**LIBURNIA RIVIERA HOTELI d.d.**

**ANNUAL REPORT**
**FOR THE YEAR ENDED**
**31 DECEMBER 2019**

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

# Content

Annual Report was composed based on the liability arising under article 250.a of the Companies Act and article 21 of the Accounting Act.

The report relates to the Company Liburnia Riviera Hoteli d.d., Opatija, Maršala Tita 198, whose main activities are accommodation and hospitality services, travel agencies and tour-operator services with the aim of presenting the most significant operating achievements in 2019 and reference on the future expectations.

## I/ 2019 feedback and market changes in Q1 and Q2 2020

The Company has incurred a change of the corporate structure and management in 2019 considering that the majority shareholders sold the shares – new majority owners and ultimate beneficial owners are HOLSTER PRIVATSTIFTUNG, an AUSTRIAN based trust. As of the moment when the acquisition took place in September 2019, the new Management started implementing complete reorganizational and restructuring measures, which are still under process as of today. The influence and effect of the new Management is already visible during the last quarter of the 2019.

The new Management implemented their procedures at the end of September 2019 while processing further efficiently and steadily in 2020, with adjustments as of February 2020 when peripheral effects became visible on the business activities of the Company due to the corona virus spread on the global markets. These effects have directed the Management to focus primarily on new circumstances in which the Company was forced to operate in (Crisis Management).

## II/ 2019 summary overview on financial and operational results

In the period from January to December 2019 the Company had 2% less overnight stays than in 2018. Revenue, which includes extraordinary revenue was 2% higher compared to the same period last year. The business revenue category under USALI report, which includes revenue from accommodation, food and drinks (as a part of accommodation services and as a stand-alone service), sport and other operational revenues (so the extraordinary revenue is excluded), is higher for 1% than in the previous year, and GOP (gross operating profit) under USALI report is higher than in the previous year for 27% or HRK 28.5 million (the GOP in 2019 was HRK 133.8 million, while the GOP for the 2018 was HRK 105.3 million).

In the reviewed period, according to USALI report, total financial result was - EBITDA (gross profit + depreciation + interests) in the amount of HRK 119.0 million while the financial result of the previous year was HRK 83,1 million. The indicators of liquidity and solvency and the ratio of debt to equity and cash flow are of good quality.

The Company also conducted extraordinary investments including i) a significant upgrade of the data center and the network to improve the reliability of the IT system, ii) implementation of a modern and state-of-art property Management system „Oracle Opera“, the Oracle Food and Beverage solutions „Oracle Micros Simphony“, same like „Oracle Material Control“ and the latest version of the accounting software „Login ERP Virga, iii) for refurbishment and smaller constructional improvements of the buildings and iv) for external advisors (like project managers, structural engineers, MEP, architects, IT).

While deducting mentioned investments from the overall financial result, which are by no means part of the daily ongoing operations, the operational result of the Company is higher than HRK 135 million.

## III/ Specific occurrences

Remisens Premium Hotel Ambasador was opened on the 1 June 2019. Upon completion of the investment, the villa becomes an integral part of the aforementioned hotel. In the observed period the following hotels were opened: Remisens Hotel Admiral and Smart Selection Hotel Istra in Opatija, Remisens Hotel Marina and Smart Selection Hotel Mediteran in Mošćenička Draga.

According to USALI report, in 2019 the difference between extraordinary revenues and expenses was HRK -2,2 million, while the difference in the previous year amounted to HRK -10,0 million. Extraordinary and one-off expenditures in 2019 are mainly result of the write-off of obsolete fixed assets and other assets in the facilities where the investments were made, and the amount of app. HRK 3,0 million refers on expenses of the past years, of which HRK 2,2 million to the marina Admiral. On the 23 May 2019 the Company received from Ministry of Finance, Customs Administration, Regional Customs Office Rijeka a Decision ordering the Company to pay the concession fee for the period from 22 July 2017 to 31 December 2017 in the amount of HRK 127,843.14 with interests, and the concession fee for the period from 1 January 2018 to 30 June 2018 in the amount of HRK 130,711.06 with interests and the material gain realized by unlawful business activities in the period from 22 July 2017 to 30 June 2018 in the amount of HRK 2,157,968.87, all together HRK 2,416,523.34, in accordance with the Concession Act. The above-mentioned amount was paid in accordance with the instruction - within 8 days from the delivery of the Decision. The Decision could not be appealed in accordance with the Concession Act. The Decision could be disputed in the proceeding before the Administrative Court.

Extraordinary and one-off revenues in 2019 are mainly the result of a refund of the amount paid for the use of the maritime domain in the amount of approximately HRK 2,3 million. On 5 July 2019 the Company received the High Administrative Court ruling no. Usž-1429/19-2 which confirmed the ruling of the Administrative Court in Rijeka from 6 November 2018 by which the Decision of Ministry of Finance, Sector for Appeal and Administrative Proceedings from 7 May 2018 and the Decision of Ministry of Finance, Customs Administration, Regional Customs Office Rijeka from 18 January 2019 were annulled. The aforementioned decision ordered the Ministry of Finance to repay the amount of HRK 2,256,529.47 with default interest within 60 days of delivery of the judgment. The annulled decision unlawfully imposed the obligation to pay the said amount of the concession fee for the use of the Admiral marina in Opatija by the Company.

