

# 2019 Annual Report

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SUNCE KONCERN d.d. GROUP

This report has been approved and released on July 30, 2020

# Sunce koncern d.d. Group at a glance



- ▶ Founded in 2004, today one of the leading tourist groups in Croatia
- ▶ Family owned with institutional investors as significant minority shareholders
- ▶ Parent company of the Group (Sunce koncern d.d.) together with 3 controlling companies (Hoteli Brela d.d., Hoteli Tučepi d.d. & Hoteli Zlatni rat d.d.) listed on ZSE<sup>(1)</sup>



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

<sup>(1)</sup> As of Reporting date (31.12.2019.)



>150.000 guests per year



> 1.500 employees

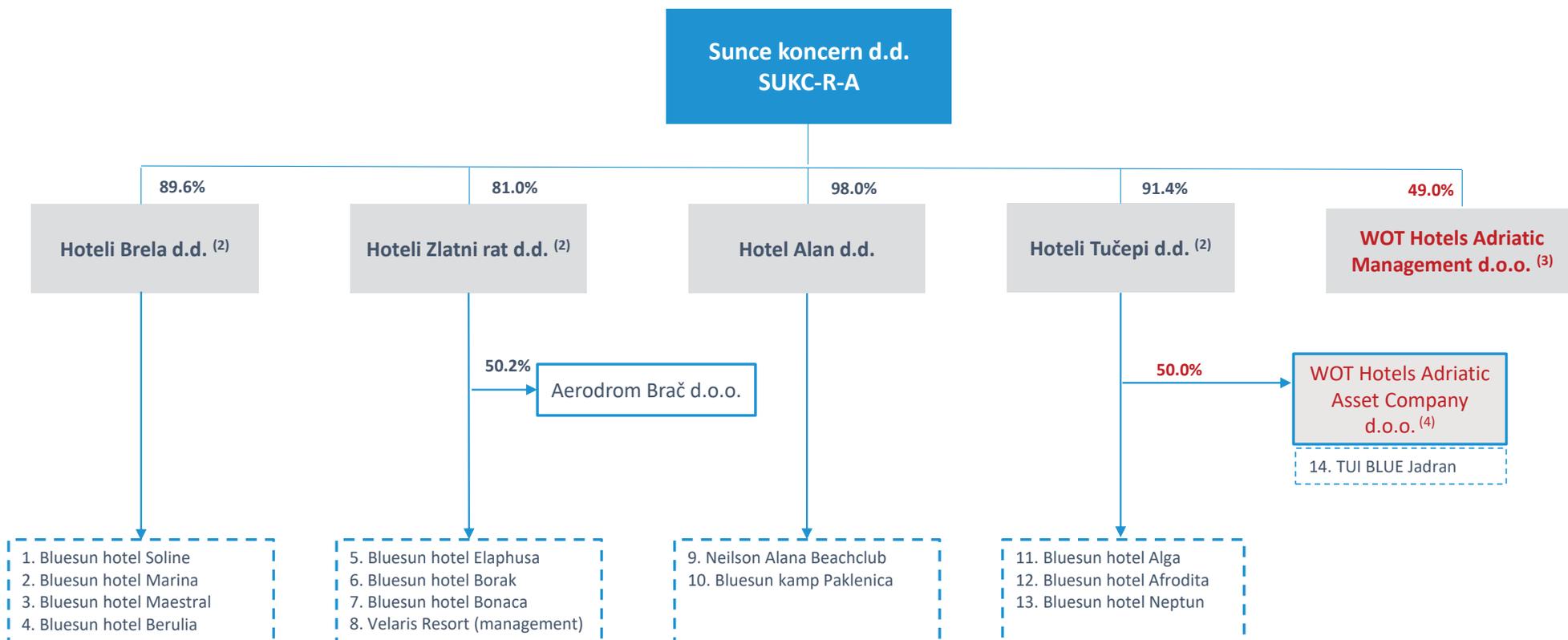


~ 3.000 rooms



400 participants of internal **BLUESUN ACADEMY** annually

# Organizational structure of Sunce koncern d.d. Group <sup>(1)</sup>



(1) Data as of 31.12.2019; Sunce koncern d.d. as a Group has some additional members, but they are immaterial for the Group's performance.

(2) Companies that are also listed on the regulated market of Zagreb Stock Exchange, together with the parent company Sunce koncern d.d.

(3) Management Company established with TUI AG, where TUI AG holds 51% share.

(4) Joint Venture Company with TUI AG.

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# Introduction

## General

Pursuant to Article 462 of the Croatian Capital Market Act, this Annual Report (“the Report”) present the results of operations, financial position, and cash flows of Sunce koncern d.d. and its subsidiaries (collectively referred to in this Report as “we,” “us,” “Sunce,” “Group” or “the Company”) for the fiscal year ended December 31, 2019 (“Reported period” or “Reporting date”).

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

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

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

This Report has been approved and released on July 30, 2020 and the Company and the Group have made disclosures about significant events that happened after the Reporting date.

## Caution Regarding Forward-Looking Statements

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

The forward-looking statements in this report speak only as of the date of this Report, and we undertake

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

# Review of key information about the Group

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

## Description of the Group

Sunce is the parent company of the Group, founded in 2004, which consists of number of different subsidiaries (Hoteli Brela d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hotel Alan d.d.), through which it owns, operates and develops hotels and resorts in prime holiday destinations in Croatia.

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

The companies formed with TUIAG are not consolidated in the Group's Financial Statements.

## Bluesun Hotels & Resorts

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

## Changes in the organisational structure of the Group

Sunce koncern d.d., Trpinjska 9, Zagreb as the controlling company according to the Companies Act provisions and (i) Hoteli Brela d.d., Trg Gospe od Karmela 1, Brela, (ii) Hoteli Tučepi d.d., Dračevica 35, Tučepi, (iii) Hoteli Zlatni rat d.d., Bračka cesta 13, Bol, and (iv) Hotel Alan d.d., Dr. Franje Tuđmana 14, Starigrad, as controlled companies, in order to optimise the organisational structure of the business, on **March 13, 2019**, have approved the necessary actions in order to prepare the merger of controlled companies to Sunce koncern d.d. as the acquiring company.

At its regular General Assembly held on June 28, 2019,

the Company made a decision on the increase of its Share Capital by the amount of HRK 56,073,500.00 by issuing 560,735 new ordinary shares ("New Shares") for the purpose of the Merger of companies Hotel Alan d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hoteli Brela d.d. ("Acquired Companies") into Sunce koncern d.d. On December 31, 2019, the Merger of the Acquired Companies and the Increase of the Share capital of the Company was registered with the Court Register of the Commercial Court of Zagreb. At the same time, amendment of the Company name has also been registered with the Court Register. The Company was renamed from SUNCE KONCERN d.d. za turizam i ugostiteljstvo i turistička agencija to SUNCE HOTELI dioničko društvo za turizam i ugostiteljstvo. The abbreviated company name is SUNCE HOTELI d.d.

## Company's Shares

As of the Reporting date, the Company's share capital consists of 5,393,850 ordinary registered Shares in the nominal amount of HRK 100.00 each, all fully paid-up. The Shares are issued in dematerialised form and deposited with the Croatian Central Depository & Clearing Company Inc. (CDCC) as ordinary registered shares under the ticker SUKC-R-A and ISIN HRSUKCRA0001.

The Shares are listed on the Official Market of the Zagreb Stock Exchange, and they all have equal voting rights.

Except ordinary shares, there are no other type of equity or debt security issued by the Company.

There are no options, warrants or instruments convertible into shares or other agreements relating to the existing shares of the Company or for the issuance of additional shares in any of the Group members.

As of December 31, 2019, the Company did not hold treasury shares.

**General information on Company Shares as at December 31, 2019**

1	Type of share	Ordinary share
2	Trading symbol at CDCC	SUKC-R-A
3	Trading symbol at Zagreb Stock Exchange (ZSE)	SUKC
4	ISIN	HRSUKCRA0001
5	Share Capital	HRK 539,385,000,00
6	Total number of shares issued	5,393,850
7	Date of listing on a Regulated market	08.06.2017 (4,443,062 shares)
8	Market segment	Official Market (from 27.12.2018)

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

**Dividend Policy**

The Company has not distributed any dividends in the 2019 financial year. The Company has defined its dividend policy in its publicly announced financial guidelines on the basis of the Dividend payout ratio - DPR in the range between 30% and 70% for the following three-year period. The Company will consider the policy in light of growth potential available to Group members and may revise said policy from time to time.

**Company's Shareholder Structure**

The Andabak family, i.e. Mr. Jako Andabak together with affiliated parties, have since the Company's

incorporation in 2004, held a majority position within the Company. Mr. Jako Andabak directly holds the majority shareholding and voting rights in the shareholder LUCIDUS d.d. Additionally, Mr. Jako Andabak and affiliated parties are the founders of the company SUNCE ULAGANJA d.o.o.

Institutional investors have become significant minority shareholders of the Company by its listing on the Regulated market of the Zagreb Stock Exchange in June 2017 and the share capital increase by means of a cash contribution in September 2017.

**Top ten shareholders of the Company as at December 31, 2019**

	Shareholder	# of Shares	Ownership (%)
1	Sunce Ulaganja d.o.o.	3,004,672	55.71
2	Lucidus d.d.	1,143,239	21.20
3	Erste Plavi OMF kategorije B	892,898	16.55
4	Raiffesien OMF kategorije B	156,134	2.89
5	PBZ CO OMF – kategorija B	70,460	1.31
6	Raiffeisen dobrovoljni mirovinski fond	68,795	1.27
7	Erste Plavi Expert – dobrovoljni mirovinski fond	25,753	0.48
8	Raiffeisen OMF kategorije A	8,895	0.16
9	Erste Plavi OMF kategorije A	8,162	0.15
10	PBZ CO OMF – kategorija A	5,695	0.11

Source: Central Depository and Clearing Company (CDCC)

## Investments in Associates and Joint Ventures

### Joint ventures

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

### Associates

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

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

## Acquisitions and Dispositions, Discontinued Operations

### Acquisitions

No acquisitions of assets or entities in the Reported period.

### Dispositions

No disposal of assets or entities in the Reported period.

## Derivative Financial Instruments

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

## Commitments and Contingencies

### Lease agreements

The Group occupies one of its hotels under a lease agreement (Velaris Resort via Hoteli Zlatni rat d.d.). This is a long-term arrangement under which the

Group leases a hotel, fixtures, furniture and equipment from a third-party property owner for a certain period of time for a fixed monthly rental payment.

A new accounting standard (IFRS 16) seeking more faithful representation of a company's assets and liabilities and greater transparency about the company's financial leverage has been published with an effective date 1 January 2019. The new standard requires lessees to recognise nearly all leases (other than short-term leases and leases of low-value assets) on the balance sheet which reflect their right to use an asset for a period of time and the associated liability for payments. The most significant balance sheet effect of IFRS 16 is an increase in lease assets and lease liabilities. Regarding the impact on the company's income statement, IFRS 16 results in higher operating profit before interest and taxes compared to the amounts reported applying former IAS 17 standard as applying IFRS 16, a company presents the implicit interest in lease payments for former off-balance sheet leases as part of finance costs.

### Guarantees

We provide a certain number of guarantees to companies that are not members of the Group. These companies are related parties with the majority shareholder of the Company in accordance with the relevant regulation. Our obligations under these guarantees in future periods are dependent on the operating performance level of the related companies over the remaining term of the guarantees. Outstanding amount of guarantees as of date of this Report is listed in accompanying Notes to the Consolidated Financial Statements.

### Claims and lawsuits

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

## Significant events after the Reported period

### Merger process completed

In order to optimise its organisational structure, at its regular General Assembly held on June 28, 2019, the Company made a decision on the increase of its Share Capital by the amount of HRK 56,073,500.00 by issuing 560,735 new ordinary shares ("New Shares") for the purpose of the Merger of companies Hotel Alan d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hoteli Brela d.d. ("Acquired Companies") into Sunce koncern d.d. On December 31, 2019, the Merger of the Acquired Companies and the Increase of the Share capital of the Company was registered with the Court Register of the Commercial Court of Zagreb. At the same time, amendment of the Company name has also been registered with the Court Register. The Company was renamed from SUNCE KONCERN d.d. za turizam i ugostiteljstvo i turistička agencija to SUNCE HOTELI dioničko društvo za turizam i ugostiteljstvo. The abbreviated company name is SUNCE HOTELI d.d. The Company took all necessary actions to implement the Corporate Merger action and the increase of the Company's share capital in the CDCC system (Central Depository & Clearing Company) as soon as possible, as well as the listing of New Shares on the Official Market of the Zagreb Stock Exchange. Consequently, on **January 10, 2020**, the CDCC implemented the Corporate Merger action as well as the increase of the Company's Share Capital in its information system. The New Shares were transferred to minority shareholders of the Acquired Companies in exchange for the shares they held in the Acquired Companies according to the Share exchange ratio and rules set out in the related Merger Agreement. The Acquired Company's shareholders who, according to the calculation of the shares following the exchange, had not received a whole number of the Acquiring Company's shares, their number of exchanged shares had been rounded down to the nearest whole number by the Acquiring Company, and the difference had been calculated as a cash payment in proportion to the estimated value of the Acquired Companies' shares. Additionally, given that a number of New Shares remained unallocated to the Acquired Companies' shareholders, 1,163 Shares had been allocated to the Company's own shares (0.0195% of the Company's Share capital). Following completion of the Corporate Merger action, the new total Share capital of the Company amounts to HRK 595,458,500.00 and is divided into 5,954,585 shares, share ticker SUKC-R-A, with individual nominal amount of HRK 100.00.

Regarding the possibility of trading with the New

Shares, the Zagreb Stock Exchange approved the listing of New Shares on the Official Market on January 8, 2020, and designated January 10, 2020 as the first trading day. In conclusion, as a result of the Corporate Merger action, the Company increased the percentage of free-float and the number of individual shareholders, which combined should have a positive effect on the liquidity of the Companies' shares. As of January 10, 2020, the percentage of free-float in accordance with the Zagreb Stock Exchange Rules is 30.32%, while around 2,200 individual shareholders of the Company were registered in the CDCC system. All relevant regulatory notices together with the document on the issue of shares of the Company for the implementation of the merger procedure and the effect of the merger on the Company were available during the procedure on a special website of the company [www.bluesunhotels.com/investitori/pripajanje](http://www.bluesunhotels.com/investitori/pripajanje).

### COVID-19 impact on Business activities

Sunce hoteli d.d. pursuant to the issued recommendations of ESMA (European Securities and Markets Authority), addressed to issuers and financial market participants in connection with the disclosure of business activities concerning the impact of the COVID-19 virus on the financial markets, on **March 16, 2020**, stated as follows.

The ability of the COVID-19 financial impact assessment to our business remains limited due to rapidly changing circumstances and uncertain travel demand, therefore, we are currently unable to reliably quantify the impact of the COVID-19 epidemic on the financial results of the 2020 business year. In line with other companies in the tourism sector, following the escalation of COVID-19 in our main markets, the entry of new bookings slowed significantly, however, primarily for the period April, May and June of the current year, while the decline is also evident in other months of the season. Compared to the same day of the previous year, sales is down 16%, mostly due to increased cancellations in April and May and slowing sales in the previous two weeks for the rest of the season. Prior to the escalation of the situation caused by COVID-19, booking was at the level of the previous year. Further on, following the recommendations of the relevant state institutions, in order to protect the health of our guests and employees and to optimize business operations, the Company has decided to prolong the opening of all hotels in its destinations. Given the business model of the Company and the location of our hotels, the Company is highly seasonally oriented (which means a lower share of the so-called MICE segment), therefore pre-season accounts for a smaller share of total annual revenue. Thus, for example, the

Company has only one facility open during its regular operations in the first quarter, while April, May and June in the business year 2019 accounted for 2%, 7% and 15% of the Company's annual revenue.

### **Impact of COVID-19 outbreak on financial reports publication deadlines**

Sunce hoteli d.d. pursuant to the issued public statements from ESMA (European Securities and Markets Authority) and local regulator HANFA (Croatian Financial Services Supervisory Agency) of March 27, 2020, related to the impact of the COVID-19 pandemic on the financial reports publication deadlines, on **April 23, 2020**, stated as follows.

In spite of all its efforts, the Company will not be able to publish its audited annual reports for 2019 within the legally prescribed deadlines. The reasons are primarily difficult communication and availability of necessary resources, which slowed down the processes of gathering the necessary data and documentation for the preparation of the audited reports. The Company expects to publish the audited annual reports no later than June 30, 2020, in accordance with the possibility as provided by ESMA and HANFA. The Company intends to publish its quarterly report for the first quarter of 2020 within the legally prescribed deadlines, i.e. by April 30 of the current year. In the related report, the Company will provide an update on the impact of COVID-19 on its operations, based on the information we will then have at our disposal.

### **Updated announcement regarding COVID-19 impact**

Sunce hoteli d.d. on **April 30, 2020**, have updated information regarding the impact of COVID-19 on the Company's operations.

