PLAVA LAGUNA

YEAR 2019
ANNUAL REPORT

Poreč, June 2020

PLAVA LAGUNA

FOR THE YEAR 2019

ANNUAL REPORT

CONTENTS

INTRODUCTION

PLAVA LAGUNA d.d. is a company backed by over 60 years of successful operation and development, based on principles of sustainable business operation. The long-standing tradition of achieving successful business results and an upward trend in growth is the result of a thoughtful and systematic improvement of products while leaning on core values, and taking care of maintaining financial stability as a fundamental long-term goal.

The core business of Plava laguna is hospitality and tourism and as a Company and a Group, it operates in three destinations - Poreč, Umag and Rijeka.

Based on the decisions of the General Assembly of both companies PLAVA LAGUNA d.d. and ISTRATURIST UMAG,, d.d. of 11 August 2017, the merger of the Company ISTRATURIST UMAG, d.d. with the Company PLAVA LAGUNA d.d. was entered in the Court Registry of the Commercial Court of Pazin, effective from the 1 January 2018 and thus, Plava laguna added to its portfolio a hotel company with more than 50 years of tradition, whose accommodation facilities, with long-term targeted investments, became an inevitable destination for guests who spend their vacations in Umag and the surrounding area.

Upon the merger of the company ISTRATURIST UMAG, d.d., PLAVA LAGUNA d.d. is ranked among the largest companies in the tourism sector of Croatia with the capacity to accommodate more than 43 thousand guests daily in more than 16 thousand accommodation units and a structure of 20 hotels, 10 apartment resorts and 9 campsites. In addition, Plava laguna manages two marinas / ports of nautical tourism in which it has 360 berths and a number of restaurants and bars, sports and other facilities that are adding to the basic offer.

The Company has 100% ownership in the following subsidiaries – TRAVEL d.o.o., Istraturist simple d.o.o. and ISTRA D.M.C. d.o.o. which together with the associated company JADRANSKI LUKSUZNI HOTELI d.d. make the Group.

The company ISTRA D.M.C. d.o.o. was founded in year 1990. Company's main activity is the organisation of the ATP tennis tournament in Umag, and the development and implementation of destination marketing projects. The ATP tournament is one of the most significant sports events continuously held for 30 years.

The company Laguna Invest d.o.o., founded in year 1993, changed its name into TRAVEL D.o.o. on 23 February 2018 and its main activity is travel agency.

The associated company is consolidated by applying the equity method in a manner that determines the ownership interest in the profit of the associated company which is recognised directly as profit at the Group level so that the movements in physical indicators, income and expenses do not include the associated company JADRANSKI LUKSUZNI HOTELI d.d.

Considering the interdependence of associated companies with parent company, following are explanations and comments on the movement of the Group's business result as a whole.

Furthermore, in accordance with the requirements of the Capital Market Act and the Ordinance on the structure and content of annual financial statements, financial information adjustments have been made for the Company and the Group to reflect the classification as in the audited annual reports and for the comparative year 2018, with additional reclassifications that will be contained in the notes of the report.

Financial performance indicators for year 2019

Business year 2019 in Plava laguna is positioned at a record 2018 year, measured by physical indicators of occupancy and operating earnings, and despite the occurred circumstances when standard camping business in Istria faced lower demand during the high season, especially during July.

Hotels and apartments have raised the occupancy bar with a nominal level of 2.58 million overnight stays which exceeds last year's achievement by 2.9%, and is largely a result of major investment projects, especially Park Resort, realized throughout the past year.

As mentioned in the introduction, the camping segment with 2.17 million overnights faced a decrease in volume of 4%, with campsites in destination Umag having a negative correction of 5.6% while a decrease of 2,5% in destination Poreč followed the trend in Istria. An important determinant of said movement is the decrease in overnight stays of Dutch guests with more pronounced negative trend in year 2019, which is interpreted by the gradual substitution of foreign with domestic travel, which is an occurrence in countries such as Germany and the Netherlands, and additionally, by a correlation between investment in product and changes in demand. In spite of the above, Plava laguna campsites recorded an increase of 5.1% in the average net rate which resulted in the overall positioning of revenues from campsite accommodation at a higher level than in the previous year by 1.6%.

The described movement of physical indicators, with the positive effect of the average net price in campsites, and built objects in totality at the level of the previous year, resulted in the increase of sales revenues for the Group by 2.5% or nominally, HRK 29.0 million to the level of HRK 1,172 million. Mentioned category is shown before deduction for agency fees (OTA partners) and commissions for card issuers, for which the amount was reclassified already in the previous year to include them in business expenditures compared to the 2018 report. The decrease in the position of other operating revenues and other gains/losses of HRK 13.3 million is interpreted with significant changes in one-time extraordinary events position, determined primarily by the net effect of the sale of assets in the previous year.

Based on the above, the total level of business revenues together with the effect of other gains/losses is positioned at HRK 1,176 million with an increase of HRK 15.7 million or 1.35% compared to the previous year.

The Group's business expenditures amount to HRK 952.6 million and compared to the previous year, excluding depreciation, record an increase by 4.6% or nominally HRK 31.8 million, where the contribution of one-time extraordinary event position is HRK 5.7 million, while, on one hand, the decrease was influenced by the application of IFRS 16 on lease contracts and capitalization of the same with the effect of HRK 2.2 million in the domain of operating expenses, and an increase in depreciation and interests on the other hand. Comparable growth in the sphere of operating expenses in the amount of HRK 28.3 million is generated by an increase in labour costs and other costs based on the labour component as well as the costs of improving service standards and marketing costs.

The Group's nominal level of operating earnings (excluding JADRANSKI LUKSUZNI HOTELI d.d. consolidated by equity method), corrected for the effect of one-time extraordinary event positions and for the effect of IFRS 16 for comparability, is HRK 448 million and is at the record achieving level from year 2018 when HRK 447.2 million were generated (after correction for HRK 0.3 million due to application of IAS 19) and for the comparable period in year 2018. EBITDA margin (excluding the associated company) according to the corrected data for one-time items, and based on business income after deduction for agency fees used to neutralize different „technology“ of sales and collection of payment for accommodation capacity), is 40.0% and indicates the continuity of maintaining a competitive level of efficiency.

HRK m

DESCRIPTION / PERIOD	**2019**	**2018**
Operating income – after deduction for agency fees and one-time extraordinary positions	1,123	1,100
EBITDA	451	467
Effect of one-time extraordinary positions – net	0.5	19.4
Effect of IFRS 16	2.2	0.0
Effect of IFRS 9	-0.2	0.0
EBITDA – w/o one-time positions and before application of IFRS 16 and IFRS 9	**448**	**447**
EBITDA margin (%)	**39.9**	**40.7**
Net debt	235	485
Net debt / EBITDA	0.53	1.08

The financial activities segment records a negative effect in the amount of HRK -11.1 million which represents a negative correction of HRK 5.7 million compared to the previous year, primarily in the segment of net foreign exchange gains, reducing the same by HRK 3.8 million and increasing the interest costs by HRK 1.5 million, of which 0.5 million is a reflection of the implementation of IFRS 16. Interest expense on loans is HRK 12.2 million.

In the consolidated profit and loss account, the share in the profit of the associated company JADRANSKI LUKSUZNI HOTELI d.d. is shown in the amount of HRK 27.9 million.

The Group's profit before tax amounts to HRK 240.4 million for year 2019 which is decrease of HRK 36.8 million compared to the previous year, resulting primarily from an increase in depreciation of HRK 14.5 million due to the effect of significant investments in the previous year and the above explained movement of one-time extraordinary positions and financial categories, while maintaining EBITDA at the previous year's level.

The Company is a holder of investment incentives pursuant to the Act on Investment Promotion and, based on realized capital investments during 2018 and 2019, fulfilled the condition for reducing the income tax liability for 2018 and 2019. Due to the materiality of investments made during 2018, the Company, restated the position of the Corporate Income Tax for year 2018 for the amount of tax deduction for the following period by recording deferred tax assets in the amount of HRK 51.3 million. Incentive amount remaining as of 31 Dec 2019 available for the next period is HRK 19.1 million.

Balance sheet value of the Group on the last day of the reporting period amounts to HRK 3.406 billion and records an increase of HK 270 million, primarily in the position of capital and reserves on the basis of realized profit for the period less the payment of dividend, and net increase of loan liabilities by EUR 18.0 million, by withdrawing the second tranche of the foreign currency loan in the amount of EUR 30.0 million agreed at the end of year 2018 for the purpose of financing the investment cycle. Total credit indebtedness of PLAVA LAGUNA d.d., ISTRA D.M.C. d.o.o. and TRAVEL d.o.o. on 31 Dec 2019 amounts to EUR 108.3 million, with the indicator of indebtedness Net Debt/EBITDA ratio of 0.53. The effect of the application of IFRS 16 on current lease contracts and beach concessions is not included in the indicator given the materiality criterion. The Company expects greater effect of said standard upon the entry into force and implementation of the new Act on the Unassessed Building Land, but within the acceptable limits of „covenants“.

RELATIONS WITH AFFILIATED COMPANIES

Transactions with the Group's affiliated companies have been conducted in accordance with market principles and by applying commercial terms and conditions that would be valid if established between the uncontrolled parties. In September of 2019, based on the decision of the General Assembly of the Associated company JADRANSKI LUKSUZNI HOTELI d.d. dividend has been received in the amount of HRK 24.3 million.

Also, a share in the profit of the affiliated company TRAVEL d.o.o. in the amount of HRK 2.0 million has been realized.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company and the Group are exposed to a variety of financial risks as a result of business activities carried out and their characteristics. Currency risk arises from changes in the exchange rate for EUR, as majority of income is based on this currency, given our activities on the international market while, on the other hand, cash outflows are contracted and realized in local currency, as viewed from the perspective of short-term coverage. From the aspect of borrowings, currency risk has been neutralized as all of the Company's loans are contracted in EUR.

The Company and the Group as a whole are actively managing credit risk i.e. the receivables and other financial assets risk, by applying adequate sales policies and cash management policies.

OTHER

The Company holds 2,346 own shares acquired in the period between years 1997 and 2002. There were no changes in the position of own shares during the reporting period.

The most relevant event after the balance sheet date, with a strong impact on global macroeconomic movements, is the outbreak of the virus COVID-19 and its diffusion on, for the Group, the most significant outbound markets in Europe at the end of February 2020.

In accordance with the new circumstances and Government's measures to protect and prevent the infectious pandemic, Plava laguna closed all accommodation facilities during March and took measures and activities aiming to protect its financial position. The above refers to the development of several business projection scenarios and accordingly, following a conservative approach, to the suspension of all activities for which no previous commitments have been made and relate to capital investments and other actions in the sphere of preparations for the season. In cooperation with social partners, the Group regulated the employees' material rights during the non-working period and started the negotiations with other partners in order to revise the amounts and fees for the period when the operational activity would be on hold.

Considering the favourable financial position and exceptional financial indicators so far and additionally, measures included in the Government's economic assistance program and postponements in the field of the banking sector, liquidity risk is reduced to a minimum.

In the circumstances of time-limited impact of negative situation caused by the outbreak of COVID-19, while respecting the favourable stable position of the Company and the Group as a whole, the going concern principle is not called into question.

EXPECTED FUTURE DEVELOPMENT OF THE COMPANY

The Company and the Group approach the development planning, in line with the principles of sustainable business operation, and thus, in the context of newly arisen circumstances, they will strive to develop their offer and products tailored to the needs of a modern guest, balanced with financial potential. The Company and the Group expect changes in the legislation related to the management and disposal of tourist land, and the guidelines for business development in the forthcoming period will be determined also by the adopted legal solutions.

THE NON-FINANCIAL REPORT

Pursuant to the amendments to the relevant Croatian legislation in the area of reporting adopted on the basis of mandatory EU Directives, Plava Laguna as a large company and the Group publishes the non-financial report for business year 2019. Following the characteristics of the Company's activity where one of the important resources is the environment, together with the social and human resources aspect, the Company and the Group pay special attention to the principles of socially responsible business operations. All activities and interactions with key stakeholders are shaped by and focused on the principle of sustainable business operations which includes quality relation towards the environment, employees and the local community in which the Company operates.

Ecology and sustainable development

Ecology and sustainable development propose the framework for shaping a strategy according to which the Company can develop itself without damaging consequences on the environment and natural resources that are essential for further human activity. The sustainability of a destination is an increasingly important factor in its competitiveness, and accordingly, the Company continually educates the employees and communicates a message of the importance of ecology to partners and guests. Through its business activities, the Company continuously takes care of environmental preservation and protection, and places an emphasis on ecology as one of its strategic goals in business. The Company gives special attention to the preservation of water by using mechanisms of control and optimization of consumption, as well as natural sources where possible. An important component also consists of energy saving and use of renewable energy sources.

An effective selection of waste at the place of its generation increases the amount of secondary raw material that can be recycled and therefore, reduces the amount of waste to be permanently disposed of in a landfill. Disposal of waste is carried out by authorized companies acting in accordance with the principles of environmental protection.

Integral coastal zone management in which tourism is an important economic sector represents the framework for balanced development of the coastal area and an incentive for the development of sustainable tourism that aims to preserve coastal ecosystems and landscapes as well as natural and cultural resources.

The preservation of seawater quality is achieved by regular maintenance of beaches managed by the Company and the quality of seawater is monitored through regular seawater analyses conducted from May until October. Quality of the seawater and maintenance of the beaches is recognized by obtaining the international Blue flag label for the ecology program of the protection of environment, sea and coastline whose primary goal is sustainable management of the sea and coastal zone. The Group Plava Laguna is a concessionaire for a total of 18 beaches and one marina with Blue flag in destinations Poreč and Umag.

Responsibility towards the environment is part of our business strategy while guest satisfaction is the foundation of our business policy. We strive to be the best at what we do, we focus on what is important to the local community, building and improving our system and managing the environment.

Employment and workers' rights

As a Group operating in tourism industry, companies achieve their highest employment rate at the peak of the tourist season.

On the 20 August 2019 in destinations of Poreč, Umag and Rijeka, the Group employed 2,903 persons within of which 45% with indefinite employment contracts and permanent seasonal staff with multi-year contracts.

Companies within the Group, as employers, ensure all categories of employees have the same working conditions regardless of their contract duration. Given the Group's orientation towards the human resources where forms of lasting cooperation affect the stability of the working environment and the quality of service, the share of contracts for permanent or longer-term cooperation i.e. indefinite employment contracts and temporary employment contracts for continuous seasonal activity is significantly increasing each year.

The goals of the Group in terms of employment are ensuring quality service to guests which will be reflected in improved rating and positive reviews, ensuring an optimal number of employees quality and quantity wise, ensuring employee satisfaction with benefits and work conditions, accommodation and stay, as well as achieving a collective sense of pride and commitment to companies within the Group.

Formal legal relations with employees are regulated by sources of different hierarchy that regulate labour relations, and by respecting the provisions of the Labour Act, the Collective Agreement for food and beverage industry, the Collective Agreement of PLAVA LAGUNA d.d. Poreč and the employment contract of each individual worker, always respecting the principle of applying the most favourable right for the worker.

PLAVA LAGUNA d.d. established the Workers' Council in line with the provisions of the Labour Act. Communication with the Workers' Council and union representatives takes place directly and undisturbed not only in all situations prescribed by labour law but also by consultations taking place whenever deemed necessary by either party. The employer's reporting obligation is carried out monthly as a rule, with high degree of mutual respect and cooperation achieved. Besides the obligation to inform, the Company also respects the obligations to consult and co-decide with the Workers' Council when prescribed.

The stability and growth of employee benefits in the future will depend on the achievement of set business goals which is always a result of joint efforts of the management structures and employees of companies in the Group.

Companies within the Group guarantee their employees gender equality and the implementation of fundamental conventions of the International Labour Organization. Working conditions and social dialogue are ensured in accordance with the positive regulation of the Republic of Croatia and above all, by the corporate culture that traditionally promotes respect and credibility as core values. The Companies respect and promote employees' rights to information and consultation, and make the information easily accessible and available via the Workers' Council, publications on the intranet site and bulletin boards, and in a periodical magazine dedicated especially to employees.

Respecting human rights

Pursuant to the provisions of the Labour Act, companies within the Group as employers fulfil their obligations to protect the dignity, life, health and privacy of employees as well as to protect personal data.

Joining the union is free will and employer does not obstruct it in any way. Companies within the Group provide equal opportunities and procedures for candidates during recruiting and advancing. As companies are mainly involved in tourism business, special attention is given to guest relations and thus, through training on communication with guests, the emphasis is on the equal approach to all guests regardless of nation, religion, colour of skin and gender.

In accordance with valid regulations, it is prohibited to discriminate, directly or indirectly, the persons seeking employment and persons employed, on a basis of race or ethnic origin or colour of skin, gender, language, religion, political or other beliefs, nationality or social provenance, economic situation, political party membership or non-membership, union membership or non-membership, education, social status, marital or family status, age, health condition, disability, genetic heritage, gender identity, expression or sexual orientation.

The employer PLAVA LAGUNA d.d., upon consultations with the Workers' Council, appointed a person authorized to receive and address complaints to protect the dignity of employees. The actions taken upon receiving the complaint to protect the dignity of employee as well as the information thus obtained are secret.

Furthermore, in year 2019, internal reporting of irregularities was regulated and a trusted person was appointed in accordance with the prescribed procedure.

