**
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)
Balance at 31 December 2018	**1,563,578**	**1,563,578**
Amortisation	65,232	65,232
Retirement and disposals	(58,508)	(58,508)
Balance at 31 December 2019	**1,570,302**	**1,570,302**

NET BOOK VALUE		
31 December 2017	**196,720**	**196,720**
31 December 2018	**126,959**	**126,959**
31 December 2019	**130,748**	**130,748**

18. FINANCIAL ASSETS

	31 Dec. 2018	31 Dec. 2019
Hoteli Novi d.d. in bankruptcy	4,384,800	4,384,800
Iimpairment 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)	-
TOTAL	**-**	**-**

19. INVESTMENTS IN SUBSIDIARIES

			31.12.2018.	31.12.2019.
Club Adriatic /i/	Republika Hrvatska	100%	60,500,000	60,500,000
Stolist /ii/	Republika Hrvatska	100%	-	976,685
UKUPNO			**60,500,000**	**61,476,865**

/i/ Club Adriatic
CLUB ADRIATIC d.o.o., having its registered office at Savska cesta 41/V, Zagreb, Company ID. No.: 44661735229, performs the following principal activities: provision of services in nautical, rural, medical, hunting, conference and other forms of tourism, provision of other tourism services, sport facility management, sport recreation and organization of sporting and cultural events, preparation of food and provision of food services, preparation and serving of drinks and beverages, provision of accommodation services, preparation of food to be consumed elsewhere (in vehicles, at events, etc.) and supply of that food (catering), etc. The Company operates a hotel and a camp at Baško polje. Hotel Alem has 99 double rooms and 9 double suites and the annexes have 198 more double rooms. Baško Polje Camp, classified as 3 stars, has 600 pitches, 17 bungalows and 16 mobile homes. Club Adriatic d.o.o. is undergoing a pre-bankruptcy settlement procedure, which was brought against it on 10 October 2014.
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.

On 19 December 2018, the Company acquired 100% shares in Club Adriatic d.o.o.

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

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

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.

19 INVESTMENTS IN SUBSIDIARIES (continued)

On 19 December 2019, the Commercial Court in Zagreb issued Decision No. Stpn-217/2015, which authorized the pre-bankruptcy settlement agreement between CLUB ADRIATIC d.o.o. as the debtor and its creditors.

/ii/ Stolist - On 18 June 2019, the Company entered into an agreement to acquire Stolist d.o.o. Pursuant to such Agreement, the Company acquired 100% of the shares in said company. The Company paid HRK 976,685 to acquire Stolist d.o.o.

20. INVENTORIES

	31 Dec. 2018	31 Dec. 2019
Raw materials and supplies in storage	429,856	343,728
Cost – low value items, tires in use	10,349,518	11,667,090
Impairment of low value items and tires	(10,349,518)	(11,667,090)
Trade goods	22,614	22,642
Inventories – packaging	-	30,638
TOTAL	**452,470**	**397,008**

21. TRADE RECEIVABLES

	31 Dec. 2018, restated	31 Dec. 2019
Trade receivables - domestic	1,561,366	5,615,319
Trade receivables – foreign	979,987	1,077,139
Impairment of trade receivables	(1,154,035)	(1,033,842)
Receivables from related parties /i/	18,109,205	20,478,261
Impairment of trade receivables from related parties	(9,565,555)	(11,064,280)
Other trade receivables	-	60,253
TOTAL	**9,930,968**	**15,132,850**

/i/ During 2018. the Company signed settlement agreements to purchase the debts owed by Club Adriatic d.o.o. to its creditors, whereby it undertook to pay the debt to such creditors as part of the pre-bankruptcy settlement agreement. By 31 December 2018, having signed the settlement agreements, Jadran d.d. purchased HRK 18,109,205. This amount was adjusted to HRK 9.565.555. As at 31 December 2019 the amount receivable from the related party Club Adriatic d.o.o., resulting from the purchase of the debts owed by Club Adriatic as part of its pre-bankruptcy settlement in 2019, is HRK 20,478,261.
/ii/ The carrying amount of foreign trade receivables was translated from euros (EUR).

21 TRADE RECEIVABLES (continued)

Maturity structure of total trade receivables:

Company	Gross trade receivables		Impairment of receivables		Net trade receivables	
	31 Dec. 2018, restated	31 Dec. 2019	31 Dec. 2018, restated	31.12.2019.	31 Dec. 2018, restated	31 Dec. 2019
Not past due	338,022	1,703,400	-	-	338,022	1,703,400
Up to 30 days	8,610,966	586,703	-	-	8,610,966	586,703
31-60 days	215,369	206,591	-	-	215,369	206,591
61-90 days	288,221	734,754	-	-	288,221	734,754
91-180 days	265,245	1,966,324	-	-	265,245	1,966,324
181-365 days	103,098	533,207	-	-	103,098	533,207
365 days and more	10,829,637	21,499,993	(10,719,590)	(12,098,122)	110,047	9,401,871
UKUPNO	**20,650,558**	**27,230,972**	**(10,719,590)**	**(12,098,122)**	**9,930,968**	**15,132,850**

Changes in adjustments for impairments were as follows:

	31 Dec. 2018, restated	31 Dec. 2019
Balance at 1 January	**(1,078,789)**	**(14,054,012)**
Impairment of receivables	(9,861,945)	(1,615,575)
Write-off of previously impaired receivables	221,144	3,571,466
Balance at 31 December	**(10,719,590)**	**(12,098,121)**

22. OTHER RECEIVABLES

	31 Dec. 2018	31 Dec. 2019
Suspense accounts for services accounted for	1,209,945	(109,315)
Recognized lessees' investments /i/	596,278	341,864
Banking charges for loans	401,491	341,402
Receivables for advances given /ii/	401,157	67,448,793
Prepayments – heating fuel	194,376	187,832
Prepayments- consulting	-	150,000
Prepayments- other costs	173,888	102,623
TOTAL	**2,977,135**	**68,463,199**

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

/ii/ 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, advance given to RR Concept in amount of HRK 8,513,831 (contractor responsible for works on Ad Turres Resort and Omorika), and other prepayments made to suppliers.