The text below is an excerpt from the adopted and published unaudited consolidated quarterly financial statements for the first quarter of 2020.

The domestic tourism sector is directly influenced by all disturbances caused by the COVID-19 crisis, however, due to the seasonality of the tourist season itself, the significance of the crisis will be reflected the most in July and August of this year. At the moment, it is very uncertain to predict the volume of the main tourist season, because it depends mainly on the development of the situation in the eminent markets and restrictions on travel of countries from which the majority of guests would otherwise come on vacation to the Republic of Croatia (Germany, Austria, Slovenia, Italy, etc.), and depends also on the development of the situation in the Republic of Croatia.

**The current booking state of the Company's sales as of April 27, 2020 is 46% lower than in the same period of the previous year, so existing bookings were actually made prior to the escalation of the COVID-19 crisis, and in the meantime, there were no inflows of new reservations.** Bookings for the month of May have been cancelled entirely, while the cancellation of bookings for the beginning of June has been stepped up, however, cancellation of bookings for July and August are still relatively low. On the other hand, the booking process has not yet normalized and the inflow of new reservations is very low. In the case of the tourist season in July and August, it is expected that in this case potential guests will make last minute reservations.

**The Company has taken a number of actions and measures in response to the disruption caused by the COVID-19 crisis in order to adapt to the new circumstances.** Measures and actions taken relate to the independent measures of the Company, but also those that are enabled by legal changes to assist the tourism sector adopted by the Government of the Republic of Croatia. All measures and actions can be summarized as follows:

- 1. EMPLOYEES SAFETY** - The Company has increased the safety and disinfection of employees' workplaces at an early stage of the outbreak of the epidemic in the Republic of Croatia, however, since mid-March 2020, home-based work for all employees has been organized. Working from home in these circumstances increases the safety of our employees and their families. Depending on the development of the epidemiological situation in the Republic of Croatia and the gradual opening of various activities and freedom of movement, the Company will in the coming period make a timely decision to suspend the work of all employees from home.
- 2. CASH FLOW STABILIZATION** - After increasing the security of employees and their families, the internal team has started working on identification of the main measures and actions to be taken in order to preserve the liquidity of the Company and stabilize the cash flow that needed to be adjusted to the new circumstances. The following actions and measures have been taken with a primary focus on wages given that they account for 75% of the total fixed cost:
  - a. In accordance with the measures to preserve jobs in the activities affected by the Coronavirus (COVID 19), grants were requested and approved to secure a minimum wage of HRK

4,000 for 679 employees of Sunce hoteli d.d. as well as 21 employees of the subsidiary Aerodrom Brač d.o.o, which gives a total of 700 employees. The Contract on Grant for Preservation of Jobs in the Activities Affected by the Coronavirus with the Croatian Employment Service was signed, accepting the Request for the Grant of the Support for the company Sunce hoteli d.d. and subsidiary Aerodrom Brač d.o.o. for payment of wages for a total of 700 workers in the period from 01.03.2020. to 31.05.2020. amounting to HRK 7.4 million.

- b. The Company is also exempted from the obligation to pay contributions for the amount of co-financed net salary paid on the basis of support to preserve jobs. Considering that the measure for the support of job preservation paid by the Croatian Employment Service has been realized, all in accordance with the measure Exemption from obligation to pay contributions for co-financed net salaries.
- c. At the same time, gross wages were reduced by 40% for all employees and the Management Board, at least for the period from 1 April to 30 June 2020. During the duration of the Job Preservation Grant, as well as in the subsequent period when the hotels are not working, wages will be provided at 60% of the gross salary, but not less than the amount of the grant. In addition, each worker will be paid a monthly allowance of HRK 600.
- d. Total monthly labour cost savings, including active measures and grants, are HRK 5.5 million, reducing the usual monthly labour cost from HRK 6.6 million to HRK 1.1 million.
- e. All other unnecessary costs related to current maintenance investments and operating expenses not required at this time have been stopped.

### 3. CREDITOR RELATIONS AND COMPANY LIQUIDITY ASSURANCE

- Since the beginning of the COVID-19 crisis, the Company has been in communication with its Bank syndicate (European Bank for Reconstruction and Development (EBRD), Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d., and Zagrebačka banka d.d.) in relation to measures of the Government of the Republic of Croatia relating to the "deferral of credit" and the measure "credit for maintaining financial stability", and a formal request was submitted through FINA, as well as a direct request to the Bank syndicate. Communication can be summarized in the following actions:

- a. With respect to financial liabilities due in the pre-

season period, that is, until 30 June 2020, the Company has requested from the bank syndicate a moratorium on the loan instalment due on 30 April 2020 in the amount of 16.5 million of the principal, and a five-month moratorium was approved by the bank syndicate, which means that the loan instalment due on 30.04.2020. together with principal and interest is now due on 30.09.2020. Concerning financial liabilities beyond June 30, 2020, a payment moratorium will be sought or it will be settled from potential new liquidity and/or partially from potential inflows during the July and August tourist season.

- b. However, it is important to note that the total financial debt as of December 31, 2019 is HRK 451 million and the moratorium on the principal amount of instalment is HRK 16.5 million, which leads to the conclusion that it will not have a significant impact on the change of the total position of the existing financial debt.
- c. In addition to the aforementioned deferral of the loan instalment until June 30, 2020, the Company has also taken measures and directed communication to potential creditors of the Company to provide additional liquidity to the Company that will be required after June 30, 2020 in the event that significant inflows during the months of July and August are absent. Accordingly, the additional liquidity itself will primarily depend on (i) potential inflows during the high season and (ii) how long the Government of the Republic of Croatia measures will last.
- d. At this time, the debt structure remains the same as shown in the Balance Sheet, however, as a moratorium is requested and approved on the loan instalment due on April 30, 2020, and there is a further possibility that the Company will request a moratorium on the maturity of the credit obligations after 30.06.2020. Therefore, the structure of the financial debt itself may change in a way that either the maturity of the debt is extended or existing loan instalments are increased by the amount of principal for which the moratorium is requested. Nor do we exclude the possibility of another structure.

4. **CAPITAL INVESTMENTS** - The Company did not have capital investments for the 2020 season, however, all investments in the preparation of future investments were suspended until a revised capital investment plan was made depending on the development of the COVID-19 virus crisis situation.

### **Impact of COVID-19 outbreak on financial reports publication deadlines and operations**

Sunce hoteli d.d. on **29 June 2020**, informed the public about the updated data related to the impact of COVID-19 on the deadlines for publication of financial statements and on the Company's operations.

Despite all its efforts, the Company will not be able to publish audited annual reports for 2019 until June 30, 2020, as initially announced on April 23, 2020. The reasons are still primarily difficult communication and availability of necessary resources, which slowed down the processes of gathering the necessary data and documentation for the preparation of the audited reports.

The Company will continue to take all possible actions and steps to publish the audited annual reports for 2019 as soon as possible, no later than July 20, 2020.

The Company published **quarterly report** for the first quarter of 2020 on April 30, 2020. The Company also plans to publish quarterly report for the second quarter of 2020 within the legally prescribed deadline.

Regarding the impact of COVID-19 on the Company's operations, the following text is the **updated sales data as of June 26, 2020**.

On June 10, 2020, the Company opened one facility at each of its destinations. Bluesun Hotel Berulia in Brela, Bluesun Hotel Alga in Tučepi, Bluesun Resort Velaris in Supetar, Bluesun Hotel Elaphusa in Bol, and Bluesun Camp Paklenica in Starigrad Paklenica. In accordance with the development of booking, which we expect primarily to be last-minute, the Company will be ready to open all accommodation facilities. The general strategy of the Company is to open an additional facility at the moment when the existing hotel is filled to about 85% occupancy, in order to limit the number of guests in a way that it is possible to comply with epidemiological measures.

As of June 26, 2020, the Company's sales is at 38% comparable to the same day of the previous year and 29% of the total last year's sales. In the current structure of sales, 57% of them is direct sales and OTA channel. The groups account for 17% of sales, which primarily relates to September and October period. The allotment channel accounts for 25% of the current sales, and this channel is associated with the most uncertainty due to start of the normalization of commercial lines.

Most reservations in OTA and direct channel are on a "free cancelation" principle, ie without advance payments by guests. Such reservations can be

cancelled without paying a fee to the Company, which is the only way for the sale to function in the current circumstances.

### **Changes in the Management of Sunce hoteli d.d.**

Sunce hoteli d.d. on **13 July, 2020**, announced changes related to the Management Board of the Company.

At the Supervisory Board of the Company, Tonči Boras resigned for personal reasons and announced his resignation from the position of President of the Management Board.

The Supervisory Board appointed Hrvoje Veselko, Šestinska cesta 52, Zagreb, OIB: 28020764233, to the position of President of the Management Board for a term of 5 years.

Hrvoje Veselko is coming to the position of President of the Management Board with many years of experience at project and managerial functions, mostly related to Sales and Marketing in various sectors. Hrvoje Veselko will take over the position of President of the Management Board on August 1, 2020.

### **12-month moratorium on financial obligations approved**

- a. In relation to financial liabilities due in 2020, on July 27, 2020, the Company was granted a moratorium by the Bank syndicate on loan instalments due on 30 April 2020 (HRK 16.5 million) and 31.10.2020 in (HRK 38.4 million). Given that the bank moratorium has a maturity of 12 months, this means that the first instalment of the loan is due on 30.04.2021. years together with principal and interest. The loan will continue to be repaid regularly from April 30, 2021, when interest is due for the period from November 1, 2019 to April 30, 2021. Outstanding instalments in 2020 are moved to the end of the repayment period on April 30, 2028, when they fall due once. The loan instalments from 2020 for which a moratorium has been requested are transferred in full upon the expiration of the loan agreement on April 30, 2028 (bullet repayment).
- b. In addition to the aforementioned deferral of payment of financial obligations until April 30, 2021, the Company has also taken measures and directed communication to potential creditors to ensure additional liquidity that will be required after October 31, 2020 in the event that no significant inflows occur during the months of July and August. The level of additional liquidity required will primarily depend on (i) potential inflows during the main season and (ii) the duration of the aforementioned measures of the Government of the Republic of Croatia.

# Significant business events 2019

## Intention to merge controlled companies

Companies Sunce koncern d.d., Trpinjska 9, Zagreb as the controlling company according to the Companies Act provisions and (i) Hoteli Brela d.d., Trg Gospe od Karmela 1, Brela, (ii) Hoteli Tučepi d.d., Dračevica 35, Tučepi, (iii) Hoteli Zlatni rat d.d., Bračka cesta 13, Bol and (iv) Hotel Alan d.d., Dr. Franje Tuđmana 14, Starigrad as controlled companies, in order to optimise the organisational structure of the business, on **March 13, 2019**, have approved the necessary actions in order to prepare the merger of controlled companies to Sunce koncern d.d. as the acquiring company. Pursuant to Article 515 of the Companies Act, Supervisory Boards of all related companies have jointly proposed Deloitte d.o.o., Radnička cesta 80, Zagreb as a merger auditor. Joint proposal for the appointment of the merger auditor will be submitted to the commercial court in Zagreb. Merger auditor shall present a written report on its findings. The report shall be concluded by a statement regarding the adequacy of the ratio of the proposed exchange of shares. Pursuant to the provisions of the Companies Act, Management Boards of all companies participating in the merger shall conclude a merger agreement, by which the entire assets of such company (acquired company) is transferred to acquiring company in exchange for the shares of that company. Thereby shareholders of the acquired company are becoming direct shareholders of the acquiring company. According to the latest available data, in controlled companies where there is a merger intention, Sunce koncern d.d. as a controlling company has the following share of the capital and voting rights: (a) Hoteli Brela d.d., 89.58%, (b) Hoteli Tučepi d.d., 91.41%, (c) Hoteli Zlatni rat d.d., 80.99%, and (d) Hotel Alan d.d., 97.96%. All above companies with the exception of Hotel Alan d.d. are listed on the regulated market of Zagreb Stock Exchange.

## Refinancing of JV's obligations

On **May 30 2019**, WOT Hotels Adriatic Asset Company d.o.o., a Joint Venture ("JV") entity of Sunce with a global travel group TUI AG, has signed a Loan Agreement on refinancing of outstanding JV's financial obligations. The Loan Agreement valued at EUR 11.5 million was signed with OTP banka d.d., Split, as the new Lender. With this arrangement, JV has achieved reduction in the average interest rate and increase in

duration of financial obligations. Neither TUI AG nor any member of the Sunce Group is providing any form of financial guarantee under the Agreement. The collaterals used in the Agreement are customary for this type of transaction. Sunce holds 50% interest in WOT Hotels Adriatic Asset Company d.o.o. via a Group member Hoteli Tučepi d.d.

## Disclosure of the Merger information document

Following the approval by the General Assembly of the proposal to increase the Share Capital and the Issuance of new Shares for the purpose of the Merger, Sunce koncern dd, Trpinjska 9, Zagreb on **July 17, 2019**, pursuant to Article 409, paragraph 2, item 3 of the Capital Market Act (Official Gazette, No. 64/18) and in accordance with Article 1 (4) (g) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on a prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, has disclosed on the website [www.bluesunhotels.com/investitori/pripajanje](http://www.bluesunhotels.com/investitori/pripajanje) the document containing information describing the Merger of controlling companies to its parent company Sunce koncern d.d. and the impact of the Merger on the Issuer. The document is available in Croatian language only.

## Exposure to Thomas Cook Group

Pursuant to the Zagreb Stock Exchange Rules, Sunce koncern d.d., Trpinjska 9, Zagreb and the subsidiaries that make up the Group: Hoteli Brela d.d., Hoteli Tučepi d.d. and Hoteli Zlatni rat d.d. ("Subsidiaries"), on **September 25, 2019**, have jointly informed the investment public of exposures to the members of the Thomas Cook Group that have opened bankruptcy proceedings in their home countries up to this date. As a part of its regular business, Sunce sells part of its accommodation capacity through allotment contracts with various global tour operators, including individual members of the Thomas Cook Group. As of September 25, 2019, the total receivables from members of the Thomas Cook Group that have opened bankruptcy proceedings amounted to approximately HRK 16.1 million. Exposure of Subsidiaries to the above

mentioned members of the Thomas Cook Group are as follows: Hoteli Brela d.d. of approximately HRK 7.5 million, Hoteli Tučepi d.d. of approximately HRK 8 million and Hoteli Zlatni rat d.d. of approximately HRK 0.6 million. All receivables due from the Thomas Cook Group were duly settled by September 23, 2019, in accordance with the payment due date. Sunce believes that the loss of the members of the Thomas Cook Group, who opened bankruptcy proceedings as allotment partners, is largely a one-off effect on the current season and will have no impact on future business of the Company.

# Management's Discussion and Analysis of Financial Condition and Results of Operation

## Introduction

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

This MD&A is the responsibility of management.

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

## Our business

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

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

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

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

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

**Overview of the Group Portfolio (as of Reporting date)**

	Hotel	Category (*)	# Units	Franchise Partner
1	Bluesun hotel Maestral	3	69	
2	Bluesun hotel Soline	3	208	
3	Bluesun hotel Berulia	5	236	
4	Bluesun hotel Marina	3	283	
	<b>Hoteli Brela d.d.</b>		<b>796</b>	
5	Bluesun hotel Alga	4	405	
6	Bluesun hotel Afrodita	4	155	
7	Bluesun hotel Neptun	3	252	
	<b>Hoteli Tučepi d.d.</b>		<b>812</b>	
8	Bluesun hotel Elaphusa	4	306	
9	Bluesun hotel Borak	3	184	
10	Bluesun hotel Bonaca	3	236	
11	Bluesun resort Velaris	3/4	177	
	<b>Hoteli Zlatni rat d.d.</b>		<b>903</b>	
12	Neilson Alana Beachclub	4	187	Neilson UK
13	Bluesun camp Paklenica	-	275	
	<b>Hotel Alan d.d.</b>		<b>462</b>	
	<b>Group in total</b>		<b>2,973</b>	
14	TUI Blue Jadran <sup>(1)</sup>	5	161	TUI AG
	<b>WOT Hotels Adriatic Asset Company d.o.o.</b>			

Source: Group

(1) JV company with TUI AG

## Key Performance Measures Metrics Used by Management

### Occupancy

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

### Average Daily Rate ("ADR")

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

### Revenue per Available Room ("RevPAR")

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

### EBITDA and Adjusted EBITDA

EBITDA reflects the consolidated net income of the Group prepared in accordance with IFRS before any provision on account of taxation, depreciation and amortisation, any interest, commissions, discounts and other fees incurred in respect of any debt and any interest earned on debts. Adjusted EBITDA is calculated as EBITDA, as previously defined, further adjusted to exclude certain exceptional, one off, non-

recurring or extraordinary items which represent gains or losses including those arising on:

- a) the restructuring of the activities of an entity and reversals of any provisions for the cost of restructuring;
- b) disposals, revaluations, write downs or impairment of non-current assets or any reversal of any write down or impairment; and
- c) disposals of assets associated with discontinued operations.