Anti-corruption policy

The Group applies high ethical standards in business, implements a zero tolerance policy against corruption and promotes the same principles in relations with partners. The extensive anti-corruption practice encompasses maintaining business integrity in the form of high standards in business and the ban on bribes and corruption, and expressly prohibits receiving or giving bribe with a view to obtaining an advantage for himself/herself personally or for the companies within the Group, as well as making business decisions on such basis.

Personal data protection

The Company and the Group especially value the privacy of their employees, guests and partners. Their personal data has been protected for many years and special attention has been paid to the same during year 2017 when the Company began with the preparations for the implementation of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27th of April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation or GDPR). The same entered into force on 25th of May 2018 and the Group, as a whole, implemented the adjustments to personal data protection in order to comply with the provisions of the General Regulation and the Law on Implementation of General Data Protection Regulation.

When processing personal data, the Group respects and applies all the principles laid down in the General Regulation.

The organisational structure for personal data protection was set up with the appointed officer for personal data protection. Special attention is given to the protection of personal data of employees and guests. Personal data is systematized in accordance with the General Regulation and procedures for the exercise of the rights of the respondents have been envisaged (access to personal data, their correction or deletion and the exercise of the right to object). Privacy policies are updated on all websites hosted by the companies of the Group, and companies have entered into contracts with the providers of data processing to regulate personal data processing.

Companies within the Group carry out implemented policies and procedures, and continue their ongoing work on improving the personal data protection system.

Socially responsible business operation and cooperation with local community

PLAVA LAGUNA d.d. is a socially responsible company that invests in the community in which it operates through donations or other forms of participation in the life of the community. Donations encourage excellence (education), humanitarian projects, development of sport activities in the community, culture and ecology. Among other, the Company continually secures significant funds to provide higher standards of emergency medical aid and the organisation of activities to prolong the tourist season, including Advent and New Year's Eve programs.

The Company fosters the relationship with former employees in the areas of Umag and Poreč. Thus, continues the long-term cooperation with former employees of Istraturist Umag d.d., cooperating with the Croatian Pensioners' Union, branch office Umag, Istraturist pensioners.

Also, the cooperation that began in 2017 when the Association of pensioners of Plava Laguna - Club Galija Poreč was founded still continues.

Furthermore, besides encouraging excellence and given the locality in which it operates, the Company recognised the importance of bringing service industry and tourism closer to the youngest of children, and therefore, for many years cooperates with kindergartens as well, whereby pre-schoolers visit the facilities of the Company and are introduced to the tourism and hospitality vocations, but the familiarisation is also conducted through activities organised at kindergarten premises by visits of Company's employees and workshops conducted within their field of activity.

ISTRA D.M.C. Ltd. independently organises or actively participates in the organisation of significant manifestations in the community in which local population also gladly participates, and greatly contributes to the development of destinations in which the Group conducts business.

STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE

In accordance with the provisions of Article 272p of the Companies Act, and Article 22 of the Accounting Act, the Management of the Company declares that they voluntarily apply the Corporate Governance Code (hereinafter: the Code) which was jointly made by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange, and is in the process of aligning its acts and procedures with the new Corporate Governance Code to the extent applicable. Once a year, the Company fills-in the Annual Questionnaire which makes an integral part of the Code for the period the annual financial reports relates to and submits it to the Zagreb Stock Exchange for the purpose of its publication. This questionnaire reflects the situation and practice of corporate governance accompanied by explanations of a certain divergence from the recommendations contained in the Code. The Management Board and the Supervisory Board make permanent efforts aimed at establishing an adequate and transparent corporate governance system and pay due care to efficient system of responsibilities and risk management.

The Company publishes quarterly, semi-annual and annual financial statements on its own web site, and all documentation regarding the convocation of the General Assembly is also available to the public on the said media.

The Company applies the Rules on the application of accounting policies which regulates the application of procedures and techniques in disclosure of the Company's assets, liabilities, principal, income, expense and financial results in financial statements. The description of main characteristics of risk management and information on shareholders on 31 December 2019 are included in this Annual Report.

The share capital of the Company is HRK 1,444,530,057.18 divided into 2,197,772 ordinary shares with no-par value and 420,000 preference shares with par value of HRK 250.00.

PLAVA LAGUNA J.S.C./ORDINARY SHARE PLAG-R-A

The first ten shareholders of the Company as of 31 December 2019 are, as follows:

Owner/account holder/security co-holder/holder	Account type	No. of shares	Percentage
ADRIATIC INVESTMENT GROUP	basic account	1,851,352	84.24%
OTP BANKA D.D./ AZ OMF KATEGORIJE B	custodial acc. per name	91,321	4.15%
ADDIKO BANK D.D./ PBZ CO OMF - KATEGORIJA B	custodial acc. per name	20,024	0.91%
BOGDANOVIĆ ZORAN	basic account	13,547	0.62%
RAIFFEISENBANK AUSTRIA D.D./ZBIRNI SKRB. RAČUN ZA DP	collective custodial acc.	9,140	0.42%
CERP	basic account	8,718	0.40%
ZAGREBAČKA BANKA D.D./ AZ PROFIT OTV. DOBR. MIR. FOND	custodial acc. per name	6,372	0.29%
CERP / REPUBLIKA HRVATSKA	representative acc.	6,234	0.28%
OTP BANKA D.D./ ERSTE PLAVI EXPERT – DOB. MIR. FOND	custodial acc. per name	4,104	0.19%
OTP BANKA D.D./ AZ OBVEZNI MIROVINSKI FOND KATEGORIJE A	custodial acc. per name	4,048	0.18%

The voting right of the Company's shareholder is not limited to a certain percentage or number of votes nor are there time constraints for the exercise of voting rights, except in accordance with the Companies Act in the sense of applying for participation at the General Assembly. Each ordinary share entitles to one vote at the General Assembly.

PLAVA LAGUNA J.S.C./PREFERENCE SHARES PLAG-P-A

In 2002, the Company issued preference shares which do not give the right to vote at the General Assembly. All preference shares are owned by a sole shareholder:

Owner/account holder/security co-holder/holder	Account type	No. of shares	Percentage
ADRIATIC INVESTMENT GROUP	Basic account	420,000	100.00%

Rules on appointing and recalling the Management Board members are contained in the Company's Statute while the powers of the Management Board are set out in the Statute and the Companies Act. The Company can acquire its own shares pursuant to Article 233 of the Companies Act, based on the authorization by the General Assembly. Currently, the Management Board has no authorization for acquiring own shares.

Amendment to the Company's Statute is regulated in a manner prescribed by the law which is contained in Article 40 of the Statute.

BODIES OF THE COMPANY

MANAGEMENT BOARD

The Company is organized according to the dualistic model. The Management Board of the Company conducts the affairs independently and for certain tasks specified in Article 26 of the Statute (such as founding of companies in the country and abroad, sale and purchase of shares, sale of real estate above 1% of the value of share capital, purchase and mortgage on real estate above 1% value of share capital, guarantee for the amount above 2% value of share capital, taking loan and issuance of securities worth over 2% value of the share capital and other decisions as made by the Supervisory Board), it is authorized to conduct only with prior consent of the Supervisory Board.

During 2019, the Management Board consisted of five members from January until September, of whom Mr. Neven Staver appointed as president, while Mr. Damir Mendica, Mr. Dragan Pujas, Ms. Danira Rančić and Mr. Marco Antonio Buzolic Buzolic (Marco Buzolic) were appointed as members. From October, the Management Board consists of four members, of whom Mr. Dragan Pujas was appointed as president, while Mr. Damir Mendica, Ms. Danira Rančić and Mr. Marco Buzolic were appointed as members. Every member of the Management Board is authorized to conduct the affairs and represent the Company jointly with the President of the Management Board while the President of the Management Board is authorised to conduct the affairs and represent the Company with another member of the Management Board.

SUPERVISORY BOARD

The Supervisory Board oversees the conduct of business affairs in the Company. Members of the Supervisory Board are regularly informed by the Management Board on the Company's management and operations in order to be able to effectively fulfil their supervisory roles.

The report of the Supervisory Board on completed supervision of business conduct in the Company is part of the Annual Report of the Company submitted to the General Assembly. In accordance with the Statute and the decision of the General Assembly, the Supervisory Board can have between three and seven members who among them elect the chairman and his deputy. The election of members is carried out in accordance with the Companies Act, Statute, Rules of Procedure of the general Assembly and unless specifically provided by a special regulation, employees through the Workers' Council have a right to appoint one member. The mandate of the members of the Supervisory Board is four years. The Supervisory Board acts in sessions that take place generally once a month, discusses and decides on all matters within its competence prescribed by the Companies Act and Company's Statute.

In 2019, the Supervisory Board acted in the following composition:

Davor Luksic Lederer, Chairman of the Supervisory Board

Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board

Davor Domitrovic Grubisic, Member of the Supervisory Board

Joseph Ignace Bulnes, Member of the Supervisory Board

Neven Staver, Member of the Supervisory Board since October 2019

Duncan Graham Bramwell, Member of the Supervisory Board since October 2019

Stipe Liović, Member of the Supervisory Board, workers' representative, until November 2019 when replaced by Marica Kurtek.

During 2019, the Supervisory Board of the Company performed the tasks within the competence of the remuneration and appointment committee on its own. In accordance with the Audit Act, the Company also has an Audit Committee.

GENERAL ASSEMBLY

The General Assembly is convened, acts and has powers as set out by the provisions of the Companies Act and the Statute of the Company.

The call to the General Assembly and the proposed decisions as well as the decisions made are made public in accordance with the provisions of the Companies Act, Capital Market Act and the Rules of the Zagreb Stock Exchange d.d..

The rules on the appointment of members of the Management Board and members of the Supervisory Board do not contain any restrictions on diversity with regard to gender, age, education, profession and similar restrictions.

Pursuant to the provisions of Article 250.a paragraph 4 and Article 272.p paragraph 1 of the Companies Act, this Statement is a separate section and integral part of the Annual Report on the Company's status for year 2019.

Dragan Pujas
President of Management Board

Damir Mendica
Member od Management Board

Danira Rančić
Member od Management Board

PLAVA LAGUNA d.d.
Poreč
13

STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES

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 as adopted by the European Union ("EU IFRS") which give a true and fair view of the state of affairs and results of Group (Company) for that period.

Based upon performed enquiries, the Management Board has a reasonable expectation that the Group ("Company") has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are applied, with material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Annual report was adopted by the Management Board and approved for its issue on 29 April 2020.

Dragan Pujas
President of Management Board

Damir Mendica
Member od Management Board

Danira Rančić
Member od Management Board

PLAVA LAGUNA d.d.
Poreč
13

Independent Auditors' Report to the shareholders of Plava Laguna d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Plava Laguna d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group respectively as at 31 December 2019, and their respective separate and consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2019 and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of a Matter - comparative information

We draw attention to Note 3.1.2 to the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2018 has been restated. Our opinion is not modified in respect of this matter.

Other Matter relating to comparative information

The financial statements of the Company and the Group as at and for the years ended 31 December 2018 and 31 December 2017 (from which the statement of financial position as at 1 January 2018 has been derived), excluding the adjustments described in Note 3.1.2 to the financial statements, were audited by another auditor who expressed unmodified opinions on those financial statements on 26 April 2019 and 27 June 2018, respectively.

As part of our audit of the financial statements as at and for the year ended 31 December 2019, we audited the adjustments described in Note 3.1.2 that were applied to restate the comparative information presented as at and for the year ended 31 December 2018 and the statement of financial position as at 1 January 2018. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended 31 December 2018 or 31 December 2017 (not presented herein) or to the statement of financial position as at 1 January 2018, other than with respect to the adjustments described in Note 3.1.2 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 3.1.2 are appropriate and have been properly applied.

Key Audit Matters

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

Independent Auditors' Report to the shareholders of Plava Laguna d.d. *(continued)*

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Accounting for tourism properties

The carrying amount of *property, plant and equipment* of the Group as at 31 December 2019: HRK 2,464,330 thousand *(31 December 2018: HRK 2,544,453 thousand)* and of the Company: HRK 2,464,023 thousand *(31 December 2018: HRK 2,544,004 thousand)*. Refer to Notes 3.6 of *Accounting policies*, Note 5(a) of *Critical accounting estimates*, and Note 15 on *Property, plant and equipment*.

Key audit matter

As at 31 December 2019, the carrying amount of property, plant and equipment represented approximately 72% of the Group's total assets (Company: 74%). These assets, carried at cost less accumulated depreciation and any accumulated impairment losses, consist primarily of tourism properties and related assets.

Tourism properties are subject to annual management review to assess whether or not they may be impaired. Management considers each hotel and camp to be a separate cash generating unit ("CGU"). As part of the impairment review, the Group and the Company analyse actual results of their individual CGUs to determine whether or not there are any impairment indicators in respect of the properties. If and when such indicators are identified, an estimate is made of the recoverable amount of the CGU and an impairment loss recognized, if necessary.

Another area which requires significant management judgment and estimates, is the determination and periodic re-assessment of the assets' useful lives and calculation of the related depreciation cost. The useful life of each asset, and the depreciation method and rates applied, are reviewed as a minimum at each annual reporting date.

Due to the above factors and complexities, as well as to the magnitude of the amounts involved, accounting for the tourism properties was determined by us to be associated with a significant risk of material misstatement. As such it required our increased attention in the audit and was considered by us to be a key audit matter.

How our audit addressed the matter

Our audit procedures in this area, included, among others:

- Testing the Group's and the Company's selected key controls within the process of accounting for tourism properties, including the controls over the identification of impairment indications and validation of impairment test outcomes, and also those over the management's review of asset useful lives;
- Inspecting the financial information used by the Management Board in its assessment of impairment indications for tourism properties. As part of the procedure, we challenged the key assumptions applied, such as the allocation of the corporate assets and costs to CGUs, and also tested the reliability of the financial information;
- Inspecting minutes of the Management Board's and Supervisory Board's meetings for any indications of financial difficulties / changes in operational plans, with potential adverse effects on the recoverable amounts of tourism properties. We also made corroborating inquiries of the Management Board, where relevant;
- For a sample of tourism properties, assessing the reasonableness and continued relevance of their estimated useful lives, by reference to our understanding of the Company's and the group's operations, publicly available peer and market data and by making inquiries of the Management Board, the finance team members and technical experts;
- Testing the accuracy and completeness of the annual depreciation expense, by performing analytical procedures at the Company level, and also through an independent assessment for a sample of individual assets;
- Assessing the adequacy of the Group's and the Company's disclosures in respect of the accounting for tourism properties against the relevant requirements of the financial reporting standard.

Independent Auditors’ Report to the shareholders of Plava Laguna d.d. *(continued)*

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Company and the Group, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia (“Accounting Act”). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion, in all material respects:

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

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

Report on the Audit of the Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the 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/or the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 controls.
- 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 the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditors' Report to the shareholders of Plava Laguna d.d. *(continued)*

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Independent Auditors' Report to the shareholders of Plava Laguna d.d. *(continued)*

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 25 September 2019 to audit the financial statements of the Company and the Group for the year ended 31 December 2019. Our total uninterrupted period of engagement is one year, covering the period ending 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 29 April 2020;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit;

The engagement partner on the audit resulting in this independent auditors' report is Joško Džida.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17 kat
Ivana Lučića 2a, 10000 Zagreb
2

29 April 2020

Joško Džida
Director, Croatian Certified Auditor

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Group 2019	Group 2018 *Restated	Company 2019	Company 2018 *Restated
		HRK'000	HRK'000	**HRK'000**	HRK'000
Sale of services	6	**1,172,019**	1,143,013	**1,154,193**	1,122,469
Other income		**4,667**	9,448	**4,573**	7,774
Cost of materials and services	7	**(355,489)**	(337,033)	**(342,032)**	(326,538)
Staff costs	8	**(285,934)**	(272,746)	**(284,199)**	(271,021)
Depreciation and amortisation		**(226,999)**	(212,544)	**(226,778)**	(212,215)
Other operating expenses	9	**(84,163)**	(84,016)	**(82,755)**	(76,771)
Other gains/(losses) - net	10	**(537)**	8,011	**(534)**	8,015
Operating profit		**223,564**	254,133	**222,468**	251,713
Finance income	11	**1,596**	5,699	**27,851**	68,081
Finance costs	11	**(12,676)**	(11,051)	**(12,979)**	(11,480)
Finance income/(costs) - net		**(11,080)**	(5,352)	**14,872**	56,601
Share in associate	18	**27,951**	28,413	-	-
Profit before tax		**240,435**	277,194	**237,340**	308,314
Income tax	12	**(32,060)**	51,083	**(31,795)**	51,726
Profit for the year		**208,375**	328,277	**205,545**	360,040
Other comprehensive income					
Change in the value of financial assets measured at fair value through other comprehensive income, net of tax		**1,679**	5	**1,679**	5
Actuarial gain, net of tax		**(42)**	(24)	**(42)**	(24)
Total comprehensive income for the year		**210,012**	328,258	**207,182**	360,021
Basic and diluted earnings per share (in HRK):					
- ordinary shares	13	**79.63**	**125.48**		
- preference shares	13	**79.88**	**125.73**		

* See Note 3.1.2.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

		Group			Company		
	Notes	**31 December 2019**	31 December 2018 *Restated	1 January 2018 *Restated	**31 December 2019**	31 December 2018 *Restated	1 January 2018 *Restated
		HRK'000	HRK'000	HRK'000	**HRK'000**	HRK'000	HRK'000
ASSETS							
Property, plant and equipment	*15*	**2,464,330**	2,544,453	2,313,784	**2,464,023**	2,544,004	929,216
Investment property	*15a*	**21,517**	24,165	27,198	**21,517**	24,165	27,198
Intangible assets	*16*	**17,698**	19,693	20,737	**17,622**	19,578	2,567
Right-of-use assets	*17*	**24,438**	-	-	**24,438**	-	-
Investments in subsidiaries and associate	*18*	**250,168**	246,491	280,468	**190,845**	190,845	1,124,615
Financial assets	*19*	**13,111**	11,064	9,217	**13,111**	11,064	9,217
Deferred tax assets	*20*	**20,746**	52,935	1,800	**20,746**	52,935	1,263
Loans receivable		**9**	22	60	**9**	22	-
Non-current assets		**2,812,017**	2,898,823	2,653,264	**2,752,311**	2,842,613	2,094,076
Inventories		**4,525**	4,556	4,884	**4,470**	4,459	2,499
Trade and other receivables	*21*	**9,155**	17,098	18,707	**8,618**	15,941	6,011
Income tax receivable		**8,175**	29,063	-	**7,667**	28,248	-
Bank deposits		**12**	756	239,632	**12**	756	239,610
Financial assets		**-**	-	1,840	**-**	-	-
Cash and cash equivalents	*22*	**572,312**	185,830	88,844	**563,310**	180,043	27,514
Current assets		**594,179**	237,303	353,907	**584,077**	229,447	275,634
Total assets		**3,406,196**	3,136,126	3,007,171	**3,336,388**	3,072,060	2,369,710

* See Note 3.1.2.