23. RECEIVABLES FOR LOANS MADE TO ASSOCIATED COMPANIES

	31 Dec. 2018	31 Dec. 2019
Receivables for loans made to associated companies /i/	-	14,250,728
TOTAL	**-**	**14,250,728**

/i/ The receivables from associated companies of HRK 14,250,728 relate to short-term loans made to Club Adriatic d.o.o., amounting to HRK 14,000,000 plus HRK 250,728 in interest. The loans were made at an interest rate of 3.96%, subject to repayment on lender's first demand.

24. CASH AND CASH EQUIVALENTS

	31 Dec. 2018	31 Dec. 2019
Bank balances - domestic currency	112,355,773	13,946,295
Bank balances - foreign currency /i/	13,141,226	7,313,858
Cash on hand	5,165	1,047
TOTAL	**125,502,164**	**21,261,200**

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

25. CAPITAL AND RESERVES

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

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

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

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

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

Pursuant to the Share Capital Increase Resolution, the share capital was increased by a cash contribution. The Issuer's General Meeting determined the price of the New Shares to be HRK 17.25 per New Share. According to the General Meeting's Share Capital Increase Resolution, up to 16,390,360 New Shares were issued at a price of HRK 17.25, whereby the Issuer's share capital was increased from HRK 282,507,090 by up to HRK 282,733,710 to no more than HRK 565,240,800. As required, the share capital increase in share capital based on the commitment made was registered in the Court Registry of the Commercial Court in Rijeka on 3 October 2018.

25. CAPITAL AND RESERVES (CONTINUED)

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 Dec 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**

26. PROVISIONS

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

Trends of 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**

27. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 Dec. 2018	31 Dec. 2019
Secured creditor – Croatia osiguranje	3,436,816	-
Interest in currency	112,854	363,748
Long-term loans-HBOR-DT-6/15 /i/	3,391,580	2,041,807
Long-term loans-HBOR-DT-1/16 /ii/	15,846,753	13,780,150
Long-term loans-HBOR-DT-10/16 /iii/	8,234,047	8,029,819
Long-term loan-PBZ – 2016 – 5110217867 /iv/	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
Finance lease	76,561	-
TOTAL LIABILITIES	**83,136,646**	**186,721,023**
Current maturities of long-term loans in the current year	(4,700,740)	(14,400,750)
Current maturities under finance leases in the current year	(10,573)	-
Interest in currency	(112,854)	(363,748)
Liabilities to Croatia osiguranje – secured	(3,436,816)	-
CURRENT LIABILITIES	**(8,260,983)**	**(14,764,498)**
NON-CURRENT LIABILITIES	**74,875,663**	**171,956,525**

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

	31 Dec. 2018	31 Dec. 2019
EUR	79,699,829	186,271,023

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

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

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

/iv/ In 2016, the Company entered with Privredna banka Zagreb d.d. into a long-term loan agreement for EUR 7,400,000, repayable over 6 years, 1-year and 6 months grace period, 2.6% interest rate, for the renovation of facilities and upgrading of Hotel Varaždin (Katarina) and Hotel Esplanade and to purchase the receivables from Veneto banka d.d.. This Agreement was entered into in December of 2016. EUR 7,343,852 of the loan was drawn down and the loan start date was 20 July 2019.

/v/ In 2019, the Company entered into a long-term loan agreement with Privredna banka Zagreb d.d. for a loan of EUR 12,500,000.00 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)

/vi/ In 2019, the Company entered into a long-term loan agreement with Erste&Steiermaerkische Bank d.d. for a loan of EUR 13,441,000.00 repayable over 10 years, with an interest rate of 2.1%, to be used for investments – purchasing and other costs of acquiring Club Adriatic d.o.o. Zagreb

28. OTHER NON-CURRENT LIABILITIES

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

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

29. TRADE PAYABLES

	31 Dec. 2018	31 Dec. 2019
Domestic trade payables	9,629,243	19,025,367
Foreign trade payables	63,337	312,077
TOTAL	**9,692,580**	**19,337,444**

30. LIABILITIES FOR ADVANCES, DEPOSITS AND GUARANTEES

	31 De. 2018	31 Dec. 2019
Advances received /i/	3,084,303	1,746,947
Deposits and down payments	548,862	576,461
TOTAL	**3,633,165**	**2,323,408**

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

31. LIABILITIES TO EMPLOYEES

	31 Dec. 2018 restated	31 Dec. 2019
Net salaries payable	1,561,737	1,136,596
Unused vacation days	986,167	1,116,777
Liabilities to employees – bonuses	521,137	1,393,817
Liabilities to employees – redistribution of working hours	146,860	94,002
Other liabilities to employees /i/	130,797	186,594
TOTAL	**3,346,698**	**3,927,786**

/i/ Company's other liabilities to employees comprise liabilities for severance pay of HRK 145,983, liabilities for employees transportation to work of HRK 23,486, liabilities for aid to employees of HRK 8,000, liabilities for HRK per diems of HRK 6,148, liabilities for foreign-currency per diems of HRK 1,042, reimbursement for purchasing of HRK 806, and other liabilities to employees of HRK 1,129.