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

- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA and Adjusted EBITDA do not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness;
- EBITDA and Adjusted EBITDA do not reflect a provision for income taxes or the cash requirements to pay our taxes;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate EBITDA and Adjusted EBITDA differently, limiting their usefulness as comparative measures.

## Results of Operations

Compared to 2018, the Group's operating result for 2019 is significantly determined by the following factors:

### 1) One-off impacts on the Group's operations:

a) **Exposure to the Thomas Cook Group** - The Group sells part of its accommodations through allotment agreements with various global tour operators and, inter alia, individual members of the Thomas Cook Group that opened bankruptcy proceedings in their home countries at the end of September 2019. Total one-off cost related to claims against the Thomas Cook Group members amounted to HRK 21.3 million, which further breaks down as follows: (i) 100% write-off of receivables which amounted HRK 16.9 million and (ii) loss from guarantees in amount of HRK 4.4 million. Given that this is a one-off write-off of receivables, we refer to the adjusted EBITDA indicator so that the operating result for the current year can be compared with the previous year. We consider the loss of the Thomas Cook Group as one of our allotment partners to a large extent as one-off impact on the current season, given the Group's greater orientation to its own sales, which recorded significant growth this year. Additional reasons why we believe that the current situation has a one-off effect are:

- Thomas Cook's situation happened early enough that sales can be adequately prepared for 2020 season;
- The realized prices under the respective contracts with Thomas Cook are lower than those realized by our own sales and / or OTA in the same facilities;
- 3 facilities accounting for 80% of the exposure to the Thomas Cook Group (Berulia, Soline and Neptun) have been recently refurbished (especially Berulia and Soline) and have recorded above-average results in the Group's own sales growth during 2019;
- Berulia, Neptun and Soline are our best rated hotels with a high level of customer satisfaction and rating;
- A long-term contract with TC at the Neptun Hotel expires at the end of the current year, and the 2020 season is already planned without Thomas Cook as a partner.

b) **Net extraordinary income from asset swap** – Hoteli Tučepi d.d. recorded a net extraordinary income of HRK 1.2 million due to asset swap and asset write off in 2019.

c) **Value adjustment of receivables** - in 2019, the Group adjusted receivables from related customers in the amount of HRK 4.6 million, and the amount of HRK 0.9 million relates to receivables from customers outside the Group that are older than 365 days.

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

Financial highlights - Sunce koncern d.d. Group (consolidated audited)				
HRK <sup>m</sup>				
Financial performance	12M 2019	12M 2018	Δ	2019/2018
Total Revenues	449.0	425.2	24	5.6%
Operating expenses	347.6	320.2	27	8.6%
EBITDA	101.4	105.1	-4	-3.5%
EBITDA margin %	22.6%	24.7%	210 bp	
Adjustments	25.7	8.1		
Adjusted EBITDA	127.1	113.2	14	12.3%
Adjusted EBITDA margin %	28.3%	26.6%	-170 bp	
EBIT	36.6	50.0	-13	-26.8%
Interest & Fees	12.1	18.8	-6.7	-35.6%
Value adjustment of financial asset	14.0	0.0	14	
Net income	5.4	30.0	-25	-81.9%
Financial position	31.12.19	31.12.18	Δ	2019/2018
Total assets	1,356.1	1,387.7	-32	-2.3%
Fixed assets	1,112.7	1,109.6	3	0.3%
Equity	805.6	799.6	6	0.8%
Total debt	481.2	504.0	-23	-4.5%
Net financial debt / (cash)	471.7	458.9	13	2.8%
Guarantees	62.1	144.0	-82	-56.8%
Financial Ratios <sup>1</sup>				
Equity / total assets	0.59x	0.58x		
Loan to Value Ratio	47%	53%		
DSCR	0.5x	2.1x		
Interest cover	8.9x	14.8x		
Leverage Ratio <sup>2</sup>	(4,7x); 3,7x	(4,4x); 4,1x		

Key operating indicators				
	12M 2019	12M 2018	Δ	2019/2018
Number of accommodation units	2,973	2,947	26	0.9%
Number of units sold	426,642	411,255	15,387	3.7%
Overnights	935,091	878,137	56,954	6.5%
Occupancy rate (operating days)	74.3%	80.7%	-650 bp	
ADR (HRK)	839.7	833.7	6.0	0.7%
RevPAR (HRK)	435.2	474.7	-39.5	-8.3%

(1) Financial ratios calculation is based on 12 month period data prepared in accordance with IFRS unless otherwise defined in the Loan Agreement (signed August 28, 2018)

(2) Leverage is expressed as the ratio of Net Financial Debt and EBITDA, ie Adjusted EBITDA.

## Adjustments for business year 2019

NON-RECURRING EXPENSES	AMOUNT HRK	DESCRIPTION
<b>ONE OFF COSTS SHOWN IN P&amp;L OF THE GROUP</b>		
THOMAS COOK	21,331,473	The total one-off cost related to the bankruptcy of Thomas Cook Group is HRK 21.3 million. The cost can be further divided as follows: (1) Total receivables due from Thomas Cook Group amounted to HRK 16.9 million and a write-off of receivables of 100% was applied; (2) Loss from guarantees amounted to HRK 4.4 million and for the same amount Group's revenue and EBITDA are lower.
NET EXTRAORDINARY INCOME FROM ASSET SWAP	-1,157,514	Net extraordinary income of HRK 1.2 million was recorded in 2019 due to asset swap and asset write off.
VALUE ADJUSTMENT OF RECEIVABLES	5,524,621	Receivables from related customers in the amount of HRK 4.6 million
<b>TOTAL</b>	<b>25,698,580</b>	

2) **Consolidation of Hotel Alan d.d.** - the current reporting period relating to the year 2019 also includes the financial results of Hotel Alan d.d., while in the previous comparable period the consolidation of the results of Hotel Alan d.d. begins as of 1st of August, 2018.

3) **New investments - CAPEX** - The Group realized two investments for the 2019 season, which resulted in an increase in the number of accommodation units compared to the same period last year. The number of accommodation units increased by 26 to 2,973. Investments are related to:

a) **Hotel Soline (Hoteli Brela d.d.):**

- Description: Renovation of common areas: part of basement, ground floor and first floor. The existing cafe bar was not changed during the basement renovation, while the souvenir shop and the gallery were converted into a wine cellar. During the interventions in the basement of the hotel, the existing restaurant and kitchen have been renovated and an a la carte restaurant stands out in its southern part.
- Number of new rooms: 2 new apartments
- Total investment value: HRK 27 million
- Categorization: after completion of the investment the hotel is categorized with 4\* compared to 3\* before the investment
- Opening: April 28, 2019.

b. **Hotel Alga (Hoteli Tučepi d.d.):**

- Description: The second phase of the Alga Hotel renovation by remodeling the remaining 156 accommodation units to bring additional freshness and adapt the design to the requirements of the guests.

- Number of new rooms: 24 new rooms
- Total investment value: HRK 20 million
- Categorization: categorization remains unchanged, i.e. 4\*
- Opening: March 31, 2019

4) **IFRS 16 - Leases** - The Group has adopted a new reporting standard as of January 1, 2019. The effect of this standard is lower rental costs by HRK 8.7 million and at the same time higher depreciation expense by HRK 7.5 million and higher interest expense by HRK 1.2 million in 2019 when compared to 2018 year.

**Consequently, the Group generated HRK 449.0 million (2018: HRK 425.2 million) of operating revenues in 2019, an increase of 5.6% compared to the same period last year.** The major contributor to revenue growth is the consolidation of Hotel Alan d.d. entering into the financial results of the entire reporting period.

The Group also achieved an EBITDA result of HRK 101.4 million (2018: HRK 105.1 million), a decrease of 3.5% compared to the same period last year. **However, adjusted EBITDA for the one-off write-off of receivables related to the Thomas Cook Group in the amount of HRK 21.3 million, extraordinary income from the asset swap of HRK 1.2 million and value adjustment of receivables of HRK 5.5 million, comes to HRK 127.2 million, or increase of 14.0 million compared to the same reporting period of the previous year.** Additionally, if the Adjusted EBITDA indicator is compared on a comparable basis in 2019 versus the same period of the previous year,

then the Adjusted EBITDA growth would be HRK 7.4 million as a result of the adoption of the new IFRS 16 reporting standard as of 1st of January, 2019 which results in higher depreciation expense by HRK 7.4 million and higher interest expense by HRK 1.1 million and a lower rental cost of HRK 8.5 million.

There has been a **decline in occupancy** from 80.7% in 2018 to 74.3% in 2019. There are two reasons for the decline in occupancy: (i) calculation for 2018 assumes Hotel Alan d.d. period from 1st of August (start of consolidation) until 31st December 2018 while calculation for 2019 includes the whole year. Hotel Alan d.d. in addition to the hotel has also a campsite which has lower occupancy rate than hotel facilities. Consequently, excluding the data for Hotel Alan d.d. in 2018 and 2019 to get comparable data, then the occupancy rate was 79% in 2019 compared to 82% in 2018. (ii) The second reason for the fall in occupancy can be explained by the bad weather in May 2019 resulting in fewer rooms sold and consequently occupancy. Specifically, in May 2019, there were 19% fewer occupied rooms compared to May 2018. Therefore, despite the **higher average daily rate (ADR)**, **RevPAR** saw a decrease of 8.3% yoy, i.e. from HRK 474.7 in 2018 to HRK 435.2 in 2019.

The largest part of **operating expenses** are staff expenses in the amount of HRK 147.4 million and material expenses in the amount of HRK 128.0 million. In 2019, the Group put emphasize on cost efficiency, thus employee costs were by approximately HRK 1.0 million, and consequently the share of employee costs dropped from 34.9% in 2018 to 32.8% in 2019, while material costs decreased in absolute terms by approximately HRK 1.8 million in the same period, and their share decreased from 30.5% in 2018 to 28.5% in the current reporting period for 2019.

**Financial revenues** in 2019 amounted to HRK 3.5 million, which is a decrease of 63.9% compared to the same period of the previous year, primarily due to lower appreciation of the exchange rate, while at the same time, as a result of refinancing of the Group's total financial debt, **financial expenses decreased** by 38%, i.e. from HRK 17.8 million in 2018 to HRK 11.1 million in the current reporting period. **Total financial expenses** are higher in 2019 by 11.6% compared to 2018, primarily due to the impairment of financial assets (investment in a joint venture with TUI AG) in the amount of HRK 14.0 million. The Group made a **net profit** of HRK 5.4 million in 2019.

# Risk Factors

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

## Risks Related to Our Business and Industry

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

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

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

## Macroeconomic and other factors beyond our control

Macroeconomic and other factors beyond our control

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

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

## Risks Relating to Debt Financing

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

## Market risk

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

## Interest Rate Risk

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

## **Foreign Currency Exchange Rate Risk**

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

# Corporate Governance

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

## Company Management Structure

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

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

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

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

## General Assembly (Shareholders’ Assembly)

The general assembly is the Company’s highest ranking management body. Shareholders pass and approve basic corporate decisions through the assembly. The general assembly appoints members of the company’s supervisory board. In addition, after the management board and the supervisory board approve annual financial statements and auditor’s reports, the general assembly decides on the use of profits and coverage of losses (including distribution of

dividends), elects an external auditor, decides on the increases and decreases of share capital, as well as on other matters defined by law and the Company’s articles of association.

## Articles of association

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

## Supervisory Board

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

## Management Board

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

## The Company's Committees

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

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

## External supervision

External supervision of the company's operations primarily includes the audit of annual financial statements. This work is performed by an independent external audit company in accordance with regulations governing accounting and audit. Independent external auditors must, in the most possibly clear and certain way, express their opinion on whether the financial statements prepared by management adequately

reflect the capital position and financial condition of the company, and the results for a given time period. The Group's independent external auditor is Ernst & Young d.o.o. Zagreb, Radnička cesta 50, 10000 Zagreb (EY). EY's first year of engagement was the audit of financial statements for the year ended 31 December 2017.

## Corporate Governance Statement

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

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

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

These requirements are met through the annual corporate governance questionnaire.

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

By the decision of the Zagreb Stock Exchange dated 25 May 2020, issuers whose shares are listed on the regulated market are obliged to submit and publish on their website a questionnaire on compliance with the Corporate Governance Code for the calendar year

ended 31 December 2019 by 31 August 2020 at the latest.

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

# Consolidated Financial Statements for 2019

Statements of Management's Responsibilities

Independent Auditor's Report

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Shareholders' Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

Signed on its behalf by:



President of the Management Board  
Tonči Boras

Member of the Board  
Ivan Potkrajčić



Member of the Board  
Kristijan Gagulić



30 July 2020  
SUNCE KONCERN d.d.  
Trpinjska 9  
Zagreb

## RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

In accordance with provisions of Law on Capital Markets, Ivan Potkrajčić Management Board member responsible for finance and Ivan Franić, Director of department Accounting and Finance together as persons responsible for the preparation of annual reports of the company Sunce Koncern d.d. Zagreb, Trpinjska 9, OIB 06916431329 (hereinafter: Company), hereby make the following

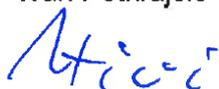
### STATEMENT

According to our best knowledge the annual consolidated financial statements for 2019, are prepared in accordance with applicable standards of financial reporting and give true and fair view of the assets and liabilities, profit and loss, financial position and operations of the Company and its subsidiaries (together – „Group“).

Report of the Company's Management board for the period from 1 January to 31 December 2019 contains the true presentation of development, results and position of the Group, with description of significant risks and uncertainties which the Group is exposed.

Zagreb, 30 July 2020

CFO  
Ivan Potkrajčić



Director of Accounting and Finance  
Ivan Franić



To the Shareholders of Sunce koncern d.d.

## Report on the audit of the consolidated financial statements

### Qualified Opinion

We have audited the consolidated financial statements of Sunce koncern d.d. (the Company) and its subsidiaries (together “the Group”), which comprise the consolidated statement of financial position as at 31 December 2019, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU (“IFRS as adopted by EU”).

### Basis for Qualified Opinion

As disclosed in Note 23, the Group presents the loan received from lenders in total amount of HRK 450,420 thousand. Out of this amount, HRK 54,267 relates to the current portion of the loan that has maturity in 2020 in accordance with the long-term loan agreement, while the remaining amount of the loan is presented as a non-current liability as at 31 December 2019.

Based on the fact that the Group was not in line with the provisions of the loan agreement relating to financial covenant that should be satisfied at the end of each financial year and no waiver from lenders was received prior to reporting date of 31 December 2019, the whole amount of the loan should be presented as a current liability as at 31 December 2019 since as at the reporting date the Group did not have an unconditional right to defer its settlement for at least twelve months after the reporting date. Accordingly, long-term borrowings as at 31 December 2019 are overstated by HRK 396,153 thousand while short-term borrowings are understated by the same amount.

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

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

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

### Material uncertainty related to going concern

We draw attention to Note 33 in the consolidated financial statements which indicates that the Group results in 2020 will be largely affected by the COVID-19 pandemic. The Group’s ability to continue as a going concern is dependent on the impact of COVID-19 pandemic on the financial year 2020 and the following seasons, and on the success in obtaining additional financing. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern.

Our opinion is not further modified in respect of this matter.

### Emphasis of matter

We draw attention to Note 14 of the consolidated financial statements, which describes material uncertainties regarding legal cases related to ownership of the land and to Note 29 regarding contingent liability.

We also draw attention to Note 33 of the consolidated financial statements, which describes information in respect of legal merger of subsidiaries Hotel Alan d.d., Hoteli Breła d.d., Hoteli Tučepi d.d. and Hoteli Zlatni rat d.d. into the Sunce koncern d.d. which also changed its name to Sunce hoteli d.d. from 1 January 2020.

Our opinion is not further modified in respect of these matters.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matters described in the *Basis for Qualified Opinion* section and *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

Key Audit Matter	How we addressed Key Audit Matter
<p><b>Measurement of Property, Plant and equipment (“PPE”)</b></p> <p>The Group has a significant balance of PPE in its consolidated statement of financial position.</p> <p>Therefore, initial measurement (capitalization), estimation of useful lives and subsequent valuation may have a significant impact on the consolidated financial position and the consolidated financial performance of the Group, making it important that selection and application of relevant accounting policies and estimates is done properly.</p> <p>Management’s assessment of the useful lives and valuation of PPE was significant to our audit because these processes involve significant management judgement.</p> <p>As a result of above mentioned, we consider this matter as a key audit matter.</p>	<p>Audit procedures included understanding of the process relating to PPE and evaluation of design of the controls implemented in the process.</p> <p>Our audit procedures included testing and assessing the appropriateness of capitalization of items to PPE on a sample basis. We compared the useful lives of PPE applied by the Group with those applied by similar companies in the hospitality industry in Croatia, as well as compared the useful lives of buildings applied by the Group with useful lives of buildings as estimated by independent real estate appraisal experts.</p> <p>We assessed the competency and independence of the professional valuers engaged by the Group.</p> <p>We tested management’s assumptions used in the value in use calculations including the historical accuracy and consistency of management’s assumptions.</p> <p>We also assessed adequacy of the disclosures in the consolidated financial statements presented in Note 2.11 <i>Property, plant and equipment</i> and Note 2.13 <i>Impairment of tangible and intangible assets</i> and if these are in line with the requirements of IFRS as adopted by EU.</p>

#### **Other information included in the Group's Annual Report for year 2019**

Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report which includes the Management report and Corporate Governance Statement, other than the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

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

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

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

1. the information given in the enclosed Management report for the 2019 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;
2. the enclosed Management report for 2019 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;
3. Corporate Governance Statement, included in the Group's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and
4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's annual report for the year 2019 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed consolidated financial statements;

In addition, in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and Group's Annual report. As described in the Basis for Qualified Opinion section above, the Group should have presented the loan as a current liability due to the covenant breach. We have concluded that the other information is materially misstated for the same reason with respect to the amounts of the respective items in the Annual Report.