		Group			Company		
	Notes	**31 December 2019**	31 December 2018 *Restated	1 January 2018 *Restated	**31 December 2019**	31 December 2018 *Restated	1 January 2018 *Restated
		HRK'000	HRK'000	HRK'000	**HRK'000**	HRK'000	HRK'000
EQUITY							
Share capital	*23*	**1,444,530**	1,444,530	1,436,911	**1,444,530**	1,444,530	1,436,911
Capital reserves	*24*	**693**	693	10,803	**693**	693	10,803
Treasury shares	*24*	**(1,430)**	(1,430)	(22,288)	**(1,430)**	(1,430)	(22,288)
Reserves	*24*	**126,735**	125,098	83,975	**126,735**	125,098	83,975
Retained earnings		**812,709**	694,148	602,040	**737,332**	621,601	282,396
		2,383,237	2,263,039	2,111,441	**2,307,860**	2,190,492	1,791,797
Non-controlling interests		-	-	60,073	-	-	-
Total equity		**2,383,237**	2,263,039	2,171,514	**2,307,860**	2,190,492	1,791,797
LIABILITIES							
Borrowings	*25*	**692,577**	581,046	527,934	**699,191**	589,633	394,467
Provisions	*27*	**11,998**	10,928	6,525	**11,998**	10,928	6,525
Deferred tax liabilities	*20*	**10,566**	10,601	11,004	**10,566**	10,601	-
Lease liabilities	*17*	**22,907**	-	-	**22,907**	-	-
Non-current liabilities		**738,048**	602,575	545,463	**744,662**	611,162	400,992
Borrowings	*25*	**115,118**	89,396	91,588	**115,118**	89,396	58,193
Trade and other payables	*26*	**167,218**	180,433	182,884	**166,173**	180,327	114,397
Lease liabilities	*17*	**1,733**	-	-	**1,733**	-	-
Provisions	*27*	**842**	683	4,127	**842**	683	1,002
Income tax payable		-	-	11,595	-	-	3,329
Current liabilities		**284,911**	270,512	290,194	**283,866**	270,406	176,921
Total liabilities		**1,022,959**	873,087	**835,657**	**1,028,528**	881,568	**577,913**
Total equity and liabilities		**3,406,196**	3,136,126	3,007,171	**3,336,388**	3,072,060	2,369,710

* See Note 3.1.2.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Group							
(in thousands of HRK)	**Share capital**	**Capital reserves**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018, as previously reported	**1,436,911**	**10,803**	**(22,288)**	**83,975**	**608,112**	**2,117,513**	**60,073**	**2,177,586**
Impact of restatement (Note 3.1.2)	-	-	-	-	(6,072)	(6,072)	-	**(6,072)**
Restated balance as 1 January 2018	**1,436,911**	**10,803**	**(22,288)**	**83,975**	**602,040**	**2,111,441**	**60,073**	**2,171,514**
Profit for the year, restated	-	-	-	-	328,277	328,277	-	328,277
Other comprehensive income, restated	-	-	-	(19)	-	(19)	-	(19)
Total comprehensive income for 2018, restated	**-**	**-**	**-**	**(19)**	**328,277**	**328,258**	**-**	**328,258**
Acquisition of NCI	-	-	-	-	(2,008)	(2,008)	(278)	(2,286)
Merger of subsidiary (Note 18)	7,619	(10,110)	20,858	38,554	2,874	59,795	(59,795)	-
Dividends	-	-	-	-	(234,447)	(234,447)	-	(234,447)
Transfer to legal reserves	-	-	-	2,588	(2,588)	-	-	-
Total transactions with owners of the Company, recognised in equity	**7,619**	**(10,110)**	**20,858**	**41,142**	**(236,169)**	**(176,660)**	**(60,073)**	**(236,733)**
At 31 December 2018, restated	**1,444,530**	**693**	**(1,430)**	**125,098**	**694,148**	**2,263,039**	**-**	**2,263,039**
Profit for the year	-	-	-	-	208,375	208,375	-	208,375
Other comprehensive income	-	-	-	1,637	-	1,637	-	1,637
Total comprehensive income for 2019	**-**	**-**	**-**	**1,637**	**208,375**	**210,012**	**-**	**210,012**
Dividends	-	-	-	-	(89,814)	(89,814)	-	(89,814)
At 31 December 2019	**1,444,530**	**693**	**(1,430)**	**126,735**	**812,709**	**2,383,237**	**-**	**2,383,237**

STATEMENTS OF CHANGES IN EQUITY *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2019

			Company			
(in thousands of HRK)	**Share capital**	**Capital reserves**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**
Balance at 1 January 2018, as previously reported	**1,436,911**	**10,803**	**(22,288)**	**83,975**	**288,468**	**1,797,869**
Impact of restatement (Note 3.1.2)	-	-	-	-	(6,072)	(6,072)
Restated balance as 1 January 2018	**1,436,911**	**10,803**	**(22,288)**	**83,975**	**282,396**	**1,791,797**
Profit for the year, restated	-	-	-	-	360,040	360,040
Other comprehensive income, restated	-	-	-	(19)	-	(19)
Total comprehensive income for 2018, restated	**-**	**-**	**-**	**(19)**	**360,040**	**360,021**
Merger of subsidiary (Note 18)	7,619	(10,110)	20,858	38,554	216,200	273,121
Dividends	-	-	-	-	(234,447)	(234,447)
Transfer to legal reserves	-	-	-	2,588	(2,588)	-
Total transactions with owners of the Company, recognised in equity	**7,619**	**(10,110)**	**20,858**	**41,142**	**(20,835)**	**38,674**
At 31 December 2018, restated	**1,444,530**	**693**	**(1,430)**	**125,098**	**621,601**	**2,190,492**
At 1 January 2019	**1,444,530**	**693**	**(1,430)**	**125,098**	**621,601**	**2,190,492**
Profit for the year	-	-	-	-	205,545	205,545
Other comprehensive income	-	-	-	1,637	-	1,637
Total comprehensive income for 2019	**-**	**-**	**-**	**1,637**	**205,545**	**207,182**
Dividends	-	-	-	-	(89,814)	(89,814)
Total transactions with owners of the Company, recognised in equity	**-**	**-**	**-**	**-**	**(89,814)**	**(89,814)**
At 31 December 2019	**1,444,530**	**693**	**(1,430)**	**126,735**	**737,332**	**2,307,860**

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

		Group		Company	
		2019	2018 *Restated	**2019**	2018 *Restated
	Note	**HRK'000**	HRK'000	**HRK'000**	HRK'000
Profit before tax		**240,435**	277,194	**237,340**	308,314
Adjustments for:					
Depreciation and amortisation	*15,16,17*	**226,999**	212,544	**226,778**	212,215
Provision for impairments of receivables - net	*21*	**579**	1,437	**506**	1,437
Property, plant and equipment write off	*15,16*	**563**	-	**559**	-
Dividend income	*11*	**(528)**	(521)	**(26,769)**	(62,911)
Gain on disposal of property, plant and equipment		**(22)**	(8,521)	**(22)**	(8,522)
Finance income and costs		**11,608**	5,873	**11,897**	6,310
Share of profit of associate	*18*	**(27,951)**	(28,413)	**-**	-
		451,683	459,593	**450,289**	456,843
Changes in working capital:					
Trade and other receivables		**6,919**	375	**6,373**	698
Inventories		**31**	323	**(11)**	308
Trade and other payables		**4,437**	(2,111)	**3,511**	3,554
Provisions		**1,178**	1,253	**1,178**	930
Cash flows from operating activities		**464,248**	459,433	**461,340**	462,333
Interest paid		**(11,559)**	(11,992)	**(11,862)**	(12,390)
Income tax paid		**20,623**	(41,108)	**20,581**	(39,359)
Net cash from operating activities		**473,312**	406,333	**470,059**	410,584
Cash flows from investing activities					
Acquisition of property, plant and equipment, and intangible assets		**(155,740)**	(441,651)	**(155,696)**	(441,650)
Effect of merger		**-**	-	**-**	52,667
Proceeds from sale of tangible assets		**22**	10,538	**22**	10,539
Dividend received	*18*	**24,802**	62,911	**26,769**	62,911
Increase in deposits		**94,627**	(1,090,751)	**94,627**	(1,090,751)
Decrease in deposits		**(93,883)**	1,326,024	**(93,883)**	1,326,059
Interest received		**445**	766	**444**	766
Net cash from investing activities		**(129,727)**	(132,163)	**(127,717)**	(79,459)
Cash flows from financing activities					
Proceeds from loans and borrowings		**223,291**	148,352	**223,291**	148,352
Repayment of borrowings		**(88,417)**	(88,678)	**(90,389)**	(90,090)
Dividends paid		**(89,814)**	(234,449)	**(89,814)**	(234,449)
Payment of lease liabilities		**(2,163)**	-	**(2,163)**	-
Acquisition of non-controlling interest		**-**	(2,409)	**-**	(2,409)
Net cash from financing activities		**42,897**	(177,184)	**40,925**	(178,596)
Net (decrease)/increase in cash and cash equivalents		**386,482**	96,986	**383,267**	152,529
Cash and cash equivalents at the beginning of the year		**185,830**	88,844	**180,043**	27,514
Cash and cash equivalents at the end of the year	*22*	**572,312**	185,830	**563,310**	180,043

NOTE 1 – GENERAL INFORMATION

Plava Laguna Group, Poreč comprises the company Plava Laguna d.d., Poreč, a joint stock company company for hospitality and tourism (parent company) and its subsidiaries (the Group):

- Travel d.o.o. d.o.o. with an ownership interest of 100% (31 December 2018: 100%)
- Istraturist j.d.o.o. with an ownership interest of 100% (31 December 2018: 100%)
- ISTRA DMC d.o.o. with an ownership interest of 100% (31 December 2018: 100%).

The parent and its subsidiaries are registered at the Pazin Commercial Court.

The Group's associate is Jadranski luksuzni hoteli d.o.o. with a shareholding of 32.48% (31 December 2018: 32.48%).

The majority owner of the Company on 31 December 2018 and 2019 is the Adriatic Investment Group headquartered in the Grand Duchy of Luxembourg, wholly owned by Sutivan Investments Anstalt, Liechtenstein.

The registered office of the Plava laguna Group is in Poreč, Rade Končara 12, Croatia.

As at 31 December 2018 and 2019, the shares of the parent company were listed on the regular joint stock company listing on the Zagreb Stock Exchange.

Management Board and Supervisory Board

Management Board

Dragan Pujas	President, from October 2019 (previously member from January 2018 to October 2019)
Neven Staver	President, from January 2018 until October 2019
Damir Mendica	Member, from January 2018
Danira Rančić	Member, from January 2018
Marco Antonio Buzolic Buzolic	Member, until December 2019

The Company is represented jointly by the President and one member of the Management Board.

Supervisory Board

Davor Lukšić Lederer	President, from June 2012
Patricio Tomas Balmaceda Tafra	Vice President, from October 2006
Davor Domitrović Grubišić	Member, from April 2000
Joseph Ignace Bulnes	Member, from December 2014
Neven Staver	Member, from October 2019
Duncan Graham Bramwell	Member, from October 2019
Marica Kurtek	Member, from November 2019
Stipe Liović	Member, until November 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The Company's and Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

These financial statements were approved by the Management Board on 29 April 2020.

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI).

This is the first set of the Company's and Group's annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in note *3.1.1.* (Changes in accounting policies and disclosures).

2.3 Functional and presentation currency

The Company's and Group's financial statements are prepared in the Croatian kuna ("HRK"), which is also the functional and reporting currency, rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 5.

2.5 Going concern

In the year ended 31 December 2019 the Group and Company realised profits in the amount of HRK 208,375 thousand and HRK 205,545 thousand respectively (31 December 2018: HRK 328,277 thousand and HRK 360,040 thousand respectively) while the net assets of the Group and Company were in the amount of HRK 2,383,237 thousand and 2,307,860 thousand respectively (31 December 2018: HRK 2,263,039 thousand and HRK 2,190,492 thousand).

Additionally, subsequent to the balance sheet date the Group (Company) has been impacted by the global pandemic COVID-19 (Corona virus) during March and April 2020. The uncertainty as to the future impact on the Group (Company) of the recent COVID-19 outbreak has been separately considered as part of the directors' consideration of the going concern basis of preparation and as discussed in Note 30 *Events After Balance Sheet Date*.

Based on the above indications the Management believes that it remains appropriate to prepare the financial statements on a going concern basis.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

3.1.1 Changes in accounting policies and disclosures

First application of new standards and amendments to existing standards

The Group (Company) has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 *Leases*
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Interpretation 23 Uncertainty over Income Tax Treatments.

As a result of applying this standard, the Group (Company) had to change its accounting policy for leases, which is explained below.

The application of other new standards and amendments to existing standards did not have a material impact on the financial statements.

IFRS 16- Leases

The Group (Company) has adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

i. Leases in which the Group (Company) is a lessee

The Group (Company) recognised new assets and liabilities for its operating leases of maritime domain and business premises and land. The nature of expenses related to those leases the Group (Company) is recognising as the depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group (Company) recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Adoption of IFRS 16 did not impact Group's (Company's) ability to comply with the loan covenants.

The Group (Company) applies IFRS 16 from 1 January 2019. The Group (Company) applied IFRS 16 using the modified retrospective approach.

Details of changes in accounting policies are set out below. Also, the disclosure requirements of IFRS 16 do not generally apply to comparative information.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Basis of preparation *(continued)*

3.1.1 Changes in accounting policies and disclosures *(continued)*

First application of new standards and amendments to existing standards *(continued)*

A. Definition of lease

Previously, at contract inception the Group (Company) determined whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group (Company) now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in the notes.

On transition to IFRS 16, the Group (Company) elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group (Company) applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Group (Company) has contracts mainly for the lease of business premises and leases of maritime assets (hereinafter referred to as concessions). The Group (Company) previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group (Company). Under IFRS 16, the Group (Company) recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group (Company) allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

ii. Leases classified as operating leases under IAS 17

Previously, the Group (Company) classified business premises leases and leases of maritime assets as operating leases under IAS 17. On transition, for these leases, lease liabilities and right-of-use assets were measured at the present value of the remaining lease payments, discounted at the Group (Company's) incremental borrowing rate as at 1 January 2019.

The Group (Company) did not identify indicators of impairment of the right-of-use assets on the date of transition.

The Group (Company) used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group (Company):

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (if any)
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and

- used hindsight when determining the lease term.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Basis of preparation *(continued)*

3.1.1 Changes in accounting policies and disclosures *(continued)*

First application of new standards and amendments to existing standards *(continued)*

ii. Leases classified as finance leases under IAS 17

The Group (Company) did not have leases classified as finance leases under IAS 17.

C. As a lessor

The Group (Company) leases out its property. The Group (Company) has classified these leases as operating leases.

The Group (Company) is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

D. Impact on financial statements

On transition to IFRS 16, the Group (Company) recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

in thousands of HRK	**1 January 2019**
Assets with right of use	
Concession	24,635
Business premises and associated land	1,704
	26,339
Lease liabilities	
Current portion	1,702
Non - current portion	24,637
	26,339

When measuring lease liabilities for leases that were classified as operating leases, the Group (Company) discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 1.75%.

3.1.2 Restatement of comparative information

During 2019, a certain number of corrections have been made in the Group's (Company's) financial statements for the year ended 31 December 2018. In accordance with the requirements of International Accounting Standard ("IAS") 8 Accounting *Policies, Changes in Accounting Estimates and Errors*, these corrections have been restated in comparative information shown in these financial statements.

(i) The Group (Company) has a contractual obligation to pay out jubilee awards to its employees after a certain period of service and termination benefit upon retirement of employees. The Group (Company) has not recorded the required provisions and expenses in prior periods. The change in the financial information is recorded in the statement of financial position and the statement of changes in equity as at 1 January and 31 December 2018 and the statement of comprehensive income for the year 2018.