32. LIABILITIES TO THE GOVERNMENT

	31 Dec. 2018	31 Dec. 2019
Contributions from and on salaries	857,537	599,342
Personal income tax and surtax	293,000	134,255
Other liabilities to the government	282,022	83,842
TOTAL	**1,432,559**	**817,439**

33. OTHER CURRENT LIABILITIES

	31 Dec. 2018	31 Dec. 2019
Other liabilities-interest due to secured creditors /ii/	2,203,489	-
Accrual of received capital aid /i/	871,021	862,087
Deferred income	494,571	442,243
Fees based on temporary service agreements	113,744	18,186
Scholarships	4,800	35,200
Other liabilities – unpaid to bankruptcy creditors	6,695	6,695
Other liabilities – investment in Camp Selce to be settled	209,734	209,734
Other liabilities- bank fees	-	44,711
TOTAL	**3,904,054**	**1,618,856**

/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/ Interest due to secured creditors of HRK 2,203,489 relate to accrued interest to be paid to secured creditors/former employees of Jadran under the settlement agreements entered into with employees.

34. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS

In 2019, the Company 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 Jan. 2019	31 Dec. 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	16,000,001	16,059,093

As stated in Note 2.8.2, the Company use the practical expedient allowed for short-term and low-value leases. In 2019, short-term leases and low-value leases amounted to HRK 894,905. (Note 9).

35. CONTINGENT LIABILITIES

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

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

The process of Company'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 Company 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, namely in Selce Campsite and Kačjak Camping Site. As the owners of such modular structures refuse to remove them and surrender the plots, the Company took legal action for the purpose of repossessing the land/plots. Company'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 Company is a party to proceedings for the restitution of and compensation for property seized and enforcement proceedings to collect debt owed to it by third parties.

36. RELATED PARTY TRANSACTIONS

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

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

The main transactions with related parties during 2019 and 2018 were as follows:

31 Dec 2018 restated

Company	Revenue	Expenses	Receivables	Liabilities
Club Adriatic	-	-	8,543,650	-
TOTAL	**-**	**-**	**8,543,650**	**-**

31.12.2019.

Company	Revenue	Expenses	Receivables	Liabilities
Stolist	7,000	-	8,750	(12,500)
Club Adriatic	581,238	(24,574)	24,070,332	(128,086)
TOTAL	**588,238**	**(24,574)**	**24,079,082**	**(140,586)**

37. FUTURE COMMITMENTS

a) Operating lease commitments

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

	31 Dec. 2018	31 Dec. 2019
Current year expense	65,344	-
TOTAL	**65,344**	**-**

38. 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 Company 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 Company 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 Company earned HRK 5,255,141 in the first five months of 2020 compared to HRK 15,469,835 as planned and HRK 12,369,684 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 Company's liquidity after the measures suspending hospitality activities were imposed, i.e. from mid-March 2020, during which period the Company 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 Company drew down HRK 30,666,386 from Erste & Steiermärkische bank d.d.

Complying with such Government measures, the Company 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 Company 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.

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

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

New leasing arrangements

On 20 February 2020 the Company, 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.

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 April2020.

After entering into possession of the leased accommodations the Issuer has increased its capacity by 403 accommodation units.

38. EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

New debt

In March 26th, 2020, the Company 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.

39. NET DEBT

	Cash	Liabilities to financial institutions	Lease liability
Net debt as at 31 December 2017	**2,652,470**	**89,389,237**	**-**
Cash flows	122,849,694	(9,881,978)	-
Principal amount repayment	-	*(10,008,957)*	-
Principal amount received	-	*2,649,422*	-
Interest	-	*(2,622,443)*	-
Translation differences	-	1,067,110	-
Other non-cash movements	-	2,662,277	-
Net debt as at 31 December 2018	**125,502,164**	**83,136,646**	**-**
Cash flows	(104,240,964)	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	-	2,237,896	18,150,409
Net debt as at 31 December 2019	**21,261,200**	**186,721,023**	**17,344,062**

40. FEES TO AUDITORS

In 2019, the auditors of Company's financial statements provided services worth HRK 260 thousand (2018: HRK 178 thousand). The services provided in 2018 and 2019 relate to audits 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.

MANAGEMENT REPORT

1. KEY OPERATING INFORMATION

Key operating indicators for the Company

	2018	2019	2019/2018
Number of accommodations (capacity)	1,760	1,889	7.3%
Number of bed-places	4,140	4,400	6,3%
Full occupancy days	93	89	-4.3%
Annual occupancy rate (%)	35%	32%	-
Number of accommodations sold	235,163	218,904	-6.9%
Number of overnights	405,237	392,072	-3.2%
ADR (in HRK)	303	368	21.5%
RevPar (in HRK)	38,904	42,913	10.3%

