

bluesun
Hotels&Resorts

2020 Annual Report

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

This report has been approved and released on April 30, 2021

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
- ▶ In 2020, four controlling companies (Hoteli Brela d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hotel Alan d.d.) were merged with the parent company under the new name Sunce hoteli d.d.⁽¹⁾



- ▶ **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

⁽¹⁾ As of Reporting date (31.12.2020.)



>150.000 guests per year



> 1.500 employees

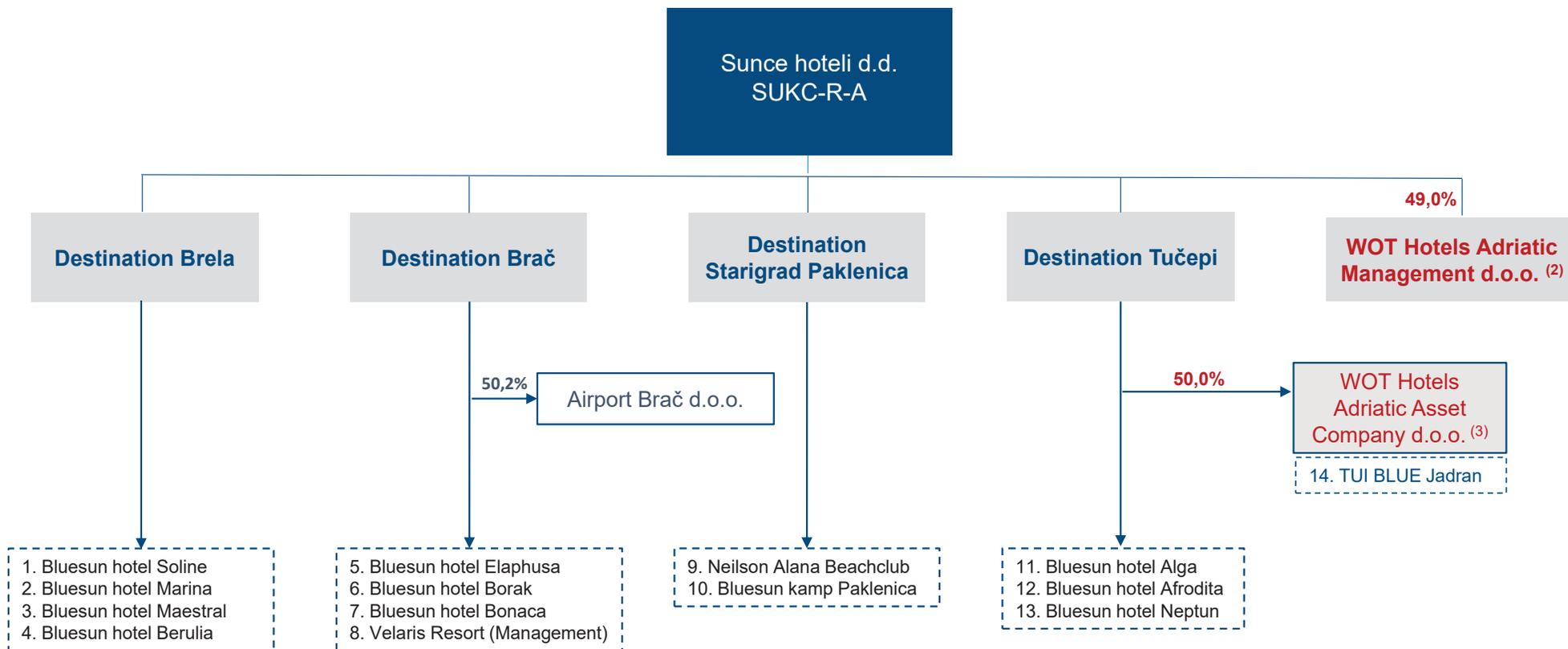


~ 3.000 rooms



400 participants of internal **BLUESUN ACADEMY** annually

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



(1) Data as of 31.12.2020; Sunce hoteli d.d. as a Group has some additional members, but they are immaterial for the Group's performance.

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

(3) Joint Venture Company with TUI AG.

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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 hoteli d.d. and its subsidiaries (collectively referred to in this Report as “we,” “us,” “Sunce,” “Group” or “the Company”) for the fiscal year ended December 31, 2020 (“Reported period” or “Reporting date”).

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

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

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

This Report has been approved and released on April 30, 2021 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. year, which holds, operates and develops hotels and resorts on exceptional tourist destinations in Croatia (Brela, Tučepi, Brač and Starigrad Paklenica).

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

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

Bluesun Hotels & Resorts

Bluesun Hotels & Resorts is the name under which Sunce hoteli 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.

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.

Company's Shares

As of the Reporting date, the Company's share capital consists of 5,954,585 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 at 31 December 2020, the Company holds 1,163 treasury shares, representing 0.0195% of the Company's share capital. The company acquired the

shares in question after completion of the Corporate Merger action.

General information on Company Shares as at December 31, 2020

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 595,458,500,00
6	Total number of shares issued	5,954,585
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 2020 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.

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.

Company's Shareholder Structure

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

Top ten shareholders of the Company as at December 31, 2020

	Shareholder	# of Shares	Ownership (%)
1	Sunce Ulaganja d.o.o.	3.004.672	50,46
2	Lucidus d.d.	1.146.420	19,25
3	Erste Plavi OMF kategorije B	892.898	15,00
4	Raiffesien OMF kategorije B	156.134	2,62
5	PBZ CO OMF – kategorija B	7.046	1,18
6	Raiffeisen dobrovoljni mirovinski fond	68.795	1,16
7	Erste Plavi Expert – dobrovoljni mirovinski fond	56.282	0,95
8	Raiffeisen OMF kategorije A	50.605	0,85
9	Erste Plavi OMF kategorije A	25.753	0,43
10	PBZ CO OMF – kategorija A	25.565	0,43

Source: Central Depository and Clearing Company (CDCC)

Changes in the shareholder structure at the Reporting date are a consequence of the Corporate Merger action of the controlling companies, whose minority shareholders became shareholders of the Parent company.

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

As of Reporting date, we were providing 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. At the date of publication of this Report, the Company is released from all guarantees on loans of related parties. More information can be found in the section of the Report that describes significant events after the Reporting Period.

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

Occurrence of requirement for publication of the mandatory takeover offer Eagle Hills Zagreb Real Estate d.o.o., with registered seat in Zagreb, Hektorovićeve ulica 2, (the "Offeror") entered into Share Purchase Agreement dated **March 23, 2021** with Jako Andabak residing in Zagreb, Gornje Prekrižje 28, Republic of Croatia and other related parties („Share Purchase Agreement"). Under the respective agreement the Offeror has, in part directly and in part indirectly, acquired, within the meaning of article 8 par. 3 of the Croatian Takeover Act (Zakon o preuzimanju trgovačkih društava,, hereinafter the "ZPPD") in aggregate 4,151,092 ordinary series A shares in SUNCE HOTELI d.d., designation SUKC-R-A, ISIN: HRSUKCRA0001, of nominal amount of HRK 100.00 per share, representing 69.71% of share capital of the Target Company.

Thereby the Offeror acquired, partially directly and partially indirectly, voting shares of the Target Company exceeding the threshold of 25% of all voting shares, resulting in **obligation for publication of the mandatory takeover offer**, under article 9 par. 1 of ZPDD. Therefore, the Offeror has submitted on the same business day (March 23, 2021) the notice on occurrence of requirement for publication of the mandatory takeover offer for takeover of the Target Company.

The Offeror is Eagle Hills Zagreb Real Estate d.o.o., incorporated under the laws of Republic of Croatia, with registered seat in Zagreb, Hektorovićeve ulica 2, registered with the court register of the Commercial Court of Zagreb under MBS: 081260303, PIN (OIB): 63572346734. Dominant business activities of the Offeror and the Eagle Hills Group which the Offeror and its sole shareholder EAGLE HILLS CROATIA PROPERTIES - SOLE PROPRIETORSHIP L.L.C. are a part of, are real estate investment and development with a focus on emerging markets across Europe, Middle East and Africa. Eagle Hills Group designs and develops mixed-use facilities including residential and commercial properties, hospitality properties, shopping malls, retail and healthcare properties.

The Offeror shall, within the deadline prescribed by the provisions of ZPDD, publish the mandatory takeover offer for takeover of the Target Company, upon approval of publication of the mandatory takeover offer by the Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga).

Invitation to the Extraordinary General Assembly of the Company

On **March 24, 2021**, the Management Board of the Company made a decision to convene an Extraordinary General Assembly of the Company for May 3, 2021. Following the "Agreement on the purchase and sale of shares and business stakes" between Jako Andabak and related parties and Eagle Hills Zagreb Real Estate d.o.o., the agenda of the General Assembly is the following: decision to recall members of the Supervisory Board, elect new members of the Supervisory Board and decision on amendments to the Company's Articles of Association.

Collection of receivables from related parties and release from guarantees to companies outside the Group

Continuing the "Agreement on the purchase and sale of shares and business stakes" between Jako Andabak and related parties as the Seller and the company Eagle Hills Zagreb Real Estate d.o.o. as a Buyer (on the occasion of which a notification was submitted on the occurrence of the obligation to publish a takeover bid in terms of the Takeover of Joint Stock Companies Act), Sunce hoteli d.d. on Monday, **April 26, 2021**, informed that the transaction in question was completed, when among other things, the **Company collected total receivables from related parties in the total amount of HRK 91.9 million.**

In addition, the Sellers have at the same time undertaken to release the Company from all guarantees under the loans of the Seller's related parties who are outside the Group within 60 days from the completion of the transaction in question, which was realized by the date of release of this Report. **By collecting receivables from related parties, the Company secured the necessary liquidity for the current business year.**

Changes in the membership of the Management Board

On **April 26, 2021**, Sunce hoteli d.d. announced that Mr. Kristijan Gagulić resigned as a member of the Management Board. In accordance with its Articles of Association, the Company will continue to be managed by Mr. Hrvoje Veselko as President and Mr. Ivan Potkrajčić as a member of the Management Board.

Significant business events 2020

Merger process completed

On January 13, 2020, Sunce hoteli d.d., Trpinjska 9, Zagreb informed about the completion of the Merger of its subsidiaries, as the Company's New Shares began with trading on the Zagreb Stock Exchange on January 10, 2020.

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 was **30.32%**, while around **2,200 individual shareholders** of the Company were registered in the CDCC system.

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

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

Despite all its efforts, **the Company announced that it will not be able to publish audited annual reports for 2019 until June 30, 2020**, as initially announced on April 23, 2020. The reasons were 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 said that it will continue to take all possible actions and steps to publish the audited annual reports for 2019 as soon as possible.

Regarding the impact of COVID-19 on its operations, the Company **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 were 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. Direct channel and OTA will be the dominant sales channels this season, and the Company is conducting targeted investments primarily in online marketing.

Changes in the Management of Sunce hoteli d.d.

Sunce hoteli d.d., Trpinjska 9, Zagreb on **July 13, 2020**, announced changes related to the Management Board of the Company. Mr. 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 came 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 took over the position of President of the Management Board on August 1, 2020.

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	
	Hoteli Brela d.d.		796	
5	Bluesun hotel Alga	4	405	
6	Bluesun hotel Afrodita	4	155	
7	Bluesun hotel Neptun	3	252	
	Hoteli Tučepi d.d.		812	
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	
	Hoteli Zlatni rat d.d.		903	
12	Neilson Alana Beachclub	4	187	Neilson UK
13	Bluesun camp Paklenica	-	275	
	Hotel Alan d.d.		462	
	Group in total		2,973	
14	TUI Blue Jadran ⁽¹⁾	5	161	TUI AG
	WOT Hotels Adriatic Asset Company d.o.o.			

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

In 2020, the Company generated **HRK 145.9 million in operating revenues** (2019: HRK 449.0 million), which is a **decrease of 67.5% compared to the same period last year**. The Company generated **positive EBITDA in the amount of HRK 3.2 million** (2019: HRK 101.4 million), which is a decrease of HRK

98.2 million compared to the same period last year, ie almost 97%. The impact on EBITDA was partially amortized due to revenues from **direct state aid for job preservation** (in the amount of HRK 24.4 million), and indirect state aid in the form of tax and contribution write-offs in the amount of HRK 13.2 million), which totals HRK 37.6 million. Direct and **indirect state aid** is not classified at the Company's revenue level, but through a reduction in staff costs, which affected the decline in the Company's operating costs.

The largest part of operating expenses in the usual season is **staff costs**, which was not the case during the last business year. The item in question for 2020 amounted to HRK 56.7 million in 2020 and is significantly lower (HRK 90 million, or almost 62%) than in the same period in 2019, due to a temporary salary reduction of 40% in the period April - June 2020, lower seasonal employment due to fewer overnight stays, and lower salaries of 20% in the period from July to December 2020. Due to the classification of the use of state aid, the item of **material costs** in the amount of HRK 61.0 million represented the largest share in the Company's operating expenses during the last business year.

Net financial expenses in 2020 amounted to HRK 20.4 million, which is a slight decrease in comparison with 2019 (HRK 23.7 million). Interest expenses amounted to HRK 10.1 million, which is at the level of the previous year, and at the same time expenses **from negative exchange rate differences** increased from HRK 1.0 million to the amount of HRK 6.0 million. But, due to more significant decrease in value adjustment of financial assets item, Net financial expenses fell slightly. The value **adjustment of financial assets** in the amount of HRK 5.8 million in 2020 refers to the value of investments in the company "WOT Hotels Adriatic Asset Company d.o.o."

The share in the **loss from joint ventures** amounted to HRK 5.8 million, and the same refers to the share of 50% in the loss of WOT Hotel Adriatic Asset Company d.o.o.

The net loss in the observed period amounted to HRK 35,7 million, while in the same period last year a profit of HRK 5.4 million was recorded. **Net financial debt** amounted to HRK 507.3 million as at 31 December 2020. which represents an increase of HRK 35.6 million compared to 2019 full year (HRK 471.7 million), or 7.6%. Guarantees to related parties outside the Group remained at almost unchanged level of HRK 62.1 million.