(ii) In the prior periods, investment property included portions of properties that cannot be sold or leased out separately under finance leases. Group and the Company have retroactively reclassified part of its investment properties to property, plant and equipment. The change in the financial information is recorded in the statement of financial position as at 1 January and 31 December 2018.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Basis of preparation *(continued)*

3.1.2 Restatement of comparative information *(continued)*

(iii) The Group (Company) became entitled to tax incentive as of 31 December 2018 based on realized investments and fulfillment of required conditions in Accordance with the Act of Investments. The Group (Company) realised tax incentives which will be used to reduce income tax liabilities in future periods and which were not recognised as deferred tax assets as of that date. The change in the financial information is recorded in the statement of financial position and the statement of changes in equity as at 31 December 2018 and the statement of comprehensive income for the year 2018.

The Group (Company) has corrected comparative information by restating each of the affected financial statements line items for prior periods. The restatement did not result in the change of the total cash flow from operating, investing and financing activities.

Group
Statement of financial position

		Impact of restatement		
At 1 January 2018	*Note*	**As previously reported**	**Adjustments**	**As restated**
(in thousands of HRK)				
Property, plant and equipment	*ii)*	2,299,617	14,167	2,313,784
Investment property	*ii)*	41,365	(14,167)	27,198
Deferred tax assets	*i)*	-	1,800	1,800
Other assets		664,389	-	664,389
Total assets		**3,005,371**	**1,800**	**3,007,171**
Retained earnings	*i)*	608,112	(6,072)	602,040
Other equity and reserves		1,569,474	-	1,569,474
Total equity		**2,177,586**	**(6,072)**	**2,171,514**
Provisions	*i)*	3,317	7,335	10,652
Deferred tax liabilities		10,467	537	11,004
Other liabilities		814,001	-	814,001
Total liabilities		**827,785**	**7,872**	**835,657**

		Impact of restatement		
At 31 December 2018	*Note*	**As previously reported**	**Adjustments**	**As restated**
(in thousands of HRK)				
Property, plant and equipment	*ii)*	2,527,258	17,195	2,544,453
Investment property	*ii)*	41,332	(17,167)	24,165
Deferred tax assets	*i), iii)*	345	52,590	52,935
Other assets	*ii)*	514,601	(28)	514,573
Total assets		**3,083,536**	**52,590**	**3,136,126**
Reserves	*i)*	125,122	(24)	125,098
Retained earnings	*i),iii)*	648,574	45,574	694,148
Other equity and reserves		1,443,793	-	1,443,793
Total equity and reserves		**2,217,489**	**45,550**	**2,263,039**
Provisions	*i)*	4,571	7,040	11,611
Other liabilities		861,476	-	861,476
Total liabilities		**866,047**	**7,040**	**873,087**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Basis of preparation *(continued)*

3.1.2 Restatement of comparative information *(continued)*

Statement of comprehensive income

For the year ended 31 December 2018	Note	Impact of restatement As previously reported	Adjustments	As restated
(in thousands of HRK)				
Staff costs	*i)*	(273,069)	323	(272,746)
Income tax	*i),iii)*	(239)	51,322	51,083
Other		549,939	1	549,940
Profit for the year		**276,631**	**51,646**	**328,277**
Other comprehensive income, net of tax	*i)*	5	(24)	(19)
Total comprehensive income		**276,636**	**51,622**	**328,258**

Company
Statement of financial position

At 1 January 2018	Note	Impact of restatement As previously reported	Adjustments	As restated
(in thousands of HRK)				
Property, plant and equipment	*ii)*	928,810	406	929,216
Investment property	*ii)*	27,604	(406)	27,198
Deferred tax assets	*i)*	-	1,263	1,263
Other assets		1,412,033	-	1,412,033
Total assets		**2,368,447**	**1,263**	**2,369,710**
Retained earnings	*i)*	288,468	(6,072)	282,396
Other equity and reserves		1,509,401	-	1,509,401
Total equity		**1,797,869**	**(6,072)**	**1,791,797**
Provisions	*i)*	192	7,335	7,527
Other liabilities		570,386	-	570,386
Total liabilities		**570,578**	**7,335**	**577,913**

At 31 December 2018	Note	Impact of restatement As previously reported	Adjustments	As restated
(in thousands of HRK)				
Property, plant and equipment	*ii)*	2,526,836	17,168	2,544,004
Investment property	*ii)*	41,332	(17,167)	24,165
Deferred tax assets	*i), iii)*	345	52,590	52,935
Other assets		450,957	(1)	450,956
Total assets		**3,019,470**	**52,590**	**3,072,060**
Reserves	*i)*	125,122	(24)	125,098
Retained earnings	*i),iii)*	576,027	45,574	621,601
Other equity and reserves		1,443,793	-	1,443,793
Total equity and reserves		**2,144,942**	**45,550**	**2,190,492**
Provisions	*i)*	4,571	7,040	11,611
Other liabilities		869,957	-	869,957
Total liabilities		**874,528**	**7,040**	**881,568**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Basis of preparation *(continued)*

3.1.2 Restatement of comparative information *(continued)*

Statement of comprehensive income

		Impact of restatement		
For the year ended 31 December 2018	*Note*	**As previously reported**	**Adjustments**	**As restated**
(in thousands of HRK)				
Staff costs	*i)*	(271,344)	323	(271,021)
Income tax	*i),iii)*	403	51,323	51,726
Other		579,335	-	579,335
Profit for the year		**308,394**	**51,646**	**360,040**
Other comprehensive income, net of tax	*i)*	5	(24)	(19)
Total comprehensive income		**308,399**	**51,622**	**360,021**

The Group (Company) have reclassified a certain number of revenue, expenses and balance sheet items previously reported in 2018 in the statement of comprehensive income and statement of financial position to improve its presentation. Effect of reclassification on comparative information in the statement of comprehensive income and financial position of the Group (Company) and Group is presented below:

Group
Statement of comprehensive income

	Reclassification		
For the year ended 31 December 2018	**As previously reported**	**Adjustments**	**As restated**
(in thousands of HRK)			
Sale of services	1,099,318	43,695	1,143,013
Other income	10,358	(910)	9,448
Cost of materials and services	(296,554)	(40,479)	(337,033)
Other operating expenses	(81,198)	(2,818)	(84,016)
Other gains((losses) - net	8,228	(217)	8,011
Finance income	4,970	729	5,699

Company
Statement of comprehensive income

	Reclassification		
For the year ended 31 December 2018	**As previously reported**	**Adjustments**	**As restated**
(in thousands of HRK)			
Sale of services	1,079,211	43,258	1,122,469
Other income	70,685	(62,911)	7,774
Cost of materials and services	(286,089)	(40,449)	(326,538)
Other operating expenses	(73,962)	(2,809)	(76,771)
Other gains((losses) - net	8,186	(171)	8,015
Finance income	4,999	63,082	68,081

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Consolidation

Consolidated financial statements include the financial statements of the Company and companies controlled by the Company and its subsidiaries (together "the Group") together with the Group's shares in associates.

a) Business Combinations

The Group applies IFRS 3 "Business Combinations" for accounting for business combinations, and the accounting policies applied to these acquisitions are described below. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group controls an investee when it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes in one or more of the elements of control. This includes circumstances in which protective rights held by the Group (for example, those resulting from lending activity) become substantive and lead to the Group having power over an investee.

Goodwill

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus,
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities.

When this total is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. These amounts are regularly recognised in profit or loss.

Acquisition-related costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Consolidation *(continued)*

a) Business Combinations (continued)

Goodwill (continued)

Goodwill arising on the acquisition of a subsidiary is recognized as an intangible asset. Separate goodwill is tested annually for impairment or whenever there are any impairment provisions and are recognized at cost less accumulated impairment losses. Goodwill impairment losses are not eliminated. Goodwill is allocated to cash-generating units for impairment testing purposes. Allocation is carried out on those cash-generating units that are expected to benefit from the business combination in which goodwill is generated.

b) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions among the Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with owners in their capacity as owners. For purchases 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.

d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Company's separate financial statements investments in associates are accounted at cost less impairment.

The Group's share of associates' post-acquisition gains or losses is recognised in the statement of profit or loss and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate. Dividends received from associates are treated as a decrease of investment in associate in the Group's consolidated statement of financial position and as a dividend income in the Company's separate statement of profit or loss.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Consolidation *(continued)*

e) Acquisition of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for using the following principles:
- the assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the controlling shareholder of the Group,
- the difference between the consideration paid and the carrying value of transferred assets and liabilities is recognised in Group equity,
- the components of equity of the acquired entities are added to the same components within Group equity (except any issued capital of the acquired entities which is recognised as part of share premium),
- any cash paid for the acquisition is recognised directly in equity.

f) Non-controlling interest

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets.

Changes in the Group's interest in a subsidiary that do not result in a change of control are accounted for as transactions with equity holders in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. The adjustments to non-controlling interests are based on the proportionate amount of the net assets of the subsidiary.

g) Transactions eliminated during consolidation

Intragroup balances and transactions, and unrealised revenues and expenses (excluding gains or losses on exchange rate differences) arising from intra-group transactions are eliminated when preparing consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only on the condition that there is no evidence of impairment.

3.3 Investments in subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has control over the financial and operating policies, generally involving more than half of the voting rights. The existence and effect of potential voting rights that are exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are initially recognized at cost and subsequently at cost less impairment losses. Testing of investments in subsidiaries for impairment is performed on an annual basis (Note 3.8).

3.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-maker is the Group's Management Board is in charge of managing hotel and tourist facilities and contents.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Foreign currencies

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 within "Finance income/costs".
The exchange rate of kuna against the EUR as at 31 December 2019 was HRK 7.442580 HRK (31 December 2018: HRK 7.417575 HRK, 1 January 2018: HRK 7.513648).

3.6 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and impairment, where required. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group (Company) and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of replacement of larger items of property, plant and equipment is capitalised, and the carrying amount of the replaced part is derecognised.

Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimate useful lives as follows:

Buildings	10 – 25 years
Plant and equipment	3 – 10 years
Other assets	4 – 10 years

Depreciation is calculated for each asset until the asset is fully depreciated.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.8). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive income within line item 'other gains – net'.

3.7 Intangible assets

(a) Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of up to 4 years.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.8 Financial instruments

Non-derivative financial instruments

a) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group (Company) becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

b) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investments; fair value through other comprehensive income (FVOCI) – equity instrument; or fair value through profit or loss. Financial assets are not reclassified subsequent to their initial recognition unless the Group (Company) changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit and loss. Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit and loss. Any gain or loss on derecognition is recognised in profit and loss.

Financial liabilities – Classification, subsequent measurement and profit or loss

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

c) Derecognition

Financial assets
The Group (Company) derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group (Company) neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.8 Financial instruments *(continued)*

Non-derivative financial instruments (continued)

c) Derecognition (continued)

Financial assets (continued)

The Group (Company) enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group (Company) derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group (Company) also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

d) Netting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group (Company) currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts, including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

Impairment

Non-derivative financial assets

Financial instruments and contract assets

The Group (Company) recognises loss allowances for expected credit loss (“ECL”) on financial assets measured at amortised cost.

Loss allowances are measured on either of the following:

- 12-month ECLs: these are ECLs that result from possible default events within 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instruments

Loss allowance for the Group (Company’s) financial assets measured at amortised cost are always measured at an amount equal to lifetime ECL.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.8 Financial instruments *(continued)*

Impairment (continued)

Non-derivative financial assets (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group (Company) considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group (Company's) historical experience and informed credit assessment and including forward-looking information.

The Group (Company) assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group (Company) considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group (Company) in full, without recourse by the Group (Company) to actions such as realising security (if any is held).The maximum period considered when estimating ECLs is the maximum contractual period over which the Group (Company) is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group (Company) expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group (Company) assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Events that indicate that financial assets are credit-impaired includes the following:

- It is probable that the borrower will enter bankruptcy or any other type of reorganisation or restructuring;
- specific financial difficulty of the borrower.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Use of the ECL method did not have a significant impact on the financial statements of the Group (Company).

Non - financial assets

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.8 Financial instruments *(continued)*

Impairment (continued)

Non - financial assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 net of depreciation or amortisation 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.

3.9 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated sales price in the ordinary course of business, less applicable variable costs to sell. Small inventory and tools are fully written off when put into use.

3.10 Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

3.11 Trade, deposit and loan receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. Deposits are amounts held with banks with original maturities over three months. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade, deposit and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.12 Leases

The Group (Company) has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group (Company) assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group (Company) uses the definition of a lease in IFRS 16.
This policy is applied to contracts entered into, on or after 1 January 2019.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Group (Company) allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group (Company) recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group (Company) by the end of the lease term or the cost of the right-of-use asset reflects that the Group (Company) will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group (Company's) incremental borrowing rate. Generally, the Group (Company) uses its incremental borrowing rate as the discount rate.

The Group (Company) determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group (Company) is reasonably certain to exercise, lease payments in an optional renewal period if the Group (Company) is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group (Company) is reasonably certain not to terminate early.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.12 Leases *(continued)*

Policy applicable from 1 January 2019 (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group (Company's) estimate of the amount expected to be payable under a residual value guarantee, if the Group (Company) changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group (Company) presents right-of-use assets that do not meet the definition of investment property in separate line items in the statement of financial position.

Short-term leases and leases of low-value assets

The Group (Company) has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group (Company) recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. As a lessor

At inception or on modification of a contract that contains a lease component, the Group (Company) allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group (Company) acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group (Company) makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group (Company) considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group (Company) is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group (Company) applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group (Company) applies IFRS 15 to allocate the consideration in the contract.

The Group (Company) applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group (Company) further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group (Company) recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group (Company) as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.12 Leases *(continued)*

Policy applicable before 1 January 2019

Leases where the significant portion of risks and rewards of ownership are not retained by the Group (Company) are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Assets leased out under operating leases are included in "Property, plant and equipment" in the statement of financial position. Assets are depreciated on the straight-line basis equal to other property and equipment. Rental income is recognised over the period of the lease using the straight-line method.

3.13 Share capital

Ordinary and preference shares are classified as equity. Preference shares bear a fixed dividend of HRK 0.25 per share per annum (2018: HRK 0.25), in addition to ordinary dividends in the amount equal to the dividend paid on each ordinary share. Where the Group (Company) purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Group (Company's) equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable transaction costs, is included in equity attributable to the Group (Company's) equity holders.

3.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities, unless the Group (Company) has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.16 Provisions

Provisions are recognised when the Group (Company) has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions for future operating losses are not recognised.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.17 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets represents the amount of income tax recoverable through future deductions from taxable profits and is expressed in the statement of financial position. Deferred tax assets are recognized to the extent of tax benefit that is probable to be achieved. While determining future taxable profits and the amount of tax benefits that are likely to be generated in the future, Management of the Group (Company) makes judgments and applies estimations based on taxable profits from previous years and expectations of future income that are believed to be reasonable under the existing circumstances.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.18 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group (Company) makes payments to mandatory pension funds on behalf of its employees as required by law and represent defined contribution scheme. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group (Company) does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group (Company) is not obliged to provide any other post-employment benefits.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group (Company) before the normal retirement date. The Group (Company) recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal. Termination benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(c) Short-term employee benefits

The Group (Company) recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Group (Company) recognises a liability for accumulated compensated absences based on unused vacation days and hours for redistribution at the balance sheet date.

(d) Long-term employee benefits

The Group (Company) recognises a provision for jubilee awards and termination benefits where contractually obliged or where there is a past practice that has created a constructive obligation.

3.19 Revenue recognition

(a) Tourist services

Tourist services include overnight stays, consumption of food and beverages, use of wellness and other services during guest accommodation. The Group (Company) provides tourist services based on fixed-term contracts prices at which the agreed price lists are an integral part of each contract. Price lists include the quantities and types of accommodation units and other services and are defined by the period to which service relates. All discounts calculated on the price list represent a decrease in the selling price. Revenues from fixed-price contracts for tourism services are recognized in the period in which the services are provided in proportion to the total contracted service, given that customers receive the service and the benefits of using the service evenly over the period of use of the service, that is, the duration of the contract (over the time).

The average period of service is a few days and the total revenue recognition is limited to the period when the accommodation units are open to receive guests during the tourist season, and all within one calendar year. The amount of revenue to be recognized is determined on a real basis occupancy of accommodation units and consumption of other services used by guests and agreed prices at the time of use. The Group (Company) provides food and beverages in hotel rooms as well as in hotel restaurants which are recognised as revenues when provided, at the point of time.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.19 Revenue recognition *(continued)*

(b) Rental services

Revenue from rental services is generally recognised in the period the services are provided, using a straight-line basis over the contracts terms with lessees.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group (Company) reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument. The unwinding of the discount in future periods is recognised as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

3.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's General Assembly of Shareholders.

3.21 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Group (Company) by the weighted average number of participating shares outstanding during the reporting year.

3.22 Value added tax

The Tax Administration requires the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where receivables have been impaired, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.23 Investment property

Investment property is included in the balance sheet at historical cost less accumulated depreciation and impairment, where required. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Depreciation of buildings is calculated using the straight-line method to allocate their cost over their estimate useful lives over period of 10 to 25 years.

3.24 Standards issued but not yet effective

The following amended standards and interpretations which have not been early adopted by the Group (Company) are not expected to have a significant impact on the Group (Company's) financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 Insurance Contracts.

NOTE 4 – FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's (Company's) activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. Overall risk management in respect of these risks is carried out by the Group's (Company's) Management Board.