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

Key financial indicators for the Company

	2018[1]	2019	2019/2018
TOTAL REVENUE	**93,412,971**	**109,934,128**	**18%**
SALES REVENUE	86,480,407	98,585,084	14%
OTHER OPERATING REVENUE	5,172,328	10,541,327	104%
TOTAL EXPENSES	**106,794,879**	**114,708,497**	**7%**
OPERATING EXPENSES	103,506,390	110,901,829	7%
MATERIAL COSTS	40,111,526	44,670,363	11%
PERSONNEL COSTS	33,855,355	35,090,276	4%
DEPRECIATION	12,982,962	16,981,502	31%
VALUE ADJUSTMENT	9,883,893	1,628,904	-84%
OTHER COSTS	6,672,654	12,530,784	88%
FINANCIAL INCOME	1,760,237	807,717	-54%
FINANCIAL EXPENSES	3,288,489	3,806,668	16%
EBITDA	**1,197,993**	**15,165,401**	**1166%**
EBITDA MARGIN	1%	13%	976%
NORMALIZED EBITDA[2]	**15,739,720**	**25,417,656**	**61%**
NORMALIZED EBITDA MARGIN	17%	22%	37%
EBIT	**-11,784,969**	**-1,816,102**	**-85%**
NORMALIZED EBIT[3]	2,756,758	8,436,153	206%
EBT	**-13,381,907**	**-4,774,369**	**-64%**

* 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 COMPANY INFORMATION

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 comprises the following members:

I. 1 January 2019 to 30 June 2019:
- Tomislav Kitonić of Bojana – Chairman of the Supervisory Board;
- Ante Jelčić of Zagreb – Deputy Chairman of the Supervisory Board;
- Dragan Magaš of Crikvenica – Supervisory Board Member;
- Mirko Herceg of Zagreb – Supervisory Board Member; and
- Ivan Blažević of Crikvenica – Supervisory Board Member.

II. 1 July 2019 to 26 August 2019:
- Tomislav Kitonić of Bojana – Chairman of the Supervisory Board;
- Dragan Magaš of Crikvenica – Supervisory Board Member;
- Mirko Herceg of Zagreb – Supervisory Board Member; and
- Ivan Blažević of Crikvenica – Supervisory Board Member.

III. 26 August 2019 to 31 December 2019:
- Tomislav Kitonić of Bojana – Chairman of the Supervisory Board;
- Karlo Došen of Zagreb – Deputy Chairman of the Supervisory Board as of 31 October 2019;
- Dragan Magaš of Crikvenica – Supervisory Board Member;
- Mirko Herceg of Zagreb – Supervisory Board Member; and
- Ivan Blažević of Crikvenica – Supervisory Board Member.

In 2019, the Company was managed by its Management Board comprising the following members:
- Goran Fabris of Mate Balota 5, Poreč – Chairman of the Management Board; and
- Karlo Čulo of PRISOJ 52, Zagreb – Management Board Member.

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

The Company 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

In 2019, Jadran d.d.:

- used available resources:
    - material – the assets were diligently protected to the extent possible;
    - financial – all obligations have been discharged;
    - HR – a rational organizational approach;
- retained and confirmed its market position; and
- its business processes were conducted without interruption.

As of 31 December 2019, the Company's share capital was HRK 482,507,730, divided into 27,971,463 ordinary shares with no nominal value. The shares were issued in dematerialized form under ticker symbol JDRN-R-B, ISIN: HRJDRNB0002, and are held in custody of Central Depositary and Clearing Company's Depository.
The Company's VAT No. (OIB) is 56994999963, EUID: HRSR.040000817, and its registration number (MBS) is 040000817.

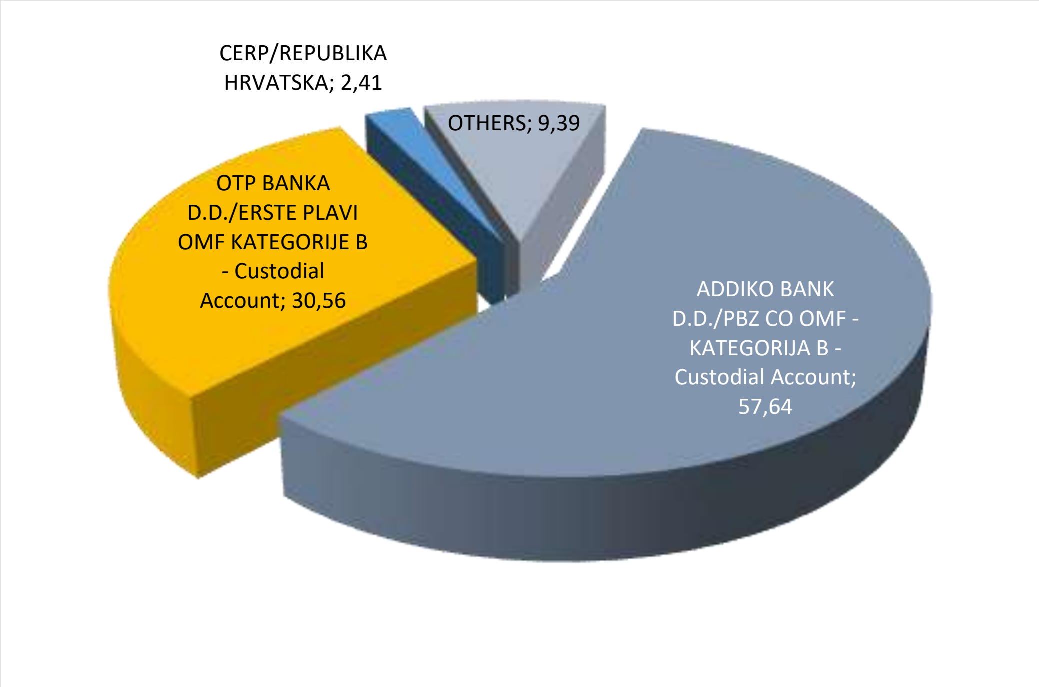
The largest individual shareholders are PBZ CO OMF-CLASS B which holds 57.64% of shares and ERSTE PLAVI OMF CLASS B which holds 30.56% of Company's shares. Other shareholders of Jadran d.d. include the Restructuring and Sale Center/Republic of Croatia with 2.41% of shares, Hrvatske vode with 0.74 %, 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 as at 31 December 2019