#### **Responsibilities of management and Audit Committee for the consolidated financial statements**

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

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

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

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

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

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

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

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

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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



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### **Report on Other Legal and Regulatory Requirements**

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

#### *Appointment of Auditor and Period of Engagement*

We were initially appointed as auditors of the Company on 29 August 2017. Our appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 28 June 2019, representing a total period of uninterrupted engagement appointment of three years.

#### *Consistence with Additional Report to Audit Committee*

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 29 July 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

#### *Provision of Non-audit Services*

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

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

**ERNST & YOUNG**  
d.o.o.  
Zagreb, Radnička cesta 50

Zvonimir Madunić  
Member of the Board and certified auditor

30 July 2020

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2019**

<i>(in thousands of HRK)</i>	<b>Note</b>	<b>2019</b>	<b>2018</b>
Sales	4	436,380	415,180
Other income	5	12,625	10,060
<b>Operating income</b>		<b>449,005</b>	<b>425,240</b>
Cost of materials and services	6	(128,050)	(129,889)
Employee costs	7	(147,379)	(148,404)
Depreciation and amortization	13, 13.1, 14	(64,808)	(55,103)
Other operating expenses	8	(72,170)	(41,870)
<b>Operating expenses</b>		<b>(412,407)</b>	<b>(375,266)</b>
<b>Operating profit</b>		<b>36,598</b>	<b>49,974</b>
Finance expense – net	9	(23,674)	(14,623)
Share in loss of associates and joint ventures	15	(493)	(2,739)
<b>Profit before taxes</b>		<b>12,431</b>	<b>32,612</b>
Income tax	10	(7,001)	(2,592)
<b>Profit for the year</b>		<b>5,430</b>	<b>30,020</b>
<i>Profit attributable to:</i>			
Owners of the Parent Company		3,309	26,176
Non-controlling interest		2,121	3,844
<b>Earnings per share (in HRK) - basic and diluted</b>	11	<b>0.61</b>	<b>5.15</b>
Other comprehensive income		587	24
<b>Total comprehensive income</b>		<b>6,017</b>	<b>30,044</b>
<i>Total comprehensive income attributable to:</i>			
Owners of the Parent Company		3,884	26,199
Non-controlling interest		2,133	3,845

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2019**

<i>(in thousands of HRK)</i>	<b>Note</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	13	853	1,027
Right-of-use asset	13.1	29,292	-
Property, plant and equipment	14	1,112,723	1,109,621
Investment in associates and joint venture	15	86,968	101,488
Loans	20	76,121	31,715
Deferred tax assets	12	5,169	5,527
Other non-current receivables	16	9,901	2,422
		<b>1,321,027</b>	<b>1,251,800</b>
<b>Current assets</b>			
Inventories	17	4,048	3,734
Trade receivables	18	9,513	24,643
Other receivables	19	11,917	17,980
Loans	20	20	44,445
Cash and cash equivalents	21	9,537	45,080
		<b>35,035</b>	<b>135,882</b>
<b>Total assets</b>		<b>1,356,062</b>	<b>1,387,682</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	22	539,385	539,385
Share premium		67,837	83,265
Other reserves		10,879	10,304
Retained earnings		100,722	81,996
		<b>718,823</b>	<b>714,950</b>
<b>Non-controlling interest</b>		<b>86,793</b>	<b>84,648</b>
<b>Total equity</b>		<b>805,616</b>	<b>799,598</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	23	396,332	449,257
Lease liabilities	13.1	23,069	-
Other liabilities		159	3,346
Provisions	24	1,643	1,748
Deferred tax liabilities	25	1,207	1,078
		<b>422,410</b>	<b>455,429</b>
<b>Current liabilities</b>			
Borrowings	23	54,424	54,700
Lease liabilities	13.1	7,409	-
Provisions	24	391	252
Trade and other payables	26	35,824	45,872
Other liabilities	27	29,988	31,831
		<b>128,036</b>	<b>132,655</b>
<b>Total liabilities</b>		<b>550,446</b>	<b>588,084</b>
<b>Total equity and liabilities</b>		<b>1,356,062</b>	<b>1,387,682</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2019**

<i>(in thousands of HRK)</i>	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total
<b>Balance as at 1 January 2018</b>	<b>488,706</b>	<b>24,420</b>	<b>10,504</b>	<b>138,692</b>	<b>662,322</b>	<b>80,253</b>	<b>742,575</b>
<i>Transactions with owners:</i>							
Sunce Koncern d.d. capital increase	50,679	71,035	-	-	121,714	-	121,714
Losses carried forward	-	(12,190)	(223)	12,413	-	-	-
Acquisition of the subsidiary Hotel Alan d.d.	-	-	-	(95,285)	(95,285)	550	(94,735)
Total owners transactions	50,679	58,845	(223)	(82,872)	26,429	550	26,979
<i>Profit for the year</i>	-	-	-	26,176	26,176	3,844	30,020
<i>Other comprehensive income</i>							
Land revaluation	-	-	23	-	23	1	24
Total other comprehensive income	-	-	23	26,176	26,199	3,845	30,044
<b>Balance at 31 December 2018</b>	<b>539,385</b>	<b>83,265</b>	<b>10,304</b>	<b>81,996</b>	<b>714,950</b>	<b>84,648</b>	<b>799,598</b>
<b>Balance as at 1 January 2019</b>	<b>539,385</b>	<b>83,265</b>	<b>10,304</b>	<b>81,996</b>	<b>714,950</b>	<b>84,648</b>	<b>799,598</b>
<i>Transactions with owners:</i>							
Merger of subsidiary Sunce Global d.o.o.	-	-	-	(11)	(11)	12	1
Losses carried forward	-	(15,428)	-	15,428	-	-	-
Total owners transactions	-	(15,428)	-	15,417	(11)	12	1
<i>Profit for the year</i>	-	-	-	3,309	3,309	2,121	5,430
<i>Other comprehensive income</i>							
Land revaluation	-	-	575	-	575	12	587
Total other comprehensive income	-	-	575	3,309	3,884	2,133	6,017
<b>Balance at 31 December 2019</b>	<b>539,385</b>	<b>67,837</b>	<b>10,879</b>	<b>100,722</b>	<b>718,823</b>	<b>86,793</b>	<b>805,616</b>

**CONOSOLIDATED CASH FLOWS STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2019**

<i>(in thousands of HRK)</i>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Cash flow from operating activities</b>	28	<b>105,103</b>	<b>94,972</b>
Interest paid		(10,101)	(21,410)
Tax paid		(6,881)	(3,914)
<b>Net cash from operating activities</b>		<b>88,121</b>	<b>69,468</b>
Purchase of property, plant and equipment	14	(64,110)	(61,639)
Purchase of intangible assets	13	(90)	(359)
Acquisition of a subsidiary	33	-	2,066
Gains on sale of non-current assets		2,049	-
Interest received		18	-
Found of associate	15	-	(10)
Loans granted to related parties		-	(62,784)
Loans received from related parties		-	21,759
<b>Net cash outflow from investment activities</b>		<b>(62,133)</b>	<b>(100,967)</b>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		-	706,307
Repayments of borrowings		(54,661)	(656,621)
Repayment of principal on right-of-use asset		(6,721)	-
Repayment of financial lease		(149)	(157)
<b>Net cash inflow / (outflow) from financing activities</b>		<b>(61,531)</b>	<b>49,529</b>
<b>Net increase in cash and cash equivalents</b>		<b>(35,543)</b>	<b>18,030</b>
<b>Cash and cash equivalents</b>			
at beginning of year		45,080	27,050
at year end	21	9,537	45,080
<b>Net increase / (decrease)</b>		<b>(35,543)</b>	<b>18,030</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 1 – GENERAL INFORMATION**

Sunce Koncern d.d. (“Company”) is a holding which manages hotels and provides a variety of consulting services related to the management and operation of companies including advertising and marketing services, real estate management, procurement, water supply, rural tourism, health services, congresses, sport activities and other forms of tourism. The Company has been established as a private limited liability Company. The General Assembly agreed at its meeting held on 4 April 2007 to transform the Company from a limited company to a public limited company. Specific details of subsidiaries and the nature of their operations are noted in the table below:

**The Group consists of following entities:**

	<b>Nature of Business</b>	<b>Ownership 2019</b>	<b>Ownership 2018</b>
Sunce Koncern d.d.	Investment Holding	Parent company	Parent company
Hoteli Brela d.d.	Hotels	89.58%	89.58%
Hoteli Tučepi d.d.	Hotels	91.41%	91.41%
Hoteli Zlatni rat d.d.	Hotels	80.99%	80.99%
Hotel Alan d.d.	Hotels	97.96%	97.96%
Sunce Global d.o.o.	Tourist Group	-	100%
Zlatni rat - Poljoprivreda d.o.o.	Agriculture	80.99%	80.99%
Zlatni rat - Servis d.o.o.	Maintenance	80.99%	80.99%
Zlatni rat - Tenis centar d.o.o.	Tennis operator	80.99%	80.99%
Plaža Zlatni rat d.o.o.	Beach operator	80.99%	80.99%
Eko – promet d.o.o.	Transport	41.39%	41.39%
Aerodrom Brač d.o.o.	Airport	40.65%	40.65%
Sunce Vital d.o.o.	Medical services	100%	100%
Brač 500 Plus d.o.o.	Cable car management	56.24%	56.24%
Brela Jakiruća d.o.o.	Serving food and beverages	89.58%	89.58%

The Group as a majority owner has acquired remaining business share in a member of the Sunce Global d.o.o. which represented 0.309% of its share capital, after which it became the only member of the Sunce Global d.o.o. The merger agreement was announced at the court registry on 13 June 2018. The Commercial Court in Zagreb announced the merger registration on 28 February 2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 1 – GENERAL INFORMATION (continued)

As at 10 August 2018, the General Assembly of the Group made the decision to increase the share capital through the right to subscribe 595,397 ordinary shares of the Hotel Alan d.d. and issuing 506,788 of new ordinary shares. By this decision, the Group share capital increased from HRK 488,706,200 in the amount of HRK 50,678,800 to HRK 539,385,000.

Sun Koncern d.d. is controlled by the Sunce Ulaganja d.o.o. registered in Croatia, Trpinjska 9, Zagreb.

As at 31 December 2019, the shares of the Group were listed on the Official market of the Zagreb Stock Exchange. Decision on the transfer of all shares of the Group from the Regular to the Official Market, Zagreb Stock Exchange d.d. has adopted on 21 December 2018, and was also carried out on 27 December 2018.

#### **Supervisory Board**

Jako Andabak – President of the Management Board (from 13/06/2017)

Sanja Gagulić – Deputy Chairman of the Supervisory Board (from 13/06/2017)

Ružica Andabak – Member of the Supervisory board (from 13/06/2017)

Ana Volk – Member of the Supervisory board (from 13/06/2017)

Ratomir Ivičić – Member of the Supervisory board (from 01/07/2019)

#### **Management Board**

Tonči Boras – President of the Management Board (from 13/06/2017 to 31/07/2020)

Kristijan Gagulić – Member of the Management Board (from 13/06/2017)

Ivan Potkrajčić – Member of the Management Board (from 13/06/2017)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

##### Standards and Interpretations effective in the current period

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2019:

##### **IFRS 16 Leases**

IFRS 16 was released in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether the Arrangement contains a lease, SIC 15 Operating leases - Incentives and SIC-27 Evaluating the substance of transactions in the legal form of a lease. IFRS 16 sets out the principles for recognizing, measuring, presenting and disclosing leases and requires lessees to report all leases individually in the Statement of financial position, similar to finance leases under IAS 17. The Standard includes two exceptions in recognition for the leases of "small value" assets (e.g. personal computers) and short-term lease with a period of 12 months or shorter. At the commencement date, the lessee recognizes the lease obligations and the assets which constitutes the right to use the underlying asset during the lease period, i.e. the right to use the property. Lessee is obliged to separately recognise the costs of interest on the lease obligations and the depreciation costs of the right of use assets. Lessee is also required to re-measure the lease obligations after certain events (e.g. changes in the lease period, changes in future lease payments resulting from a change in the index or the rate used to determine those payments). The lessee, generally, recognises the amount of re-measurement of those obligations as an adjustment to the right of use the asset.

The accounting treatment of the lessor according to IFRS 16 remains unchanged in relation to the previous IAS 17 requirements. The lessor continues to classify all leases using the same classification principles as in IAS 17 and separates two forms of lease: operating and finance lease. IFRS 16 also requires the lessee and the lessor to make more disclosures than previous IAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group has adopted standard from 1 January 2019 by applying the simplified transition approach and has not restated comparative amounts for the 2018, as permitted under specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.14.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.66%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)****IFRS 16 Leases (continued)**

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying single discount rate to a portfolio of leases with reasonably similar characteristics
- Accounting for operating leases with a remaining lease term of less than 12 months and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., printing and photocopying machines) that are considered of low value.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	<i>(in thousands of HRK)</i>
Right-of-use asset	36,731
Lease liability	37,199
<b>Net impact on equity</b>	<b>-</b>

## Measurement of lease liabilities:

	<i>(in thousands of HRK)</i>
Operating lease commitments disclosed as at 31 December 2018	43,668
Discounted using the incremental borrowing rate at the date of initial application	37,199
(Less):	
short-term leases not recognized as a liability	-
Add:	
Adjustment as a result of a different treatment of extension and termination options	-
<b>Lease liability recognized as at 1 January 2019</b>	<b>37,199</b>
Of which are:	
Short-term lease liabilities	6,722
Long-term lease liabilities	30,477

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

##### ***IFRS 9: Prepayment features with negative compensation (Amendment)***

**IFRS 9** Amendments are effective for the annual periods starting at or after 1 January 2019 or later. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. Management have assessed that there is no material impact on financial statement of the Group.

##### ***IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)***

**IAS 28** Amendments are effective for the annual periods starting at or after 1 January 2019 or later. The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is applied. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. Management have assessed that there is no material impact on financial statement of the Group.

##### ***IFRIC Interpretation 23: Uncertainty over Income Tax Treatments***

**IFRIC** Interpretation is effective for the annual periods starting at or after 1 January 2019 or later. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management have assessed that there is no material impact on financial statement of the Group/.

##### ***IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)***

**IAS 19** Amendments are effective for the annual periods starting at or after 1 January 2019 or later. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. Management have assessed that there is no material impact on financial statement of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which includes:

**IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. Management have assessed that there is no material impact on financial statement of the Group.

**IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized. Management have assessed that there is no material impact on financial statement of the Group.

**IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally. Management have assessed that there is no material impact on financial statement of the Group.

#### **Standards and Interpretations issued by IASB and adopted by the EU but not yet effective**

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

#### **Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework.

Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

##### ***IFRS 3: Business Combinations (Amendments)***

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU and the Management anticipates that the adoption will have no material impact on the financial statements of the Group.

##### ***IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)***

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, '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'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. Management have assessed the impact of application of new standard and anticipates that the adoption will have no material impact on the financial statements of the Group.

##### ***Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)***

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Management have assessed the impact of application of new standard and anticipates that the adoption will have no material impact on the financial statements of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

##### ***Standards and Interpretations issued by IASB but not yet adopted by the EU***

##### ***IFRS 17 : Insurance Contracts***

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU and is not applicable for the Group.

***Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The standard has not been yet endorsed by the EU and the Management anticipates that the adoption will have no material impact on the financial statements of the Group.

***IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)***, effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the balance sheet and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management anticipates that the adoption will have no material impact on the financial statements of the Group.

## **NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2019**

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#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **2.1 Basis of preparation**

###### ***Statement of compliance***

Consolidated financial statements of the Group for the year ended 31 December 2019 have been prepared in accordance with the applicable laws in the Republic of Croatia and International Financial Reporting Standards as adopted by the European Union (IFRS).

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

The accounting policies have been consistently applied, unless otherwise noted. The financial statements for the year ended 31 December 2019 have been prepared using the historical cost method.