The accounting policies are applied to financial instruments as follows:

Group

- Assets

31 Dec 2019	**Loans and receivables HRK'000**	**Financial assets at fair value through other comprehensive income HRK'000**	**Total HRK'000**
Investments in shares of domestic companies	-	13,111	13,111
Trade and other receivables	5,917	-	5,917
Deposits with banks and loans given	21	-	21
Cash and cash equivalents	572,312	-	572,312
Total	**578,250**	**13,111**	**591,361**

31 Dec 2018	**Loans and receivables HRK'000**	**Financial assets at fair value through other comprehensive income HRK'000**	**Total HRK'000**
Investments in shares of domestic companies	-	11,064	11,064
Trade and other receivables	9,867	-	9,867
Deposits with banks and loans given	778	-	778
Cash and cash equivalents	185,830	-	185,830
Total	**196,475**	**11,064**	**207,539**

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

Company

- Assets

31 Dec 2019	**Financial assets at amortised cost HRK'000**	**Financial assets at fair value through other comprehensive income HRK'000**	**Total HRK'000**
Investments in shares of domestic companies	-	13,111	13,111
Trade and other receivables	5,612	-	5,612
Deposits with banks and loans given	21	-	21
Cash and cash equivalents	563,310	-	563,310
Total	**568,943**	**13,111**	**582,054**

31 Dec 2018	**Financial assets at amortised cost HRK'000**	**Financial assets at fair value through other comprehensive income HRK'000**	**Total HRK'000**
Investments in shares of domestic companies	-	11,064	11,064
Trade and other receivables	9,034	-	9,034
Deposits with banks and loans given	778	-	778
Cash and cash equivalents	180,043	-	180,043
Total	**189,855**	**11,064**	**200,919**

- Liabilities-at amortised cost

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Borrowings	807,695	670,442	814,309	679,029
Trade and other payables	89,896	101,240	89,620	100,619
Total	**897,591**	771,682	**903,929**	779,648

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Most of the sales proceeds, long-term debt and term deposits are denominated in EUR. Therefore, movements in exchange rates between the Euro and Croatian kuna may have an impact on the results of future operations and future cash flow.
As at 31 December 2019 and 2018, the currency structure of the Group's (Company's) financial instruments within the scope of IFRS 9 is as follows:

Group

31 Dec 2019	**EUR**	**HRK**	**CHF**	**Other**	**Total**
Financial assets	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Trade and other receivables	3,322	2,546	-	49	5,917
Deposits with banks and loans given	21	-	-	-	21
Available-for-sale financial assets	-	13,111	-	-	13,111
Cash and cash equivalents	557,142	11,453	390	3,327	572,312
Total	**560,485**	**27,110**	**390**	**3,376**	**591,361**
Financial liabilities-at amortised cost					
Borrowings	807,695	-	-	-	807,695
Trade and other payables	1,842	88,076	-	(22)	89,896
Total	**809,537**	**88,076**	**-**	**(22)**	**897,591**
Net exposure	**(249,052)**	**(60,966)**	**390**	**3,398**	**(306,230)**

31 Dec 2018	**EUR**	**HRK**	**CHF**	**Other**	**Total**
Financial assets	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Trade and other receivables	5,595	4,272	-	-	9,867
Deposits with banks and loans given	778	-	-	-	778
Available-for-sale financial assets	-	11,064	-	-	11,064
Cash and cash equivalents	178,650	6,243	167	770	185,830
Total	**185,023**	**21,579**	**167**	**770**	**207,539**
Financial liabilities-at amortised cost					
Borrowings	670,442	-	-	-	670,442
Trade and other payables	3,340	97,831	-	69	101,240
Total	**673,782**	**97,831**	**-**	**69**	**771,682**
Net exposure	**(488,759)**	**(76,252)**	**167**	**701**	**(564,143)**

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(i) Foreign exchange risk *(continued)*

Company

31 Dec 2019	EUR	HRK	Other	Total
Financial assets	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Trade and other receivables	3,614	1,949	49	5,612
Deposits with banks and loans given	21	-	-	21
Available-for-sale financial assets	-	13,111	-	13,111
Cash and cash equivalents	555,500	5,870	1,940	563,310
Total	**559,135**	**20,930**	**1,989**	**582,054**
Financial liabilities-at amortised cost				
Borrowings	807,695	6,614	-	814,309
Trade and other payables	1,764	87,878	(22)	89,620
Total	**809,459**	**94,492**	**(22)**	**903,929**
Net exposure	**(250,324)**	**(73,562)**	**2,011**	**(321,875)**

31 Dec 2018	EUR	HRK	Other	Total
Financial assets	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Trade and other receivables	5,556	3,478	-	9,034
Deposits with banks and loans given	778	-	-	778
Available-for-sale financial assets	-	11,064	-	11,064
Cash and cash equivalents	176,797	2,309	937	180,043
Total	**183,131**	**16,851**	**937**	**200,919**
Financial liabilities-at amortised cost				
Borrowings	670,442	8,587	-	679,029
Trade and other payables	3,207	97,343	69	100,619
Total	**673,649**	**105,930**	**69**	**779,648**
Net exposure	**(490,518)**	**(89,079)**	**868**	**(578,729)**

As at 31 December 2019, if HRK had strengthened/weakened by 10% (2018: 10%) against the EUR, with all other variables held constant, the profit for the year before tax would have been higher/lower for HRK 24,905 thousand for the Group and HRK 25,032 thousand for the Company (2018: HRK 48,873 thousand and HRK 49,052 thousand respectively), mainly as a result of foreign exchange gains/losses on translation of EUR-denominated borrowings and bank cash deposits.

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Price risk

The Group's (Company's) trading equity securities portfolio, which is presented in the balance sheet at fair value, exposes the Group (Company) to price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, regardless of whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded on the market. The Group (Company) is not significantly exposed to price risk, since it only has a limited number of listed equity investments.

(iii) Cash flow and fair value interest rate risk

As the Group (Company) has interest-bearing assets, the Group's (Company's) income and operating cash flows are dependent on changes in market interest rates.

The Group's (Company's) debts are contracted at a fixed interest rate, therefore it reduces Group's (Company's) exposure to interest rate risks.

b) Credit risk

The Group (Company) has no significant concentrations of credit risk. The Group (Company) has policies in place to ensure that sales are made mostly to customers paying in advance (leases), in cash or using major credit cards (individual customers, i.e. natural persons), and to customers with an appropriate credit history (mostly travel agencies).

Allowances for impairment of trade and other receivables have been made on the basis of credit risk assessment. The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. Credit risk related to loan receivables is reduced to a minimum. The Group (Company) has policies that limit the amount of credit risk exposure to any financial institution.

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

b) Credit risk (continued)

Cash transactions are carried out through high quality Croatian banks. The Group (Company) has only short-term highly liquid instruments with maturity periods of three months or less.

The maximum exposure to credit risk at the reporting date arises from financial assets classified as loans and receivables as follows:

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Trade and other receivables	5,917	9,867	5,612	9,034
Deposits and loans given	21	778	21	778
Cash and cash equivalents	572,312	185,830	563,310	180,043
Total	**578,250**	196,475	**568,943**	189,855

The credit quality of financial assets:

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Neither past due nor impaired	2,878	5,293	2,914	5,277
Past due but not impaired	3,060	5,351	2,719	4,532
Impaired	8,171	7,592	5,511	5,005
Impairment	(8,171)	(7,592)	(5,511)	(5,005)
Total	**5,938**	10,644	**5,633**	9,809

The credit quality of financial assets that are neither past due nor impaired:

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Trade and other receivables	2,857	4,515	2,893	4,499
Deposits and loans given	21	778	21	778
Total	**2,878**	5,293	**2,914**	5,277

Financial institutions comprise domestic banks without a credit rating. However, their foreign parent banks have the following ratings: A, A-, BBB, BBB- (2018: A, BBB+, BBB) (Standard & Poor`s).

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

b) Credit risk (continued)

Past due but not impaired receivables relate to trade receivables. The ageing analysis of these receivables is as follows:

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Up to 1 month	987	810	823	629
1 to 2 month	393	962	300	733
2 to 3 month	528	591	492	544
Over 3 months up to 1 year	1,152	2,988	1,104	2,626
Total	**3,060**	5,351	**2,719**	4,532

Within the maturity of over than three months up to 1 year, 86% of the balance is overdue less than 6 months.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Management Board regularly monitors available cash resources.

The Management Board monitors inflow and outflow daily on the basis of monthly cash flow projections. The Group (Company) settle all of their liabilities at maturity.

The table below analyses the Group's (Company's) financial liabilities into at the balance sheet by the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Since the maturity of most borrowings is agreed to no later than 2025, actual future payments may vary from those presented.

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

Group

	Up to 1 year	1-2 years	2-5 years	Over 5 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 Dec 2019					
Borrowings	115,118	158,363	408,929	125,285	807,695
Trade and other payables	89,896	-	-	-	89,896
Total liabilities	**205,014**	**158,363**	**408,929**	**125,285**	**897,591**
31 Dec 2018					
Borrowings	89,396	113,326	307,007	160,713	670,442
Trade and other payables	101,240	-	-	-	101,240
Total liabilities	**190,636**	**113,326**	**307,007**	**160,713**	**771,682**

Company

	Up to 1 year	1-2 years	2-5 years	Over 5 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 Dec 2019					
Borrowings	115,118	164,977	408,929	125,285	814,309
Trade and other payables	89,620	-	-	-	89,620
Total liabilities	**204,738**	**164,977**	**408,929**	**125,285**	**903,929**
31 Dec 2018					
Borrowings	89,396	117,913	311,007	160,713	679,029
Trade and other payables	100,619	-	-	-	100,619
Total liabilities	**190,015**	**117,913**	**311,007**	**160,713**	**779,648**

4.2 Capital risk management

The Group's (Company's) objectives when managing capital are to safeguard the Group's (Company's) ability to continue as a going concern in order to provide returns for the owner and to maintain an optimal capital structure to reduce the cost of capital.

The Group (Company) consider the optimal capital structure in the context of required debt/EBITDA covenant, to ensure the ability of the Company to continue as a going concern. The Company and the Group are not subject to the external requirements of other covenants (debt / equity).

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.3 Fair value estimation

A number of the Group's (Company's) accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group (Company) has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and finance department in relation to the monitoring of all significant fair value measurements, consultation with external experts and the responsibility to report, with respect the above, to those charged with corporate governance.

Fair values are measured using information collected from third parties in which case the Board and the finance department assess whether the evidence collected from third parties support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified.

Fair values are categorised into different level in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more significant inputs are not based on observable market data, the fair value estimate is included in level 3.

As at 31 December 2019, assets carried at fair value in the amount of HRK 13,111 thousand (2018: HRK 11,064 thousand) were allocated into level 1.

During 2019 there were no transfers within levels.

NOTE 5 – CRITICAL ACCOUNTING ESTIMATES

(a) Estimated useful life of property, plant and equipment and impairment

By using a certain asset, the Group (Company) use the economic benefits contained in this asset, which diminish more intensely with economic and technological ageing. Consequently, in the process of determining the useful life of an asset, in addition to assessing the expected physical utilisation, it is necessary to consider the changes in demand on the tourist market, which will cause a faster economic obsolescence as well as a more intense development of new technologies. Current business operations in the hotel industry impose the need for more frequent investments, and this circumstance contributes to the fact that the useful life of an asset is decreasing.

Based on historical information, and in line with the technical department, the useful life of buildings was assessed by Management Board to be 10-25 years. The useful lives of equipment and other assets have also been assessed as disclosed in Note 3.6.

The useful lives of property, plant and equipment will periodically be revised to reflect any changes in circumstances since the previous estimate. Changes in estimate, if any, will be reflected prospectively in a revised depreciation charge over the remaining, revised useful life.

(b) Goodwill

Separate goodwill is tested annually for impairment or whenever there are any impairment provisions and are recognized at cost less accumulated impairment losses. Goodwill impairment losses are not eliminated.

Goodwill is allocated to cash-generating units for impairment testing purposes. Allocation is carried out on those cash-generating units ("CGU") that are expected to benefit from the business combination in which goodwill is generated.

CGU relates to the properties that were previously operated by company Istraturist d.d. Properties are located in Istria, Umag. There are no goodwill impairment indicators identified, taking into account the previous valuation of the company Istraturist Umag for the purpose of the merger, which was carried out by an independent appraiser in May 2017, and taking into account the business results for 2017 and the results that related properties generated in 2018 and 2019.

Key assumptions used in the estimation of the recoverable amount were the discount rate of 9% and the growth rate of 1%. Capital expenditure used has been calculated as three years average.

(c) Actuarial estimates used in determining obligations for employee benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty. Key assumptions were discount rate of 3% and fluctuation rate of 3%.

NOTE 5 – CRITICAL ACCOUNTING ESTIMATES (continued)

(d) Deferred tax assets recognition

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances.

For investments in the Company's properties from 2017 up to 31 December 2019 the Company has achieved total investment tax credit incentives of HRK 101,220 thousand.

The Company has fulfilled the requirements of preserving the properties and of additional employment, and for the year ended 31 December 2019 has utilized HRK 38,340 thousand (2018: HRK 43,730 thousand) of tax incentives and recognized remaining tax incentives of HRK 19,150 thousand as deferred tax asset which can be carried forward up to year 2027. Under the Act on Investment Incentives, the Company may be able to achieve additional tax incentives for additional investments up to the 31 December 2020.

(e) Concession fees for tourist land

As explained in note 26, the Group and the Company are paying concession fees for usage of tourist land in accordance with the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process enacted back in 2010 and relevant by-laws - Statute on the procedure, manner and conditions for obtaining a concession on tourist land in camps co-owned by the Republic of Croatia, and Statute on the manner, procedure and conditions for evaluating the value and sale of tourist land owned by a local authorities and the manner, procedure and conditions for obtaining a concession on the remaining tourist land owned by the local government, enacted in 2011. Payments were made in ½ of the determined fees, in accordance with the invoices received, based on the Statutes and the land areas applied. The new Act on the un-appraised construction land was passed in April 2020, and the fees will be defined by regulations that have yet to be enacted. Due to the fact that the legal resolutions from 2010 did not produce adequate legal effects in practice and, on the other hand, the fact that there were expectations of changes in legislation in 2020 (in the short term), the Company did not recognize these leases in accordance with IFRS 16 *Leases*.

The Group and the Company consider the liabilities recorded to be sufficient.

NOTE 6 – SEGMENT INFORMATION

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group's (Company's) Management Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Group (Company) records its operations according to the types of services rendered by distinguishing three main reporting segments: hotels and apartments, campsites and other business segments. Other business segments comprise tourist agency services, marina services, rental services, organisation of sports and recreation services (ATP tournament) and other similar services.

The segment information provided to the Company's Management Board for the year ended 31 December 2019 is as follows:

HRK'000	Hotels & apartments	Campsites	**Total business segments**	Other business segments	**Total**
Total sales	929,165	263,003	1,192,168	38,034	1,230,202
Profit before tax	**121,525**	**93,579**	**215,104**	**(2,620)**	**212,484**
Depreciation and amortisation (Note 15 and 16)	(176,992)	(42,724)	(219,716)	(7,283)	(226,999)
Income tax	-	-	-	-	(32,060)
Share in profit in the associate	-	-	-	-	27,951
Total assets	**1,796,811**	**462,962**	**2,259,773**	**199,439**	**2,459,212**
Investment in associate	**-**	**-**	**-**	**-**	**250,168**
Total liabilities	**12,867**	**3,663**	**16,530**	**5,948**	**22,478**

The segment information for the year ended 31 December 2018 is as follows:

HRK'000	Hotels & apartments	Campsites	**Total business segments**	Other business segments	**Total**
Total sales	903,906	259,881	1,163,787	41,295	1,205,082
Profit before tax	**144,654**	**102,621**	**247,276**	**1,505**	**248,781**
Depreciation and amortisation (Note 15 and 16)	(167,932)	(38,330)	(206,262)	(6,282)	(212,544)
Income tax	-	-	-	-	51,083
Share in profit in the associate	-	-	-	-	28,413
Total assets	**1,912,054**	**475,406**	**2,387,460**	**147,953**	**2,535,413**
Investment in associate	**-**	**-**	**-**	**-**	**246,491**
Total liabilities	**28,422**	**7,971**	**36,393**	**3,507**	**39,900**

NOTE 6 – SEGMENT INFORMATION *(continued)*

Reconciliation of profit before tax is as follows:

	2019	2018
	HRK'000	HRK'000
Total sales of business segment	**1,192,168**	1,163,787
Total sales of other segment	**38,034**	41,295
Inter-segment revenue	**(53,516)**	(52,620)
Revenue from external customers	**1,176,686**	1,152,461
Profit before tax for business segment	**215,104**	247,276
Profit before tax for other segment	**(2,620)**	1,505
Unallocated profit before tax	**27,951**	28,413
Profit before tax	**240,435**	277,194

The reconciliation of segment assets and liabilities with the Group's assets and liabilities is as follows:

	2019		2018	
	Assets	**Liabilities**	Assets	Liabilities
	HRK'000	**HRK'000**	HRK'000	HRK'000
Business segment assets/liabilities	**2,259,773**	**16,530**	1,912,054	36,393
Other segment assets/liabilities	**199,439**	**5,948**	147,953	3,507
Unallocated:	**946,984**	**1,000,481**	1,076,119	833,187
Available-for-sale financial assets	**13,111**	**-**	11,064	-
Loans and deposits given	**21**	**-**	778	-
Cash and cash equivalents	**572,312**	**-**	185,830	-
Share in associate	**250,168**	**-**	246,491	-
Deferred tax assets	**20,746**	**-**	52,935	-
Provisions	**-**	**12,840**	-	11,611
Borrowings	**-**	**832,335**	-	670,442
Deferred tax liability	**-**	**10,566**	-	10,601
Other liabilities	**90,626**	**144,740**	579,021	140,533
Total	**3,406,196**	**1,022,959**	3,136,126	873,087

Other unallocated assets relate to assets under construction, right of use of assets, trade receivables and advances to suppliers. Other unallocated liabilities relate advances from customers, liabilities to employees and unallocated trade payables.