Naziv investitora	**Stanje**	**%**
ADDIKO BANK D.D./PBZ CO OMF - KATEGORIJA B (1/1)- Custodial Account	16.121.391	57,64
OTP BANKA d.d. /ERSTE PLAVI OMF KATEGOSRIJE B- Custodial Account	8.547.346	30,56
CENTAR ZA RESTRUKTURIRANJE I PRODAJU - CERP (0/1) REPUBLIKA HRVATSKA (1/1) ZS	673.666	2,41
HRVATSKE VODE, PRAVNA OSOBA ZA UPRAVLJANJE VODAMA (1/1)	208.292	0,74
GRAD CRIKVENICA (1/1)	184.056	0,66
OTP BANKA D.D./ERSTE PLAVI EXPERT - DOBROVOLJNI MIROVINSKI FOND (1/1)- Custodial Account	174.249	0,62
OTHER SHAREHOLDERS	2.062.463	7,37
UKUPNO	**27.971.463**	**100,00**

Source: skdd.hr

Chart 1: Major shareholders as at 31 December 2019



Source: skdd.hr

The organizational structure was not changed in 2019. The Company operates through seven departments managed by the respective department directors. In addition, the Hotel Operations Department comprises ten profit centers and the Management Board operates a Management Board Office:

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

In 2019, the Company 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, Jadran added 129 accommodations to its overall capacities.

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

In 2019, the Company also recorded the following relevant events:

- On 18 June 2019, the STOLIST d.o.o. Share Transfer Agreement was executed, whereby we have become a sole shareholder in that company. As a result of acquiring STOLIST d.o.o., we have become 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 CA 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 of 2020.

In 2019, 1,359 accommodations in brick & mortar facilities and 530 accommodations in the camp and the camping site were available to the Company, which totals 1889 accommodations. In one day, Jadran is able to accomodate up to 4,400 persons – 2,810 in brick & mortar facilities and 1,590 in the camp and the camping site.

Table 2: Company's accommodation capacities

PROPERTY	Class	Number of accommodations	Number of bed-places
KAČJAK	2* rooms	185	435
OMORIKA	4*	169	350
AD TURRES RESORT	3* resort	351	663
AD TURRES HOTEL	3*	40	80
ESPLANADE	4*	38	76
ZAGREB	2*	40	64
INTERNATIONAL	2*	52	82
KAŠTEL	3*	73	178
KATARINA	4*	152	352
SLAVEN HOTEL	3*	50	85
SLAVEN PAVILIONS	2* rooms	161	322
SELCE CAMP	3*	500	1.500
KAČJAK CAMPING SITE	Camping site	30	90
DELFIN	Boarding house	48	123
TOTAL BRICK & MORTAR FACILITIES		**1,359**	**2,810**
TOTAL OTHER		**530**	**1,590**
GRAND TOTAL		**1,889**	**4,400**

Source: Jadran d.d.

Thanks to the investment cycle, the structure of capacities by class was improved in 2019 compared to the preceding year because the Company had Hotel Ad Turres reclassified as a 3* hotel (it had been classified as a 2* hotel until 2019) and had the Ad Turres pavilions reclassified as a resort (they were classified as 2* rooms for rental until 2019).
56% of all accommodations are classified as 3*, 19% are classified as 4*, and 24% are classified as 2*.

The Company's portfolio covers the entire Crikvenica Riviera (from Dramalj, where Kačjak is located, to Selce, where Hotel Katarina, Hotel Selce and Selce Camp are located) and, as of 2019, Omišalj on the Island of Krk where Delfin Boarding House is located. The figure below presents the locations of Company's properties.