In accordance with the negotiations with the Trade Unions from January 2019, in the period from June to September 2019 the Company made payment in the amount of HRK 1,000.00 non-taxable to permanent employees, as well as an amount of HRK 1,000.00 non-taxable to seasonal employees, who were paid at the end of the season with a salary for September this year.

## IV/ Corporate changes

On the 11 July 2019 the Company GITONE Adriatic d.o.o. as a buyer executed the Share Purchase Agreement of the shares of the Company with sellers SNH ALFA d.d., SNH BETA d.d., SNH GAMA d.d. i SN PECTINATUS d.d. Pursuant to the said Agreement, GITONE Adriatic d.o.o. has acquired 53.94% of all shares of Liburnia Riviera Hotel d.d. within the meaning of the provisions of the Act on Takeover of Joint Stock Companies, which obligated the GITONE Adriatic d.o.o. to announce the takeover bid of Liburnia Riviera Hotel d.d. On 31 December 2019 GITONE Adriatic d.o.o. holds, after the takeover bid, 215,568 shares related to 71.23% of the share capital and entitle to 215,568 votes, or 71.23% of the votes at the General Assembly Meeting of the Company.

On 25 September 2019 the President of the Management Board of Liburnia Riviera Hoteli d.d. Mr. Giorgio Cadum and Member of the Management Board Mr. Dino Hrelja submitted their resignations to the Supervisory Board for the functions of the Chairman and Member of the Management Board of Liburnia Riviera Hoteli d.d., with effect from the beginning of the term of office of new members of the Management Board.

## IV/ Corporate changes (continued)

The Supervisory Board of the Company on the basis of its statutory powers and the aforementioned resignations, on 26 September 2019 enacted a decision appointing Mr Heimo Waldemar Hirn as Chairman of the Management Board and Mr Johannes Böck as a Member of the Management Board for a term of 4 years, beginning on 27 September 2019.

## V/ COVID – 19 and effect on the business operations

At the beginning of 2020, as a result of the new Management, operational results have highly exceeded the 12/2019 budget and forecast, until February 2020 when the issues with the corona virus on the global market started emerging. At the beginning of 2020, management noticed sudden and frequent cancellations of reservations and arrangements offered by the Company to guests from the pre-season (beginning in February 2020) and for the whole of 2020, attributed by the Company to the spread of COVID - 19 (Corona virus). The cancellations came primarily from far eastern markets (China, South Korea, Japan, Taiwan, and the like). The situation was further expanded with the transition from February to March 2020, when the first cases were recorded in European countries, including Italy, which is only approx. 100 km away from the Opatija Riviera.

On March 11, 2020, the World Health Organization declared a global pandemic of the Corona virus (COVID - 19 disease). One of the first cases of infection in Croatia included persons from the area of Primorsko Goranska County (Rijeka), which forms an integral part with Opatija, and thus with the business of the Company. The Company is located geographically on the far eastern tip of the Istrian Peninsula, and shortly after the pandemic was declared on March 11, 2020, the County of Istria introduced rigorous disease control measures, including the closure of schools and restaurants. By continuing spread of the disease, the hospitality industry became drastically limited by the Decision on measures to limit social gatherings, work in commerce, service activities and sports and cultural events adopted by the Civil Health Department on 19 March 2020 (Official Gazette 33/2020). Notwithstanding all these measures, the mere spread and the health threat of COVID-19 have led to cancellation of reservations and reduced occupancy, which negative impact becomes more pronounced as the disease has spread across Europe and neighbouring countries, especially in Italy, and subsequently in Croatia itself. The following accommodation reservations have been cancelled, solely because of the impact of the COVID-19 virus:

- for February 2020, 19% of bookings were cancelled compared to the same period last year;
- for March 2020, 72% of bookings were cancelled compared to the same period last year;
- for April 2020, 100% of bookings were cancelled compared to the same period last year;
- May 2020 65% of bookings were cancelled compared to the same period last year;
- for June 2020, 32% of bookings were cancelled compared to the same period last year.

Further effects of CORONA VIRUS spread are expected while exact effects on the Company’s performance cannot be quantified as of now. On all possible scenarios, Management of the Company is on daily level preparing analysis of changes that occurring and the effects on the business. These scenarios cannot be limited nor fixed as situation is continuously changing. Main base models provided as integral part of this statement are i) worst case scenario model with assumed zero revenue environment and ii) plausible (mid-case) scenario assumption business resuming mid 2020.

Losses have been evidenced also in regard to room nights as one of the KPIs on the Company level, where the overall loss from March until June 2020 amounted to over 78.89% compared to the booking status beginning of March 2020.