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

Financial highlights - Sunce hoteli d.d. Group (consolidated audited)				
HRKm				
Financial performance	12M 2020	12M 2019	2020/2019	
Total Revenues	145,9	449,0	-303,1	-67,5%
Operating expenses	142,7	347,6	-204,9	-58,9%
EBITDA	3,2	101,4	-98,2	-96,8%
EBITDA margin %	2,2%	22,6%	-2180 bp	
Adjustments	0	25,7	-25,7	
Adjustment EBITDA	3,2	127,1	-123,9	-97,5%
Adjustment EBITDA margin %	2,2%	28,3%	-2180 bp	
EBIT	-61,3	36,6	-97,9	-267,5%
Interest & Fees	12,1	12,1	0	0,0%
Value adjustment of receivables	5,8	14,0	-8	-58,6%
Net income	-35,7	5,4	-41,1	-761,1%
Financial position	31.12.20	31.12.19	2020/2019	
Total assets	1.373,0	1.356,1	16,9	1,2%
Fixed assets	1.065,6	1.127,2	-61,6	-5,5%
Equity	769,9	805,6	-35,7	-4,4%
Total debt	525,3	481,2	44,1	9,2%
Net financial debt / (cash)	507,4	471,7	35,7	7,6%
Guarantees	62,1	62,1	0	0,0%
Financial Ratios ¹				
Equity / total assets	0,56x	0,59x		
Loan to Value Ratio	54%	47%		
DSCR	-2,8x	0,5x		
Interest cover	-1,9x	8,9x		
Leverage Ratio ²	159,5x	(4,7x); 3,7x		

Key operating indicators				
	2020	2019	2020/2019	
Number of accommodation units	2.973	2.973	0,0	0,0%
Number of units sold	108.654	426.642	-317.988	-74,5%
Overnights	268.405	935.091	-666.686	-71,3%
Occupancy rate (operating days)	47,5%	74,3%	-2.680 bb	
ADR (HRK)	992,8	839,7	153,1	18,2%
RevPAR (HRK)	326,3	435,2	-108,8	-25,0%

(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.

The most significant event that affected the Company's operations in 2020 was certainly the COVID-19 pandemic, to which the Company responded as follows:

COVID - 19 - impact on the Company's operations - on March 16, 2020 the Company published on the Zagreb Stock Exchange information on the impact of the COVID-19 epidemic on the Company's operations, and updated the information in the announcement of business results for the first nine months of 2020 as well as the 2019 annual report. The impact of the COVID-19 crisis on the company's operations can be divided into the following main segments:

- a. **Employee safety** - work from home was organized for all employees from mid-March 2020 to May 18, 2020, after which return to office work has been organized under strict safety conditions such as wearing protective masks in common areas, keeping distance between employees in the same office, increased disinfection of the work area, etc. The Company approaches flexibly according to the way of work, and measures are taken to protect the safety of employees. The Management Board of the Company will constantly monitor the epidemiological situation in the Republic of Croatia and, if necessary, make decisions on working from home for part or all employees of Sunce hoteli d.d.
- b. **Employee salaries** - in the period from April 1 to June 30, 2020, the gross salary of all employees, including the Management Board, was reduced by 40%. However, after economic activity intensified, hotels began to open and the inflow of guest reservations was initiated, the Management Board issued a Decision by which in the period from 1 July to 30 September 2020 all employees with a gross salary of more than 10 thousand kuna Gross I reduction salaries from the previous 40% adjusted to a reduction of 20%, ie 80% of gross salary was paid, and at the same time Gross I salary could not be lower than 10 thousand kuna, as a result of which all employees with a salary lower than 10 thousand kuna were provided full contracted salary. Due to the extremely short business activity this year and reduced income in relation to costs, and with the aim of preserving all jobs, the Management Board made a new decision to reduce salaries in the period from 1st October 2020 to end of December 2020, by which the new contracted salary is paid for all employees of the Company in the amount of 80% of gross salary, and not less than 4,000 kuna net. The Management Board extended this decision for another four months, ie till the end of April 2021. After the end of the related period, the Management Board will revise the decision again
- c. **Hotels openings** - due to the COVID-19 crisis, the Company partially opened its accommodation facilities, and on June 10, 2020, one facility was opened in each of the destinations: i) Bluesun Hotel Berulia in Brela, ii) Bluesun Hotel Alga in Tučepi, iii) Bluesun Resort Velaris in Supetar, iv) Bluesun Hotel Elaphusa in Bol, and c) Bluesun Camp Paklenica in Starigrad Paklenica. At the beginning of July, the following facilities were additionally opened: i) Bluesun Hotel Soline in Brela, ii) Bluesun Hotel Neptun in Tučepi, iii) Bluesun Hotel Alan in Starigrad Paklenica, iv) Bluesun Hotel Bonaca in Bol. At the end, in August 2020 the Bluesun Hotel Marina in Brela was opened.
- d. **Booking status** - Given the specific crisis, the direct channel and OTA sales channel were the dominant sales channels, and the Company made targeted investments in online marketing. Most of the reservations through the two mentioned channels were on the "free cancellation" principle, ie. no advances paid by guests. Such fees can be cancelled without paying a fee to the Company, which was the only way sales functioned during the summer 2020 season. The allotment sales channel has been under special pressure this season due to the disruption of commercial lines. Despite the challenging business environment, in August the Company generated 56.2% of last year's revenues from the same month, while the realization in facilities that were open in August was up to 80%. Unfortunately, with the worsening epidemiological situation in the country during that period, and being put on the epidemiological red list by our trading partners, the performance in September fell to only 16.2%, which had significant negative repercussions on the business result in 2020. In the fourth quarter of 2020, all facilities of the Company were closed.
- e. **Moratorium on financial liabilities** - 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 October 31, 2020 (HRK 38.4 million). Given that the moratorium has a maturity of 12 months, this means that the first instalment of the loan is due on April 30, 2021. 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).

- f. **Additional liquidity** - In addition to the aforementioned deferral of payment of financial liabilities until April 30, 2021, during 2020 the Company took measures and directed communication to potential creditors in order to ensure additional liquidity. The level of required additional liquidity for the last business year was lower than the initial calculations before the summer season showed due to the fact that the Company had better performance than expected during the main season, and thanks to measures of the Government of the Republic of Croatia. However, given the signed Agreement on the purchase and sale of shares and business stakes between Mr. Jako Andabak and related parties as a Sellers and the company Eagle Hills Zagreb Real Estate d.o.o. as the Buyer (all in terms of Croatian Takeover of Joint Stock Companies Act), when on 26 April 2021 the transaction in question was completed by collecting all receivables from related parties in the total amount of HRK 91.9 million, the Company thus provided all the necessary liquidity for the following period.
- g. **Aid for job preservation** - the Company used measures of the Government of the Republic of Croatia related to aid for job preservation. A detailed explanation of the aid and the amounts of savings have already been presented and published in the announcements on the Zagreb Stock Exchange. We hereby highlight the following:
- i. that the Company received support for the preservation of jobs for the period from March to August, as well as from October to December 2020, and additionally until April 2021. Support for September 2020 was not requested because the Company had a revenue decline of less than 60% in August 2020. On 31.12.2020. the Company had open receivables against HZZO for basic support for the preservation of jobs for months of July, August, October and December, which in the meantime were fully collected.
 - ii. In addition to receiving the minimum compensation under the measure for the preservation of jobs, the incentive measures also provide for the write-off of taxes and contributions to and from salaries in the percentage in which the entrepreneur's income is reduced.
- h. **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 is made depending on the development of the situation caused by the COVID-19 crisis. Following the above, the investment in the preparation of project-technical documentation for the development of Brač Airport is currently suspended.

Confirmation of investment support beneficiary - the Company received the confirmation of investment support under the Investment Promotion Act for investments related to Bluesun Hotel Berulia (2017), Bluesun Hotel Alga (2018 and 2019), Bluesun Hotel Soline (2019). The total approved amount of eligible costs is HRK 129 million, of which the aid intensity is 25% or HRK 32.3 million. The support can be used until 2027.

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

Apart from the ability to choose between two different structures of management 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 hoteli d.d. is aligned with best market practice. Amongst others, the Articles of Association defines elements of best market practice, i.e. minority shareholder protection by requiring a higher majority for adoption of certain decisions of the general assembly than as prescribed by the Companies’ Act (being: exclusion of pre-emption rights of shareholders in subscription of new shares and delisting the Company’s stock from the regulated market), as well as introducing (i) prior consent of the Supervisory Board for taking material actions, especially for related party transactions, and (ii) joint representation of the Company. The Articles of Association of the company Sunce hoteli d.d. may be downloaded from the Company’s Investor Website.

Supervisory Board

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

Management Board

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

The Company's Committees

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

The tasks of and membership in an Audit committee is also regulated by the Audit Law. The purpose of the Audit Committee is to assist the company's supervisory board in supervising (i) the integrity of financial statements, (ii) compliance with legal and regulatory requirements, (iii) qualifications and independence of the audit company, and if applicable (iv) the function of the company's internal audit. The Audit Committee's Rules of Procedure regulates, amongst other, the purpose, tasks, duties and responsibilities and the committee's reporting. The Rules of Procedure of the Audit Committee of Sunce 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, whose latest version is available on our WEB page for investors.

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

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 and Separate Financial Statements for 2020

Statements of Management's Responsibilities

Independent Auditor's Report

Consolidated and Separate Statement of Comprehensive Income

Consolidated and Separate Statement of Financial Position

Consolidated and Separate Statement of Changes in Shareholders' Equity

Consolidated and Separate Statement of Cash Flows

Notes to the Consolidated and Separate 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 AND SEPARATE FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of the Company and the Group:

President of the Management Board
Hrvoje Veselko



30 April 2021
SUNCE HOTELI d.d.
Trpinjska 9
Zagreb

Member of the Board
Ivan Potkrajčić



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 Hoteli d.d. Zagreb, Trpinjska 9, OIB 06916431329 (hereinafter: Company), hereby make the following

STATEMENT

According to our best knowledge the annual audited consolidated and separate financial statements for 2020, 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 2020 contains the true presentation of development, results and position of the Company and Group, with description of significant risks and uncertainties which the Company and Group are exposed.

Zagreb, 30 April 2021

CFO, Member of the Board
Ivan Potkrajčić



Director of Accounting and Finance
Ivan Franić



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sunce hoteli d.d.

Opinion

We have audited the separate financial statements of Sunce hoteli d.d. (the Company), and consolidated financial statements of Sunce hoteli d.d. (the Company) and its subsidiaries (together "the Group"), which comprise the separate and consolidated statement of financial position as at 31 December 2020, the separate and consolidated statement of comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and the Group as at 31 December 2020 and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (IFRS as adopted by the EU).

Basis for Opinion

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

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

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

Emphasis of matter

We draw attention to Note 2.23 of the separate and consolidated financial statements, which describes the effects of restatement of comparative data in order to correct error from prior period.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key Audit Matter	How we addressed Key Audit Matter
<p>Impairment of the tourism property (the separate and consolidated financial statements)</p> <p>The Company and the Group have a significant balance of property, plant and equipment in its separate and consolidated statement of financial position which mostly consists of tourism properties and related assets. These assets are included in the separate and</p>	<p>Audit procedures included understanding of the process relating to property, plant and equipment and evaluation of design of the controls implemented in the process including identification of impairment indicators.</p>



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<p>consolidated statement of financial position at historical cost less accumulated depreciation and impairment, where required (except for minor part relating to freehold land which is regularly revalued).</p> <p>Therefore, the assessment of the recoverability of the carrying amount of property, plant and equipment, including assessing of impairment indicators, may have a significant impact on the financial position and the financial performance of the Company and the Group, making it important that selection and application of relevant accounting policies and estimates is done properly.</p> <p>Additionally, management’s assessment of the recoverable amount of property, plant and equipment requires significant judgment.</p> <p>Due to the level of judgment involved, current market environments and trends in hospitality industry influenced by COVID-19 pandemic and significance to the Company’s and Group’s financial position, we consider this matter as a key audit matter.</p>	<p>We obtained understanding of the methodologies used by the external valuer to estimate fair values of tourism properties and methodologies used by management to estimate values in use.</p> <p>We evaluated the competence, capabilities and objectivity of independent external valuers engaged by the Company and the Group.</p> <p>Also, we engaged internal specialists who assisted us in analysis of the methodologies applied for the valuation of the most significant assets including the historical accuracy and consistency of management’s assumptions. We also considered the appropriateness of the fair values estimated by the external valuer based on the knowledge and trends in hospitality industry, including possible impacts of Covid-19, and also considered the potential impact of reasonably possible changes in key assumptions and inputs on the result of the tests.</p> <p>We performed audit procedures on the mathematical correctness of calculations used in these models.</p> <p>We also assessed adequacy of the related disclosures in the separate and consolidated financial statements presented in Note 2.11 <i>Property, plant and equipment</i> and their compliance with IFRS as adopted by EU.</p>
<p>Going concern assessment (the separate and consolidated financial statements)</p> <p>As at 31 December 2020 the Company and the Group have net current liabilities amounting to HRK 84,6 and HRK 97,8 million, respectively.</p> <p>Additionally, COVID-19 is having significant impact on the Company’s and the Group’s results and may have effect on the future viability of the business.</p> <p>As disclosed in Note 32 Going concern to the separate and consolidated financial statements, the Company and the Group prepared a cash flow forecast which involves judgements and estimations including the future economic conditions heavily impacted by the COVID-19 pandemic. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs during 2021.</p> <p>The availability of sufficient funding and management’s assessment of whether the Company and the Group will be able to continue meeting its obligations were important for the going concern assumption and, as such, we consider this matter as a key audit matter.</p>	<p>Our procedures in relation to the assessment of the sufficiency of funds included obtaining an understanding of the process over the liquidity assessment and preparation of the cash flow forecast based on reasonable and supportable assumptions and inputs.</p> <p>We reviewed the reasonableness of the inputs and assumptions used in the cash flow forecast against historical performance, our knowledge of the existing financial position and contractual financing cash flows, economic and industry indicators, publicly available information and the Company’s and the Group’s strategic plans.</p> <p>We evaluated the key assumptions including those pertaining to amount of revenues and the timing of significant payments in the cash flow forecast for the following twelve months and analysed effects of various adverse scenarios on liquidity of the Company and the Group.</p>

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	<p>We obtained evidence of collection of loan receivable from related parties presented in separate and consolidated financial statements in the total amount of HRK 91,978 thousand during April 2021.</p> <p>We obtained evidence of waivers being obtained for existing covenant breaches as at 31 December 2020 as well as confirmations from lenders that no covenants will be assessed on quarterly basis in 2021.</p> <p>We also assessed adequacy of the related disclosures in the separate and consolidated financial statements presented in <i>Note 32 Going concern</i> and their compliance with IFRS as adopted by EU.</p>
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Other information included in the Company's and the Group's Annual Report for year 2020

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

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. 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 2020 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;
2. the enclosed Management report for 2020 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;
3. Corporate Governance Statement, included in the Company's and 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 and the Company's annual report for the year 2020 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

In addition, in the light of the knowledge and understanding of the entity and 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 Annual report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the separate and consolidated financial statements

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

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

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

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

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

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

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

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters.