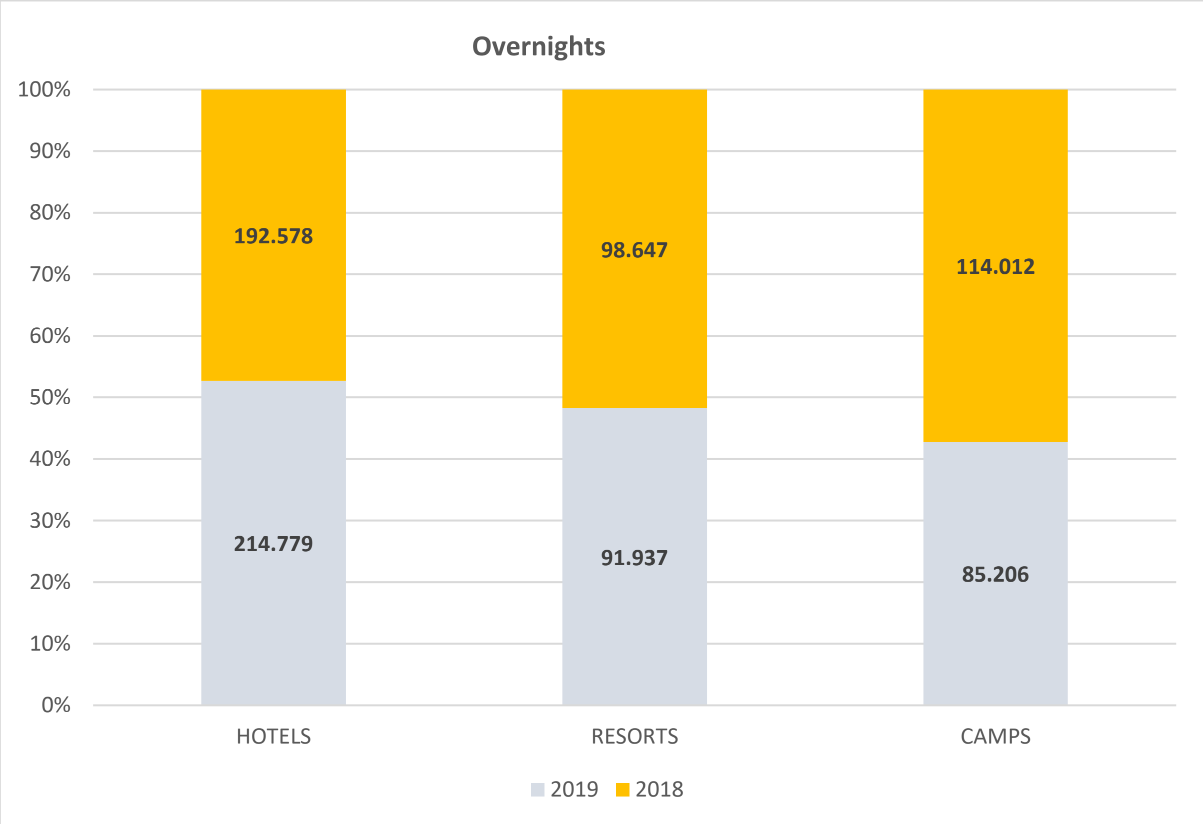
Figure 1: Locations of Company's properties

Source: earth.google.com

3. REALIZED OVERNIGHTS

In 2019, the Company recorded a total of 391,922 overnights, which is 3.29% less than the number of overnights recorded by the Company in 2018. By type of facility, in 2019 hotels recorded a total of 214,779 overnights, which is 11.53% more than in 2018, resorts recorded 6.8% less overnights than in 2018 (91,937 overnights), and camps recorded a total of 85,206 overnights, which is 25.27% less than in 2018. The chart below presents the overnight trends by type of facility in 2018 and 2019.

Chart 2: Overnights recorded by the Company in 2018 and 2019



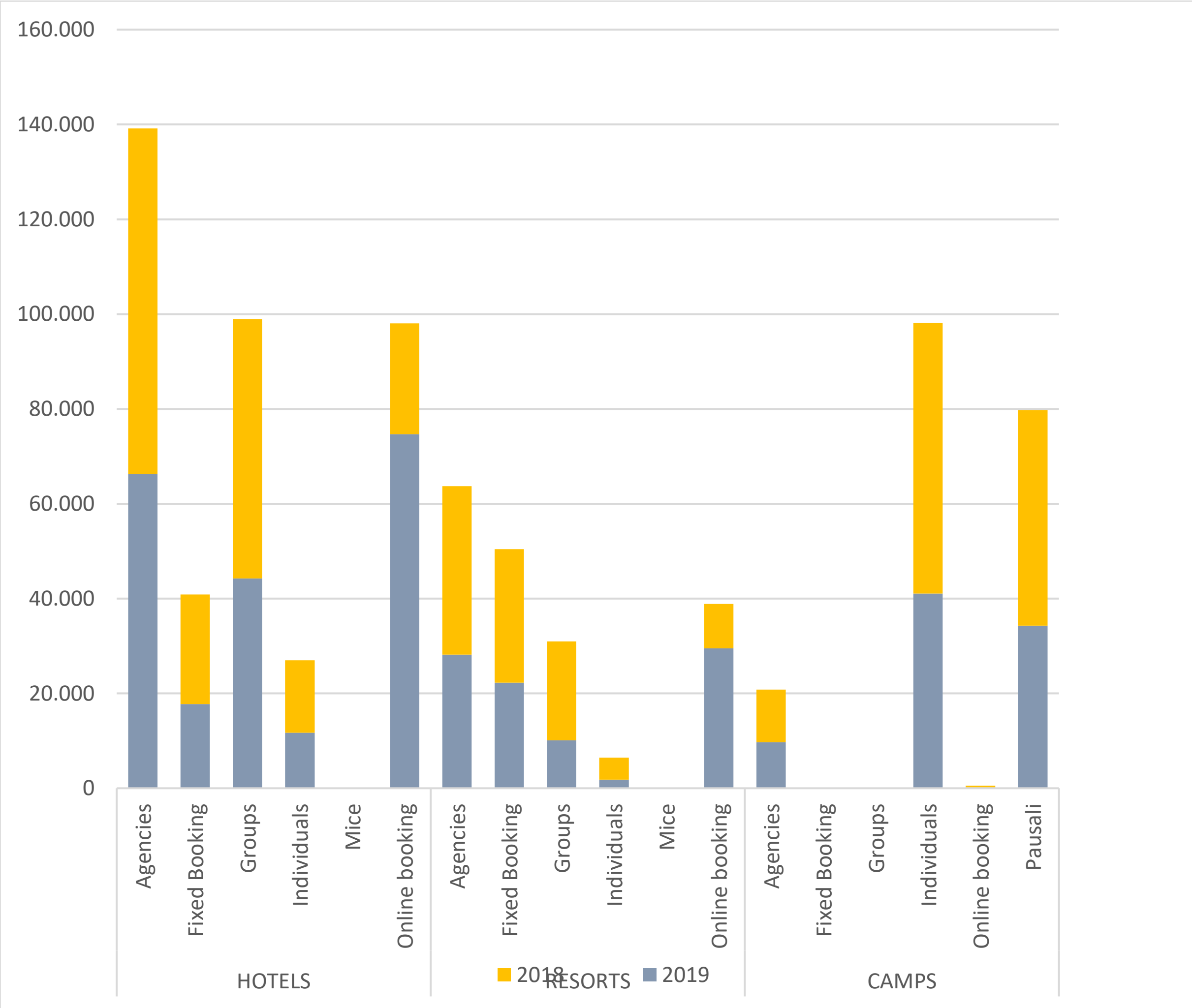
Source: Jadran d.d.