The consolidated financial statements are denominated in Croatian Kuna (HRK) as the functional and reporting currency of the Group. At 31 December 2019, the exchange rate for EUR 1 was HRK 7.442580 (31 December 2018: HRK 7.417575).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.2 Consolidation

###### a) Subsidiaries

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

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

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

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

###### b) Subsidiaries in separate financial statements

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

###### c) Transactions with non-controlling interests

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.2 Consolidation (continued)

###### c) Transactions with non-controlling interests (continued)

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

###### d) Joint ventures

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

##### 2.3 Investments in associates

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.4 Goodwill / Bargain purchase

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

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

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

##### 2.4.1 Merger of entities and transactions with companies under common control

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

##### 2.5 Segment reporting

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.6 Foreign currencies

###### *(a) Functional and presentation currency*

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

###### *(b) Transactions and balances*

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

##### 2.7 Revenue from contracts with customers

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

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

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

###### **Hotels in the ownership and lease**

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

## NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.7 Revenue from contracts with customers (continued)

###### Contractual assets and liabilities

###### Contract assets

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

###### Trade receivables

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

###### Contract liabilities

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

##### 2.8 Provisions

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

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

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

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

## NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.9 Financial income and expenses

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

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

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

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

##### 2.10 Taxation

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

###### *Current tax*

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

###### *Deferred tax*

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.10 Taxation (continued)**

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

*Current and deferred taxes for the period*

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

**2.11 Property, plant and equipment**

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

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

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

	<b>2019</b>	<b>2018</b>
Buildings (hotels, residential buildings)	20 – 66 years	20 – 66 years
Other buildings (playground, parking, news-stand etc.)	20 – 66 years	20 – 66 years
Vehicles	5 years	5 years
Computers	4 – 5 years	4 – 5 years
Plant and equipment	5 – 30 years	5 – 30 years
Furniture	5 – 20 years	5 – 20 years

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.11 Property, plant and equipment (continued)

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

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

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

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

##### 2.12 Intangible assets

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

##### 2.13 Impairment of tangible and intangible assets

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.13 Impairment of tangible and intangible assets (continued)

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

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

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

##### 2.14 Lease

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

###### *Group as lessee*

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

###### 1. *Right-of-use asset*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.14 Lease (continued)

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

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

##### 2. Lease liability

On the first date of the lease, the Group recognizes lease obligations, measured at the present value of all lease payments that will arise during the lease term. Lease payments include fixed payments (including substantially fixed payments) less all lease incentive claims, variable lease payments that depend on an index or rate, and amounts expected to fall due under the guaranteed residual value.

Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which they are incurred or when the conditions that encourage payment are met. In calculating the present value of the lease, the Group uses its own incremental borrowing rate at the inception of the lease because the interest rate included in the lease is not easy to determine. After the commencement date, the amount of the lease liability is increased to reflect the release of interest and is reduced by the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there are changes, changes in lease periods, changes in rent (eg changes in future payments resulting from changes in the index or rate used to determine such leases) or changes in the assessment of the option to purchase the asset. Lease liabilities are presented in a separate line of the statement of financial position.

##### *Short-term leases and low-value leases*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.15 Inventories

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

##### 2.16 Financial asset

###### Classification

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

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

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

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

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

- The financial asset is held within a business model with the objective of holding the financial assets to collect and selling contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal and interest on the principal amount outstanding.

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

###### *(c) Financial assets at amortized cost*

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

- The financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.16 Financial asset (continued)

###### Measurement and recognition

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

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

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

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

###### Impairment of financial assets

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

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

## NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.17 Trade receivables

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

##### 2.18 Cash and cash equivalents

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

##### 2.19 Financial liabilities

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

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

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

During the preparation of the consolidated financial statements, the Group's management used certain judgements, estimates and assumptions that affect the carrying amount of assets and liabilities, disclosures of contingent items at the balance sheet date and income and expenses for that period.

Estimations have been used, but are not limited on: calculation of depreciation and useful lives, residual value of property, plant and equipment and tangible assets, impairment losses estimation, value adjustment for inventories and doubtful receivables, provisions for employee benefits and legal cases.

More details on the accounting policies for these estimations are presented in other parts of notes. Future events and their effects cannot be estimated with a certainty. Due to that accounting estimates require judgement, and estimates that are used in the preparation of the financial statements are subject to changes from future events, additional experience, new additional information and changes in environment in which the Group operates. Actual results can differ from estimated results.

#### 2.21 Contingent assets and liabilities

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

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

#### 2.22 Events after the reporting period

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 3 – FINANCIAL RISK MANAGEMENT**

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

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

**3.1 Capital risk management**

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

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

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Debt /i/	450,756	503,957
Lease liabilities	30,478	-
Cash and cash equivalents	(9,537)	(45,080)
<b>Net debt</b>	<u><b>471,697</b></u>	<u><b>458,877</b></u>
Equity /ii/	805,616	799,598
<b>Net debt-to-equity ratio</b>	<u><b>59%</b></u>	<u><b>57%</b></u>

/i/ Debt comprises non-current and current borrowings. Current borrowings represent the current portion of long-term debt and short term debts due within one year from the balance sheet date.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)****3.2 Significant accounting policies**

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

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

**2019**

	<b>Cash, Loans and receivables</b>	<b>Financial assets</b>	<b>Financial assets through comprehensive income</b>	<b>Total</b>
<b>31 December 2019</b>	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	9,901	-	-	9,901
Trade and other receivables	21,430	-	-	21,430
Loan receivables	76,141	-	-	76,141
Cash and cash equivalents	9,537	-	-	9,537
<b>Total</b>	<b>117,009</b>	<b>-</b>	<b>-</b>	<b>117,009</b>

**2018**

	<b>Cash, Loans and receivables</b>	<b>Financial assets</b>	<b>Financial assets through comprehensive income</b>	<b>Total</b>
<b>31 December 2018</b>	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	2,422	-	-	2,422
Trade and other receivables	43,498	-	-	43,498
Loan receivables	76,160	-	-	76,160
Cash and cash equivalents	45,080	-	-	45,080
<b>Total</b>	<b>167,160</b>	<b>-</b>	<b>-</b>	<b>167,160</b>

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

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Financial risk management**

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

**Market risk**

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

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

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

*Interest risk*

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

The following table shows sensitivity of changes of interest rates relating to Group's loans as of 31 December 2019 and 31 December 2018, with the assumptions that all other variables are constant, on income before taxes.

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

The average interest rates that applied in 2019 are increased or decreased by 1 p.p. (%). Amounts are shown in thousands of HRK.

<b>2019</b>	<b>Increase / decrease in percentage</b>	<b>Effect on profit before taxes HRK'000</b>
	<hr/>	<hr/>
HRK	+1 p.p.	(4,508)
HRK	-1 p.p.	4,508

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

2018	Increase / decrease in percentage	Effect on profit before taxes HRK'000
HRK	+1 p.p.	(5,040)
HRK	-1 p.p.	5,040

*Foreign currency risk*

The Group is mainly exposed to fluctuations of Euro (EUR) as a significant portion of trade receivables and sales, cash and long-term borrowings are denominated in those currencies. Other assets and other liabilities are mainly denominated in Croatian Kuna. Foreign exchange risk is managed using natural hedger, by maintaining a required level of cash in EUR, in which long-term debt of the Group is denominated.

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

31 December 2019	EUR 000' HRK	HRK 000' HRK	Total 000' HRK
Trade receivables	6,553	2,960	9,513
Loans	-	76,141	76,141
Other receivables	2,092	9,825	11,917
Cash and cash equivalents	7,473	2,064	9,537
Borrowings	(450,756)	-	(450,756)
Lease liabilities	(30,478)	-	(30,478)
Trade and other payables	(2,398)	(33,426)	(35,824)
Other short term liabilities	(1,376)	(28,612)	(29,988)
	<b>(468,890)</b>	<b>28,952</b>	<b>(439,938)</b>
31 December 2018	EUR 000' HRK	HRK 000' HRK	Total 000' HRK
Trade receivables	18,244	6,399	24,643
Loans	3,409	72,751	76,160
Other receivables	3,895	14,085	17,980
Cash and cash equivalents	25,504	19,576	45,080
Borrowings	(503,493)	(464)	(503,957)
Trade and other payables	(1,636)	(44,236)	(45,872)
Other short term liabilities	(2,670)	(29,161)	(31,831)
	<b>(456,747)</b>	<b>38,950</b>	<b>(417,797)</b>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)**

000' HRK	Short term exposure	Long term exposure
	EUR	
<b>2019</b>		
Financial assets	14,026	2,092
Financial liabilities	<u>(65,607)</u>	<u>(419,401)</u>
<b>Total exposure</b>	<b><u>(51,581)</u></b>	<b><u>(417,309)</u></b>
<b>2018</b>		
Financial assets	50,667	385
Financial liabilities	<u>(58,542)</u>	<u>(449,257)</u>
<b>Total exposure</b>	<b><u>(7,875)</u></b>	<b><u>(448,872)</u></b>

*Sensitivity analysis*

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

	<b>2019</b>	<b>2018</b>
	Effect on profit before taxes	Effect on profit before taxes
	<u>HRK'000</u>	<u>HRK'000</u>
Weakening of HRK in relation to EUR by 1%	(4,689)	(4,602)

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

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

## NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

##### **Credit risk**

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

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transaction concluded is spread amongst approved counterparties.

The grand part of credit risk is based on trade receivables.

##### *Trade and other receivables*

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

##### **Liquidity risk**

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

The following table shows the maturity of financial liabilities of the Group at 31 December 2019 according to the contracted non-discounted payments:

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)**

	<b>Carrying value</b>	<b>Contracted cash flows</b>	<b>0 – 12 months</b>	<b>1 – 2 years</b>	<b>2 – 5 years</b>	<b>Over 5 years</b>
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>31 December 2019</b>						
Borrowings	450,756	482,264	62,740	61,654	174,320	183,550
Lease liabilities	30,478	31,594	6,967	13,934	10,693	,
Trade and other payables	35,824	35,824	35,824	-	-	-
Other liabilities	29,998	29,998	29,998	-	-	-
	<b>547,056</b>	<b>579,680</b>	<b>135,529</b>	<b>75,588</b>	<b>185,013</b>	<b>183,550</b>

	<b>Carrying value</b>	<b>Contracted cash flows</b>	<b>0 – 12 months</b>	<b>1 – 2 years</b>	<b>2 – 5 years</b>	<b>Over 5 years</b>
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>31 December 2018</b>						
Borrowings	503,957	552,877	62,969	63,131	182,503	244,274
Trade and other payables	45,872	45,872	45,872	-	-	-
Other liabilities	31,831	31,831	31,831	-	-	-
	<b>581,660</b>	<b>630,580</b>	<b>140,672</b>	<b>63,131</b>	<b>182,503</b>	<b>244,274</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 4 – SEGMENT INFORMATION****Basic reporting format – business segments**

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

Profit and loss for the year ended 31 December 2019 by business segments is as follows:

<i>(in thousands of HRK)</i>	<b>Hotels</b>	<b>Other segments</b>	<b>Unallocated</b>	<b>Total</b>
Total segment revenue	438,405	7,339	36,494	482,238
Inter segment revenue	(614)	(4,337)	(28,282)	(33,233)
<b>Revenue from external costumers</b>	<b>437,791</b>	<b>3,002</b>	<b>8,212</b>	<b>449,005</b>
Operating expenses	(322,595)	(5,763)	(19,241)	(347,599)
<b>EBITDA</b>	<b>115,196</b>	<b>(2,761)</b>	<b>(11,029)</b>	<b>101,406</b>
Depreciation and amortisation	(60,779)	(1,271)	(2,758)	(64,808)
<b>EBIT</b>	<b>54,417</b>	<b>(4,032)</b>	<b>(13,787)</b>	<b>36,598</b>
Share in loss of associates and joint ventures				(493)
Financial expenses – net				(23,674)
<b>Profit before taxes</b>				<b>12,431</b>
Income tax				(7,001)
<b>Profit for the year</b>				<b>5,430</b>
<i>Attributable to:</i>				
Owners of the Parent Company				3,309
Non-controlling interest				2,121

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 4 – SEGMENT INFORMATION (continued)**

The profit and loss for the year ended 31 December 2018 by business segments is as follows:

<i>(in thousands of HRK)</i>	<b>Hotels</b>	<b>Other segments</b>	<b>Unallocated</b>	<b>Total</b>
Total segment revenue	414,129	12,744	29,634	456,507
Inter segment revenue	(435)	(4,279)	(26,553)	(31,267)
<b>Revenue from external costumers</b>	<b>413,694</b>	<b>8,465</b>	<b>3,081</b>	<b>425,240</b>
Operating expenses	(282,688)	(11,286)	(26,189)	(320,163)
<b>EBITDA</b>	<b>131,006</b>	<b>(2,821)</b>	<b>(23,108)</b>	<b>105,077</b>
Depreciation and amortisation	(53,105)	(1,303)	(695)	(55,103)
<b>EBIT</b>	<b>77,901</b>	<b>(4,124)</b>	<b>(23,803)</b>	<b>49,974</b>
Share in loss of associates and joint ventures				(2,739)
Financial expenses – net				(14,623)
<b>Profit before taxes</b>				<b>32,612</b>
Income tax				(2,592)
<b>Profit for the year</b>				<b>30,020</b>
<i>Attributable to:</i>				
Owners of the Parent Company				26,176
Non-controlling interest				3,844

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

The company Hotel Alan d.d. on 1 August 2018 became a member of the Group, therefore, revenues from management fees relates to the period for the first 7 months of 2018, while the company has not been members of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 4 – SEGMENT INFORMATION (continued)****Secondary reporting format – geographical segments**

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

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Foreign sales	401,751	385,721
Domestic sales	34,629	29,459
	<b>436,380</b>	<b>415,180</b>

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

	<b>2019</b>		<b>2018</b>	
	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%
Germany	83,300	21%	78,854	20%
Great Britain	57,050	14%	48,138	12%
France	34,619	9%	48,641	13%
Sweden	30,458	8%	43,638	11%
Bosnia and Herzegovina	20,271	5%	17,416	5%
Austria	19,592	5%	17,746	5%
Slovenia	15,902	4%	12,809	3%
Czech Republic	13,749	3%	12,084	3%
Norway	13,184	3%	17,274	4%
Other countries	113,626	28%	89,121	24%
	<b>401,751</b>	<b>100%</b>	<b>385,721</b>	<b>100%</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 5 – OTHER INCOME**

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Rent income	3,706	2,351
Gain on sale of fixed assets	2,062	292
Income from grants	899	1,493
Management fee	310	1,524
Penalty income	244	-
Other income	5,404	4,400
	<b>12,625</b>	<b>10,060</b>

The category "Other revenues" in 2019 and 2018 includes revenues from write-offs of liabilities to suppliers, subsequently determined revenues, revenues from suppliers discounts, revenues from re invoicing, revenues from transport services, revenues from promotional services and etc.

**NOTE 6 – COST OF MATERIALS AND SERVICES**

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
<b>Raw materials and supplies</b>		
Raw materials and supplies used	(52,435)	(50,628)
Energy and water used	(16,522)	(14,727)
Small inventory	(5,480)	(5,795)
Cost of goods sold	(1,264)	(1,478)
	<b>(75,701)</b>	<b>(72,628)</b>
<b>External services</b>		
Communal fees	(10,862)	(10,250)
Maintenance	(10,001)	(9,673)
Advertising and promotion	(7,217)	(7,746)
Laundry services	(6,817)	(7,248)
Animation and entertainment	(4,480)	(4,614)
Intellectual services /i/	(4,048)	(3,506)
Transportation and telecommunication	(2,844)	(2,374)
Rent	(2,469)	(8,538)
Other services	(3,611)	(3,312)
	<b>(52,349)</b>	<b>(57,261)</b>
<b>Total costs of materials and services</b>	<b>(128,050)</b>	<b>(129,889)</b>

/i/ Statutory audit services fees to the auditor of the Group's financial statements amounted to HRK 653 thousand (2018: HRK 703 thousand).

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NOTE 7 – EMPLOYEE COSTS**

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Net salaries	(83,879)	(83,468)
Contributions, taxes and surtax	(46,721)	(48,741)
Accrued overtime and unused vacation	1,181	300
Termination benefits and jubilee awards	(183)	(111)
Other employee costs /i/	(17,777)	(16,384)
	<b>(147,379)</b>	<b>(148,404)</b>

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

During 2019, the average number of staff employed by the Group was 1,278 (2018: 1,179 employees).