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We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Company on 29 August 2017. Our appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 7 September 2020, representing a total period of uninterrupted engagement appointment of four years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 30 April 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

Zvonimir Madunić
Member of the Board and certified auditor

30 April 2021

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

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME**FOR THE YEAR ENDED 31 DECEMBER 2020**

<i>(in thousands of HRK)</i>	Note	Group		Company	
		2020	2019	2020	2019
Revenue	4	135,404	436,380	133,795	24,711
Other income	5	10,514	12,625	9,841	7,712
Operating income		145,918	449,005	143,636	32,423
Cost of materials and services	6	(61,035)	(128,050)	(60,301)	(6,824)
Employee costs	7	(56,664)	(147,379)	(54,701)	(21,969)
Depreciation and amortisation	13, 13.1, 14	(64,505)	(64,808)	(63,170)	(2,758)
Other operating expenses	8	(25,040)	(72,170)	(24,762)	(7,813)
Operating expenses		(207,244)	(412,407)	(202,934)	(39,364)
Operating profit		(61,326)	36,598	(59,298)	(6,941)
Finance expense – net	9	(20,369)	(23,674)	(20,299)	(585)
Share in loss of associates and joint ventures	15	(5,806)	(493)	(5,104)	-
Profit before taxes		(87,501)	12,431	(84,701)	(7,526)
Income tax	10	51,580	(7,001)	51,580	-
Profit for the year		(35,921)	5,430	(33,121)	(7,526)
<i>Profit attributable to:</i>					
Owners of the Parent Company		(34,889)	3,309	(33,121)	(7,526)
Non-controlling interest		(1,032)	2,121	-	-
Earnings per share (in HRK) - basic and diluted	11	(5.87)	0.61	-	-
Other comprehensive income		184	587	184	-
Total comprehensive income		(35,737)	6,017	(32,937)	(7,526)
<i>Total comprehensive income attributable to:</i>					
Owners of the Parent Company		(34,705)	3,884	(32,937)	(7,526)
Non-controlling interest		(1,032)	2,133	-	-

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION**AS AT 31 DECEMBER 2020**

<i>(in thousands of HRK)</i>	Note	Group		Company	
		31 Dec 2020	31 Dec 2019 (restated)	31 Dec 2020	31 Dec 2019 (restated)
ASSETS					
Non-current assets					
Intangible assets	13	741	853	668	177
Right-of-use asset	13.1	22,274	29,292	22,274	12,346
Property, plant and equipment	14	1,065,640	1,112,723	1,028,377	2,268
Investment in associates and joint venture	15	75,371	86,968	75,371	10
Investment in subsidiaries	15.1	-	-	20,550	594,998
Loans	20	76,141	76,121	76,141	11,479
Deferred tax assets	12	56,749	5,169	64,475	-
Other non-current receivables	16	11,500	9,901	11,500	110
		1,308,416	1,321,027	1,299,356	621,388
Current assets					
Inventories	17	3,988	4,048	3,873	-
Trade receivables	18	9,639	9,513	9,381	13,109
Other receivables	19	32,988	11,917	32,832	2,453
Loans	20	-	20	2,418	50
Cash and cash equivalents	21	17,993	9,537	17,779	213
		64,608	35,035	66,283	15,825
Total assets		1,373,024	1,356,062	1,365,639	637,213
EQUITY AND LIABILITIES					
Share capital	22	595,459	539,385	595,459	539,385
Share premium		112,157	67,837	112,157	67,837
Other reserves		107,166	10,879	107,166	123
Retained earnings		(35,876)	100,722	(40,647)	(7,526)
		778,906	718,823	774,135	599,819
Non-controlling interest		(9,027)	86,793	-	-
Total equity		769,879	805,616	774,135	599,819
LIABILITIES					
Non-current liabilities					
Borrowings	23	422,374	179	422,320	-
Lease liabilities	13.1	15,934	23,069	15,934	10,742
Other liabilities		-	159	-	-
Provisions	24	1,223	1,643	1,154	-
Deferred tax liabilities	25	1,247	1,207	1,247	-
		440,778	26,257	440,655	10,742
Current liabilities					
Borrowings	23	79,836	450,577	79,800	17,930
Lease liabilities	13.1	7,202	7,409	7,202	1,817
Provisions	24	224	391	224	-
Trade and other payables	26	50,862	35,824	47,894	3,117
Other liabilities	27	24,243	29,988	15,729	3,788
		162,367	524,189	150,849	26,652
Total liabilities		603,145	550,446	591,504	37,394
Total equity and liabilities		1,373,024	1,356,062	1,365,639	637,213

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31 DECEMBER 2020**

<i>(in thousands of HRK)</i>	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total
Balance as at 1 January 2019	539,385	83,265	10,304	81,996	714,950	84,648	799,598
<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
<i>Total other comprehensive income</i>	-	-	575	3,309	3,884	2,133	6,017
Balance at 31 December 2019	539,385	67,837	10,879	100,722	718,823	86,793	805,616
Balance as at 1 January 2020	539,385	67,837	10,879	100,722	718,823	86,793	805,616
<i>Transactions with owners:</i>							
Merger of subsidiaries	56,074	44,320	96,103	(101,709)	94,788	(94,788)	-
Total owners transactions	56,074	44,320	96,103	(101,709)	94,788	(94,788)	-
<i>Loss for the year</i>	-	-	-	(34,889)	(34,889)	(1,032)	(35,921)
<i>Other comprehensive income:</i>							
Land revaluation	-	-	184	-	184	-	184
<i>Total other comprehensive income</i>	-	-	184	(34,889)	(34,705)	(1,032)	(35,737)
Balance at 31 December 2020	595,459	112,157	107,166	(35,876)	778,906	(9,027)	769,879

SEPARATE STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31 DECEMBER 2020**

<i>(in thousands of HRK)</i>	<u>Share capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
For the year ended 31 December 2019					
Balance as at 1 January 2019	539,385	83,266	497	(15,429)	607,719
Carried forward losses	-	(15,429)	-	15,429	-
Effect of the negative net assets merger of the subsidiary Sunce Global d.o.o.	-	-	(374)	-	(374)
Loss for the year	-	-	-	(7,526)	(7,526)
Balance at 31 December 2019	539,385	67,837	123	(7,526)	599,819
For the year ended 31 December 2020					
Balance as at 1 January 2020	539,385	67,837	123	(7,526)	599,819
Merger of subsidiaries	56,074	44,320	106,859	-	207,253
Land revaluation	-	-	184	-	184
Loss for the year	-	-	-	(33,121)	(33,121)
Balance at 31 December 2020	595,459	112,157	107,166	(40,647)	774,135

CONOSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS**FOR THE YEAR ENDED 31 DECEMBER 2020**

	Group		Company	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>			
Cash flow from operating activities <i>(note 28)</i>	(19,480)	105,103	(19,065)	(1,397)
Interest paid	(203)	(10,101)	(198)	(2,049)
Tax paid	(1,357)	(6,881)	(1,357)	-
Net cash from operating activities	(21,040)	88,121	(20,620)	(3,446)
Purchase of property, plant and equipment <i>(note 14)</i>	(10,680)	(64,110)	(9,731)	(150)
Purchase of intangible assets <i>(note 13)</i>	(160)	(90)	(160)	-
Gains on sale of non-current assets	63	2,049	63	-
Acquisition of a subsidiary	-	-	8,494	15
Interest received	-	18	-	332
Loans granted to related parties	-	-	(1,182)	-
Loans received from related parties	-	-	330	5,271
Net cash outflow from investment activities	(10,777)	(62,133)	(2,186)	5,468
Cash flow from financing activities				
Proceeds from borrowings	45,887	-	45,887	1,800
Repayments of borrowings	-	(54,661)	-	(5,436)
Repayment of principal of lease liabilities	(5,446)	(6,721)	(5,446)	(1,653)
Repayment of financial lease	(168)	(149)	(69)	-
Net cash inflow / (outflow) from financing activities	40,273	(61,531)	40,372	(5,289)
Net increase / (decrease) in cash and cash equivalents	8,456	(35,543)	17,566	(3,267)
Cash and cash equivalents				
At beginning of year	9,537	45,080	213	3,480
At year end <i>(note 21)</i>	17,993	9,537	17,779	213
Net increase / (decrease)	8,456	(35,543)	17,566	(3,267)

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 1 – GENERAL INFORMATION**

The financial statements for the year ended 31 December 2020 include the financial statements of Sunce Hoteli d.d. (The “Company”) and its subsidiaries (the “Group”).

Sunce Hoteli d.d. (“Company”) is a company which manages hotels and provides a variety of consulting services related to the management and operation of companies including advertising and marketing services, real estate management, procurement, water supply, rural tourism, health services, congresses, sport activities and other forms of tourism (PIN: 06916431329; RN: 01069647). 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 in 2020:

	Nature of Business	Ownership
Sunce Hoteli d.d.	Hotels	Parent company
Zlatni rat - Poljoprivreda d.o.o.	Agriculture	80.99%
Zlatni rat - Servis d.o.o.	Maintenance	80.99%
Zlatni rat - Tenis centar d.o.o.	Tennis operator	80.99%
Plaža Zlatni rat d.o.o.	Beach operator	80.99%
Eko – promet d.o.o.	Transport	41.39%
Aerodrom Brač d.o.o.	Airport	50.19%
Sunce Vital d.o.o.	Medical services	100%
Brač 500 Plus d.o.o.	Cable car management	69.44%
Brela Jakiruša d.o.o.	Serving food and beverages	100%

The Group consists of following entities in 2019:

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 1 – GENERAL INFORMATION (continued)

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

Merger of subsidiaries

On June 28, 2019, the General Assembly passed a decision to increase the share capital of Sunce Koncern d.d. with issuing new shares for the purpose of merging subsidiaries Hotel Alan d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hoteli Brela d.d. ("Merged Companies") to the company Sunce Koncern d.d. The share capital is increased as a consequence of 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 amount of HRK 100 each, which increases the share capital from HRK 539,385,000 to HRK 56,073.500 kuna to the amount of 595,458,500 kuna.

As at 31 December 2019, the merger of the merged companies and the increase of the share capital of the Company by issuing new ordinary shares was registered in the Court Register of the Commercial Court in Zagreb. At the same time, the change of the Company's name from SUNCE KONCERN d.d. for tourism and catering and travel agency in SUNCE HOTELI d.d. for tourism and catering, ie SUNCE HOTELI d.d. as an abbreviated name of the company. As of January 1, 2020, the subsidiaries were merged with company Sunce Hoteli d.d. at book value.

As at 31 December 2020, 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. was adopted on 21 December 2018, and was also carried out on 27 December 2018.

Supervisory Board

Jako Andabak – President of the Supervisory 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

Hrvoje Veselko – President of the Management Board (from 01/08/2020)

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 to 26/04/2021)

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Adoption of new and amended International Financial Reporting Standards

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 Company as of 1 January 2020:

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.

IFRS 3: Business Combinations (Amendment)

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. Management has assessed that there is no material impact on financial statement of the Company and 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 has assessed that there is no material impact on financial statement of the Company and the Group.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

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. 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 provide 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. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). Management has assessed that there is no material impact on financial statement of the Company and the Group.

Standards issued but not yet effective and not early adopted

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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact on financial statement of the Company and the Group.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, 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 statement of financial position 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 has assessed that there is no material impact on financial statement of the Company and the Group.

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

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

- **IFRS 3 Business Combinations (Amendments)** update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

The amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact on financial statement of the Company and the Group.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1.1. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 Leases - Covid 19 Related Rent Concessions (Amendment): The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease

Management has assessed that there is no material impact on financial statement of the Company and the Group.

Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments): In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest.

Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. Management has assessed that there is no material impact on financial statement of the Company and the Group.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

Statement of compliance

Financial statements for the Company and the Group for the year ended 31 December 2020 have been prepared in accordance with the applicable laws in the Republic of Croatia and International Financial Reporting Standards as adopted by the European Union (IFRS).

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

The accounting policies have been consistently applied, unless otherwise noted. Consolidated and separate financial statements have been prepared using the historical cost method.

The financial statements for the Company and Group are denominated in Croatian Kuna (HRK) as the functional and reporting currency of the Group. At 31 December 2020, the exchange rate for 1 EUR amounted to 7.536898 HRK (31 December 2019: 7.442580 HRK).

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

a) Subsidiaries

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

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

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

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

b) Subsidiaries in separate financial statements

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

c) Transactions with non-controlling interests

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

c) Transactions with non-controlling interests (continued)

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

d) Joint ventures

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

2.3 Investments in associates

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

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

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

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Goodwill / Bargain purchase

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

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

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

2.4.1 Merger of entities and transactions with companies under common control

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

2.5 Segment reporting

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

**NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.7 Revenue from contracts with customers

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

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

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

Hotels in the ownership and lease

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

**NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Revenue from contracts with customers (continued)

Contractual assets and liabilities

Contract assets

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

Trade receivables

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

Contract liabilities

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

2.8 Provisions

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

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

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

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

**NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial income and expenses

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

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

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

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

2.10 Taxation

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

Current tax

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

Deferred tax

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Taxation (continued)

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

Current and deferred taxes for the period

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

2.11 Property, plant and equipment

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

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

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

	<u>2020.</u>	<u>2019.</u>
Buildings (hotels, residential buildings)	20 – 66 years	20 – 66 years
Other buildings (playground, parking, news-stand etc.)	20 – 66 years	20 – 66 years
Vehicles	5 years	5 years
Computers	4- 5 years	4- 5 years
Plant and equipment	5 – 30 years	5 – 30 years
Furniture	5 – 20 years	5 – 20 years

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Property, plant and equipment (continued)

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

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

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

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

2.12 Intangible assets

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

2.13 Impairment of tangible and intangible assets

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

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of tangible and intangible assets (continued)

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

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

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

2.14 Lease

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

Company and Group as lessee

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

1. Right-of-use asset

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Lease (continued)

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

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

2. Lease liability

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

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

Short-term leases and low-value leases

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Inventories

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

2.16 Financial asset

Classification

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

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

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

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

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

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

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

(c) Financial assets at amortised cost

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

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

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

**NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Financial asset (continued)

Measurement and recognition

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

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

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

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

Impairment of financial assets

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

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade receivables

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

2.18 Cash and cash equivalents

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

2.19 Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently 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 Company and Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

2.21 Contingent assets and liabilities

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

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

2.22 Government grants

According to the International Accounting Standard 20 – Government grants („IAS 20“), government grants are recognised when there is reasonable assurance that the grant will be received and any conditions attached to them have been fulfilled. According to IAS 20, the manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.

Due to the new circumstances caused by the COVID-19 pandemic, the Republic of Croatia has adopted a package of measures to preserve jobs in industries that are strongly affected by the pandemic, including government grants in the form of payment and/or liability reduction. The Company and Group is a recipient of certain government grants within the abovementioned package of measures in significant amount. Hence, an accounting policy concerning the presentment of government grants has been adopted in accordance with IAS 20. The Company and Group has selected to present the grants related to income as a deducted item of reported related costs in the same period. This approach is consistently applied to all similar government grants.