In late 2018 and throughout 2019, Jadran 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.

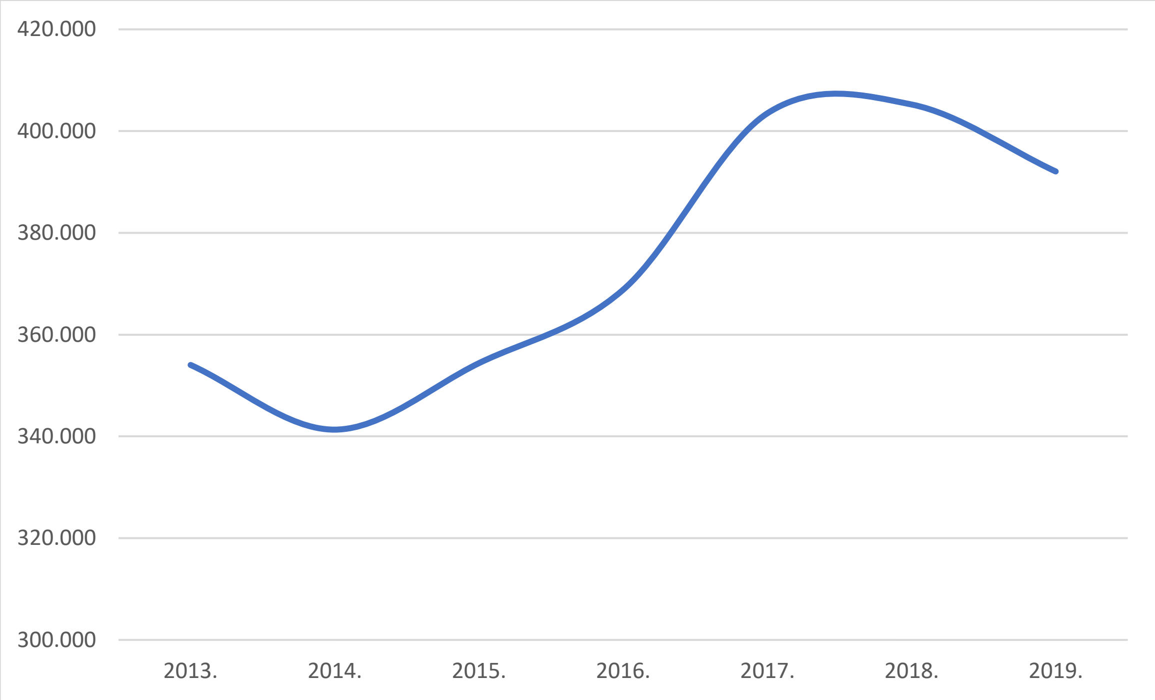
Chart 3: Overnights by sales channel in 2018 and 2019



Source: Jadran d.d.

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.

Chart 4: Trends in overnights 2013-2019



Source: Jadran d.d.

During the analyzed 7-year period, the average overnight growth rate was 1.72%, the occupied accommodation growth rate was 2.2%, the arrivals growth rate was 3.27%, whereas the stay length growth rate was negative, which means that the length of stay reduced during this period from 2.35 days in 2013 to 2.21 days in 2019.

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.

4. COMPANY BUSINESS PERFORMANCE

In 2019, the Company earned total revenue of HRK 109,934,128, which is 18% more than in 2018. Total expenses were 114,708,497, which is 7% more than the expenses incurred in 2018. In 2019, the Company incurred a loss of HRK 4,774,369, which is 64% less than the loss incurred in 2018. EBITDA was HRK 15,165,401, HRK 13,967,408 more than the EBITDA obtained in 2018.

Errors made in the preceding year were restated in 2019 – total costs were adjusted by HRK 575,553, thus reducing them from HRK 107,370,433 to HRK 106,794,879. Total revenue for 2018 was not adjusted.

Total operating revenue was HRK 109,126,411, 19% more than the revenue obtained in 2018, with sales revenue rising by 14% and totaling HRK 98,585,084 and other revenue of HRK 10,541,327 exceeding that earned in 2018 by 104%.

In 2019, the Company particularly focused on the effective management of its noncore assets, which results in lease income of HRK 3,967,653, 43% more compared to the same period in 2018.

The increase in Company's revenue in 2019 is largely a result of two factors: the new investment cycle and higher prices resulting from higher facility and service quality levels. The first factor allowed the Company to become more competitive and raise its prices based on raising the facility and service quality levels. The second one allowed the Company to increase its revenue through more aggressive sales of accommodation capacities via direct channels.