NOTE 6 – SEGMENT INFORMATION *(continued)*

Sale of services

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Revenue from tourism services – contracts with customers	**1,127,399**	1,100,547	**1,110,320**	1,080,720
Other revenue	**44,620**	42,466	**43,873**	41,749
Total	**1,172,019**	1,143,013	**1,154,193**	1,122,469

NOTE 7 – COST OF MATERIALS AND SERVICES

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Raw materials and supplies				
Raw materials and supplies used	**94,680**	92,272	**94,544**	92,116
Energy and water used	**72,722**	74,050	**72,650**	74,004
Small inventories	**9,465**	9,099	**9,464**	9,097
Total	**176,867**	175,421	**176,658**	175,217
External services				
Franchise costs	**8,965**	8,764	**8,965**	8,764
Maintenance services	**29,622**	26,215	**28,880**	25,539
Laundry and cleaning services	**16,993**	15,312	**16,863**	15,197
Entertainment and animation	**14,969**	11,413	**14,814**	11,339
Transportation and telecommunication	**4,364**	4,143	**4,219**	3,921
Advertising and promotion	**13,501**	11,028	**11,352**	9,043
Utility services	**12,787**	12,106	**12,783**	12,100
Rentals	**3,797**	4,466	**1,657**	2,544
Student employment agency services	**3,456**	5,843	**3,123**	5,464
ATP tennis tournament services	**4,401**	4,169	**-**	-
Security services for assets and individuals	**12,549**	11,235	**12,037**	10,642
Commission agency	**44,953**	39,211	**42,911**	39,181
Other services	**8,265**	7,707	**7,770**	7,587
Total	**178,622**	161,612	**165,374**	151,321
Total	**355,489**	337,033	**342,032**	326,538

NOTE 8 – STAFF COSTS

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Wages and salaries – net	**150,797**	147,044	**150,301**	146,580
Contributions and taxes	**42,305**	41,609	**42,154**	41,467
Reimbursements to employees	**33,887**	34,529	**33,762**	34,408
Severance payments	**23,704**	23,241	**23,595**	23,139
Bonuses	**35,241**	26,323	**34,387**	25,427
Total	**285,934**	272,746	**284,199**	271,021
Number of employees as at 31 December	**1,502**	1,618	**1,498**	1,614

NOTE 9 – OTHER OPERATING EXPENSES

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Utility and similar charges, taxes and contributions	**42,001**	43,170	**41,516**	42,669
Professional services	**11,935**	12,294	**7,077**	7,574
Insurance premiums	**4,511**	4,181	**4,446**	4,116
Travel and entertainment	**1,318**	1,338	**1,075**	1,105
Bank charges and membership fees	**5,970**	5,383	**5,672**	5,118
Increase in provisions for legal disputes	**2,748**	1,320	**2,748**	1,320
Provision for impairment of trade and other receivables	**1,679**	3,969	**1,607**	1,437
Other	**14,001**	12,361	**18,614**	13,432
Total	**84,163**	84,016	**82,755**	76,771

NOTE 10 – OTHER GAINS/LOSSES - NET

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Net gains/(losses) from sale of property, plant and equipment	**(537)**	8,011	**(534)**	8,015

NOTE 11 – FINANCE INCOME AND COSTS

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Financial income				
Dividend income - affiliated companies	**-**	-	**26,241**	62,390
Dividend income - not affiliated companies	**528**	521	**528**	521
Interest income from cash deposits	**45**	327	**44**	326
Net foreign exchange gains	**623**	4,412	**638**	4,405
Other finance income	**400**	439	**400**	439
Total finance income	**1,596**	5,699	**27,851**	68,081
Finance expense				
Interest expense	**12,676**	11,051	**12,979**	11,480
Total finance expense	**12,676**	11,051	**12,979**	11,480
Net financial expense	**(11,080)**	(5,352)	**14,872**	56,601

NOTE 12 – INCOME TAX

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Current income tax	265	450	-	-
Deferred tax expense/ (income)	31,795	(51,533)	31,795	(51,726)
Income tax	**32,060**	(51,083)	**31,795**	(51,726)

The tax on the Group's (Company's) profit before tax differs from the theoretical amount that would arise using the tax rate of 18% as follows:

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Profit before tax	**240,435**	277,194	**237,340**	308,314
Income tax at rate of 18%	**43,278**	49,895	**42,722**	55,497
Effect of non-taxable income	**(6,403)**	(7,147)	**(6,090)**	(12,963)
Effect of non-deductible expenses	**1,341**	1,222	**1,319**	793
Tax incentive	**(6,156)**	(95,053)	**(6,156)**	(95,053)
Income tax expense	**32,060**	(51,083)	**31,795**	(51,726)
Effective tax rate	***13.34%***	-	***13.40%***	-

The Company on the basis of the Investment Incentive Act, applied investment projects for the period from 2017 to 2020 in order to acquire the status of holder of incentive measures.

Based on realised qualifying investment up to 31 December 2019, the Company became entitled to tax incentives of HRK 101,220 thousand, out of which HRK 43,730 thousand was utilised in 2018, and HRK 38,340 thousand was utilised in 2019. Outstanding income tax credit as of 31 December 2019 amounted to HRK 19,150 thousand.

In accordance with local regulations, the Tax Authority may at any time inspect the Group companies' books and records within 3 years subsequent to the year in which the tax liability is reported, and may impose additional tax assessments and penalties.

NOTE 13 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares (ordinary and preference) in issue during the year excluding ordinary and preference shares purchased by the Company and held as treasury shares (Note 23). Total number of ordinary shares both during 2019 and 2018 was 2,197,772 and number of treasury shares for both years was 2,346 therefore weighted average number of ordinary shares though both periods was 2,195,426 shares. Number of preference shares issued and weighted average number of ordinary shares though both periods was 420,000 shares.

2019		**Preference shares**	**Ordinary shares**
Total number of shares issued		***420,000***	***2,197,772***
In HRK'000			
Profit for the year attributable to the owners of the Company	**208,375**		
Fixed annual dividend - preference shares	(105)	105	-
Profit for the year attributable to equity holders	208,270	33,445	174,825
Total earnings for the year attributable to equity holders		**33,550**	**174,825**
Weighted average number of shares in issue excluding treasury shares		420,000	2,195,426
Basic and diluted earnings per share (in HRK)		**79.88**	**79.63**

2018		**Preference shares**	**Ordinary shares**
Total number of shares issued		***420,000***	***2,197,772***
In HRK'000			
Profit for the year attributable to the owners of the Company, restated	**328,277**		
Fixed annual dividend - preference shares	(105)	105	-
Profit for the year attributable to equity holders	328,172	52,700	275,472
Total earnings for the year attributable to equity holders, restated		**52,805**	**275,472**
Weighted average number of shares in issue excluding treasury shares		420,000	2,195,426
Basic and diluted earnings per share (in HRK), restated		**125.73**	**125.48**

Diluted earnings per share

Diluted earnings per share for 2019 and 2018 are equal to basic earnings per share, since the Group did not have any convertible instruments or share options outstanding during either years.

NOTE 14 – DIVIDEND PER SHARE

Up to the date of this report, the Management Board and Supervisory Board of the Company have not proposed an ordinary dividend. Dividends will be accounted for after being approved by the Annual General Assembly.

Unpaid dividends in respect of 2005 through 2019 of HRK 5,358 thousand are disclosed as dividends payable in “trade and other payables”.

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

Group *(in thousands of HRK)*	**Land and buildings**	**Plant and equipment**	**Other assets**	**Assets under construction**	**Total**
Year ended 31 December 2018					
Opening net book amount	2,058,985	108,339	105,024	41,436	2,313,784
Transfer – asset allocation	67,684	(39)	(67,645)	-	-
Additions	401,743	45,687	10,613	(18,489)	439,554
Sale	(1,995)	(22)	-	-	(2,017)
Write off	(71)	(430)	-	-	(501)
Other movements between accounts	(6,223)	(460)	6,683	-	-
Depreciation	(160,931)	(37,938)	(7,498)	-	(206,367)
Closing net book amount	**2,359,192**	**115,137**	**47,177**	**22,947**	**2,544,453**
At 31 December 2018					
Cost	4,680,807	569,437	111,742	22,947	5,384,933
Accumulated depreciation and impairment	(2,321,615)	(454,300)	(64,565)	-	(2,840,480)
Net book amount	**2,359,192**	**115,137**	**47,177**	**22,947**	**2,544,453**
Year ended 31 December 2019					
Opening net book amount	2,359,192	115,137	47,177	22,947	2,544,453
Transfer	110,116	32,959	8,101	(151,176)	-
Additions	-	29	-	139,544	139,573
Sale and impairment	(221)	(337)	(5)	-	(563)
Depreciation	(171,181)	(39,879)	(8,073)	-	(219,133)
Closing net book amount	**2,297,906**	**107,909**	**47,200**	**11,315**	**2,464,330**
At 31 December 2019					
Cost	4,781,964	586,782	119,837	11,315	5,499,898
Accumulated depreciation and impairment	(2,484,058)	(478,873)	(72,637)	-	(3,035,568)
Net book amount	**2,297,906**	**107,909**	**47,200**	**11,315**	**2,464,330**

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company *(in thousands of HRK)*	**Land and buildings**	**Plant and equipment**	**Other assets**	**Assets under construction**	**Total**
Year ended 31 December 2018					
Opening net book amount	849,627	36,908	5,200	37,481	929,216
Merger of company	1,154,447	64,804	99,654	3,955	1,322,860
Transfers	61,496	5,980	(67,476)	-	-
Additions	401,787	45,654	10,613	(18,489)	439,565
Cost of acquisition above fair value	61,136	-	-	-	61,136
Sale	(1,995)	(22)	-	-	(2,017)
Write off	(237)	(426)	-	-	(663)
Other movements between accounts	(6,223)	(461)	6,684	-	-
Depreciation	(160,920)	(37,675)	(7,498)	-	(206,093)
Closing net book amount	**2,359,118**	**114,762**	**47,177**	**22,947**	**2,544,004**
At 31 December 2018					
Cost	4,680,699	567,246	111,742	22,947	5,382,634
Accumulated depreciation and impairment	(2,321,581)	(452,484)	(64,565)	-	(2,838,630)
Net book amount	**2,359,118**	**114,762**	**47,177**	**22,947**	**2,544,004**
Year ended 31 December 2019					
Opening net book amount	2,359,118	114,762	47,177	22,947	2,544,004
Transfer	110,116	32,959	8,101	(151,176)	-
Additions	-	1	-	139,544	139,545
Write off	(220)	(334)	(5)	-	(559)
Depreciation	(171,170)	(39,724)	(8,073)	-	(218,967)
Closing net book amount	**2,297,844**	**107,664**	**47,200**	**11,315**	**2,464,023**
At 31 December 2019					
Cost	4,781,857	584,746	119,837	11,315	5,497,755
Accumulated depreciation and impairment	(2,484,013)	(477,082)	(72,637)	-	(3,033,732)
Net book amount	**2,297,844**	**107,664**	**47,200**	**11,315**	**2,464,023**

Additions under 'Land and buildings' relate to various construction works in hotels and campsites. As at 31 December 2019 the net carrying value of land and buildings pledged by the Group as collateral for repayment of long-term borrowings amounted to HRK 1,075,873 thousand (2018: HRK 1,093,141 thousand).

NOTE 15a – INVESTMENT PROPERTY

The carrying value of property, plant and equipment of the Group, classified according to IAS 40 *Investment property* as investment property, leased out under operating leases is as follows:

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Cost	**103,298**	103,632	**103,298**	103,632
Accumulated depreciation, 1 January	**(78,842)**	(76,434)	**(78,842)**	(76,434)
Depreciation expense	**(2,939)**	(3,033)	**(2,939)**	(3,033)
Net book amount	**21,517**	24,165	**21,517**	24,165

Operating leases relate to leases of business premises and hospitality facilities.

As 31 December, according to Managements best estimate, the estimated fair value of the investment property was HRK 176,465 thousand.

During 2019, the Group realised rental income in the amount of HRK 16,278 thousand (2018: HRK 15,342 thousand). During the year, there were no direct operating expenses arising from the utilisation of these assets except for the depreciation charge.

The future minimum lease payments receivable in accordance with the contracts as at 31 December are as follows:

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Up to 1 year	**16,278**	16,496	**16,278**	16,496
From 2 to 5 years	**65,112**	65,983	**65,112**	65,983
Total	**81,390**	82,479	**81,390**	82,479

NOTE 16 – INTANGIBLE ASSETS

Group

(in thousands of HRK)	Software	Goodwill	Asset being prepared	Total
At 1 January 2018				
Purchase value	28,949	12,480	24	41,453
Accumulated amortisation	(20,716)	-	-	(20,716)
Net book value	**8,233**	**12,480**	**24**	**20,737**
For year ended 31 December 2018				
Opening net book amount	8,233	12,480	24	20,737
Additions	2,124	-	(24)	2,100
Amortisation	(3,144)	-	-	(3,144)
Closing net book amount	**7,213**	**12,480**	**-**	**19,693**
At 31 December 2018				
Purchase value	31,087	12,480	-	43,567
Accumulated amortisation	(23,874)	-	-	(23,874)
Net book amount	**7,213**	**12,480**	**-**	**19,693**
For year ended 31 December 2019				
Opening net book amount	7,213	12,480	-	19,693
Additions	-	-	1,031	1,031
Transfers	1,014	-	(1,014)	-
Amortisation	(3,026)	-	-	(3,026)
Closing net book amount	**5,201**	**12,480**	**17**	**17,698**
At 31 December 2019				-
Purchase value	30,285	12,480	17	42,782
Accumulated amortisation	(25,084)	-	-	(25,084)
Net book value	**5,201**	**12,480**	**17**	**17,698**

NOTE 16 – INTANGIBLE ASSETS *(continued)*

Company

(in thousands of HRK)	Software	Goodwill	Asset being prepared	Total
At 1 January 2018				
Purchase value	9,435	-	24	9,459
Accumulated depreciation	(6,892)	-	-	(6,892)
Net book value	**2,543**	**-**	**24**	**2,567**
For year ended 31 December 2018				
Opening net book amount	2,543	-	24	2,567
Merge of subsidiary	5,521	12,480	-	18,001
Additions	2,122	-	(24)	2,098
Amortisation	(3,088)	-	-	(3,088)
Closing net book amount	**7,098**	**12,480**	**-**	**19,578**
At 31 December 2018				
Purchase value	30,865	12,480	-	43,345
Accumulated amortisation	(23,767)	-	-	(23,767)
Net book amount	**7,098**	**12,480**	**-**	**19,578**
For year ended 31 December 2019				
Opening net book amount	7,098	12,480	-	19,578
Additions	-	-	1,015	1,015
Transfers	1,015	-	(1,015)	
Amortisation	(2,971)	-	-	(2,971)
Closing net book amount	**5,142**	**12,480**	**-**	**17,622**
At 31 December 2019				
Purchase value	30,065	12,480	-	42,545
Accumulated amortisation	(24,923)	-	-	(24,923)
Net book value	**5,142**	**12,480**	**-**	**17,622**

Goodwill is allocated to cash-generating units for impairment testing purposes. Allocation is carried out on those cash-generating units ("CGU") that are expected to benefit from the business combination in which goodwill is generated.

CGU relates to the properties that were previously operated by company Istraturist d.d. Properties are located in Istria, Umag. There are no goodwill impairment indicators identified, taking into account the previous valuation of the company Istraturist Umag for the purpose of the merger, which was carried out by an independent appraiser in May 2017, and taking into account the business results for 2017 and the results that related properties generated in 2018 and 2019.

Key assumptions used in the estimation of the recoverable amount were the discount rate of 9% and the growth rate of 1%. Capital expenditure used has been calculated as three years average.

NOTE 17 – RIGHT-OF-USE ASSETS

The Company and Group have applied IFRS 16 *Leases* using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company leases business premises and associated land, and maritime domain in front of the hotels and in campsites.

Below is an overview of lease-related information where the Company is a lessee.

The statement of financial position shows the amounts for leases as follows:

(in thousands of HRK)	Maritime domain	Business premises and associated land	Total
Year ended 31 December 2019			
Opening net carrying amount	24,635	1,704	26,339
Additions	-	-	-
Depreciation	(1,687)	(214)	(1,901)
Closing net carrying amount	**22,948**	**1,490**	**24,438**

(in thousands of HRK)	**31 December 2019**
Lease liabilities	
Current portion	1,733
Non-current portion	22,907
	24,640

Statement of comprehensive income shows the amounts for leases as follows:

(in thousands of HRK)	
Depreciation of asset with right of use	
Maritime domain	1,687
Business premises and associated land	214
	1,901
Interest expense (included in finance expenses)	461

NOTE 18 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATE

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Subsidiaries	**-**	-	**113**	113
Associates	**250,168**	246,491	**190,732**	190,732
Total	**250,168**	246,491	**190,845**	190,845

	Country	Ownership %	
Subsidiaries		**31.12.2019.**	**31.12.2018.**
Travel d.o.o., Poreč	Croatia	100.00	100.00
Istra DMC d.o.o., Umag	Croatia	100.00	100.00
Istraturist j.d.o.o.	Croatia	100.00	100.00
Associates			
Jadranski luksuzni hoteli d.d.	Croatia	32.48	32.48

Jadranski luksuzni hoteli d.d. is tourism company operating hotels in Dubrovnik, Croatia.