Also, government grants related to the acquisition of tangible assets are initially recognized as deferred income at fair value when there is reasonable assurance that they will be received and when the Company and the Company and Group comply with all conditions associated with them. The Company and Group has selected to present grants related to assets, as a deferred credit to be released to the profit or loss over the periods necessary to match the related depreciation charges.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Comparative data

Where it was necessary, comparative data was reclassified to achieve reconciliation with changes in presentation in current year. The presentation is in line with disclosed accounting policies.

IAS 8 requires that the Company and the Group corrects prior period errors retrospectively. Management has considered significance of the identified error and concluded that it is sufficient to disclose effects of restatements only in those notes that are affected by the restatements, with disclosure in the financial statements that the restatement has no effect on other notes.

Description of restatement

1. Correction of prior period error related to classification of loan due to the breach of covenant

For the year ended 31 December 2019, the Company and the Group were in the breach of covenants in respect of loan received. However, the lenders agreed not to demand repayment as a consequence of the breach and issued the waiver in July 2020 (after period end but before the 2019 financial statements were authorised for issue). The Company decided to present the loan as non-current liability in its financial statements for the year ended 31 December 2019 (for part which had maturity in 2021 and onwards) since there were no signs or intention by the lenders to demand repayment and also no changes in maturity of the loan or other variables in the loan agreement was planned to be made as a consequence of covenant breach. Such classification and disclosure was not in line with applicable reporting framework.

For the purposes of presentation of financial statements for the year ended 31 December 2020 the Company and the Group decided to restate classification of loans in comparative period and consequently present loan for which covenant was breached as current liability.

The error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

The Company:

<i>(in 000 HRK)</i>	31.12.2019. originally published	Restatement	31.12.2019. (restated)
ASSETS			
Non-current assets	621,388	-	621,388
Current assets	15,825	-	15,825
TOTAL ASSETS	637,213	-	637,213
EQUITY	599,819	-	599,819
LIABILITES			
Borrowings	12,808	(12,808)	-
LONG-TERM LIABILITIES	23,550	(12,808)	10,742
Borrowings	1,755	12,808	14,563
SHORT-TERM LIABILITIES	13,844	12,808	26,652
TOTAL EQUITY AND LIABILITIES	637,213	-	637,213

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Comparative data (continued)

The Group:

<i>(in 000 HRK)</i>	31.12.2019. originally published	Restatement	31.12.2019. (restated)
ASSETS			
Non-current assets	1,321,027	-	1,321,027
Current assets	35,035	-	35,035
TOTAL ASSETS	1,356,062	-	1,356,062
EQUITY			
	805,616	-	805,616
LIABILITES			
Borrowings	396,332	(396,153)	179
LONG-TERM LIABILITIES	422,410	(396,153)	26,257
Borrowings	54,424	396,153	450,577
SHORT-TERM LIABILITIES	128,036	396,153	524,189
TOTAL EQUITY AND LIABILITIES	1,356,062	-	1,356,062

2.24 Events after the reporting period

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 3 – FINANCIAL RISK MANAGEMENT**

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

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

3.1 Capital risk management

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

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

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

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Debt /i/	502,210	450,756	502,120	17,930
Lease liabilities	23,136	30,478	23,136	12,559
Cash and cash equivalents	(17,993)	(9,537)	(17,779)	(213)
Net debt	507,353	471,697	507,477	30,276
Equity /ii/	769,879	805,616	774,135	599,819
Net debt-to-equity ratio	66%	59%	66%	5%

/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 maturity.

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)****3.2 Significant accounting policies**

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

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

The Group:**2020**

	Cash, Loans and receivables	Financial assets	Financial assets through comprehensive income	Total
31 December 2020	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	11,500	-	-	11,500
Trade and other receivables	42,627	-	-	42,627
Loan receivables	76,141	-	-	76,141
Cash and cash equivalents	17,993	-	-	17,993
Total	148,621	-	-	148,621

2019

	Cash, Loans and receivables	Financial assets	Financial assets through comprehensive income	Total
31 December 2019	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
Total	117,009	-	-	117,009

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)****3.2 Significant accounting policies (continued)****The Company:****2020**

	Cash, Loans and receivables	Financial assets	Financial assets through comprehensive income	Total
31 December 2020	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	11,500	-	-	11,500
Trade and other receivables	42,213	-	-	42,213
Loan receivables	78,559	-	-	78,559
Cash and cash equivalents	17,779	-	-	17,779
Total	150,051	-	-	150,051

2019

	Cash, Loans and receivables	Financial assets	Financial assets through comprehensive income	Total
31 December 2019	HRK'000	HRK'000	HRK'000	HRK'000
Long term receivables	110	-	-	110
Trade and other receivables	15,562	-	-	15,562
Loan receivables	11,529	-	-	11,529
Cash and cash equivalents	213	-	-	213
Total	27,414	-	-	27,414

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)****3.3 Financial risk management**

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

Market risk

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

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

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

Interest risk

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

The following table shows sensitivity of changes of interest rates relating to Company and Group's loans as of 31 December 2020 and 31 December 2019, 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 2020 are increased or decreased by 1 percentage point (p.p.) Amounts are shown in thousands of HRK.

2020	Increase / decrease in percentage	Effect on profit before taxes	
		HRK'000	
		Group	Company
HRK	+1 p.p.	(5,020)	(5,020)
HRK	-1 p.p.	5,020	5,020
2019	Increase / decrease in percentage	Effect on profit before taxes	
		HRK'000	
		Group	Company
HRK	+1 p.p.	(4,508)	(179)
HRK	-1 p.p.	4,508	179

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)****3.3 Financial risk management (continued)***Foreign currency risk*

The Company and the Group are 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 is denominated.

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

31 December 2020	EUR 000' HRK	HRK 000' HRK	Total 000' HRK
Trade receivables	3,456	6,183	9,639
Loans	-	76,141	76,141
Other receivables	1,489	31,499	32,988
Cash and cash equivalents	13,338	4,655	17,993
Borrowings	(494,010)	(8,200)	(502,210)
Lease liabilities	(23,136)	-	(23,136)
Trade and other payables	(19,536)	(31,326)	(50,862)
Other short term liabilities	-	(24,243)	(24,243)
	(518,399)	54,709	(463,690)

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)
	(468,890)	28,952	(439,938)

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)****3.3 Financial risk management (continued)***Foreign currency risk (continued)*

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

31 December 2020	EUR 000' HRK	HRK 000' HRK	Total 000' HRK
Trade receivables	3,183	6,198	9,381
Loans	-	78,559	78,559
Other receivables	1,489	31,343	32,832
Cash and cash equivalents	13,301	4,478	17,779
Borrowings	(493,920)	(8,200)	(502,120)
Lease liabilities	(23,136)	-	(23,136)
Trade and other payables	(17,305)	(30,589)	(47,894)
Other short term liabilities	-	(15,729)	(15,729)
	(516,388)	66,060	(450,328)

31 December 2019	EUR 000' HRK	HRK 000' HRK	Total 000' HRK
Trade receivables	-	13,109	13,109
Loans	-	11,529	11,529
Other receivables	-	2,453	2,453
Cash and cash equivalents	-	213	213
Borrowings	(17,930)	-	(17,930)
Lease liabilities	(12,559)	-	(12,559)
Trade and other payables	-	(3,117)	(3,117)
Other short term liabilities	-	(3,788)	(3,788)
	(30,489)	20,399	(10,090)

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)****3.3 Financial risk management (continued)***Foreign currency risk (continued)*

000' HRK	Group		Company	
	Short-term exposure	Long-term exposure	Short-term exposure	Long-term exposure
	EUR		EUR	
2020				
Financial assets	18,283	-	17,973	-
Financial liabilities	(98,373)	(438,309)	(96,105)	(438,256)
Total exposure	(80,090)	(438,309)	(78,132)	(438,256)
2019 (restated)				
Financial assets	14,026	2,092	-	-
Financial liabilities	(461,760)	(23,248)	(19,747)	(10,742)
Total exposure	(447,734)	(21,156)	(19,747)	(10,742)

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:

	Group		Company	
	2020 Effect on profit before taxes HRK'000	2019 Effect on profit before taxes HRK'000	2020 Effect on profit before taxes HRK'000	2019 Effect on profit before taxes HRK'000
Weakening of HRK in relation to EUR by 1%	(5,133)	(4,689)	(5,113)	(302)

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 AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

Credit risk

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

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

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

Trade and other receivables

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

Liquidity risk

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

The following table shows the maturity of financial liabilities of the Company and Group at 31 December 2020 and 2019 according to the contracted non-discounted payments:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Group	Carrying value	Contracted cash flows	0 – 12 months	1 – 2 years	2 – 5 years	Over 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2020						
Borrowings	502,210	543,612	88,011	68,590	198,363	188,648
Lease liabilities	23,136	25,173	8,061	10,395	6,717	-
Trade and other payables	50,862	50,862	50,862	-	-	-
Other liabilities	24,243	24,243	24,243	-	-	-
	600,451	643,890	171,177	78,985	205,080	188,648

Group	Carrying value	Contracted cash flows	0 – 12 months	1 – 2 years	2 – 5 years	Over 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2019						
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	-	-	-
	547,056	579,680	135,529	75,588	185,013	183,550

Company	Carrying value	Contracted cash flows	0 – 12 months	1 – 2 years	2 – 5 years	Over 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2020						
Borrowings	502,120	543,612	88,011	68,590	198,363	188,648
Lease liabilities	23,136	25,173	8,061	10,395	6,717	-
Trade and other payables	47,894	47,894	47,894	-	-	-
Other liabilities	15,729	15,729	15,729	-	-	-
	588,879	632,408	159,695	78,985	205,080	188,648

Company	Carrying value	Contracted cash flows	0 – 12 months	1 – 2 years	2 – 5 years	Over 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2019						
Borrowings*	17,930	19,296	5,444	1,845	5,340	6,667
Lease liabilities	12,559	14,536	1,817	3,634	5,451	3,634
Trade and other payables	3,117	3,117	3,117	-	-	-
Other liabilities	3,788	3,788	3,788	-	-	-
	37,394	40,737	14,166	5,479	10,791	10,301

* The Company and the Group reported the loans in 2019 in accordance with the original repayment plans despite the fact that the EBRD and the club syndicate were fully classified as short-term as a result of breaches of contractual provisions related to covenants. This follows from the fact that the lenders do not require early repayment, and there was also no change in other contractual provisions as a result of the covenant breach. See note 23 for more details.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 4 – SEGMENT INFORMATION

Basic reporting format – business segments

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

Statement of comprehensive income for the year ended 31 December 2020 by business segments is as follows:

<i>(in thousands of HRK)</i>	Hotels	Other segments	Unallocated	Total
Total segment revenue	142,970	2,342	666	145,978
Inter segment revenue	-	(60)	-	(60)
Revenue from external costumers	142,970	2,282	666	145,918
Operating expenses	(176,901)	(3,452)	37,614	(142,739)
EBITDA	(33,931)	(1,170)	38,280	3,179
Depreciation and amortisation	(63,170)	(1,335)	-	(64,505)
EBIT	(97,101)	(2,505)	38,280	(61,326)
Share in loss of associates and joint ventures				(5,806)
Finance expense - net				(20,369)
Profit before taxes				(87,501)
Income tax				51,580
Profit for the year				(35,921)
<i>Attributable to:</i>				
Owners of the Parent Company				(34,889)
Non-controlling interest				(1,032)

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 4 – SEGMENT INFORMATION (continued)**

Statement of comprehensive income for the year ended 31 December 2019 by business segments is as follows:

<i>(in thousands of HRK)</i>	Hotels	Other segments	Unallocated	Total
Total segment revenue	438,405	7,339	36,494	482,238
Inter segment revenue	(614)	(4,337)	(28,282)	(33,233)
Revenue from external costumers	437,791	3,002	8,212	449,005
Operating expenses	(322,595)	(5,763)	(19,241)	(347,599)
EBITDA	115,196	(2,761)	(11,029)	101,406
Depreciation and amortisation	(60,779)	(1,271)	(2,758)	(64,808)
EBIT	54,417	(4,032)	(13,787)	36,598
Share in loss of associates and joint ventures				(493)
Finance expense - net				(23,674)
Profit before taxes				12,431
Income tax				(7,001)
Profit for the year				5,430
<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 re-invoicing, 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 CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 4 – SEGMENT INFORMATION (continued)****Secondary reporting format – geographical segments**

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

	Group		Company	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>			
Foreign sales	114,001	401,751	112,392	-
Domestic sales	21,403	34,629	21,403	24,711
	135,404	436,380	133,795	24,711

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

	2020		2019	
	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%
Germany	34,906	31%	83,300	21%
Poland	12,471	11%	15,505	4%
Ukraine	10,249	9%	9,472	2%
Czech Republic	9,497	8%	13,749	3%
Slovenia	7,062	6%	15,902	4%
Austria	5,170	5%	19,592	5%
Bosnia and Herzegovina	5,105	4%	20,271	5%
Sweden	3,199	3%	30,458	8%
Great Britain	3,174	3%	57,050	14%
Other countries	23,168	20%	136,452	34%
	114,001	100%	401,751	100%

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 5 – OTHER INCOME**

	Group		Company	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>			
Rent income	3,027	3,706	2,922	8
Revenue from approvals	2,071	-	2,071	-
Income from grants	1,846	899	1,367	-
Penalty income	450	244	450	-
Revenue from supplier approval	434	561	434	561
Management fee	316	310	316	310
Tourist agency fee income	173	1,393	173	1,445
Revenues from the call center	125	177	125	4,119
Advertising income	116	724	116	724
Profit from sale of fixed assets	-	2,062	-	-
Other income	1,956	2,549	1,867	855
	10,514	12,625	9,841	7,712

The category "Other revenues" in 2020 and 2019 includes revenues from write-offs of liabilities to suppliers, subsequently determined revenues, revenues from pre-invoiced costs, revenues from transport services and etc.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 6 – COST OF MATERIALS AND SERVICE**

	Group		Company	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>			
Raw materials and supplies				
Raw materials and supplies used	(18,428)	(52,435)	(18,395)	(72)
Energy and water used	(7,693)	(16,522)	(7,528)	(789)
Small inventory	(2,857)	(5,480)	(2,844)	(254)
Cost of goods sold	(360)	(1,264)	(351)	-
	(29,338)	(75,701)	(29,118)	(1,115)
External services				
Maintenance	(7,486)	(10,001)	(7,294)	(1,091)
Communal fees	(6,948)	(10,862)	(6,889)	(230)
Advertising and promotion	(5,028)	(7,217)	(5,028)	(989)
Intellectual services /i/	(3,905)	(4,048)	(3,848)	(1,586)
Laundry and cleaning services	(2,128)	(6,817)	(2,128)	(155)
Rent	(1,624)	(2,469)	(1,602)	(1,008)
Transportation and telecommunication	(1,603)	(2,844)	(1,559)	(478)
Animation and entertainment	(1,373)	(4,480)	(1,371)	-
Other services	(1,602)	(3,611)	(1,464)	(172)
	(31,697)	(52,349)	(31,183)	(5,709)
Total costs of materials and services	(61,035)	(128,050)	(60,301)	(6,824)

/i/ Statutory audit services fees to the auditor of the Company's and the Group financial statements amounted to HRK 450 thousand (2019: HRK 653 thousand).