It should be taken into account that, due to a number of objective circumstances, the investment cycle was not completely implemented, with only HRK 92 million of the HRK 132.6 million reserved having been invested so far. It should also be underlined that some of the accommodation capacities were not operational until early August and Hotel Ad Turres was closed the entire year.

Financial income earned in 2019 was HRK 807,717, 54% less than such income obtained in 2018.

In 2019, the Company incurred total operating costs of HRK 110,901,829, which is 7% more than the costs incurred in 2018. The greatest increase was recorded in service costs – in 2019 they amounted to HRK 25,154,893, 24% more compared to 2018, primarily relating to investment planning, development and management costs.

In 2019, the costs of raw materials and supplies totaled HRK 19,334,816, which is approximately on the same level as recorded in 2018.

In 2019, the personnel costs amounted to HRK 35,090,276, which is 4% more than the costs incurred in 2018. It should be considered that, between June and August 2019, Jadran 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 paid a total of HRK 2,357,053 for these items this year.

Other operating expenses incurred in 2019 amounted to HRK 12,530,784, 88% more than the expenses incurred in 2018. This increase is for the most part a result of costs relating to business consolidation, development and investments, which are largely one-time costs.

Between January and December of 2019, the Company obtained operating EBITDA of HRK 15,165,401. A series of activities were undertaken in the course of the year to adjust the present value and consolidate business on a long-term basis, which resulted in one-time costs of HRK 10,252,255. Normalized EBITDA was HRK 25,417,656, 61% more than that obtained in the same period in 2018. EBITDA was normalized for one-off items.

5. ASSET MANAGEMENT

5.1. Management of Company assets

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 in early 2019, resulting in an increase in Company's capacities by 129 accommodations/177 bed-places.

In 2019, Jadran entered into 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 into with Hotel Lišanj d.d. This agreement also provides for the lease of the hotel's Horizont Annex, which Jadran committed to take over as soon as it is renovated.

The Company entered into 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 since 2020, the Company now manages a total of 2,279 accommodations and 5,538 bed-places.

5.2. Company's disputes

On completion of the bankruptcy proceeding in 2014, the Company 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's assets remained as of the bankruptcy closure date. The bankruptcy administrator brought 22 legal actions to challenge their right of separate satisfaction against Company's assets. These legal actions did not have a positive outcome vis-à-vis the Company and the Company 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 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 made the relevant payments to its former employees and the relevant mortgages/pledges and annotations were removed from the land registry. The Company took legal action against a former employee with whom no settlement agreement was reached.

The process of Company'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 Company 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, namely in Selce Camp and Kačjak Camping Site. As the owners of such modular structures refuse to remove them and surrender the plots, the Company took legal action for the purpose of repossessing the land/plots.
The Company 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 then leased out. Pursuant to the Decision of Primorje-Gorski Kotar County, these properties were made available to third parties and the Company received no indemnification, considering that the Company 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 is also involved in several disputes with the City of Crikvenica regarding proprietary matters.
The Company 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.

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

6. FUTURE INVESTMENTS

In 2019, the Company 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.

7. EXPOSURE TO RISKS

The primary risks in the business of Jadran d.d. 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 Company 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.

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

Interest rate risk
The Company and the Group are exposed to interest rate risk because they enter into loan agreements with banks with variable interest rates, which exposes the Company and 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 Company and the Group give high importance to this risk. The Company and the Group have 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
Inflation risk is present in contractual relationships where the price of a service or product is indexed and tied to Croatian National Bank's strong HRK policy. As this is an external risk, the ability to eliminate it is minimal. For the purpose of minimizing inflation risk, the Company and 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 Company and the Group manage 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 Company and the Group are 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.

Risk of tax and concession legislation developments

The risk of tax and concession legislation developments is the likelihood that legislative authorities will amend tax legislation in a way that they adversely impact the Company's and 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 Company and the Group and the Company and the Group have actively endeavored to establish new bases for cooperation with the local community in this segment. During the pandemic, the Company and the Group hope 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 Company has become additionally weakened. By launching the aforementioned investment cycle, the Company will endeavor to minimize the impact of adverse market trends and the resulting risks.

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 Company'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 Company's and 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 Company's and Group's accommodation facilities. This risk also includes other natural disasters.

8. EMPLOYEES

As of 31 December 2019, Jadran d.d. had 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 in 2018).

9. RESEARCH AND DEVELOPMENT ACTIVITIES

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

10. OWN SHARE REDEMPTION

As of 31 December 2019, the Company's share capital was HRK 482,507,730, 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 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.

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 Jadran committed to take over following its renovation.

The Company entered into 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.

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 Company 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 Company 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 Company's Management Board 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 appears as the lessee were adjusted to protect liquidity, but also to ensure the financial feasibility of the leases.

The Company and the Group operate 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 Board of the Company estimated that it would have sufficient funds available to meet its obligations becoming due and payable in the foreseeable future. Consequently, the Company 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. RELATIONS WITH AFFILIATES

HRK 588,238 of revenue was earned on transactions with affiliates during the relevant period and the costs incurred during this period amounted to HRK 24,574. As of 31 December 2019, receivables from affiliates totaled HRK 24,079,082 and Company’s liabilities to affiliates totaled HRK 140,586.

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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 dematerialised 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.

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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;

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- 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 organisational 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 organisational 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.

Jadran
dioničko društvo
za hotelijerstvo i turizam
Crikvenica

Goran Fabris
Chairman of the Management Board