Changes in investments in subsidiaries are as follows:

	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Opening balance	**-**	-	**113**	933,883
Merger	**-**	-	**-**	(933,807)
Acquisition of subsidiaries by merger	**-**	-	**-**	37
Closing balance	**-**	-	**113**	113

Merger

As of 1 January effects of merger of Istraturist Umag d.d., Umag into the Company became effective.

Since the merger applied to companies under common control of Vallum Foundation, Vaduz, Liechtenstein, the effect of the merger in the amount of HRK 273,121 thousand was recognised in Company's capital and reserves. All assets and liabilities were accounted at previous consolidated carrying values so there was no impact on consolidated statements of financial position or statement of comprehensive income (other than equity classification).

Non-controlling interest was partially bought out for HRK 2,286 thousand and the rest was settled in shares of the Company.

Changes in investments in associate is as follows:

	HRK '000	
	31.12.2019	31.12.2018
At the beginning of the year	246,491	280,468
Share of profit in associate	27,951	28,413
Dividend received	(24,274)	(62,390)
At the end of the year	**250,168**	246,491

NOTE 18 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATE *(continued)*

The unlisted associate is as follows:

	2019	2018
	HRK'000	HRK'000
Percentage of ownership interest	**32.48%**	32.48%
Non-current assets	**1,095,055**	1,137,846
Current assets	**123,026**	135,078
Non-current liabilities	**359,906**	421,424
Current liabilities	**123,997**	128,642
Net assets	**734,178**	722,858
Group's share of net assets (32.48%)	**238,461**	234,784
Goodwill	**11,707**	11,707
Carrying amount of interest in associate	**250,168**	246,491
Revenue	**540,093**	522,313
Profit for the year	**95,227**	87,479
Other comprehensive income	**59**	-
Total comprehensive income	**95,286**	87,479
Total comprehensive income (32,48%)	**27,951**	28,413

NOTE 19 – FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Investments in banks	**10,389**	8,505	**10,389**	8,505
Investments in companies	**2,722**	2,559	**2,722**	2,559
Total	**13,111**	11,064	**13,111**	11,064

/i/ Investments represent less than 1% ownership interest in the shareholders' equity of these companies.

Available-for-sale – listed equity securities	**2019**	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Opening balance	**11,064**	9,217	**11,064**	9,217
Acquisition	**-**	1,840	**-**	1,840
Revaluation gains	**2,047**	7	**2,047**	7
Closing balance	**13,111**	11,064	**13,111**	11,064

Investments in securities are stated at fair value using quoted prices on the domestic capital market.

NOTE 20 – DEFERRED TAX ASSETS AND LIABILITIES

	Assets		Liabilities		Net	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
(in thousands of HRK)						
Property, plant and equipment, restated	**-**	-	**(10,198)**	(10,601)	**(10,198)**	(10,601)
Financial assets measured at fair value through OCI	**-**	-	**(368)**	-	**(368)**	-
Provisions	**345**	345	**-**	-	**345**	345
Income tax credit	**19,150**	51,323	**-**	-	**19,150**	51,323
Jubilee awards and termination benefits, restated	**1,251**	1,267	**-**	-	**1,251**	1,267
Total	**20,746**	52,935	**(10,566)**	(10,601)	**10,180**	42,334

Movements in deferred tax assets and liabilities:

Group	**1 Jan 2018**	**Recognised in profit and loss account**	**Recognised as OCI**	**31 Dec 2018**	**Recognised in profit and loss account**	**Recognised as OCI**	**31 Dec 2019**
(in thousands of HRK)							
Property, plant and equipment, restated	(11,004)	403	-	(10,601)	403	-	**(10,198)**
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(368)	**(368)**
Provisions	537	(192)	-	345	-	-	**345**
Income tax credit	-	51,323	-	51,323	(32,173)	-	**19,150**
Jubilee awards and termination benefits, restated	1,263	(1)	5	1,267	(25)	9	**1,251**
Total	(9,204)	51,533	5	42,334	(31,795)	(359)	**10,180**

Company	**1 Jan 2018**	**Recognised in profit and loss account**	**Recognised as OCI**	**31 Dec 2018**	**Recognised in profit and loss account**	**Recognised as OCI**	**31 Dec 2019**
(in thousands of HRK)							
Property, plant and equipment, restated	-	403	(11,004)	(10,601)	403	-	**(10,198)**
Financial assets measured at fair value through OCI	-	-	-	-	-	(368)	**(368)**
Provisions	-	-	345	345	-	-	**345**
Income tax credit	-	51,323	-	51,323	(32,173)	-	**19,150**
Jubilee awards and termination benefits, restated	1,263	-	4	1,267	(25)	9	**1,251**
Total	1,263	51,726	(10,655)	42,334	(31,795)	(359)	**10,180**

NOTE 21 – TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Domestic trade receivables	**5,453**	6,727	**7,554**	9,258
Foreign trade receivables	**8,734**	8,975	**3,668**	3,024
Due from brokers - agencies	**321**	176	**321**	176
Impairment of trade receivables	**(8,171)**	(7,592)	**(5,511)**	(5,005)
Trade receivables - net	**6,337**	8,286	**6,032**	7,453
Accrued income not yet invoiced	**(420)**	1,581	**(420)**	1,581
Total financial assets	**(420)**	1,581	**(420)**	1,581
Due from state institutions	**842**	747	**832**	745
VAT prepayments	**1,631**	5,635	**1,489**	5,437
Advances from suppliers	**116**	159	**116**	151
Other current receivables	**657**	698	**577**	582
Impairment of other receivables	**(8)**	(8)	**(8)**	(8)
Total	**9,155**	17,098	**8,618**	15,941

Movements in impairment allowance of trade and other receivables.

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
At 1 January	**7,592**	4,215	**5,005**	4,160
New impairments, net	**579**	3,896	**506**	1,364
Write-off	**-**	(519)	**-**	(519)
At 31 December	**8,171**	7,592	**5,511**	5,005

Most of the receivables from customers for which there is a write-off, and where cost of legal proceedings is justified are debited, or have begun the billing process or the settlement agreement (after the balance sheet date). The outcome of the claim-related procedure cannot be foreseen with certainty, nor can it be predicted to what extent it will be charged.

As at 31 December 2019 Company recognised loss allowance for ECL in the amount of HRK 197 thousand (31 December 2018: 0).

NOTE 22 – CASH AND CASH EQUIVALENTS

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Giro and current accounts	**12,283**	6,096	**5,710**	1,890
Foreign currency accounts	**559,748**	179,385	**557,329**	177,817
Cash in hand	**281**	349	**271**	336
Total	**572,312**	185,830	**563,310**	180,043

NOTE 23 –EQUITY

The equity ownership structure as at 31 December 2019 and 2018 was as follows:

Shareholder	**Total number of shares**	**Total amount (HRK)**	**Holding in share capital %**
Ownership of ordinary shares:			
Adriatic Investment Group, Luxembourg	1,851,352	1,128,388,955	84.24
Treasury shares	2,346	1,429,874	0.11
Other legal entities and natural persons	344,074	209,711,228	15.66
	2,197,772	**1,339,530,057**	**100.00**
Ownership of preference shares:			
Adriatic Investment Group, Luxembourg	420,000	105,000,000	**100.00**
Total	**420,000**	**105,000,000**	**100.00**
		1,444,530,057	

All shares are fully paid. In addition to regular dividends issued and paid on ordinary shares, preference shares are entitled to a fixed annual dividend of HRK 0.25 per share and are not entitled to vote. Fixed annual dividend is declared and paid out simultaneously with the dividend on regular shares.

By the decision of the General Assembly of the Company, as of 29 August 2019, dividend payment was paid in the amount of HRK 34.30 per ordinary share and HRK 34.55 per preference share, totaling HRK 89,814 thousand.

NOTE 24 – RESERVES

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Legal reserves	**53,021**	53,021	**53,021**	53,021
Other reserves	**73,714**	72,077	**73,714**	72,077
Total	**126,735**	125,098	**126,735**	125,098

Changes in reserves:

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
Legal reserves				
Opening balance	**53,021**	50,433	**53,021**	50,433
Transfer from retained earnings	**-**	2,588	**-**	2,588
Closing balance	**53,021**	53,021	**53,021**	53,021
Other reserves				
Opening balance	**72,077**	33,542	**72,077**	33,542
Effect of merger	**-**	38,554	**-**	38,554
Remeasurement of defined benefit liability	**(42)**	(24)	**(42)**	(24)
Fair value of financial assets through comprehensive income	**1,679**	5	**1,679**	5
Closing balance	**73,714**	72,077	**73,714**	72,077

Legal reserves are formed in accordance with Croatian regulations stipulating that the Company is obliged to enter into the legal reserve twentieth part (5%) of the year's profit until the reserves together with the capital reserves reach the five percent (5%) of the Company's registered capital. This reserve is non-distributable.

By a decision of the Assembly of 30 August 2018, the Company has allocated from the current profit the amount of HRK 2,588 thousand to legal reserves. As at 31 December 2019 and 31 December 2018, the legal reserves amounted to HRK 53,021 thousand or 3.67% of the share capital, while the share of legal reserves together with the capital reserves that are not distributable to the amount of HRK 29,572 thousand, which are formed by the denomination of the value of shares in 2001 (from HRK 1,860 to HRK 1,800 per share), representing a share of 5.72% (2018: 5.72%) of the Company's share capital.

Other reserves:

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Capital reserves	**29,572**	29,572	**29,572**	29,572
Merger reserves	**38,554**	38,554	**38,554**	38,554
Reserves for own shares	**737**	737	**737**	737
Reserves-fair value of financial assets	**4,917**	3,238	**4,917**	3,238
Actuarial gains/(losses)	**(66)**	(24)	**(66)**	(24)
Total	**73,714**	72,077	**73,714**	72,077

NOTE 25 – BORROWINGS

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Long-term loans				
Bank borrowings	**692,577**	581,046	**692,577**	581,046
Borrowings from subsidiaries	**-**	-	**6,614**	8,587
	692,577	581,046	**699,191**	589,633
Short-term loans				
Current portion of bank borrowings	**113,706**	88,600	**113,706**	88,600
Accrued interest and fees	**1,412**	796	**1,412**	796
	115,118	89,396	**115,118**	89,396
Total borrowings	**807,695**	670,442	**814,309**	679,029

Banks

Long-term bank borrowings are denominated in EUR at fixed interest rates of 1.6% and 1.95% per annum. The loans are repayable in annual instalments up to 2025. Bank borrowings are secured by a mortgage over land and buildings (note 15). Bank loan contracts contain a loan covenant.

Intercompany loans - Company

Borrowing from the related party relates to sale of mobile houses to Plava Laguna d.d., whereas the part of it is contracted to be repaid by the loan. Interest rate is rate defined by Tax Authorities to loans between related parties. The loan matures as of 31 December 2022.

The maturity of long-term borrowings is as follows:

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
From 1 to 2 years	**158,363**	113,326	**164,977**	117,913
From 2 to 5 years	**408,929**	307,007	**408,929**	311,007
Over 5 years	**125,285**	160,713	**125,285**	160,713
Total	**692,577**	581,046	**699,191**	589,633

NOTE 25 – BORROWINGS *(continued)*

The movements in debt during 2019 are presented in the table below:

	Group	Company
	HRK'000	HRK'000
As at 1 January 2019	**670,442**	**679,029**
Increase of lease liability - MSFI 16	26,339	26,339
Cash inflow	223,291	223,291
Cash outflow	(90,580)	(92,552)
Interest paid	(11,559)	(11,862)
Interest expense	12,676	12,979
Net foreign exchange difference	1,726	1,725
As at 31 December 2019	**832,335**	**838,949**

The movements in debt during 2018 are presented in the table below:

	Group	Company
	HRK'000	HRK'000
As at 1 January 2018	**619,522**	**452,660**
Acquired from merged company	-	176,863
Cash inflow	148,352	148,352
Cash outflow	(88,678)	(90,090)
Interest paid	(11,992)	(12,390)
Interest expense	11,051	11,480
Net foreign exchange difference	(7,813)	(7,846)
As at 31 December 2018	**670,442**	**679,029**

NOTE 26 – TRADE AND OTHER PAYABLES

	Group		Company	
	2019	2018 Restated	**2019**	2018 Restated
	HRK'000	HRK'000	**HRK'000**	HRK'000
Trade payables	**24,582**	42,061	**24,212**	41,498
Due to related parties (Note 29)	**-**	-	**95**	204
Dividends payable (Note 14)	**5,358**	5,360	**5,358**	5,360
Accrued costs not yet invoiced	**2,857**	3,557	**2,856**	3,295
Concession payable	**57,099**	50,262	**57,099**	50,262
	89,896	101,240	**89,620**	100,619
Net salaries payable	**28,129**	28,425	**28,071**	28,384
Taxes and contributions payable	**20,561**	21,202	**20,281**	21,140
Advances payable	**22,582**	20,776	**22,274**	21,828
Other current liabilities	**6,050**	8,790	**5,927**	8,356
Total	**167,218**	180,433	**166,173**	180,327

i i/ Tourist land provisions and obligations in accordance with the provisions of the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process (the 'Act'), the Company submitted requests to the Republic of Croatia for the approval of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to land areas in campsites and tourist resorts in Croatia. Since the adoption of the Act in 2010, as far as the Company is aware, no concession agreement has been signed into with respect to tourist land in campsites/tourist resorts in the Republic of Croatia due to ambiguities in the wording of the Act and other related regulations. The status of the Company's tourist land concession requests is similar to the status of concession requests submitted by other companies in the Republic of Croatia. In practice, companies that have applied for a concession regularly pay the concession fee according to the received invoices based on the Regulations in the amount of 50% of the concession fee. The new law regarding this matter has been enacted in April 2020 and provides better solutions, so it is expected to enable the Company to solve all of those issues. The Group and the Company consider the liabilities recorded to be sufficient. Concession expense for Group and the Company for 2019 of HRK 14,130 thousand (2018: HRK 13,841 thousand) have been included in *Other operating expenses*.

NOTE 27 – PROVISIONS

	Group and Company		
	Legal claims	**Provision for jubilee awards and termination benefits Restated**	**Total**
	HRK'000	**HRK'000**	**HRK'000**
Balance at 1 January 2019 restated	4,571	7,040	11,611
Increase in provisions	2,748	652	3,400
Unused provisions released	-	-	-
Utilized during the year	(1,488)	(683)	(2,171)
Balance at 31 December 2019	**5,831**	**7,009**	**12,840**
Non-current	**5,831**	**6,167**	**11,998**
Current	**-**	**842**	**842**

Jubilee awards and regular retirement benefits

According to the current benefits, there is an obligation to pay jubilee awards and retirement to employees. The employees are entitled to a regular retirement benefit of HRK 8 thousand. No other post-retirement benefits are provided. Jubilee awards are paid out according to the passage of certain continuous service.

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, mortality rates or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty. Key assumptions were a discount rate of 3% and fluctuation rate of 3%.

Legal claims

The amounts comprise provisions in respect of certain legal claims brought against the Group (Company).

NOTE 28 – CONTINGENT LIABILITIES

Litigation (NLB litigation of the merged company Istraturist Umag d.d., Umag).

Introduction and dispute history

ISTRATURIST UMAG, d.d., which was on 1 January 2018 merged into the company PLAVA LAGUNA d.d. (hereinafter: the Company), contracted loans and other financial arrangements with Ljubljanska Banka d.d. in the early 1990s, of an approximate value of DEM 31 million (approximately HRK 120 million), which, due to difficulties in business operations resulting from events of the war, it failed to repay.

In accordance with the relevant legislation which prescribes the manner in which deposits of Croatian depositors with banks domiciled outside the Republic of Croatia are to be settled, ZAGREBAČKA BANKA d.d. retained and sold part of its claims towards Ljubljanska Banka d.d. titled “old foreign currency savings” amounting to DEM 31 million, to its client ISTRATURIST UMAG, d.d. Umag, in return acquiring a share in the equity of the Company. The Company offset its (purchased) receivables from Ljubljanska Banka d.d. in the amount of DEM 31 million, with its financial liabilities towards Ljubljanska banka d.d. in the same amount.

The Republic of Slovenia established Nova Ljubljanska Banka d.d., by means of a special Constitutional Act, after the above-mentioned offset, to which all claims but not liabilities of Ljubljanska Banka were transferred, also excluding from the transfer the liabilities of Ljubljanska Banka to ISTRATURIST UMAG, d.d.

Proceedings initiated by Nova Ljubljanska banka d.d.

Nova Ljubljanska banka d.d. initiated two disputes against the Company before a court in the Republic of Slovenia in the period between 1994 and 1998, demanding payment of liabilities in the amount of DEM 31 million plus interest. Both disputes were concluded in favour of Nova Ljubljanska banka, and the claim filed by the Company before the European Court of Human Rights was dismissed as inadmissible.