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 7 – EMPLOYEE COSTS**

	Group		Company	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>			
Net salaries	(56,395)	(83,879)	(54,922)	(11,396)
Contributions, taxes and surtax	(30,854)	(46,721)	(30,032)	(9,116)
Accrued overtime and unused vacation	2,936	1,181	2,981	(14)
Termination benefits and jubilee awards	(19)	(183)	(6)	-
Other employee costs /i/	(9,946)	(17,777)	(9,858)	(1,443)
Government support for employees (Covid 19)	37,614	-	37,136	-
	(56,664)	(147,379)	(54,701)	(21,969)

Company and Group

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

During 2020, the average number of staff employed by the Group was 820 (2019.: 1,278 employees).

Contributions paid in mandatory pension funds during 2020 amounted to HRK 14,354 thousand (2019.: HRK 20,513 thousand), to State pension funds amounts to 12,211 thousand (2019.: HRK 16,108 thousand) and private pension fund amounts to HRK 2,142 thousand (2019.: HRK 4,405 thousand).

During 2020, the Company and the Group took a number of actions and measures in response to the disruption caused by the COVID-19 crisis to adapt to the new circumstances. The measures and actions taken refer to independent measures, but also those that are enabled by legal changes to help the tourism sector, which was adopted by the Government of the Republic of Croatia. In accordance with the measures for the preservation of jobs in the activities affected by COVID-19, grants were requested and approved to ensure a minimum wage of HRK 4,000 per employee, the total grants paid amount to HRK 24,436 thousand. In addition to the state aid in the form of payment for the part of the net salary of employees, incentive measures provide for the write-off of taxes and contributions for the percentage in which the Company has reduced revenue, the total amount of exemption for 2020 is HRK 13,178 thousand.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 8 – OTHER OPERATING EXPENSES**

	Group		Company	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>			
Commission to travel agencies and credit cards institutions	(8,277)	(23,670)	(8,266)	(1,095)
Municipal and similar charges and contributions	(4,277)	(5,917)	(4,262)	(208)
Insurance premiums	(3,194)	(3,428)	(3,107)	(296)
Representation cost (hosting and mediation)	(1,590)	(3,392)	(1,577)	(1,643)
Bank fees	(1,285)	(1,016)	(1,277)	(167)
Provisions for impairment of trade and other receivables (note 18)	(1,146)	(21,639)	(1,146)	(2,117)
Disposals of property, plant and equipment	(885)	(742)	(885)	--
Legal proceedings costs	(619)	-	(619)	
Staff education cost and other similar cost	(479)	(1,030)	(428)	(412)
Business travel expenses	(405)	(1,045)	(382)	(872)
Supervisory Board costs	(111)	(528)	(111)	-
Value adjustment of other receivables from related parties	-	(5,193)	-	-
Management fees	-	(590)	-	-
Other	(2,772)	(3,980)	(2,702)	(1,003)
	(25,040)	(72,170)	(24,762)	(7,813)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 9 – FINANCIAL EXPENSES – NET

	Group		Company	
	2020	2019	2020	2019
<i>((in thousands of HRK))</i>				
Financial income				
Interest income	3,501	3,509	3,558	668
Other financial income	-	2	-	-
	3,501	3,511	3,558	668
Financial expenses				
Interest expense	(10,104)	(10,006)	(10,095)	(546)
Net exchange rate differences	(6,007)	(1,056)	(6,005)	(35)
Value adjustment of financial assets (Note 15)	(5,791)	(14,028)	(5,791)	-
Fee and other related costs	(1,028)	(1,024)	(1,026)	(174)
Interest expense (IFRS 16)	(940)	(1,071)	(940)	(498)
	(23,870)	(27,185)	(23,857)	(1,253)
	(20,369)	(23,674)	(20,299)	(585)

NOTE 10 – INCOME TAX

Calculation of corporate income tax for the year ended 31 December 2020 is as follow:

	Group		Company	
	2020	2019	2020	2019
<i>((in thousands of HRK))</i>				
Profit before tax	(87,501)	12,431	(84,701)	(7,526)
Consolidation adjustment	-	3,736	-	-
Non-deductible expenses	17,763	28,279	17,083	4,480
Tax deductible income	(40,806)	(4,557)	(42,947)	-
Taxable profit	(110,544)	39,889	(110,565)	(3,046)
Used tax losses carried forward from previous years	-	(2,979)	-	-
Tax basis	(110,544)	36,910	(110,565)	(3,046)
Income tax (18%)	-	6,643	-	-
Deferred tax (note 12)	51,580	358	51,580	-
Income tax	51,580	7,001	51,580	-
Tax losses to be carried forward	153,388	46,998	147,836	12,072
Effective tax rate	-	56.63%	-	-

The applicable corporate income tax rate for 2020 was 18% (2019: 18%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 10 – INCOME TAX (continued)**

These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2020 tax losses carried forward amount to HRK 153,388 thousand (Group) and HRK 147,836 thousand (Company) and can be used as follows:

	Group		Company*	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
2020	-	3,450	-	244
2021	2,761	2,761	300	300
2022	4,227	4,227	4,055	4,055
2023	32,682	32,682	32,474	3,758
2024	3,878	3,878	3,715	3,715
2025	109,840	-	107,292	-
	153,388	46,998	147,836	12,072

* Of the total tax loss carried forward in the amount of HRK 147,836 thousand, HRK 28,472 thousand relates to the merged subsidiary company Hotel Alan d.d..

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 11 – EARNINGS PER SHARE****Basic and diluted**

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

	Group	
	2020	2019
Net profit attributable to owners of the parent Company (in thousands of HRK)	(34,889)	3,309
Weighted average number of shares (decreased by treasury shares)	5,939,596	5,393,850
Earnings per share (in HRK)	(5.87)	0.61

NOTE 12 – DEFERRED TAX ASSETS

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Tax incentives for investments	32,268	-	32,268	-
Tax loss carried forward – Sunce Hoteli d.d.	19,312	-	19,312	-
Tax loss carried forward- Hotel Alan d.d. (merged company)	5,169	5,169	5,169	-
Tax loss carried forward – Hoteli Zlatni Rat d.d. (merged company)	-	-	7,726	-
As at 31 December	56,749	5,169	64,475	-

On June 29, 2020, based on the Certificate of the Ministry of the Economy, Entrepreneurship and Crafts in accordance with the Investment Promotion Act (OG 102/15, 25/18, 114/18, 32/20), the Company and the Group received the status of beneficiaries of tax incentives. CLASS: 404-01/16-01/43). The investment project refers to the reconstruction and renovation of the hotels Berulia (5 *), Soline (4 *), and Alga (4 *) at the locations of Brela and Tučepi. During 2017, 2018 and 2019, a total of HRK 130 million of eligible costs for incentives was invested in these hotels, on the basis of which a maximum aid intensity of HRK 32.3 million was obtained. The Company and the Group have the right to use the tax relief until the end of 2027.

The Company and the Group recognized deferred tax assets for the determined tax loss in 2020 in the amount of HRK 19,312 thousand

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 12 – DEFERRED TAX ASSET (continued)

In the process of merger, the company acquired the deferred tax assets of the merged company Hoteli Zlatni rat d.d. in the amount of HRK 7,726 thousand, which relates to non-tax deductible expense from the impairment of a loan to a related company in the amount of HRK 42,922 thousand, which is a temporary difference whose tax effect was recorded by the Company.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 13 - INTANGIBLE ASSETS

Group

<i>(in thousands of HRK)</i>	Software	Licenses	Other	Assets under construction	Total
For the year ended 31 December 2019					
As at 1 January 2019					
Cost	7,333	1,021	2,303	24	10,681
Accumulated amortisation	(6,394)	(966)	(2,294)	-	(9,654)
Carrying amount	939	55	9	24	1,027
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
As at 31 December 2019	683	170	-	-	853
As at 31 December 2019					
Cost	7,391	1,144	2,326	-	10,861
Accumulated amortisation	(6,708)	(974)	(2,326)	-	(10,008)
Carrying amount	683	170	-	-	853
<i>(in thousands of HRK)</i>					
	Software	Licenses	Other	Assets under construction	Total
For the year ended 31 December 2020					
As at 1 January 2020					
Cost	7,391	1,144	2,326	-	10,861
Accumulated amortisation	(6,708)	(974)	(2,326)	-	(10,008)
Carrying amount	683	170	-	-	853
	683	170	-	-	853
Additions	74	35	-	53	162
Sale and write-off	-	-	-	-	-
Transfers	53	-	-	(53)	-
Amortization	(231)	(43)	-	-	(274)
Sale and write-off	-	-	-	-	-
As at 31 December 2020	(104)	(8)	-	-	(112)
As at 31 December 2020					
Cost	7,518	1,179	2,326	-	11,023
Accumulated amortisation	(6,939)	(1,017)	(2,326)	-	(10,282)
Carrying amount	579	162	-	-	741

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 13 - INTANGIBLE ASSETS (continued)

Company

<i>(in thousands of HRK)</i>	Software	Right of use	Other	Assets under construction	Total
For the year ended 31 December 2019					
As at 1 January 2019					
Cost	375	125	-	-	500
Accumulated amortisation	(355)	(70)	-	-	(425)
Carrying amount	20	55	-	-	75
As at 1 January 2019	20	55	-	-	75
Additions	-	20	-	-	20
Sale and write-off	-	-	-	-	-
Merger Sunce Global d.o.o.	173	1	-	-	174
Transfers	-	-	-	-	-
Amortization	(67)	(25)	-	-	(92)
Sale and write-off	-	-	-	-	-
As at 31 December 2019	126	51	-	-	177
As at 31 December 2019					
Cost	548	146	-	-	694
Accumulated amortisation	(422)	(95)	-	-	(517)
Carrying amount	126	51	-	-	177
<i>(in thousands of HRK)</i>	Software	Right of use	Other	Assets under construction	Total
For the year ended 31 December 2020					
As at 1 January 2020					
Cost	548	146	-	-	694
Accumulated amortisation	(422)	(95)	-	-	(517)
Carrying amount	126	51	-	-	177
	126	51	-	-	177
Merger of subsidiaries	460	126	-	-	586
Additions	74	34	-	53	161
Sale and write-off	-	-	-	-	-
Transfers	53	-	-	(53)	-
Amortization	(213)	(43)	-	-	(256)
Sale and write-off	-	-	-	-	-
As at 31 December 2020	500	168	-	-	668
As at 31 December 2020					
Cost	1,135	306	-	-	1,441
Accumulated amortisation	(635)	(138)	-	-	(773)
Carrying amount	500	168	-	-	668

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 13.1 – RIGHT-OF-USE ASSET**

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

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
<i>(in thousands of HRK)</i>				
<i>Amounts recognized in the statement of financial position</i>				
Right-of-use asset				
Buildings (tourist resort)	7,592	13,722	7,592	-
Office building	9,368	10,929	9,368	10,929
Other	5,314	4,641	5,314	1,417
	22,274	29,292	22,274	12,346
Lease liabilities				
Long – term	15,934	23,069	15,934	10,742
Short – term	7,202	7,409	7,202	1,817
	23,136	30,478	23,136	12,559
<i>Amounts recognized in the income statement and other comprehensive income for the period</i>				
Depreciation of property, plant and equipment	7,177	7,440	7,177	1,905
Interest (Note 9)	940	1,071	940	498
	8,117	8,511	8,117	2,403

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

Group

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

	Land	Buildings	Vehicles	Plant and equipment	Assets under construction	Total
As at 1 January 2019						
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)
Carrying amount	111,621	872,377	3,524	91,306	30,793	1,109,621
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
As at 31 December 2019						
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)
Carrying amount	116,124	881,980	3,285	89,914	21,420	1,112,723

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

For the year ended 31 December 2020
(in thousands of HRK)

	Land	Buildings	Vehicles	Plant and equipment	Assets under construction	Total
As at 1 January 2020						
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)
Carrying amount	116,124	881,980	3,285	89,914	21,420	1,112,723
Addition	-	3,604	86	2,290	4,700	10,680
Sales and Disposal	-	(12)	(68)	(6,309)	-	(6,389)
Transfers	-	2,029	39	1,306	(3,374)	-
Land revaluation	224	-	-	-	-	224
Depreciation	-	(39,553)	(869)	(16,632)	-	(57,054)
Sales and Disposal	(25)	-	58	5,423	-	5,456
As at 31 December 2020						
Cost	116,348	1,475,169	12,548	328,157	22,746	1,954,968
Accumulated depreciation	(25)	(627,121)	(10,017)	(252,165)	-	(889,328)
Carrying amount	116,323	848,048	2,531	75,992	22,746	1,065,640

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

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

	Land	Buildings	Vehicles	Plant and equipment	Assets under construction	Total
As at 1 January 2019						
Cost	-	-	5,041	1,777	-	6,818
Accumulated depreciation	-	-	(3,123)	(1,304)	-	(4,427)
Carrying amount	-	-	1,918	473	-	2,391
Addition	-	-	-	-	129	129
Sales and disposal	-	-	-	-	-	-
Merger of subsidiary Sunce Global d.o.o.	-	-	472	37	-	509
Transfers	-	-	17	112	(129)	-
Land revaluation	-	-	-	-	-	-
Depreciation	-	-	(581)	(180)	-	(761)
Sales and Disposal	-	-	-	-	-	-
As at 31 December 2019						
Cost	-	-	5,530	1,926	-	7,456
Accumulated depreciation	-	-	(3,704)	(1,484)	-	(5,188)
Carrying amount	-	-	1,826	442	-	2,268

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)****Company (continued)**

For the year ended 31 December 2020
(in thousands of HRK)

	Land	Buildings	Vehicles	Plant and equipment	Assets under construction	Total
As at 1 January 2020						
Cost	-	-	5,530	1,926	-	7,456
Accumulated depreciation	-	-	(3,704)	(1,484)	-	(5,188)
Carrying amount	-	-	1,826	442	-	2,268
Merger of subsidiaries	115,170	1,410,273	3,013	322,487	18,469	1,869,412
Addition	-	3,604	86	2,290	3,751	9,731
Sales and disposal	-	(12)	(68)	(6,309)	-	(6,389)
Transfers	-	1,257	39	1,304	(2,600)	-
Land revaluation	224	-	-	-	-	224
Merger of subsidiaries		(557,521)	(2,562)	(236,504)		(796,587)
Depreciation	-	(38,760)	(711)	(16,267)	-	(55,738)
Sales and Disposal	(25)	-	58	5,423	-	5,456
As at 31 December 2020						
Cost	115,394	1,415,122	8,600	321,698	19,620	1,880,434
Accumulated depreciation	(25)	(596,281)	(6,919)	(248,832)	-	(852,057)
Carrying amount	115,369	818,841	1,681	72,866	19,620	1,028,377

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Group

The Group has engaged independent appraisers for the purpose of assessing the value of construction facilities and land of the Group. Estimated value of the Group's property amounts to HRK 1,329,478 thousand as at 31 December 2020 (2019: 1,441,124 thousand HRK). Appraisal values of real construction facilities and land are not lower than their carrying value.