Contributions paid in mandatory pension funds during 2019 amounted to HRK 20,513 thousand (2018: HRK 21,676 thousand), to State pension funds amounts to HRK 16,108 thousand (2018: HRK 16,995 thousand) and private pension fund amounts to HRK 4,405 thousand (2018: HRK 4,681 thousand).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 8 – OTHER OPERATING EXPENSES**

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Commission to travel agencies and credit cards institutions	(23,670)	(18,876)
Provisions for impairment of trade and other receivables (note 18)	(21,639)	(590)
Municipal and similar charges and contributions	(5,917)	(5,363)
Value adjustment of other receivables from related parties	(5,193)	-
Insurance premiums	(3,428)	(3,129)
Representation cost (hosting and mediation)	(3,392)	(3,148)
Business travel costs	(1,045)	(1,333)
Staff education cost and other similar cost	(1,030)	(866)
Bank fees	(1,016)	(655)
Disposals of property, plant and equipment	(742)	(1,833)
Management fees	(590)	(992)
Supervisory Board costs	(528)	(494)
Other	(3,980)	(4,591)
	<u><b>(72,170)</b></u>	<u><b>(41,870)</b></u>

**NOTE 9 – FINANCIAL EXPENSES – NET**

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
<b>Financial income</b>		
Interest income	3,509	5,601
Net foreign exchange gains	-	3,836
Other financial income	2	298
	<u><b>3,511</b></u>	<u><b>9,735</b></u>
<b>Financial expenses</b>		
Value adjustment of financial assets (Note 15)	(14,028)	-
Interest expense	(10,006)	(17,817)
Interest expense on the property with the right-of-use asset (IFRS 16)	(1,071)	-
Fee and other related costs	(1,024)	(5,729)
Net exchange rate differences	(1,056)	-
Expected credit losses (IFRS 9)	-	(812)
	<u><b>(27,185)</b></u>	<u><b>(24,358)</b></u>
	<u><b>(23,674)</b></u>	<u><b>(14,623)</b></u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 10 – INCOME TAX**

Calculation of corporate income tax for the year ended 31 December 2019 is as follows:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
<b>Profit before tax</b>	<b>12,431</b>	<b>32,612</b>
Consolidation adjustment	3,736	2,692
Non-deductible expenses	28,279	14,704
Tax deductible income	(4,557)	(3,976)
<b>Taxable profit</b>	<b>39,889</b>	<b>46,032</b>
Used tax losses carried forward from previous years	(2,979)	(928)
<b>Tax basis</b>	<b>36,910</b>	<b>45,104</b>
Income tax (18%)	6,643	8,119
Deferred tax (note 12)	358	(5,527)
<b>Income tax</b>	<b>7,001</b>	<b>2,592</b>
<b>Tax losses to be carried forward</b>	<b>(46,998)</b>	<b>(45,450)</b>
<b>Effective tax rate</b>	<b>75.60%</b>	<b>7.95%</b>

The applicable corporate income tax rate for 2019 was 18% (2018: 18%).

The Group can carry forward tax losses from subsidiaries which incurred loss in the year 2019, and which had no tax liability and from subsidiaries who realized profit in 2019 but had tax losses from previous periods. These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2019 tax losses carried forward amount to HRK 46,998 thousand and can be used as follows:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
2019	-	2,555
2020	3,450	3,450
2021	2,761	2,761
2022	4,227	4,236
2023	32,682	32,448
2024	3,878	-
	<b>46,998</b>	<b>45,450</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 10 – INCOME TAX (continued)**

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

**NOTE 11 – EARNINGS PER SHARE****Basic and diluted**

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

	<u>2019</u>	<u>2018</u>
Net profit attributable to owners of the parent Company (in thousands of HRK)	3,309	26,176
Weighted average number of shares (decreased by treasury shares)	<u>5,393,850</u>	<u>5,086,107</u>
<b>Earnings per share (in HRK)</b>	<b><u>0.61</u></b>	<b><u>5.15</u></b>

**NOTE 12 – DEFERRED TAX ASSETS**

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<i>(in thousands of HRK)</i>	
Tax loss carried forward- Hotel Alan d.d.	<u>5,169</u>	<u>5,527</u>
<b>As at 31 December</b>	<b><u>5,169</u></b>	<b><u>5,527</u></b>

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

## NOTE 13 - INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	<b>Software</b>	<b>Licenses</b>	<b>Other</b>	<b>Assets under construction</b>	<b>Total</b>
<b>As at 1 January 2018</b>					
Cost	6,425	1,021	2,294	77	9,817
Accumulated amortisation	(5,449)	(935)	(2,294)	-	(8,678)
<b>Carrying amount</b>	<b>976</b>	<b>86</b>		<b>77</b>	<b>1,139</b>
<b>As at 1 January 2018</b>	<b>976</b>	<b>86</b>	-	<b>77</b>	<b>1,139</b>
Additions	-	-	-	359	359
Transfers	412	-	-	(412)	-
Acquisition of the subsidiary Hotel Alan d.d.	496	-	9	-	505
Amortization	(463)	(31)	-	-	(494)
Acquisition of the subsidiary Hotel Alan d.d.	(482)	-	-	-	(482)
<b>As at 31 December 2018</b>	<b>939</b>	<b>55</b>	<b>9</b>	<b>24</b>	<b>1,027</b>
<b>As at 31 December 2018</b>					
Cost	7,333	1,021	2,303	24	10,681
Accumulated amortisation	(6,394)	(966)	(2,294)	-	(9,654)
<b>Carrying amount</b>	<b>939</b>	<b>55</b>	<b>9</b>	<b>24</b>	<b>1,027</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2019

## NOTE 13 - INTANGIBLE ASSETS (CONTINUED)

<i>(in thousands of HRK)</i>	<b>Software</b>	<b>Licenses</b>	<b>Other</b>	<b>Assets under construction</b>	<b>Total</b>
<b>For the year ended 31 December 2019</b>					
<b>As at 1 January 2019</b>					
Cost	7,333	1,021	2,303	24	10,681
Accumulated amortisation	(6,394)	(966)	(2,294)	-	(9,654)
<b>Carrying amount</b>	<b>939</b>	<b>55</b>	<b>9</b>	<b>24</b>	<b>1,027</b>
<b>As at 1 January 2019</b>					
As at 1 January 2019	939	55	9	24	1,027
Additions	12	-	23	178	213
Sale and write-off	(9)	-	-	(24)	(33)
Transfers	55	123	-	(178)	-
Amortization	(323)	(8)	(32)	-	(363)
Sale and write-off	9	-	-	-	9
<b>As at 31 December 2019</b>	<b>683</b>	<b>170</b>	<b>-</b>	<b>-</b>	<b>853</b>
<b>As at 31 December 2019</b>					
As at 31 December 2019	7,391	1,144	2,326	-	10,861
Accumulated amortisation	(6,708)	(974)	(2,326)	-	(10,008)
<b>Carrying amount</b>	<b>683</b>	<b>170</b>	<b>-</b>	<b>-</b>	<b>853</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 13.1 – RIGHT-OF-USE ASSET**

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

	<b>31.12.2019.</b>	<b>1.1.2019</b>
<i>Amounts recognized in the statement of financial position</i>		
	<i>(in thousands of HRK)</i>	
<b>Right-of-use asset</b>		
Buildings (tourist resort)	13,722	18,296
Office building	10,929	12,491
Other	4,641	5,944
	<b>29,292</b>	<b>36,731</b>
<b>Lease liabilities</b>		
Long – term	23,069	30,477
Short – term	7,409	6,722
	<b>30,478</b>	<b>37,199</b>
<i>Amounts recognized in statement of comprehensive income for the period</i>		
	<i>(in thousands of HRK)</i>	
Depreciation of right-of-use asset	7,440	-
Interest (Note 9)	1,071	-
	<b>8,511</b>	<b>-</b>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NOTE 14 – PROPERTY, PLANT AND EQUIPMENT**

**For the year ended 31 December 2018**  
*(in thousands of HRK)*

	Land	Buildings	Vehicles	Plant and equipment	Assets under construction	Total
<b>As at 1 January 2018</b>						
Cost	107,955	1,292,676	11,897	287,147	10,714	1,710,389
Accumulated depreciation	-	(495,687)	(8,753)	(213,407)	-	(717,847)
<b>Carrying amount</b>	<b>107,955</b>	<b>796,989</b>	<b>3,144</b>	<b>73,740</b>	<b>10,714</b>	<b>992,542</b>
Additions	-	13,557	3	6,064	41,986	61,610
Sales and Disposal	(108)	-	(1,188)	(10,015)	-	(11,311)
Transfers	399	12,733	1,693	7,190	(22,015)	-
Acquisition of the subsidiary Hotel Alan d.d.	3,345	120,226	196	31,181	108	155,056
Land revaluation	30	-	-	-	-	30
Depreciation	-	(37,356)	(994)	(16,259)	-	(54,609)
Sales and Disposal	-	-	809	9,177	-	9,986
Acquisition of the subsidiary Hotel Alan d.d.	-	(33,772)	(139)	(9,772)	-	(43,683)
<b>As at 31 December 2018</b>						
Cost	111,621	1,439,192	12,601	321,567	30,793	1,915,774
Accumulated depreciation	-	(566,815)	(9,077)	(230,261)	-	(806,153)
<b>Carrying amount</b>	<b>111,621</b>	<b>872,377</b>	<b>3,524</b>	<b>91,306</b>	<b>30,793</b>	<b>1,109,621</b>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)**

**For the year ended 31 December 2019**  
*(in thousands of HRK)*

	Land	Buildings	Vehicles	Plant and equipment	Assets under construction	Total
<b>As at 1 January 2019</b>						
Cost	111,621	1,439,192	12,601	321,567	30,793	1,915,774
Accumulated depreciation	-	(566,815)	(9,077)	(230,261)	-	(806,153)
<b>Carrying amount</b>	<b>111,621</b>	<b>872,377</b>	<b>3,524</b>	<b>91,306</b>	<b>30,793</b>	<b>1,109,621</b>
Additions	3,988	25,313	50	10,382	20,555	60,288
Sales and Disposal	(201)	(18,337)	(757)	(7,030)	-	(26,325)
Transfers	-	23,380	597	5,951	(29,928)	-
Land revaluation	716	-	-	-	-	716
Depreciation	-	(39,090)	(886)	(17,030)	-	(57,006)
Sales and Disposal	-	18,337	757	6,335	-	25,429
<b>As at 31 December 2019</b>						
Cost	116,124	1,469,548	12,491	330,870	21,420	1,950,453
Accumulated depreciation	-	(587,568)	(9,206)	(240,956)	-	(837,730)
<b>Carrying amount</b>	<b>116,124</b>	<b>881,980</b>	<b>3,285</b>	<b>89,914</b>	<b>21,420</b>	<b>1,112,723</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

The Group has engaged independent appraisers for the purpose of assessing the value of construction facilities and land for hotel companies Hotels Brela d.d., Hotels Tučepi d.d., Hotels Zlatni Rat d.d. and Hotel Alan d.d. Estimated value of the Group's property amounts to HRK 1,441,124 thousand as at 31 December 2019. (2018: HRK 1,315,067 thousand).

As at 31 December 2019, the net book value of land and buildings pledged as collateral for the repayment of long-term borrowings (Note 23) amounted to HRK 656,775 thousand (2018: HRK 660,200 thousand).

The gross carrying value of property, plant and equipment which are fully depreciated and still in use as of 31 December 2019 amounts to HRK 195,264 thousand (2018: HRK 183,503 thousand).

Carrying value of Group's assets purchased on finance lease as at 31 December 2019 amounts to HRK 493 thousand (2018: HRK 609 thousand).

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

The subsidiary Hoteli Zlatni rat d.d. has recognised in the statement of financial position land designated as maritime demesne in the amount of HRK 1,409 thousand (2018: HRK 1,409 thousand) and HRK 3,299 thousand (2018: HRK 3,441 thousand). These buildings were built by the Group on this land before the land was designated maritime demesne. The usage of real estate on maritime demesne is determined based on concession rights. The Group has not signed a concession agreement with the State and therefore it is not clear if the Group will be able to continue using these buildings without a concession agreement in place. The Group is not able to currently determine any potential liability for not paying any concession fees in the past for the usage of such land, or whether there is impairment in the value of these buildings.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2019

## NOTE 15 – INVESTMENT IN ASSOCIATES AND JOINT VENTURE

	31.12.2019		31.12.2018	
	(in thousands of HRK)	Interest held	(in thousands of HRK)	Interest held
Praona d.o.o., Makarska	3,000	42%	2,940	42%
WOT Hotels Adriatic Asset Company d.o.o. (i)	83,891	50%	98,538	50%
WOT Hotels Adriatic Management d.o.o.	77	49%	10	49%
	<b>86,968</b>		<b>101,488</b>	

(i) During 2018, the company "Punta Zlatarac Tučepi d.o.o." changed its name to "WOT Hotels Adriatic Asset Company d.o.o. "

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

	31.12.2019	31.12.2018
	(in thousands of HRK)	
<b>As at 1 January</b>	101,488	50,193
Share in profit of associate (Praona d.o.o.)	60	72
Share in loss of joint venture (WOT Hotels Adriatic Asset Company d.o.o.) (i)	(619)	(2,812)
Increasing interest in the joint venture - capital increase of loans granted (ii)	-	54,025
WOT Hotels Adriatic Management d.o.o. – establishment	-	10
Profit share of WOT Hotels Adriatic Management d.o.o.	67	-
Impairment of investments in WOT Hotels Adriatic Asset Company d.o.o. (iii)	(14,028)	-
<b>As at 31 December</b>	<b>86,968</b>	<b>101,488</b>

(ii) In November 2018, the company "Hoteli Tučepi d.d." carried out a share capital increase in joint venture, i.e. "WOT Hotels Adriatic Asset Company d.o.o.", for the amount of receivables per loans granted in the amount of HRK 54,025 thousand.

(iii) During 2019, the company "Hoteli Tučepi d.d." performed test of recoverability on investment and based on the determined fair value of the company "WOT Hotels Adriatic Asset Company d.o.o." an impairment of investment in the stated amount was carried out.

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

	2019	2018
<b>Financial position – Praona d.o.o.</b>		
Current assets	4,455	2,581
Non-current assets	14,571	13,336
Short-term liabilities	2,989	3,545
Long term liabilities	8,891	5,369
<b>Net assets</b>	<b>7,146</b>	<b>7,003</b>
<b>Profit and loss account – Praona d.o.o.</b>		
Revenues	14,865	10,074
Expenses	(14,723)	(9,899)
<b>Profit</b>	<b>142</b>	<b>175</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 15 – INVESTMENT IN ASSOCIATES AND JOINT VENTURE (continued)**

Summarized financial information for the company WOT Hotels Adriatic Asset Company d.o.o. (previously Punta Zlatarac Tučepi d.o.o.) is shown below.

	<b>2019</b>	<b>2018</b>
<b>Financial position – joint venture</b>		
Current assets	5,969	6,238
Non-current assets	257,696	263,121
Short-term liabilities	16,847	22,495
Long term liabilities	79,045	77,853
<b>Net assets</b>	<b>167,773</b>	<b>169,011</b>
<b>Profit and loss account – joint venture</b>		
Revenues	43,530	39,783
Expenses	(44,768)	(45,407)
<b>Profit</b>	<b>(1,238)</b>	<b>(5,624)</b>
<b>Group's share in joint venture net loss</b>	<b>(619)</b>	<b>(2,812)</b>

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

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

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of business	Recognition method	Carrying amount as of 31 Dec 2019 (in thousands of HRK)
		2019	2018			
WOT Hotels Adriatic Asset Company d.o.o.	Tučepi, Croatia	50%	50%	Hospitality and tourism	Equity method	83,891

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 16 – OTHER NON-CURRENT RECEIVABLES**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<i>(in thousands of HRK)</i>	
Interest receivables from related parties	7,825	-
Trade receivables	1,449	1,751
Accrued expenses	511	671
Deposits in banks	116	-
	<b>9,901</b>	<b>2,422</b>

**NOTE 17 – INVENTORIES**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<i>(in thousands of HRK)</i>	
Raw materials and consumables	3,513	3,025
Merchandise	252	185
Small inventory and spare parts of tangible assets	242	325
Advances given	41	39
Advances given to related companies	-	160
	<b>4,048</b>	<b>3,734</b>

**NOTE 18 - TRADE RECEIVABLES**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<i>(in thousands of HRK)</i>	
Trade receivables	36,448	28,708
Trade receivables – related companies	2,217	3,568
Less provision for impairment of trade receivables	(30,261)	(8,382)
<b>Trade receivables – net</b>	<b>8,404</b>	<b>23,894</b>
Advances given	1,005	477
Advances given to related companies (Note 31)	104	272
<b>Trade receivables</b>	<b>9,513</b>	<b>24,643</b>

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

As at 31 December 2019 past due trade receivables but not impaired relates to a number of several individual customers for whom Group had no problems in collecting receivables in previous years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 18 – TRADE RECEIVABLES (continued)**

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

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<i>(in thousands of HRK)</i>	
Undue receivables	2,232	1,023
Less than 90 days	2,804	17,122
Between 90 and 180 days	1,922	3,472
Between 180 and 360 days	651	841
Later than 360 days	1,904	1,436
	<u>9,513</u>	<u>23,894</u>

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

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<i>(in thousands of HRK)</i>	
EUR	6,553	18,244
HRK	2,960	6,399
	<u>9,513</u>	<u>24,643</u>

Movements in the provisions for impairment of trade receivables:

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<i>(in thousands of HRK)</i>	
<b>At 1 January</b>	<b>(8,382)</b>	<b>(10,185)</b>
<i>Charged/credited to the statement of comprehensive income (Note 8):</i>		
Increase due to the acquisition of Hotel Alan d.d.	-	(295)
Increase of impairment	(21,639)	(590)
Foreign exchange	(326)	39
	<u>(21,965)</u>	<u>(846)</u>
Receivables written-off	(74)	2,648
Collected receivables	160	1
<b>At 31 December</b>	<b><u>(30,261)</u></b>	<b><u>(8,382)</u></b>

The creation and release of provision for impaired receivables have been included in 'other expenses' in the statement of comprehensive income (Note 8). Provisions for value adjustment of receivables in 2019 relate mostly to members of the Thomas Cook Group and to a lesser extent to related parties.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 19 – OTHER RECEIVABLES**

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<i>(in thousands of HRK)</i>	
Prepaid expenses	5,539	4,357
Receivables from state institutions	4,268	4,807
Interest receivable from related parties (Note 31)	1,032	5,335
Other receivables from related parties	65	2,351
Receivables from employees	30	45
Other receivables	983	1,085
	<u>11,917</u>	<u>17,980</u>

**NOTE 20 – LOANS**

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<i>(in thousands of HRK)</i>	
<b>Long-term</b>		
Loans to related parties (Note 31)	76,890	32,035
Loan loss allowance – IFRS 9 (Note 9)	(769)	(320)
	<u>76,121</u>	<u>31,715</u>
<b>Short-term</b>		
Loans to related parties (note 31)	20	44,876
Loan loss allowance – IFRS 9 (note 9)	-	(449)
Loans to employees	-	18
	<u>20</u>	<u>44,445</u>
	<u>76,141</u>	<u>76,160</u>

Long-term loans as at 31 December 2019 in the total amount of HRK 76 million relate to loans to the related company Lucidus d.d., of which HRK 32 million relates to loans granted in 2018 for the purpose of acquiring a 100% business share in Glasgow gradnja d.o.o. which is the owner of the tourist complex Croatia (110 apartments) and Hotel Alba (80 rooms) in sveti Filip i Jakov near Zadar. With this loan, the company Lucidus d.d. acquired a 100% business share in the said company.