In addition to disputes initiated in the Republic of Slovenia, Nova Ljubljanska banka initiated several court (enforcement) proceedings in the Republic of Croatia for the purpose of settling mortgage claims and credit claims, as well as recognition of the Slovenian court verdicts in Croatia. Most of the proceedings have been put on hold until a binding decision is rendered in the proceeding described below, and no actions to the detriment of the Company have been taken. It is our opinion that the proceeding that took place before the Commercial Court in Rijeka is of key importance, as in this proceeding it was confirmed in all instances, including the Supreme Court of the Republic of Croatia, that the above-mentioned offset by the Company in respect of the loans to which the court verdicts relates, was entirely valid and lawful, and hence the request of Nova Ljubljanska banka d.d. was rejected by a binding decision, which has the effect of a legal precedent in proceedings conducted in the Republic of Croatia.

NOTE 28 – CONTINGENT LIABILITIES *(continued)*

Proceedings initiated by the Company

The Company has sought the protection of its rights before the Croatian courts, claiming that the offset described above was entirely lawful and valid and that the mutual claims had thus ceased altogether, and that the transfer of the assets to a universal legal successor, without a simultaneous transfer of liabilities, was contrary to the Croatian legal order, seeking the declaration of the enforcement proceedings as inadmissible and the termination of the related liens, and, as a key proceeding, seeking that the Court find that Nova Ljubljanska banka d.d. and its predecessor Ljubljanska Banka d.d. hold no claims whatsoever, on any legal basis, towards the Company. In the latter, the High Commercial Court, after confirming through a retrial that all the liabilities of the Company had been settled through offset, in its ruling on an appeal, brought a clear and binding legal decision that the offset was valid, thus eliminating any doubt as to whether the Company had legally acquired receivables from Zagrebačka banka d.d. and then offset these with liabilities towards the then Ljubljanska banka d.d. Nova Ljubljanska banka d.d. filed for an audit with the Supreme Court of the Republic of Croatia, according to which the Group (Company) had not received a court decision until the date of drafting this Note.

Other proceedings within the EU

In addition to the recognition and enforcement of the Slovenian judgments in the Republic of Croatia, in 2017 and early 2018, the Company was provided with documents indicating that Nova Ljubljanska banka had initiated proceedings in 2017 and 2018 for recognition and enforcement of the Slovenian judgments in the Republic of Slovenia, the Republic of Austria, the Czech Republic and the Kingdom of the Netherlands, for the purpose of seizing the Group's (Company') receivables towards its debtors, i.e. travel agencies in the respective countries. In relation to the aforementioned proceedings, the Company shall use all legal means at its disposal to terminate these proceedings. The proceeding for recognition and enforcement in the Kingdom of the Netherlands was concluded with a binding decision in favour of the Group (Company), with the annulment of the lower court's decision by which the lower court upheld the enforceability of the Slovenian judgment and the respective enforcement order. In the Republic of Austria, the Group (Company) sought a declaration of inadmissibility of enforcement proceedings (opposition lawsuit), whereby a judgment (still not binding) was issued declaring that the enforcement proceedings were terminated due to the non-existence of grounds for enforcement.

NOTE 28 – CONTINGENT LIABILITIES *(continued)*

Management assessment

With the established business model, the Group (Company) freely manages and fully controls the sales business segment, and the Management Board considers, taking into account the guarantees of Zagrebačka banka d.d. Zagreb in relation to the Group (Company), that the proceedings for recognition and enforcement of the Slovenian judgments initiated by Nova Ljubljanska banka d.d. will not adversely affect the Group's (Company's) performance or the achievement of its planned business goals. The Group and the Company have not recognized provision.

Provisions for legal claims

Provisions for legal claims of HRK 5,831 thousand (2018: HRK 4,571 thousand) have been estimated on each reporting date taking into account probability of future cash out flow and taking into account the risk and uncertainties surrounding the obligation. The Group Company consults with its legal advisors in relation to probability of outflows to settle such obligations and assess the Group's (Company's) position in such claims.

Capital commitments

Future commitments contracted for investments in tourist facilities, for which provisions were not made, as at 31 December 2019 amounted to HRK 46 million (2018: HRK 54 million).

Franchise agreement

On 1 January 2016, the Group (Company) has signed franchised agreement with Melia Hotels International S.A. for the period of 10 years. Trademark fee is being charged on the base of the number of room units under Melia franchise.

Guarantees

As at 31 December 2019 there is guarantee issued to a Tax authority in the amount of HRK 3.9 million as a guarantee for payment of withholding tax in the case that within 24 months from the date of registration of the majority shareholder in the CDCC, the majority shareholder of the Company changes.

NOTE 29 – RELATED PARTY TRANSACTIONS

The Group (Company) considers that it is directly related to its owner and their subsidiaries, their affiliated and associated companies and other companies under the control of the Vallum Foundation, Vaduz, Liechtenstein, then members of the Supervisory Board, Management Board members, close family members of the Management Board, jointly controlled companies, companies under significant influence of key management and their immediate families, according to the definition stated in International Accounting Standard 24 "Disclosure of Related Parties" (IAS 24).

On January 10, 2018 a change of majority shareholder of the Company was made to the CDCC in the manner that company Adriatic Investment Group registered in Luxembourg became registered as a holder of 84.24% of ordinary shares and 100% of preferential shares of the Company. The ultimate control company is the Vallum Foundation, registered in Vaduz, Liechtenstein.

In the ordinary course of business, the Group (Company) enters into transactions with related parties. Related parties are subsidiaries, the majority owner, ultimate owner and companies under the common control of the ultimate owner.

The Company's transactions with related companies within the Group are as follows:

	2019	2018
	HRK'000	HRK'000
Trade and other receivables	**2,859**	3,717
Sales revenue	**225,219**	232,115
Other income	**-**	1
Financial income	**2,232**	11
Trade and other payables	**4,908**	3,814
Borrowings	**6,614**	8,587
Other expenses	**6,020**	2,645
Financial expenses	**303**	429

Transactions with the majority shareholder of the parent company:

During 2019, pursuant to the Decision of the General Assembly of the Company, a dividend was paid to the majority shareholding company in the gross amount of HRK 78,012 thousand.
Also, the transaction with the majority shareholder was realized in the amount of HRK 8 thousand, based on the provided accommodation service.

During 2019, the Company Plava Laguna d.d. received a dividend from the associated company and subsidiary in the amount of HRK 26,241 thousand.

At the balance sheet date there are no claims and liabilities to the parent company.

The Company's transactions with associate are as follows:

	2019	2018
	HRK'000	HRK'000
Trade and other receivables	**14**	32
Sales revenue	**204**	50
Financial income	**24,274**	62,390
Other expenses	**4**	-

NOTE 29 – RELATED PARTY TRANSACTIONS (continued)

The Company's transactions with other related companies are as follows:

	2019	2018
	HRK'000	HRK'000
Trade and other receivables	**22**	16
Sales revenue	**38**	13

Group key management and Supervisory Board compensation

	Group		Company	
	2019	2018	**2019**	2018
	HRK'000	HRK'000	**HRK'000**	HRK'000
Net salaries	**12,875**	10,788	**12,875**	10,788
Pension insurance contributions	**2,926**	2,677	**2,926**	2,677
Health insurance contributions	**3,437**	2,674	**3,437**	2,674
Other costs (contribution and taxes)	**4,890**	4,751	**4,890**	4,751
	24,128	20,890	**24,128**	20,890
Supervisory Board compensation	**1,012**	627	**1,012**	627
Total	**25,140**	21,517	**25,140**	21,517

Key management comprises 25 persons (2018: 24 persons). The Supervisory Board comprises 7 members (until 31 October 2019: 5 members).

NOTE 30– EVENTS AFTER THE BALANCE SHEET DATE

On 11 March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a pandemic. Responding to the potentially serious threat the COVID – 19 presents to public health, the government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors and the 'lock-down' of certain industries, pending further developments. In particular, railways suspended transport of people, schools, universities, hotels, restaurants, cinemas, theaters and museums and sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. Following the government measures, the Group and the Company have closed all of its hotels from March 2020 until at least May 2020. To counter the economic burden of the above containment measures on the economy, on 9 April 2020, the Government of Croatia announced a state aid program to counter the negative effects of the outbreak of COVID-19 on the economy. Under the program, the Group and the Company have applied for employment protection measures and received a grant for preserving jobs in respect to COVID 19 affected sectors for part of the employees that are not working. As at the date of approval of these financial statements, the grant has been approved for period from March 2020 to May 2020. Part of the employees are working to maintain basic operational activities such as administration and maintenance.

The Company operates in the hospitality sector that has generally been significantly affected by the outbreak of COVID-19. Based on the publicly available information at the date these financial statements were authorized for issue, management has considered the potential development of the outbreak and its expected impact on the Company and the Group and economic environment, in which they operate, including the measures already taken by the government. As part of assessment, various scenarios were considered, including those severe but plausible, such us the prolonged inability to open facilities and generate any revenues (until the end of 2020).

As at 31 December 2019, the Company's and the Group's short term liabilities amounted to HRK 284,911 thousand and HRK 283,866 thousand, respectively, and included primarily borrowings and trade payables, as discussed in Note 25 and Note 26 to these financial statements. In addition, its current ratio was 2.1 both for the Group and the Company, with cash balances available as at that date amounting to HRK 572,312 thousand for the Group and HRK 563,310 thousand for the Company. Despite the decrease of revenues and cash inflows in the first quarter of 2020, balances of cash funds are not significantly different to those at the year end. As at the date of the approval of these financial statements for issue, management is not aware of any significant risk to the Company's and the Group's ability to discharge their liabilities as they fall due in the foreseeable future. We also managed to collect almost all amounts receivable outstanding as at the balance sheet date while new receivables originating in the first quarter of 2020 of HRK 32,864 thousand for the Group and HRK 33,887 thousand for the Company were fully collected. Estimated interest expense for 2020 and 2021 for Group and the Company amounts to approximately HRK 15 million. As of 31 March 2020 the Group and the Company held cash funds of HRK 527 million and HRK 519 million respectively.

To ensure liquidity and sufficient funds for the year 2020 and first half of 2021, the Company and the Group have also introduced various measures to rationalise its costs, capital expenditure and cash outflows. The measures are as follows:

- Rationalization of staff costs – by means of salary reductions and not hiring new employees,
- Postponement of hiring seasonal workers (these workers generally represent approximately half of our workforce),
- Rationalization of operating costs – by means cancelling the purchase of small inventory, postponement and reduction of maintenance costs and opening costs, reduction of horticulture expenses,
- Non-payment of dividends (HRK 89,814 thousand paid in 2019).

NOTE 30– EVENTS AFTER THE BALANCE SHEET DATE (continued)

In addition, the Company and the Group have applied and received funds from the State aid programs. Based on the currently published criteria, under the Government program there is also a possibility to delay payments of certain liabilities, such as salaries tax and surtax. The Company and Group are planning to avail ourselves of this part of the program.

Given the measures described above, the Company and Group expect that the cash funds available as at 31 March 2020 (per above) will ensure operations and liquidity at least up to the next season in year 2021, even under the most severe but plausible scenario considered. Based on currently publicly available information, the Group's and the Company's current KPI's and in view of the actions initiated by management, the Company and Group do not anticipate a direct immediate and significant adverse impact of the COVID – 19 outbreak on the ability of Group and the Company to continue as going concern. The Company and Group cannot however preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment they operate in will not have an adverse effect on Group and the Company, and its financial position and operating results, in the medium and longer term. The management continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

REPORT OF THE AUDITING COMMITTEE

The Auditing Committee of the Company representing Mr. Davor Luksic Lederer, Ms. Danira Rančić and Ms. Suzana Kocijančić drafted this report in line with the provisions set forth below:

- Plava Laguna j.s.c. Poreč in accordance with the positive legislation of the Republic of Croatia has the obligation at the end of the business year to make an uncons. and cons. financial reports,
- The Company's General Assembly appointed the company KPMG Croatia d.o.o. from Zagreb as the auditor of its annual financial statements,
- The Supervisory Board of the Company appointed the Auditing Committee pursuant to the Audit Act.

In accordance with the Companies Act, auditor of the Company was appointed on the General Assembly's meeting held on 29th of August 2019, and on 25th of September 2019 an agreement was concluded concerning performance of audit and issuance of unconsolidated and consolidated financial statements.

Audit of the Company was completed in two parts, as follows:

- preliminary proceedings (examination of the internal control system and work on temporary balance sheets),
- final audit (control of data reported in ledgers and financial statements).

During 2019 and until the issuance of the report in the first part of 2020, members of the Audit Committee met several times with representatives of the certified auditor and responsible executors in order to discuss the applied accounting policies, revisions of comparative data of financial statements for the year ended 31 December 2018, record important business events, the effects of applying new accounting standards, and other auditor's observations.

In accordance with the requirements of auditing standards, the auditors submitted a Report to the Supervisory Board and the Audit Committee on 29 April 2020 which, as defined by the regulations, includes The Independent Auditor's Report, key audit issues and a conclusion on issuing an unmodified opinion.

In accordance with the discussions with the auditing company and with the employees in charge of preparation of the financial statement, the Auditing Committee determined the following:

- the Company and the auditors were consistent in the interpretation of international accounting standards as well as local regulations and requirements governing the preparation of financial statements,
- in terms of the effectiveness of internal control system and risk management, there were no irregularities with material consequences observed,
- there were no circumstances that would lead to questioning the independence of the auditor,

- regarding the key auditing issues related to estimates of useful life of real estate, machinery and equipment and impairment indicators, auditors' estimates are in line with the estimates of the Manag. Board, and that is that there are no circumstances indicating impairment of assets value.

Accordingly, the Auditing Committee assumes that the financial statements are eligible for the adoption of appropriate decisions based on the same.

THE AUDITING COMMITTEE

Based on article 300c of the Companies Act and article 34 of the Bylaws of PLAVA LAGUNA, Joint Stock Company for Hotels and Tourism, the Company's Supervisory Board at the session held on June 26th 2020, renders

THE SUPERVISORY BOARD REPORT

ON SUPERVISION OVER THE MANAGEMENT OF THE COMPANY'S AND GROUP'S OPERATIONS, ON THE RESULTS FOLLOWING THE REVIEW OF THE FINANCIAL REPORTS, THE REPORT ON THE SITUATION IN THE COMPANY AND THE PROPOSED DECISION ON THE USE OF PROFIT IF THE COMPANY AND GROUP FOR 2019

In the course of business year 2019, the Supervisory Board of the Company continuously supervised the conduct of business and held 12 meetings, pursuant to the powers conferred by the provisions of the Companies Act and the Bylaws.

During 2019 the Supervisory Board acted composed as follows:
Davor Luksic Lederer, Chairman of the Supervisory Board
Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board
Davor Domitrovic Grubisic, Member of the Supervisory Board
Joseph Ignace Bulnes, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Board, representative of employees (until November 15th 2019)
Neven Staver, Member of the Supervisory Board (since October 31st 2019)
Duncan Graham Bramwell, Member of the Supervisory Board (since October 31st 2019)
Marica Kurtek, Member of the Supervisory Board, representative of employees (since November 16th 2019).

The Supervisory Board used its counsel and recommendations to influence the Company's activities that marked the business year 2019.

On the basis of Article 300.b paragraphs 1 and 2 of the Companies Act, the Management of the Company submitted to the Supervisory Board annual financial reports, the report on the situation in the Company as well as the proposed decision on the use of profit.

Pursuant to its authorities under Article 300.c paragraph 2 of the Companies Act, the Supervisory Board reviewed the submitted financial reports for 2019 for the Company and Group, the Management Board's report on the situation in the Company as well as the proposed decision on the use of profit, and took its decision on the above at the session held on April 29th 2020 and with the participation of representatives of the auditors KPMG Croatia d.o.o. Zagreb. Supervisory Board submits the results of this review to the Management Board and General Assembly for further procedure.

The reviews carried out undoubtedly show that in 2019 the Company's Management, according to its statutory obligations, informed the Supervisory Board in writing and orally of the operational policy and of the other principal issues related to future management of the business operations, of the profitability of operations and profitability of the use of shareholdings' equity, of the course of business operations, revenues and expenses and the situation in the Company, and in particular of the operations affecting the profitability and liquidity, as well as of other matters that the Supervisory Board considered important.

The Supervisory Board determines the operations of the Company and the work of the Company's Management Board in cooperation with the Supervisory Board as successful, and considers that the cooperation between the Supervisory Board and the Management Board is continuously very fair and efficient.

The results of our review as well as the opinion of the authorized auditor on the reality and objectivity of data shown in the financial reports for 2019 demonstrate that the Company acts in accordance with legal regulations in force, the Company's general legal instruments and the decisions of the General Assembly.

After the review of financial reports for 2019, which the management is accountable for, the Supervisory Board established that they are drafted in accordance with the provisions of the Accountancy Act and other pertinent laws and regulations, and they realistically reflect the situation in the company books and fairly reveal the assets and operational state of the Company.

The Supervisory Board supports the Management Board's proposal on the use of profit. The Supervisory Board is of the opinion that the proposal is aligned with the Company's business policy and adopted development guidelines and plans and the same is submitted to the General Assembly for adoption.

The Supervisory Board fully supports the auditor's report which confirms that the Company's financial reports for the year that ended on 31 December 2019, give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2019 and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The Supervisory Board expresses its absolute approval of the submitted financial reports for 2019 and the report on the situation in the Company, as well as their affirming, and leaves their rendering to the Company's General Assembly.

PRESIDENT
Davor Luksic Lederer