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 636,487 thousand (2019: HRK 656,775 thousand).

The gross carrying value of property, plant and equipment which are fully depreciated and still in use as of 31 December 2020 amounts to HRK 209,145 thousand (2019: HRK 195,264 thousand).

Carrying value of Group's assets purchased on finance lease as at 31 December 2020 amounts to HRK 376 thousand (2019: HRK 493 thousand).

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

The Company and Group has recognised in the statement of financial position land designated as maritime demesne in the amount of HRK 1,409 thousand (2019: HRK 1,409 thousand) and HRK 3,185 thousand (2019: HRK 3,299 thousand). These buildings were built by the Company and Group on this land before the land was designated maritime demesne. The usage of real estate on maritime demesne is determined based on concession rights. The Company and Group has not signed a concession agreement with the State and therefore it is not clear if the Company and the Group will be able to continue using these buildings without a concession agreement in place. The Company and the Group is not able to currently determine any potential liability for not paying any concession fees in the past for the usage of such land, or whether there is impairment in the value of these buildings.

The Company and Group discloses in its property certain properties on which ownership has not yet been resolved and the Company and Group is in the process of resolving various court disputes based on ownership of those properties. After the resolution of court disputes, if the final outcome is negative for the Company and Group, it may be necessary to recognize the impairment of land and buildings. Based on the Company and Group's best estimate, 1/5 of the mentioned properties are covered by court disputes, which is a common situation in the Republic of Croatia (note 29).

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 15 – INVESTMENT IN ASSOCIATES AND JOINT VENTURE****Group**

	31 Dec 2020		31 Dec 2019	
	<i>(in thousands of HRK)</i>	Interest held	<i>(in thousands of HRK)</i>	Interest held
Praona d.o.o., Makarska	2,241	42%	3,000	42%
WOT Hotels Adriatic Asset Company d.o.o.	73,130	50%	83,891	50%
WOT Hotels Adriatic Management d.o.o.	-	49%	77	49%
	75,371		86,968	

Company

	31 Dec 2020		31 Dec 2019	
	<i>(in thousands of HRK)</i>	Interest held	<i>(in thousands of HRK)</i>	Interest held
Praona d.o.o., Makarska	2,241	42%	-	-
WOT Hotels Adriatic Asset Company d.o.o.	73,130	50%	-	-
WOT Hotels Adriatic Management d.o.o.	-	49%	10	49%
	75,371		10	

Movements on the group investments during 2020 and 2019 in associates and joint venture are as follows:

	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>	
January 1	86,968	101,488
Share in (loss) / profit of associate (Praona d.o.o.)	(760)	60
Share in loss of joint venture (WOT Hotels Adriatic Asset Company d.o.o.)	(4,971)	(619)
(Loss) / profit share of WOT Hotels Adriatic Management d.o.o.	(75)	67
Impairment of investments in WOT Hotels Adriatic Asset Company d.o.o. (i)	(5,791)	(14,028)
December 31	75,371	86,968

(i) During 2020 the Group performed test of recoverability on investment using the weighted average cost of capital as a discount rate of 7.5% that reflects current market assessments of the time value of money and the risk specific to asset, 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.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 15 – INVESTMENT IN ASSOCIATES AND JOINT VENTURE (CONTINUED)**

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

	<u>2020</u>	<u>2019</u>
<i>Financial position</i>		
Current assets	2,577	4,455
Non-current assets	13,949	14,571
Short-term liabilities	2,446	2,989
Long term liabilities	8,744	8,891
Net assets	<u>5,336</u>	<u>7,146</u>
 <i>Profit and loss account</i>		
Revenues	2,322	14.865
Expenses	(4,131)	(14.723)
Profit / (Loss)	<u>(1,809)</u>	<u>142</u>
Group share	<u>(760)</u>	<u>60</u>

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 15 – INVESTMENT IN ASSOCIATES AND JOINT VENTURE (CONTINUED)**

Summarized financial information for the company WOT Hotels Adriatic Asset Company d.o.o. is shown below.

	2020 (unaudited)	2019
Financial position		
Current assets	5,453	5,969
Non-current assets	248,927	257,696
Short-term liabilities	16,630	16,847
Long term liabilities	79,917	79,045
Net assets	157,833	167,773
Profit and loss account		
Revenues	19,171	43.530
Expenses	(29,112)	(44.768)
Loss	(9,941)	(1.238)
Group share	(4,971)	(619)

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

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

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of business	Recognition method	Carrying amount as of 31 Dec 2019 (in thousands of HRK)
		2020	2019			
WOT Hotels Adriatic Asset Company d.o.o.	Tučepi, Croatia	50%	50%	Hospitality and tourism	Equity method	73.130

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 15.1 – INVESTMENT IN SUBSIDIARIES****Company**

	31 Dec 2020		31 Dec 2019	
	<i>(in thousands of HRK)</i>	Interest held	<i>(in thousands of HRK)</i>	Interest held
Hoteli Zlatni Rat d.d. /i/	-	-	190,311	80.99 %
Hoteli Brela d.d. /i/	-	-	146,111	89.58 %
Hoteli Tučepi d.d. /i/	-	-	136,842	91.41 %
Hotel Alan d.d. /i/	-	-	121,714	97.96 %
Aerodrom Brač d.o.o. /ii/	20,010	50.19%	-	-
Brač 500 Plus d.o.o. /iii/	500	69.44%	-	-
Brela Jakiruša d.o.o. /iv/	20	100.00%	-	-
Sunce Vital d.o.o.	20	100.00%	20	100.00%
	20,550		594,998	

/i/ By merging the subsidiaries Hotel Alan d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hoteli Brela d.d. on January 1, 2020, the Company ceased to be a shareholder in the mentioned subsidiaries.

/ii/ In 2020, after the merger of Hoteli Zlatni d.d., the Company became the holder of 50.19% stake in Aerodrom Brač d.o.o.

/iii/ In 2020, after the merger of Hoteli Zlatni d.d., the Company became the holder of 69.44% stake in Brač 500 Plus d.o.o.

/iv/ In 2020, after the merger of Hoteli Brela d.d., the Company became the holder of a 100% share in Brela Jakiruša d.o.o.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 16 – LONG-TERM RECEIVABLES**

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Interest receivables from related parties /i/	11,308	7,825	11,308	-
Trade receivables	60	1,449	60	-
Accrued expenses	-	511	-	110
Deposits in banks	132	116	132	-
	11,500	9,901	11,500	110

/i/ Interest receivables relate to a loan granted to a related company Lucidus d.d. By the date of issuance of this report, the Company and the Group have collected the entire amount of interest receivables.

NOTE 17 – INVENTORIES

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Raw materials and consumables	3,401	3,513	3,389	-
Small inventory and spare parts of tangible assets	346	242	346	-
Merchandise	241	252	138	-
Advances given to related companies	-	41	-	-
	3,988	4,048	3,873	-

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 18 – TRADE RECEIVABLES**

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Trade receivables	35,380	36,448	34,826	316
Trade receivables – related companies	4,393	2,217	4,405	14,455
Less provision for impairment of trade receivables	(30,783)	(30,261)	(30,496)	(2,117)
Trade receivables – net	8,990	8,404	8,735	12,654
Advances given	649	1,005	646	455
Advances given to related companies	-	104	-	-
Trade receivables	9,639	9,513	9,381	13,109

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

As at 31 December 2020 past due trade receivables but not impaired relates to a number of several individual customers for whom Group and Company had no problems in collecting receivables in previous years.

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

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Undue receivables	-	2,232	-	3,618
Less than 90 days	22	2,804	14	4788
Between 90 and 180 days	3,725	1,922	3,654	4069
Between 180 and 360 days	1,504	651	1,520	142
Later than 360 days	4,388	1,904	4,193	492
	9,639	9,513	9,381	13,109

The Company and Group as at 26 April 2021 has collected receivables from related parties in the amount of HRK 2,603 thousand which are presented above in “Later than 360 days” category.

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

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
EUR	3,456	6,553	3,183	-
HRK	6,183	2,960	6,198	13,109
	9,639	9,513	9,381	13,109

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 18 - TRADE RECEIVABLES (continued)**

Movements in the provisions for impairment of trade receivables:

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
At 1 January	(30,261)	(8,382)	(2,117)	-
<i>Merger of subsidiaries</i>	-	-	(27,804)	-
<i>Charged/credited to the statement of comprehensive income (Note 8):</i>				
Increase of impairment	(363)	(21,313)	(310)	(2,117)
Foreign exchange	(783)	(326)	(836)	-
	(1,146)	(21,639)	(1,146)	(2,117)
Receivables written-off	-	(400)	-	-
Collected receivables	624	160	571	-
At 31 December	(30,783)	(30,261)	(30,496)	(2,117)

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.

NOTE 19 – OTHER RECEIVABLES

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Accrued income /i/	18,430	-	18,430	-
Prepaid expenses	7,428	5,539	7,424	832
State receivable	3,965	4,268	3,819	525
Interest receivable from related parties (Note 31)	1,031	1,031	1,033	1,031
Other receivables from related parties	174	65	174	65
Receivables from employees	38	30	36	-
Other receivables	1,922	984	1,916	-
	32,988	11,917	32,832	2,453

/i/ Accrued income in the amount of HRK 18,335 thousand relates to COVID-19 aid for the protection of working places. Company and Group applied for grants and met the criteria for payment of direct aid and write-off of taxes and contributions, however as at 31 December 2020 direct aid in the amount of HRK 12,126 thousand was not paid and no tax and contribution exemptions in the amount of 6,209 thousands were implemented. By the date of the report, the Company and the Group had received the full amount of direct aid.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 20 – LOANS**

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Long – term				
Loans to related parties (Note 31)	76,910	76,890	76,910	11,600
Loan loss allowance – IFRS 9 (Note 9)	(769)	(769)	(769)	(121)
	76,141	76,121	76,141	11,479
Short – term				
Loans to related parties (note 31)	-	20	2,418	50
	-	20	2,418	50
	76,141	76,141	78,559	11,529

Group

Long-term loans as at 31 December 2020 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 Filip Jakov near Šibenik. With the mentioned loan, Company Lucidus d.d. acquired a 100% business share in the said company.

The maturity of the Group's long-term loans is until December 2022. These loans are secured by a pledge of the business share of Glasgow Gradnja d.o.o. on the total amount of loans in the amount of HRK 32 million and given promissory notes.

For the remaining loans given to Lucidus d.d. for the purpose of additional collateral, Group took additional collateral in the form of real estate pledges and pledges in the form of quality business shares of companies owned by companies associated with Lucidus d.d. and the ultimate majority owner of the Group. These collateral also provided additional long-term loans in the amount of HRK 32 million.

By the date of this report, the Company and Group as at 26 April 2021 has collected the entire amount of loans granted from the related company, as part of sale transaction of the Company as describe in note 32.

Company

Long-term loans as at 31 December 2020 in the total amount of HRK 11 million relate to loans to the related company Lucidus d.d., approved with an interest rate of 3.96% maturing in December 2022. Loans are approved in local currency and secured by promissory notes. By merging subsidiaries in 2020, the Company took over the loan given to the associated company Lucidus d.d.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 21 – CASH AND CASH EQUIVALENTS**

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Foreign currency accounts	13,338	7,473	13,301	1
Domestic currency accounts	4,628	2,035	4,467	210
Cash in hand	27	29	11	2
	17,993	9,537	17,779	213

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 22 – SHARE CAPITAL**

The authorized and registered share capital of the parent Company amounts to HRK 595,459 thousand and comprises 5.954.585 ordinary shares, with a nominal value of HRK 100 per share.

The ownership structure as at 31 December 2020 was as follows:

Shareholder	Number of shares	Nominal value	Share in %
Sunce Ulaganja d.o.o.	3,004,672	300,467,200	50.46
Lucidus d.d.	1,146,420	114,642,000	19.25
Erste plavi OMF category B	892,898	89,289,800	15.00
Raiffeisen OMF category B	156,134	15,613,400	2.62
PBZ CO OMF – category B	70,460	7,046,000	1.18
Raiffeisen voluntary pension fund	68,795	6,879,500	1.16
CERP – Republic of Croatia	59,031	5,903,100	0.99
Addiko Bank d.d. - custody account	30,682	3,068,200	0.51
Privredna Banka Zagreb d.d. - custody account	27,193	2,719,300	0.46
Erste plavi expert – voluntary pension fund	25,753	2,575,300	0.43
Other shareholders	472,547	47,254,700	7.94
	5,954,585	595,458,500	100.00

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 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., the merger was carried out with effect from 1 January 2020.

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

Shareholder	Number of shares	Nominal value	Share in %
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
	5,393,850	539,385,000	100.00

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 23 – BORROWINGS**

	Group		Company	
	31 Dec 2020	31 Dec 2019 (restated)	31 Dec 2020	31 Dec 2019 (restated)
	<i>(in thousands of HRK)</i>			
Non-current				
Bank borrowings	482,523	450,420	482,523	14,563
Finance lease	84	179	30	-
Less: Current portion of non - current borrowings	(60,233)	(450,420)	(60,233)	(14,563)
	422,374	179	422,320	-
Current				
Current portion of non - current borrowings	60,233	450,420	60,233	14,563
Bank borrowings	19,505	-	19,505	-
Loan from related parties	-	-	-	3,367
Finance lease	98	157	62	-
	79,836	450,577	79,800	17,930
	502,210	450,756	502,120	17,930

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.