Maturity of long-term loans is until December 2022, loans are secured by promissory notes and by pledge of business share in company Glasgow gradnja d.o.o. to the total amount of HRK 32 million.

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**NOTE 20 – LOANS (continued)**

For remaining loans Group has obtained additional collateral in the form of real estate mortgages and pledges in the form of high-quality business shares of companies owned by business owners associated with Lucidus d.d. and the ultimate majority owner of the Group. The aforementioned collaterals are also secured long-term loans in the amount of HRK 32 million.

**NOTE 21 – CASH AND CASH EQUIVALENTS**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<i>(in thousands of HRK)</i>	
Foreign currency accounts	7,473	25,504
Domestic currency accounts	2,035	19,540
Cash in hand	29	36
	<b>9,537</b>	<b>45,080</b>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 22 – SHARE CAPITAL**

The authorised and registered share capital of the parent Company amounts to HRK 539,385 thousand and comprises 5,393,850 ordinary shares, with a nominal value of HRK 100 per share.

The ownership structure as at 31 December 2019 was as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Nominal value</b>	<b>Share in %</b>
Sunce Ulaganja d.o.o.	3,004,672	300,467,200	55.71
Lucidus d.d.	1,143,239	114,323,900	21.20
Erste plavi OMF category B	892,898	89,289,800	16.55
Raiffeisen OMF category B	156,134	15,613,400	2.89
PBZ CO OMF - category B	70,460	7,046,000	1.31
Raiffeisen voluntary pension fund	68,795	6,879,500	1.28
Erste plavi expert - voluntary pension fund	25,753	2,575,300	0.48
Raiffeisen OMF category A	8,895	889,500	0.16
Erste plavi OMF category A	8,162	816,200	0.15
PBZ CO OMF - category A	5,695	569,500	0.11
Other shareholders	9,147	914,700	0.16
<b>Total</b>	<b>5,393,850</b>	<b>539,385,000</b>	<b>100.00</b>

The ownership structure as at 31 December 2018 was as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Nominal value</b>	<b>Share in %</b>
Sunce Ulaganja d.o.o.	3,004,672	300,467,200	55.71
Lucidus d.d.	1,143,239	114,323,900	21.20
Erste plavi OMF category B	892,898	89,289,800	16.55
Raiffeisen OMF category B	156,134	15,613,400	2.89
PBZ CO OMF - category B	70,460	7,046,000	1.31
Raiffeisen voluntary pension fund	67,470	6,747,000	1.25
Erste plavi expert - voluntary pension fund	25,753	2,575,300	0.48
Raiffeisen OMF category A	8,895	889,500	0.16
Erste plavi OMF category A	8,162	816,200	0.15
PBZ CO OMF - category A	5,695	569,500	0.11
Other shareholders	10,472	1,047,200	0.19
<b>Total</b>	<b>5,393,850</b>	<b>539,385,000</b>	<b>100.00</b>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 23 – BORROWINGS**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<i>(in thousands of HRK)</i>	
<b>Non-current</b>		
Bank borrowings	450,420	503,009
Finance lease	179	335
Less: Current portion of non - current borrowings	(54,267)	(54,087)
	<b>396,332</b>	<b>449,257</b>
<b>Current</b>		
Current portion of non - current borrowings	54,267	54,087
Loan from related parties	-	464
Finance lease	157	149
	<b>54,424</b>	<b>54,700</b>
	<b>450,756</b>	<b>503,957</b>

At 28 August 2018, a contract was signed for refinancing the entire financial debt of Sunce Koncern d.d. and its subsidiary hotel companies with the European Bank for Reconstruction and Development as a lead arranger, and Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d., and Zagrebačka banka d.d. as members of the bank syndicate. The total value of the transaction amounted to 73 million euros, with all banks equally participated in the loan amount. Although the loan agreement was signed at 28 August 2018, the funds were paid out at 18 December 2018, after the fulfilment of all conditions precedent under the loan agreement. The Group has refinanced its total banks borrowings for a period of 10 years, during which is required to comply with certain financial covenants that are common to such a transaction.

Covenants include the following financial obligations:

- (a) Interest coverage ratio,
- (b) Debt service coverage ratio,
- (c) Net debt/ EBITDA,
- (d) Loan coverage ratio and
- (e) Equity/Total asset ratio.

Total amount of borrowings as at 31 December 2019 in the amount of HRK 450,420 thousand relates to borrowings received from the EBRD. The loan is denominated in EUR with interest rate 6-month EURIBOR + 2.0%. The principal of the loan is due in twenty consecutive semi-annual instalments, the first being due on 31 October 2018 and the last on 30 April 2028. The purpose of the loan was to refinance liabilities towards other banks which had higher interest rate and in order to have one loan on whole Group level and also part of the loan was related to CAPEX which the Group used for investments in non-current asset.

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 23 – BORROWINGS (continued)**

As at 31 December 2019, the Group was not in line with the provisions of the loan agreement relating to financial covenants that should be satisfied at the end of each financial year and did not have unconditional right to defer its settlement for at least twelve months after the reporting date. However, in July 2020 the Group have received official waiver from the lenders by which they accepted an exemption from a breached financial covenant and do not demand early repayment of the loan.

Additionally, due to the expected negative COVID-19 impact on the operating results of the Group in 2020 tourist season and potential cash gap until the next tourist season, moratorium on all payments due in 2020 have been granted by the lenders which will have positive effect on the liquidity of the Group.

	<b>Outstanding amount</b>	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity</b>
	<i>(in thousands of HRK)</i>			
<b>Bank</b>				
European Bank for Reconstruction and Development	112,605	EUR	6M EURIBOR + 2%	2028
Erste&Steiermärkische Bank d.d.	112,605	EUR	6M EURIBOR + 2%	2028
Privredna banka Zagreb d.d.	112,605	EUR	6M EURIBOR + 2%	2028
Zagrebačka banka d.d.	112,605	EUR	6M EURIBOR + 2%	2028
	<b>450,420</b>			

Bank borrowings are secured by a mortgage over land and buildings (Note 14) with a net book value of HRK 656,775 thousand (2018: HRK 660,200 thousand).

The effective interest rates at balance date was 2.01% (2018: 4.37%).

Maturity of long-term borrowings is as follows:

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<i>(in thousands of HRK)</i>	
Between 2–5 years	217,249	224,211
Over 5 years	179,083	225,046
	<b>396,332</b>	<b>449,257</b>

The carrying amounts of borrowings approximate their fair value.

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 23 – BORROWINGS (continued)**

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

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<i>(in thousands of HRK)</i>	
EUR	450,756	503,493
HRK	-	464
	<b>450,756</b>	<b>503,957</b>

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

The present value of finance lease liabilities is as follows:

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<i>(in thousands of HRK)</i>	
Less than a year	157	149
Between 1-5 years	179	335
Over 5 years	-	-
	<b>336</b>	<b>484</b>

*Reconciliation in liabilities arising from financial activities*

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

<i>(in thousands of HRK)</i>	<b>At 1 January 2019</b>	Cash flow		Acquisition of a subsidiary	Foreign exchange	<b>At 31 December 2019</b>
		<i>Increase</i>	<i>Decrease</i>			
Received Loans	<b>503,957</b>	-	(54,810)	-	1,609	<b>450,756</b>

<i>(in thousands of HRK)</i>	<b>At 1 January 2018</b>	Cash flow		Acquisition of a subsidiary	Foreign exchange	<b>At 31 December 2018</b>
		<i>Increase</i>	<i>Decrease</i>			
Received Loans	<b>394,180</b>	706,307	(656,778)	64,196	(3,948)	<b>503,957</b>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 24 – PROVISIONS**

<i>(in thousands of HRK)</i>	<b>Severance payments /i/</b>	<b>Legal claim /ii/</b>	<b>Jubilee awards /i/</b>	<b>Total</b>
<b>At 1 January 2019</b>	<b>566</b>	<b>606</b>	<b>828</b>	<b>2,000</b>
Additional provisions	203	-	186	389
Used during year	(185)	-	(170)	(355)
<b>At 31 December 2019</b>	<b>584</b>	<b>606</b>	<b>844</b>	<b>2,034</b>
Current portion	109	-	282	<b>391</b>
Non-current portion	475	606	562	<b>1,643</b>

/i/ The liability recognised in the statement of financial position in respect of defined jubilee awards and severance plans is the present value of the defined benefit obligation at the balance sheet date. The present value of defined benefit obligation is calculated annually using interest rates of Government bonds. The provision charge is recognised in profit or loss within "Employee costs".

/ii/ The amounts represent a provision for certain legal claims brought against the group by customers, suppliers and employees. The provision charge is recognised in profit or loss within 'other expenses' (Note 8). By the Board's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2019.

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NOTE 25 – DEFERRED TAX LIABILITY**

The movement in deferred tax liabilities during the year 2019 and 2018 is as follows:

	<b>Land revaluation</b> <i>(in thousands of HRK)</i>
<b>At 1 January 2018</b>	<b>692</b>
Acquisition of the company Hotel Alan d.d.	380
Land revaluation 2018	6
<b>At 31 December 2018</b>	<b>1,078</b>
Land revaluation during 2019	129
<b>At 31 December 2019</b>	<b>1,207</b>

**NOTE 26 – TRADE AND OTHER PAYABLES**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<i>(in thousands of HRK)</i>	
Trade payables	26,027	38,114
Advances received	5,004	2,266
Trade payables - related parties	2,332	2,916
Interest payables – banks	1,377	382
VAT payable	1,084	2,185
Interest payables – related parties	-	9
	<b>35,824</b>	<b>45,872</b>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 27 – OTHER SHORT-TERM LIABILITIES**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<i>(in thousands of HRK)</i>	
Deferred income	8,170	7,204
Accrued overtime and unused vacations	8,080	8,560
Liabilities to employees	6,830	6,627
Accrued expenses	2,207	3,120
Contributions from salaries	1,771	1,806
Contributions on salaries	1,379	1,461
Other taxes and contributions	644	693
Tax and surtax on salaries	598	589
Income tax liability	-	1,184
Other liabilities	193	143
Other liabilities – related parties	116	444
	<b>29,988</b>	<b>31,831</b>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 28 – CASH GENERATED FROM OPERATIONS**

Adjustment of profit with cash generated from operations:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
<b>Profit after taxation</b>	<b>5,430</b>	<b>30,020</b>
Adjustments for:		
Depreciation and amortisation (Notes 13,13.1,14)	64,808	55,103
Net loss on sale of property, plant and equipment	-	1,353
Increase in provisions (Note 24)	34	388
Interest income (Note 9)	(3,509)	(5,601)
Interest expense (Note 9)	11,077	17,817
Value adjustment of financial assets (Note 15)	14,028	-
Value adjustment of financial assets IFRS 9 (Note 9)	-	812
Share of (profit)/loss in associate and joint venture (Note 15)	492	2,739
Unrealised foreign exchange losses	5,015	(3,944)
Other adjustments	9	590
<b>Total adjustments</b>	<b>91,954</b>	<b>69,257</b>
<b>Cash flows from operating activities before working capital changes</b>	<b>97,384</b>	<b>99,277</b>
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade receivables	12,838	3,054
- other receivables	775	191
- inventories	(314)	(599)
- trade and other payables	(5,580)	(7,131)
<b>Cash generated from operations</b>	<b>105,103</b>	<b>94,792</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 29 – CONTINGENCIES

##### Legal proceedings

At 31 December 2019, the Group participates in certain legal proceedings initiated against its subsidiaries. In case of dispute losses Group may have outflows of funds. Subsidiaries formed contingent provisions for which the Management Board has estimated that there is a risk of loss.

Particularly significant legal proceedings are following:

1. On 30 December 2008 a claim was filed against company Hoteli Zlatni rat d.d. for the payment of the fee arising from the rent for the use of tennis courts that is in their ownership on the basis of lost rent. The company filed a counterclaim for payment of the amount invested in construction of the courts (stadium).

After the first-instance and second-instance proceedings were held, the Municipal Court, in repeated proceeding, has ruled against the company on 15 July 2016 ordering to pay the amount of HRK 9,292,725 as the amount of the rent, together with the default interest on individual monthly instalments, and the amount of HRK 1,339,494 for litigation costs.

The company filed a complaint and the County Court of Split on 10th May 2017 annulled the first-instance verdict and returned the case to a re-trial to the Municipal Court. The proceeding was paused at the hearing on 20 February 2018 until the proceeding for determining the ownership based on the company's lawsuit on a new legal basis, the Law on Associated Labour.

Before mentioned proceeding of the counterclaim of the company has been separated by Municipal court and is being conducted under another business number. The preliminary hearing was held and main hearing on 21 March 2019 at which the court closed the hearing and the verdict is expected.

2. On 14 September 2018 the company Tehnika d.d. filed a claim against the company Hoteli Brela d.d. for payment in the total amount of HRK 21,175,716 with a default interest since 10 July 2018 according to the construction contracted dated 19 December 2016 concluded for the reconstruction of Hotel Berulia. During December 2019, the parties concluded a court settlement which resolved all mutual disputes related to the construction contract in question and established that neither party will have any further monetary or non-monetary claims against the other.

It is not expected that the outcome of any of these proceedings will have a significant impact on the financial position or performance of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 29 – CONTINGENCIES (continued)****Warranties and guarantees**

Contingent liabilities consist of guarantees and co-borrowings upon received guarantees in which the original debtors are related members of the Group and the joint venture company. The guarantees mainly relate to financing of the reconstruction and upgrading of the hotel and for working capital.

Total nominal amount of issued guarantees and guarantees of the Group as at 31 December 2019 amounts to HRK 62,142 thousand.

Breakdown of warranties and guarantees:

<b>Borrower</b>	<b>Approved amount</b>	<b>Purpose</b>	<b>Maturity</b>	<b>Principal outstanding at 31 Dec 2019</b> <i>(in thousands of HRK)</i>	<b>Principal outstanding at 31 Dec 2018</b>
Lucidus d.d. (i)	3,291	Working capital	01.01.2020	383	927
Sunčane Toplice d.o.o.	46,000	Reconstruction and upgrade of complex in Bizovac	30.06.2033	45,133	45,087
Jako vino d.o.o.	9,350	Restructuring	01.11.2022	3,506	4,675
Jako vino d.o.o.	493	Working capital	01.10.2019	-	493
Jako vino d.o.o.	986	Working capital	01.02.2019	-	247
Sunčana murvica d.o.o.	3,483	Vineyard	01.01.2027	2,525	2,874
Sunčana murvica d.o.o.	3,528	Vineyard	31.12.2023	1,664	2,049
Jako Andabak	15,000	Debt assumption Sunčane Toplice	30.09.2024	8,931	10,773
WOT Hotels Adriatic Asset Company d.o.o.	33,605	TUI BLUE Jadran reconstruction	31.08.2026	-	29,452
WOT Hotels Adriatic Asset Company d.o.o.	33,605	TUI BLUE Jadran reconstruction	31.08.2026	-	29,452
WOT Hotels Adriatic Asset Company d.o.o.	22,215	TUI BLUE Jadran reconstruction	31.10.2022	-	17,992
<b>Total</b>	<b>171,556</b>			<b>62,142</b>	<b>144,021</b>

(i) Loan given to company Lucidus d.d. was fully repaid in January 2020 for stated amount of outstanding principal as at 31 December 2019.