The total amount of loans as at 31 December 2020 includes several loans: a loan received from the EBRD, long-term loan from OTP banka and two short-term loans (OTP banka and Podravska banka). Loans from OTP and Podravska banka were supposed to be used to finance the 2020 season, but due to the negative impact of COVID-19, they were used to provide additional liquidity.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 23 – BORROWINGS (continued)**

On 27 July 2020, the Group and the Company were granted a moratorium on the loan instalments due on 30 April 2020 (HRK 16.5 million) and 31 October 2020 (38,4 milijuna kuna) by the bank syndicate with which it has concluded a Loan Agreement. Given that the moratorium has a maturity of 12 months, this means that the first instalment of the loan is due on 30 April 2021 together with principal and interest. The loan will continue to be repaid regularly from 30 April 2021, when interest is due for the period from 1 November 2019 to 30 April 2021. Outstanding instalments in 2020 are moved to the end of the repayment period on 30 April 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 30 April 2028 (bullet repayment). In addition, due to the expected negative impact of COVID-19 on the Group's operating results in the 2020 tourist season and potential financial needs until the next tourist season, other lenders have approved a moratorium on all payments due in 2020. As at 31 December 2020, the Company and Group also did not meet the financial conditions under the loan from the EBRD, but the banks provided a waiver before the balance sheet date.

As at 31 December 2019, the Group did not comply with the provisions of the loan agreement received from the EBRD relating to the financial covenants to be met at the end of each financial year and did not have an unconditional right to defer repayment of the loan for at least twelve months from the end of the reporting period. However, in July 2020, the Group received an official confirmation from the lender accepting the exemption from the violated financial covenants and not requesting early repayment of the loan (note 2.23).

	<u>Outstanding amount</u>	<u>Currency</u>	<u>Interest rate</u>	<u>Maturity</u>
	<i>(in thousands of HRK)</i>			
Bank				
European Bank for Reconstruction and Development	114,036	EUR	6M EURIBOR + 2%	2028
Erste&Steiermärkische Bank d.d.	114,036	EUR	6M EURIBOR + 2%	2028
Privredna banka Zagreb d.d.	114,036	EUR	6M EURIBOR + 2%	2028
Zagrebačka banka d.d.	114,036	EUR	6M EURIBOR + 2%	2028
OTP banka d.d.	26,379	EUR	1.90%	2025
OTP banka d.d.	11,305	EUR	1.50%	2021
Podravska banka d.d.	8,200	HRK	3.80%	2021
	<u>502,028</u>			

Bank borrowings are secured by a mortgage over land and buildings (Note 14) with a net book value of HRK 636,487 thousand (2019.: HRK 656,775 thousand).

The effective interest rates at balance date was 2.01% (2019.: 2.01%).

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 23 – BORROWINGS (continued)**

Maturity of long-term borrowings is as follows:

	Group		Company	
	31 Dec 2020	31 Dec 2019 (restated)	31 Dec 2020	31 Dec 2019 (restated)
	<i>(in thousands of HRK)</i>			
Between 2–5 years	241,015	179	240,961	-
Over 5 years	181,359	-	181,359	-
	422,374	179	422,320	-

The carrying amounts of borrowings approximate their fair value.

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

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
EUR	494,010	450,756	494,010	14,563
HRK	8,200	-	8,110	3,367
	502,210	450,756	502,120	17,930

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

The present value of finance lease liabilities is as follows:

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Less than a year	98	157	62	-
Between 1-5 years	84	179	30	-
Over 5 years	-	-	-	-
	182	336	92	-

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 23 – BORROWINGS (continued)***Reconciliation in liabilities arising from financial activities*

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

Group

<i>(in thousands of HRK)</i>	At 1 January 2020	Cash flow		Acquisition of a subsidiary	Foreign exchange	At 31 December 2020
		<i>Increase</i>	<i>Decrease</i>			
		Borrowings	450,756			

<i>(in thousands of HRK)</i>	At 1 January 2019	Cash flow		Acquisition of a subsidiary	Foreign exchange	At 31 December 2019
		<i>Increase</i>	<i>Decrease</i>			
		Borrowings	503,957			

Company

<i>(in thousands of HRK)</i>	At 1 January 2020	Cash flow		Merger of subsidiaries	Foreign exchange	At 31 December 2020
		<i>Increase</i>	<i>Decrease</i>			
		Borrowings	17,930			

<i>(in thousands of HRK)</i>	At 1 January 2019	Cash flow		Acquisition of a subsidiary	Foreign exchange	At 31 December 2019
		<i>Increase</i>	<i>Decrease</i>			
		Borrowings	21,529			

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 24 – PROVISIONS****Group**

<i>(in thousands of HRK)</i>	Severance payments /i/	Legal claim /ii/	Jubilee awards /i/	Total
At 1 January 2020	584	606	844	2,034
Additional provisions	142	-	(35)	107
Used during year	(72)	(606)	(16)	(694)
At 31 December 2020	654	-	793	1,447
Current portion	631	-	592	1,223
Non-current portion	23	-	201	224

Company

<i>(in thousands of HRK)</i>	Severance payments /i/	Legal claim /ii/	Jubilee awards /i/	Total
At 1 January 2020	-	-	-	-
Merger of subsidiaries	559	606	814	1,979
Additional provisions	135	-	(42)	93
Used during year	(72)	(606)	(16)	(694)
At 31 December 2020	622	-	756	1,378
Current portion	599	-	555	1,154
Non-current portion	23	-	201	224

/i/ The liability recognized 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 recognized in profit or loss within "Employee costs".

/ii/ The amounts represent a provision for certain legal claims brought against the Company and Group by customers, suppliers and employees. The provision charge is recognized in profit or loss within 'other expenses' (Note 8). During 2020, the Company and Group utilized the provision for the legal claim as the dispute was lost by a final judgment. The outcome of the legal dispute did not cause a loss above the amount of the provisions.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 25 – DEFERRED TAX LIABILITY**

The movement in deferred tax liabilities during the year 2020 and 2019 is as follows:

	Group	Company
	<i>(in thousands of HRK)</i>	
At 1 January 2019	1,078	-
Land revaluation during 2019	129	-
At 31 December 2019	1,207	-
Land revaluation during 2020	40	-
Merger of subsidiaries	-	1,247
At 31 December 2020	1,247	1,247

NOTE 26 – TRADE AND OTHER PAYABLES

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Trade payables	26,055	26,027	23,094	2,266
Interest payables – banks	11,298	1,377	11,298	-
Advances received	10,487	5,004	10,488	-
Trade payables - related parties	3,022	2,332	3,014	839
VAT payable	-	1,084	-	-
Interest payables – related parties	-	-	-	12
	50,862	35,824	47,894	3,117

NOTE 27 – OTHER SHORT-TERM LIABILITIES

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Deferred income	8,369	8,170	96	-
Accrued overtime and unused vacations	5,499	8,080	5,454	661
Liabilities to employees	4,525	6,830	4,417	1,098
Accrued expenses	2,513	2,207	2,508	136
Contributions from salaries	1,114	1,771	1,085	313
Contributions on salaries	834	1,379	810	222
Other taxes and contributions	495	644	489	1,083
Tax and surtax on salaries	351	598	343	260
Other liabilities – related parties	60	116	60	-
Other liabilities	483	193	467	15
	24,243	29,988	15,729	3,788

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 28 – CASH GENERATED FROM OPERATIONS**

Adjustment of profit with cash generated from operations:

	Group		Company	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	<i>(in thousands of HRK)</i>			
Profit after taxation	(35,921)	5,430	(33,121)	(7,526)
Adjustments for:				
Depreciation and amortisation (Notes 13,13.1,14)	64,505	64,808	63,170	2,758
Increase in provisions (Note 24)	107	34	93	-
Interest income (Note 9)	(3,501)	(3,509)	(3,558)	(668)
Interest expense (Note 9)	11,044	11,077	11,035	1,044
Value adjustment of financial assets (Note 15)	5,791	14,028	5,791	-
Income Tax	(51,580)	7,001	(51,580)	-
Share of (profit)/loss in associate and joint venture (Note 15)	5,806	493	5,104	-
Unrealised foreign exchange losses	5,724	5,015	5,719	39
Other adjustments	1,022	8	172	-
Total adjustments	38,918	98,955	35,946	3,173
Cash flows from operating activities before working capital changes	2,997	104,385	2,825	(4,353)
Changes in working capital				
- trade receivables	2,166	12,838	41,648	8,879
- other receivables	(20,140)	775	(58,605)	(2,491)
- inventories	61	(314)	58	-
- trade and other payables	(4,564)	(12,581)	(4,989)	(3,432)
Cash generated from operations	(19,480)	105,103	(19,065)	(1,397)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29 – CONTINGENCIES

Legal proceedings

At 31 December 2020, the Company and Group participates in certain legal proceedings. In case of dispute losses the Company and Group may have outflows of funds.

Particularly significant legal proceedings are following:

1. On 30th December 2008 a claim have been 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 have been held, the Municipal Court, in repeated proceeding, have ruled on 15th July 2016 against the company 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 the costs of litigation.

The company filed a complaint, 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 is 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.

The Company and Group are the unregistered owner of individual real estate in the following locations:

- i. Brela (the Brela tourist zone is made up of 4 functional hospitality-tourist wholes which are interconnected by ownership and infrastructure, being: hotel Marina, a hospitality object named a „beach object“, hotel Maestral and hotel Soline, as well as of accompanying other objects: so-called Brelade, hotel Brela, laundry warehouse and tennis courts, and pizzeria restaurant Centar, hotel Pelegrin and UTC Pelegrin, Villa Primorka)),
- ii. Bol on the island of Brač (a tennis stadium, a so-called gothic house; a grocery store, a kindergarten; and so-called barracks),
- iii. Tučepi (land registry plot no. 4221/1 cadastral municipality Tučepi – whereon, in reality, a pool, restaurant and a restaurant terrace have been built as an integral part of hotel Neptun)

The following is a short summary of ownership status of hotel Marina, hotel Maestral and hotel Soline as the most material objects in unregistered ownership. The mentioned status and manner of resolution of legal issues is applicable to other real estate in Brela as well.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29 – CONTINGENCIES (continued)

In relation to the aforementioned hotels, in most cases, third parties (natural persons) are currently registered as land registry owners. Additionally, land registry status has not been aligned with the as-is condition established by construction of objects. The reason for such incorrect entry is the fact that the land registry has not tracked any actual changes which occurred to date since 1960 (after nationalisation), so the cadastral and land registry status corresponds to the old status from the 1960s.

At the time when seizure of ownership from registered owners was registered with the land registry on the basis of the Act on Nationalisation of Rented Buildings and Construction Land from 1959 (the “Nationalisation Act”), the land upon which the hotels have been built acquired social ownership status. By entry into force of the Nationalisation Act, all land within the boundaries of intended construction became construction land, and thereby, ex lege, social ownership in the constitutive sense, even in cases where the registration of cessation of ownership of registered owners and the concurrent registration of social ownership has not been registered with the land registry to date.

Historic land registry excerpts show that social ownership was registered with respect to the aforementioned real estate in sheet “B”, with the concurrent cessation of ownership of registered owners and registration of those persons in sheet “C” as holders of right to use until possession of said property is seized by the competent body, which indisputably shows that former owners’ ownership in 1960 ceased by introduction of the Nationalisation Act. However, following the registration of nationalisation (cessation of ownership) and registration of social ownership, no facts which occurred in reality from 1960 have been registered with the land registry.

From 1963 to 1975, the competent municipality of Makarska issued resolutions pursuant to regulations on the basis of which it granted social ownership over said land to the social enterprise „HTP Brela“ - the Company’s predecessor, all for the purpose of the social enterprise acquiring ownership for construction of hotels and accompanying tourist objects in the area of the Brela tourist zone. “HTP Brela” had obtained building and other appropriate use permits for individual objects on the basis of such granted social ownership.

All said objects were appraised in the share capital of the social enterprise, the Company’s predecessor, in the transformation process which was concluded for „HTP Brela“ on the basis of a Resolution providing consent to transformation performance of 10 June 1994, and the value of these real estate (objects with the accompanying land) had been contributed into the share capital of the company which was established in the transformation process.

However, the Resolution on real estate designated in the transformation process of 7 May 1996 does not indicate the exact appraised surface for certain plots, so the appraised value of certain plots could not have been determined to this day as the Resolution states that only a portion of a certain plot has been appraised, without stating the appraised surface.

The effects of acquisition of ownership to the benefit of HOTELI BRELA d.d. occurred upon conclusion of the transformation process and on the basis of the Act on Ownership and Other Real Property Rights (“Ownership Act”) which entered into force on 1 January 1997.

Pursuant to article 129 in connection with article 390.a of the Ownership Act, all preconditions for acquisition of ownership by the Company’s predecessor have been met, given that it is indisputable that on the date of the share capital appraisal in the transformation process real estate which could have been subject to acquisition of ownership were in fact in social ownership with the social enterprise’s right of management and that their value was appraised in the company’s share capital.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29 – CONTINGENCIES (continued)

Following implementation of denationalisation process pursuant to the Ownership Act, Land Registry Act and the Act of Compensation for Assets Seized during the Yugoslavian Communist Government, the land registry court deleted social ownership and right of use from sheet “C”, while re-registering natural persons as owners in sheet “B”, given that it was neither visible that said land was subject to disposal in favour of the social enterprise - the Company’s predecessor, nor visible that the land was brought to purpose by construction of hotels/other tourist objects.

Such registered property for the benefit of natural persons whose ownership ceased with the enactment of the Nationalization Act is a false and invalid registration, and such registered persons cannot oppose the Company which acquired the property in a constitutional manner, based on the law..

Therefore, regardless of whether registration of ownership in favour of the company has been performed in the land registry, the Company did in fact acquire the right of ownership. Registration of ownership shall be of declaratory nature only and shall serve the principle of veracity and completeness of the land registry, as well as the purpose of proving ownership in legal transactions.

The Company endeavoured to resolve the land registry status in relation to certain real estate by initiating litigation for determination of ownership, but said litigation, although already pending for years, is still in its initial phase as the registered owners are of unknown residence (in most cases, abroad) and/or have unknown successors and/or probate proceedings have not yet been concluded, meaning papers cannot be properly served to respondents which is a procedural impediment for conducting the proceedings. It is to be expected that no final and binding judgments will be passed any time soon by which the Company would register ownership in its favour. The Company has succeeded to register its ownership with the land registry for only a handful of individual land plots.

Given that the Act on Unappraised Construction Land entered into force in 2020, the Company has initiated proceedings on the basis of the Act with the purpose of aligning cadastral and land registry status with the actual unregistered ownership status which was established over hotels and accompanying land originating from social ownership. In said proceedings, the Company intends to register ownership in the land registry and cadastre pursuant to the parcelation/geodetic surveys previously confirmed by CERP (Centre for Restructuring and Sale), whose limits would correspond in form and surface in reality to the appraised object and land as described in their entirety or partially in the Resolution on real estate designated in the transformation process for HTP Brela, HTP Tučepi and HTP Bol. The procedure initiated by the Company under the Act on Unappraised Construction Land will significantly speed up the process and improve the Company’s position in the existing litigation for registration of ownership in its favour.

The outcome of any of the above procedures is not expected to have a material impact on the Company and Group's financial position or performance.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****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 Company and Group and the joint venture company. The guarantees mainly relates 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 31.12.2020. amounts to HRK 62,095 thousand (31.12.2019.: HRK 62,142 thousand).

Breakdown of warranties and guarantees:

Borrower	Approved amount	Purpose	Maturity	Principal outstanding at 31 Dec 2020	Principal outstanding at 31 Dec 2019
				<i>(in thousands of HRK)</i>	
Sunčane Toplice d.o.o. *	46,050	Reconstruction and upgrade of complex in Bizovac	30.06.2033.	46,050	45,133
Jako vino d.o.o.	9,350	Restructuring	01.11.2022.	3,214	3,506
Sunčana murvica d.o.o.	3,483	Vineyard	01.01.2027.	2,438	2,525
Sunčana murvica d.o.o.	3,528	Vineyard	31.12.2023.	1,487	1,664
Jako Andabak	15,000	Debt assumption Sunčane Toplice	30.09.2024.	8,906	8,931
Lucidus d.d.	3,291	Working capital	1.1.2020.	-	383
Total	80,702			62,095	62,142

* Company Sunčane Toplice d.o.o. was merged on 13 November 2020 to company Izvor Upravljanja d.o.o.

By the date of issue of this report, all loans listed in the table above have been repaid in full.

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 AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 31 - RELATED PARTY TRANSACTIONS**

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

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

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

	Group		Company	
	31 Dec 2020	31 Dec 19	31 Dec 2020	31 Dec 19
<i>(in thousands of HRK)</i>				
Trade receivables (note 18)				
WOT Hotels Adriatic Asset Company d.o.o.	2,075	1,280	2,075	158
Salve Regina – Marija Bistrica d.o.o.	767	-	767	-
Jako Vino d.o.o.	758	143	754	-
Lucidus d.d.	596	590	596	2
Zlatni rat d.d.	74	50	74	-
Sunčana Murvica d.o.o.	51	41	51	-
Izvor upravljanje d.o.o.	30	-	30	-
WOT Hotels Adriatic Management d.o.o.	25	15	25	-
Stubaki d.d.	17	17	17	17
Drvo trgovina d.o.o.	-	43	-	-
Sunčane toplice d.o.o.	-	21	-	-
Izvor osiguranje d.d.	-	2	-	2
Lječilište Bizovačke Toplice d.o.o.	-	2	-	2
Hoteli Zlatni rat d.d.	-	-	-	6,919
Hoteli Tučepi d.d.	-	-	-	3,028
Hotel Alan d.d.	-	-	-	2,097
Brač 500 Plus d.o.o.	-	-	4	-
Aerodrom Brač d.o.o.	-	-	4	-
Sunce Vital d.o.o.	-	-	8	1
	4,393	2,204	4,405	12,226

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 31 - RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	31 Dec 2020	31 Dec 19	31 Dec 2020	31 Dec 19
	<i>(in thousands of HRK)</i>			
Interest receivables (note 16, 19)				
Lucidus d.d.	11,308	7,825	11,308	-
WOT Hotels Adriatic Asset Company d.o.o.	1,031	1,031	1,031	1,031
Sunce Vital d.d.	-	-	2	-
Jako Andabak	-	1	-	-
	12,339	8,857	12,341	1,031

	Group		Company	
	31 Dec 2020	31 Dec 19	31 Dec 2020	31 Dec 19
	<i>(in thousands of HRK)</i>			

Advances given (note 18)

Nest plus d.o.o.	-	104	-	-
	-	104	-	-

	Group		Company	
	31 Dec 2020	31 Dec 19	31 Dec 2020	31 Dec 19
	<i>(in thousands of HRK)</i>			

Loans (note 20)

Lucidus d.d.	76,141	76,141	76,141	11,479
Sunce Vital d.o.o.	-	-	40	50
Aerodrom Brač d.o.o.	-	-	2,378	-
	76,141	76,141	78,559	11,529

	Group		Company	
	31 Dec 2020	31 Dec 19	31 Dec 2020	31 Dec 19
	<i>(in thousands of HRK)</i>			

Receivables acquired by cession and other receivables (note 19)

Salve Regina – Marija Bistrica d.o.o.	109	-	109	-
Stubaki d.d.	65	65	65	65
	174	65	174	65

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 31 - RELATED PARTY TRANSACTIONS (continued)**

	Group		Company	
	31 Dec 2020	31 Dec 19	31 Dec 2020	31 Dec 19
	<i>(in thousands of HRK)</i>			
Trade payables (note 26)				
Nest plus d.o.o.	1,368	5	1,368	5
Praona d.o.o.	1,267	1,829	1,267	-
Jako Vino d.o.o.	325	124	317	100
Drvo Trgovina d.o.o.	43	-	43	-
Lucidus d.d.	19	1	19	-
Salve Regina – Marija Bistrica d.o.o.	-	103	-	103
Izvor osiguranje d.d.	-	129	-	-
Sunčane Livade d.o.o.	-	95	-	-
WOT Hotels Adriatic Asset Company d.o.o.	-	46	-	6
Hoteli Tučepi d.d.	-	-	-	625
	3,022	2,332	3,014	839

	Group		Company	
	31 Dec 2020	31 Dec 19	31 Dec 2020	31 Dec 19
	<i>(in thousands of HRK)</i>			
Loan payables (note 23)				
Hoteli Tučepi d.d.	-	-	-	2,510
Hoteli Brela d.d.	-	-	-	857
	-	-	-	3,367

	Group		Company	
	31 Dec 2020	31 Dec 19	31 Dec 2020	31 Dec 19
	<i>(in thousands of HRK)</i>			
Interest liabilities				
Hoteli Tučepi d.d.	-	-	-	10
Hoteli Brela d.d.	-	-	-	2
	-	-	-	12

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)**

	Group		Company	
	31 Dec 2020	31 Dec 19	31 Dec 2020	31 Dec 19
	<i>(in thousands of HRK)</i>			
Other short term payables (note 27)				
Jako Vino d.o.o.	60	55	60	-
Izvor osiguranje d.d.	-	61	-	-
	60	116	60	-

	Group		Company	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>			

Sales revenues (note 4)

Jako Vino d.o.o.	465	446	465	-
Salve Regina – Marija Bistrica d.o.o.	288	274	288	-
WOT Hotels Adriatic Asset Company d.o.o.	48	45	48	-
Lječilište Bizovačke Toplice d.o.o.	7		7	
Lucidus d.d.	5		5	
Sunčane Toplice d.o.o.	3		3	
Izvor upravljanje d.o.o.	2	-	2	-
Sunce Vital d.o.o.	2		2	
Nest Plus d.o.o.	1		1	
Aerodrom Brač d.o.o.	-	-	3	
Drvo Trgovina d.o.o.	-	63	-	-
Brač 500 Plus d.o.o.	-	-	18	
	821	828	842	-

	Group		Company	
	2020	2019	2020	2019

*(in thousands of HRK)***Management fee (note 4)**

Salve Regina – Marija Bistrica d.o.o.	316	310	316	310
Hoteli Tučepi d.d.	-	-	-	8,074
Hoteli Brela d.d.	-	-	-	7,565
Hoteli Zlatni rat d.d.	-	-	-	6,553
Hotel Alan d.d.	-	-	-	2,209
	316	310	316	24,711

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)**

	Group		Company	
	2020	2019	2020	2019
<i>(in thousands of HRK)</i>				
Interest income (note 9)				
Lucidus d.d.	3,499	3,452	3,499	528
Sunce Global d.o.o.	-	-	-	73
Hoteli Zlatni rat d.d.	-	-	-	59
Hotel Alan d.d.	-	-	-	5
Sunce Vital d.o.o.	-	-	-	3
	3,499	3,452	3,499	668

	Group		Company	
	2020	2019	2020	2019
<i>(in thousands of HRK)</i>				
Other income (note 5)				
Izvor Upravljanje d.o.o.	334	-	334	-
WOT Hotels Adriatic Asset Company d.o.o.	278	772	278	456
Salve Regina – Marija Bistrica d.o.o.	41	37	41	94
Jako Vino d.o.o.	39	26	39	-
Zlatni Rat d.d.	19	33	19	-
WOT Hotels Adriatic Management Company d.o.o.	19	-	19	-
Sunčana Murvica d.o.o.	8	7	8	-
Sunce Vital d.o.o.	6	-	6	-
Sunčane Toplice d.o.o.	2	77	2	1
Aerodrom Brač d.o.o.	-	-	36	-
Izvor osiguranje d.d.	-	240	-	-
Praona d.o.o.	-	29	-	-
Lucidus d.d.	-	9	-	-
Imperator Dioklecian d.o.o.	-	2	-	-
Hoteli Tučepi d.d.	-	-	-	1,412
Hoteli Brela d.d.	-	-	-	1,410
Hoteli Zlatni rat d.d.	-	-	-	1,040
Hotel Alan d.d.	-	-	-	132
	746	1,232	782	4,545

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)**

	Group		Company	
	2020	2019	2020	2019

*(in thousands of HRK)***Costs of goods sold (note 6)**

Jako Vino d.o.o.	628	2,845	628	-
Sunčane livade d.o.o.	464	1,573	464	-
	1,092	4,418	1,092	-

	Group		Company	
	2020	2019	2020	2019

*(in thousands of HRK)***Rent costs**

Nest plus d.o.o.	2,040	1,784	2,040	1,784
Lucidus d.d.	17	5	17	-
	2,057	1,789	2,057	1,784

	Group		Company	
	2020	2019	2020	2019

*(in thousands of HRK)***Insurance cost (note 8)**

Izvor osiguranje d.d.	1,413	3,214	1,413	-
	1,413	3,214	1,413	-

	Group		Company	
	2020	2019	2020	2019

*(in thousands of HRK)***Laundry costs (note 6)**

Praona d.o.o.	1,591	5,242	1,591	-
	1,591	5,242	1,591	-

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)**

	Group		Company	
	2020	2019	2020	2019
<i>(in thousands of HRK)</i>				
Interest expenses (Note 9)				
Hoteli Tučepi d.d.	-	-	-	100
Hoteli Brela d.d.	-	-	-	77
	-	-	-	177

	Group		Company	
	2020	2019	2020	2019
<i>(in thousands of HRK)</i>				
Other expenses (note 8)				
Nest plus d.o.o.	1,026	1,001	1,026	1,001
Jako Vino d.o.o.	486	963	486	530
Sunčane toplice d.o.o.	839	905	839	3
Salve Regina – Marija Bistrica d.o.o.	248	710	248	405
WOT Hotels Adriatic Asset Company d.o.o.	20	242	20	8
Praona d.o.o.	29	8	29	-
Hoteli Zlatni Rat d.d.	-	-	-	120
Hoteli Brela d.d.	-	-	-	98
Hotel Alan d.d.	-	-	-	56
Hoteli Tučepi d.d.	-	-	-	42
Izvor osiguranje d.d.	-	-	-	276
	2,648	3,829	2,648	2,539

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****NOTE 31 – RELATED PARTY TRANSACTIONS (continued)****Key management, Management Board and Supervisory Board****Group:**

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Net salaries	5,005	4,441
Contributions	2,956	2,362
Tax and surtax	922	913
Bonuses	-	20
Other fees	265	-
Key management /i/	<u>9,148</u>	<u>7,736</u>
Management Board	<u>2,507</u>	<u>2,810</u>
Supervisory Board /ii/	<u>2,708</u>	<u>3,023</u>
Total	<u>14,363</u>	<u>13,569</u>

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

/ii/ Remuneration of the supervisory board relates to the remuneration for 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 Hoteli 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.

Company:

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Net salaries	1,329	1,474
Tax and surtax	480	639
Contributions	679	666
Other fees /i/	19	31
Management Board	<u>2,507</u>	<u>2,810</u>
Supervisory Board	<u>2,708</u>	<u>3,023</u>
	<u>5,215</u>	<u>5,833</u>

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

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 32 – GOING CONCERN

The consolidated financial statements have been prepared under the going concern assumption. As at 31 December 2020, the Group presents current assets lower than current liabilities by HRK 97,759 thousand (2019: current assets lower than current liabilities by HRK 515,411 thousand).

Separate financial statements have been prepared under the going concern assumption. As at 31 December 2020, the Company presents current assets lower than current liabilities by HRK 84,566 thousand (2019: current assets lower than current liabilities by HRK 10,827 thousand).

The liquidity of the Group and the Company in the following period is secured by collecting of loan receivables from related parties in the total amount of HRK 91,978 thousand during April 2021. Receivables were collected on the date of completion of transactions under the Purchase Agreement (Note 33).

Management expects revenue in 2021 to be at the level of 75% of revenues realized in 2019. In this scenario the Group has sufficient liquidity to continue operating without need for additional funding throughout 2021. Management conducted a more pessimistic cash flow analysis based on revenue in 2021 at the level of 55% of revenues realized in 2019. This projection, with the repayment of all loans shows that the cash balance in 2021 would still be sufficient to enter the 2022 season without additional financing needs. Management has received waiver to suspend covenant testing for 2021 from the banks reducing risk of unexpected outflow of funds. In the unexpected case that the level of revenue would still be below the stress test prepared by the Management Board, the company expects several possible sources of liquidity. Firstly there is strong possibility of the continuation of government support for the tourism sector which would positively affect liquidity for 2021. Furthermore, in the absence of government support, HBOR credit lines are available with 90% loan guarantee and subsidy loan insurance premiums. The Management Board is of the opinion that even in the event of a negative revenue scenario, it may be possible to secure liquid assets through HBOR within a reasonable time.

In April 2021 Company's ownership is taken over by Eagle Hills Zagreb Real Estate d.o.o. (beneficial owner Mr. Mohamed Alabbar). New owner has future growth plans based on investments in Company's existing assets. Stable strategic investor who took over the Company gives management strong belief that any potential future liquidity issues due to COVID-19 revenue impact would be successfully resolved with financial assistance from new owner, since he has a long-term business development vision and investment horizon.

Management believes that the preparation of the financial statements on the going concern basis is still appropriate.

NOTE 33 – EVENTS AFTER THE REPORTING DATE

On March 23, 2021, Company Eagle Hills Zagreb Real Estate d.o.o. entered into a share purchase agreement with Lucidus d.d. company and holders of business shares in Sunce Ulaganja d.o.o. as sellers on the basis of which company Eagle Hills Zagreb Real Estate d.o.o. partly directly and indirectly acquired a total of 4,151,092 ordinary shares of series A of the Company, SUKC-R-A with a nominal value of HRK 100 per share, which represent 69.71% of the share capital of the Company.

NOTES TO THE CONOSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

Consolidation and separate financial statements here presented have been prepared and approved for issuing by the Management Board on 30 April 2021.

Signed on behalf of the Management Board:

President of the Management Board

Hrvoje Veselko



Board Member

Ivan Potkrajčić



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