**NOTE 30 – COMMITMENTS****Capital investment liabilities**

There are no capital expenditures that are contracted for as at the balance sheet date, but not yet incurred.

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 31 - RELATED PARTY TRANSACTIONS**

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

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

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

	<u>Note</u>	<u>31.12.2019</u>	<u>31.12.2018</u>
<b>RECEIVABLES</b>		<i>(in thousands of HRK)</i>	
<b>Trade receivables</b>	<b>18</b>		
WOT Hotels Adriatic Asset Company d.o.o.		1,280	1,309
Lucidus d.d.		590	590
Jako Vino d.o.o.		143	94
Zlatni rat d.d.		50	15
Drvo trgovina d.o.o.		43	-
Sunčana Murvica d.o.o.		41	33
Sunčane toplice d.o.o.		21	440
Stubaki d.d.		17	17
WOT Hotels Adriatic Management d.o.o.		15	-
Izvor osiguranje d.d.		2	32
Lječilište Bizovačke Toplice d.o.o.		2	-
Salve Regina – Marija Bistrica d.o.o.		-	1,030
Imperator Dioklecian d.o.o.		-	7
ŠKZ Sunce u likvidaciji		-	1
		<b>2,204</b>	<b>3,568</b>
<b>Interest receivables</b>	<b>16, 19</b>		
Lucidus d.d.		7,809	4,303
WOT Hotels Adriatic Asset Company d.o.o.		1,031	1,031
Jako Andabak		1	1
		<b>8,841</b>	<b>5,335</b>
<b>Advances given</b>	<b>17, 18</b>		
Nest plus d.o.o.		104	272
Jako Vino d.o.o.		-	160
		<b>104</b>	<b>432</b>
<b>Loans</b>	<b>20</b>		
Lucidus d.d.		76,141	76,141
		<b>76,141</b>	<b>76,141</b>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 31 - RELATED PARTY TRANSACTIONS (continued)**

	<b>Note</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
		<i>(in thousands of HRK)</i>	
<b>Other receivables</b>	<b>19</b>		
WOT Hotels Adriatic Asset Company d.o.o.		372	-
Stubaki d.d.		65	65
Sunčane toplice d.o.o.		-	2,163
Izvor osiguranje d.d.		-	123
		<b>437</b>	<b>2,351</b>
<b>LIABILITIES</b>			
<b>Trade payables</b>	<b>26</b>		
Praona d.o.o.		1,829	1,276
Salve Regina – Marija Bistrica d.o.o.		162	143
Izvor osiguranje d.d.		129	609
Jako Vino d.o.o.		124	241
Sunčane Livade d.o.o.		95	45
WOT Hotels Adriatic Asset Company d.o.o.		46	32
Nest plus d.o.o.		5	322
Lucidus d.d.		1	1
Sunčane toplice d.o.o.		-	247
		<b>2,391</b>	<b>2,916</b>
<b>Interest liabilities</b>	<b>26</b>		
Izvor osiguranje d.d.		-	9
		<b>-</b>	<b>9</b>
<b>Other short term payables</b>	<b>27</b>		
Jako Vino d.o.o.		55	77
Izvor osiguranje d.d.		-	367
		<b>55</b>	<b>444</b>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)**

	<u>Note</u>	<u>2019</u>	<u>2018</u>
		<i>(in thousands of HRK)</i>	
<b>REVENUES</b>			
<b>Sales revenues</b>	<b>4</b>		
Jako Vino d.o.o.		446	28
Salve Regina- Marija Bistrica d.o.o.		274	21
Drvo Trgovina d.o.o.		63	-
WOT Hotels Adriatic Asset Company d.o.o.		45	368
Hotel Alan d.d.		-	83
Izvor osiguranje d.d.		-	24
Sunčane šume d.o.o.		-	1
		<u>828</u>	<u>525</u>
<b>Interest income</b>	<b>9</b>		
Lucidus d.d.		3,452	3,366
WOT Hotels Adriatic Asset Company d.o.o.		-	1,770
Hotel Alan d.d.		-	444
		<u>3,452</u>	<u>5,580</u>
<b>Other income</b>	<b>5</b>		
WOT Hotels Adriatic Asset Company d.o.o.		772	466
Izvor osiguranje d.d.		240	296
Sunčane Toplice d.o.o.		77	-
Salve Regina- Marija Bistrica d.o.o.		37	7
Zlatni Rat d.d.		33	7
Praona d.o.o.		29	17
Jako Vino d.o.o.		26	253
Lucidus d.d.		9	108
Sunčana Murvica d.o.o.		7	2
Imperator Dioklecian d.o.o.		2	-
		<u>1,232</u>	<u>1,156</u>
<b>Management fee</b>	<b>5</b>		
Salve Regina – Marija Bistrica d.o.o.		310	298
Hotel Alan d.d.		-	1,226
		<u>310</u>	<u>1,524</u>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)**

	<u>Note</u>	<u>2019</u>	<u>2018</u>
		<i>(in thousands of HRK)</i>	
<b>EXPENSES</b>			
<b>Costs of goods sold</b>			
	<b>6</b>		
Jako Vino d.o.o.		2,845	1,400
Sunčane livade d.o.o.		1,573	751
		<u>4,418</u>	<u>2,151</u>
<b>Other expenses</b>			
	<b>8</b>		
Nest plus d.o.o.		1,001	742
Jako Vino d.o.o.		963	441
Sunčane toplice d.o.o.		905	-
Salve Regina – Marija Bistrica d.o.o.		710	561
WOT Hotels Adriatic Asset Company d.o.o.		242	-
Praona d.o.o.		8	3
Izvor osiguranje d.d.		-	24
Hotel Alan d.d.		-	21
		<u>3,829</u>	<u>1,792</u>
<b>Insurance cost</b>			
	<b>8</b>		
Izvor osiguranje d.d.		3,214	2,811
		<u>3,214</u>	<u>2,811</u>
<b>Laundry costs</b>			
	<b>6</b>		
Praona d.o.o.		5,242	6,291
		<u>5,242</u>	<u>6,291</u>
<b>Rent costs</b>			
	<b>6</b>		
Nest plus d.o.o.		1,784	1,731
Lucidus d.d.		5	5
		<u>1,789</u>	<u>1,736</u>

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)****Key management, Management Board and Supervisory Board**

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Net salaries	4,441	4,893
Contributions	2,362	3,323
Tax and surtax	913	1,116
Bonuses	20	10
Other fees	-	32
<b>Key management /i/</b>	<b>7,736</b>	<b>9,374</b>
<b>Management Board</b>	<b>2,810</b>	<b>2,800</b>
<b>Supervisory Board /ii/</b>	<b>3,023</b>	<b>2,920</b>
<b>Total</b>	<b>13,569</b>	<b>15,094</b>

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

/ii/ Remuneration of the supervisory board relates to the remuneration for the members of supervisory boards of subsidiaries, as well as income that individual members of the supervisory board of Company received on the basis of signed contracts of employment.

Ivan Augustin, Member of the Supervisory Board of Sunce koncern d.d. who was revoked on 30 June 2019. by Erste d.o.o. - mandatory and voluntary pension fund management company, in accordance with the Mandatory Pension Funds Act, did not receive compensation for his work.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 32 – GOING CONCERN

The consolidated financial statements have been prepared under the going concern assumption. As at 31 December 2019, the Group reported current assets lower than current liabilities by HRK 93,001 thousand (2018: current assets higher than current liabilities by HRK 3,227 thousand).

Due to the COVID-19 pandemic, current and expected levels of operating results and cash flows from operations will not be sufficient to meet short-term liabilities, the Group's ability to continue as a going concern may depend on support from the Government of the Republic of Croatia through measures to assist the economy and financial support to banks as explained in Note 33 *Events after the reporting date*.

Management confirms the uncertainty surrounding the Group's ability to repay bank loans and settle its liabilities when they fall due. However, taking all the above measures as stated in Note 33 *Events after the reporting date*, and adjusting the business to future developments and planning additional measures, the Management Board believes that it will be able to maintain the liquidity of the Group in the coming period. Management believes that the preparation of the financial statements on the going concern basis is still appropriate.

#### NOTE 33 – EVENTS AFTER THE REPORTING DATE

##### **COVID-19**

The most significant event after the balance sheet date is the emergence of COVID-19 and its spread across all markets. The domestic tourism industry is directly affected by the disturbances caused by the COVID-19 crisis, but due to seasonality characteristics of the tourist season, the significance of the crisis impact will be most reflected in current year, July and August. In accordance with the current state of sales, the cumulative realization of revenues in July and August is expected to be 50% of last year.

In accordance with the new circumstances, measures and recommendations provided by the Government and the crisis headquarters, the Group postponed the planned opening of hotel facilities in April. During June 2020, the Group opened a part of its capacities in a way that in each destination where the Group operates, one facility was opened in June 2020. In accordance with the increase in demand for hotel accommodation, 4 hotels were additionally opened during the month of July: Neptun (Tučepi), Bonaca (Bol), Soline (Brela) and Alan (Starigrad).

The Group actively monitors all information related to the Coronavirus, especially in emitting markets, and takes all protection measures recommended by the Ministry of Health and the Institute of Public Health. The Group has taken a number of actions and measures in response to the disturbance caused by the COVID-19 crisis to adapt to the new circumstances. The measures and actions refer to the measures taken by the Company, but also those that are enabled by legal changes and adopted by the Government of the Republic of Croatia in order to help the tourism sector. All measures and actions can be summarized as follows:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 33 – EVENTS AFTER THE REPORTING DATE (continued)

- **EMPLOYEES SAFETY** - The Group increased the safety and employees workplace disinfection in the early stages of the epidemic in the Republic of Croatia, but in March 2020, homework was organized for all employees. Working from home in these circumstances increases the safety of our employees and their families. Depending on the development of the epidemiological situation in the Republic of Croatia and the gradual opening of various activities and freedom of outside movement, the Group will make a timely decision to suspend the work from home for all employees in the coming period.
- **CASH FLOW STABILIZATION** - after increasing the security of employees and their families, the main measures and actions to be taken were identified in order to preserve the Group liquidity and stabilize the cash flow that needed to be adjusted to the new circumstances. The following actions and measures have been taken with a primary focus on wages as they account for 75% of the total fixed cost:
  - In accordance with the measures for the preservation of jobs in the activities affected by Coronavirus (COVID-19), government grants were requested and approved to ensure a minimum wage of HRK 4,000 for 679 employees of Sunce hoteli d.d. and 21 employees of the subsidiary Aerodrom Brač d.o.o., which gives a total of 700 employees. An Agreement on grant support for job preservation in activities affected by Coronavirus was concluded with the Croatian Employment Service, which accepted the request for grant support for Sunce hoteli d.d. and the subsidiary Aerodrom Brač d.o.o. for payment of salaries for a total of 700 workers in the period from 1 March 2020 to 31 May 2020 in the total amount of HRK 7.4 million. In addition to the direct support in the form of partial payment of the net salary of employees, the incentive measures also provide the write-off of taxes and contributions to and from salaries for April and May 2020 in the same percentage the entrepreneur's income was reduced in April and May 2020. Pursuant to the decision of the Croatian Employment Service (CES) of 29 May 2020, incentives for job preservation have been extended to June, with the basic condition for receiving grant being the decline in income for May 2020, compared to May 2019 by a minimum of 50%. As the Group's facilities did not generate revenue in May 2020, the Group qualifies for incentives for June 2020. At the meeting session of the Management Board of the Croatian Employment Service (CES) on 9 July 2020, a decision was made on the continuation of the application of grants for the preservation of jobs in tourism and grants for salaries in the amount of HRK 4,000 for July and August 2020. Condition for grants in July 2020 is the revenue decline higher than 60% for June 2020. In June, the Group realized a revenue decline of more than 60% and meets the conditions for receiving incentive measures for the month of July 2020. Exercise of the right to incentive measures for August will be determined after the submission of the VAT form for July, and that is until August 20 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 33 – EVENTS AFTER THE REPORTING DATE (continued)

- Considering that the measure for support for job preservation paid by the Croatian Employment Service has been realized, all in accordance with the exemption from liability related to contribution for paid net salaries, the Group is also exempted from the liability to pay income tax and contributions to and from salary for the total amount of paid net salaries.
- At the same time, gross salaries were reduced by 40% for all employees, including the Management Board, at least for the period from 1 April to 30 June 2020. During the job preservation grant, as well as in the following period when the hotel facilities are not operative, salaries will be provided in the amount of 60% of the gross salary, but not less than the amount of the grant. In addition, each employee will be compensated in the amount of HRK 600 net per month.
- All other unnecessary costs related to current maintenance investments as well as operating costs that are not necessary have been stopped. The Group did not have any capital investments for the 2020 season, however all investments in the preparation of future investments were suspended until a revised capital investment plan is made depending on the development of the situation caused by COVID-19 crisis.

However, the results for 2020 are extremely uncertain to predict, and additional liquidity further depends on negotiations with lenders, the outcome of which will determine the Group's ability to meet its financial obligations in the future. That mentioned, there is a material uncertainty that could lead to significant doubt about the Group's ability to continue on the going concern basis and therefore the Group may not be able to realize its assets and fulfill its obligations in the normal course of business.

#### **Tax incentives**

On 29 June 2020, based on the Certificate of the Ministry of the Economy, Entrepreneurship and Crafts in accordance with the Investment Promotion Act (OG 102/15, 25/18, 114/18, 32/20), the Group received the status of beneficiary tax incentives user (CLASS: 404-01/16-01/43). The investment project refers to the reconstruction and renovation of the hotels Berulia (5 \*), Soline (4 \*), and Alga (4 \*) at the locations of Brela and Tučepi.

During 2017, 2018 and 2019, the Group invested a total of HRK 130 million of eligible costs for incentives in these hotels, on the basis of which a maximum aid intensity in amount of HRK 32.3 million was obtained. The tax incentive can be used from 2020 (payment of income tax for 2019) and the Group will start using tax relief from 2021 (payment of income tax for 2020). The Group is entitled to benefit from tax incentive until the end of 2027.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 33 – EVENTS AFTER THE REPORTING DATE (continued)

##### **Mergers**

On 28 June 2019, the General Assembly passed a decision to increase the share capital of Sunce Koncern d.d. and issue new shares for the purpose of merging the subsidiaries Hotel Alan d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hoteli Brela d.d. ("Merged Company"), to the company Sunce koncern d.d. The share capital is increased as a consequence and due to the merger between the Issuer as the acquiring company and its subsidiaries as merged companies by issuing 560,735 new ordinary shares with a nominal value of HRK 100 each, thus increasing the share capital from 539,385,000 HRK for the amount of HRK 56,073,500 to the amount of HRK 595,458,500.

On 31 December 2019, the merger of the merged companies and the increase of the share capital of the Company by issuing new ordinary shares were registered in the Court Register of the Commercial Court in Zagreb. At the same time, the change of the company from SUNCE KONCERN d.d. for tourism and catering and the travel agency to SUNCE HOTELI joint stock company for tourism and catering, i.e. SUNCE HOTELI d.d. as an abbreviated name of the company, was entered in the Court Register.

##### **Creditors' relations and ensuring the company's liquidity**

Since the beginning of the COVID-19 crisis, the Group has been communicating with the bank union (European Bank for Reconstruction and Development (EBRD), Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d. and Zagrebačka banka d.d.) regarding the framework of measures of the Government of the Republic of Croatia related to payment deferral of loans and the measure "loan for the preservation of financial stability", and in accordance with the abovementioned measures, a formal request was submitted through FINA as well as a direct request to the bank union. Communication can be summarized as follows :

- As of the date of publication of the audited report, the Group has signed an annex to the loan agreement approving a 12-month moratorium on all principal due in 2020 (installments 30 April 2020 and 31 October 2020), including interest. The loan will continue to be repaid regularly from April 30, 2021, when interest is due for the period from November 1, 2019 to April 30, 2021. Outstanding installments in 2020 are moved to the end of the repayment period on April 30, 2028, when they are due.
- In addition to aforementioned deferral of payment of the loan installment until 30 April 2021, the Group also took measures and directed communication to potential creditors of the Group to ensure additional liquidity that will be required after 31 October 2020. The Group is in the final phase of negotiations on the implementation of loans to preserve the financial stability of the Group in the approximate amount of € 10.8 million, with maturities from 2022 to 2025. The Management Board of the Group expects the realization of a loan placement at the end of September 2020, so that the Group has ready financial resources for the regular settlement of financial obligations by the next tourist season.

**NOTES TO THE CONOSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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

Consolidation financial statements here presented have been prepared and approved for issuing by the Management Board on 30 July 2020.

Signed on behalf of the Management Board:

President of the Management Board

Tonči Boras



Member of the Board

Kristijan Gagulić



Member of the Board

Ivan Potkrajčić



**Sunce koncern d.d.**

Trpinjska 9

10 000 Zagreb

Croatia

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