## VI/ The Company during the period from the balance to the final reporting date

Following the measures implemented by the management to mitigate the effects of the corona virus outbreak, Company has prepared number of financial and operational models with different assumptions on the market conditions by end of 2020.

**V/ The Company during the period from the balance to the final reporting date (continued)**

There, main focus is on the worst-case scenario, which basically provides that the Company does not expect any revenues by end of 2020, except during the Christmas/New Year holidays. Other main scenario provides for the most plausible case as considered by the management, which includes that business shall start to take its regular course as of July 2020.

While there is a risk that in a severe but plausible scenario of prolonged lockdown management plans might be insufficient, management still believes that on the balance, considering the facts outlined further below, management's plans appear realistic and the Company should be able to continue as a going concern. This conclusion was reached under the following considerations and projections:

- ***Lock-down, liquidity and asset base***

The Company has settled all loan liabilities as they fell due and were invoiced by the banks and Company has been greeted with understanding from all the commercial partners. The Company has serviced all loan obligations made due by banks as of the date hereof. It is also envisaged that there will be no loan instalments due in 2020, as refinanced and agreed with the banks (agreement is pending) and Management is also trying to reach an understanding with the social partners of the Company.

The Company's 4 existing loan facilities as of 31 March 2020 are being negotiated and are partially provided for a stand-still of at least six months, providing for first instalments due earliest October 2020. The Company has in addition been also successful in opening negotiations to refinance the overall existing loan facilities, jointly or in part, to be refinanced into a long term loan facility with a 1 year grace period.

Moreover, the Company owns various valuable assets and has partially leveraged those assets, with minimal amount of net debt. Even in a worst case scenario of a zero revenue environment, the assets base of the Company should provide more than enough leverage for additional funding to be obtained if necessary.

The Company identified impairment indicators relating to certain underperforming tourism properties. As a result, as at 31 December 2019 the Company tested the above tourism properties for impairment and determined the assets recoverable amount based on an estimate of their fair value less costs to sell. The test did not indicate any impairment loss of those properties as at 31 December 2019. No assets were impaired subsequently as a result of pandemics. CAPEX plans have been placed on hold for now, considering the zero-revenue environment.

The lock-down of the entire market as noticed in the first quarter of 2020 would have a far reaching impact not, just only on the Company but the entire economy, if it would be prolonged. As of May 2020, the government noted that restrictions shall be alleviated and management believes that operations shall commence end of Q2 2020 in a lower scope, still sufficient to provide self-sustaining business operations.

The current state of liquidity of the Company provides comfort for a specific time period, dependent on the scope of state subsidies and fixed costs expected. The Company is adjusting its business models constantly, being able to instantly implement additional crisis control measures and more, to mitigate the risks.
Management is in frequent contacts with lenders of the Company which all expressed understanding and willingness to assist the business. This assistance was first noticed by i) stand-still arrangements being negotiated and partially provided to the Company and subsequently by ii) open discussions on the refinancing of existing loans with envisaged grace period until season 2021. As per the expected refinancing terms of loan facilities, main financial burdens on the Company would be postponed until expected regular business resumes order (worst case in 2021).

- ***Other exposures***

The Company so far conducted its business by keeping a high level of collateral coverage from the debtors and advance payments in lease agreements. Company's overall exposure of un-collected debt provides for less than 1% of usually annual revenues where default period is less than 90 days in most cases. Company is not a lender to any party as a borrower, and Company as the lessor has provided some alleviation of terms and conditions for the leases, providing a discounted rent during the corona virus crisis period.

On the Company's request, communication channels with trade unions has been opened. Basic employee remunerations and obligations have been timely and orderly fulfilled in excess of the provided state subsidies. Management conducted negotiations with the unions which ended on 30 April 2020 without a formal agreement being reached.

Employees organization and work assignments have been adjusted to the new zero revenue business model while having in mind the state implemented restrictions and health requirements.

The Company filed for state subsidies related to employee salaries and also for the postponement and alleviation of taxes. Both requests have been approved, while the Company is also expecting that the initial granted postponement of taxes and state contributions (excluding VAT) shall also be converted in to full alleviation of liabilities (subject to revenue drop of over 50%).

- ***Risk management***

Corona virus outbreak occurred in Q1 2020, which in the light of seasonality of Company's business model is an extremely negative time for such crisis, but also it may be considered as the optimal point in time for such extreme circumstances to take place. Negative effects have cause the Company to have zero operational revenue as of 16 March 2020 from when Company is relaying on its current account balance (earnings from before 16 March 2020).

The main start of the seasons is expected usually at the beginning of Q2, the Covid-19 outbreak had a significant impact on the forecasted revenue. Nevertheless, positive views on the timing of this pandemic is that the Company did not receive significant refundable advance payments, did not have cancellations and penalties for non-provided services in high values and the management implemented the right strategy and did not stock on massive supplies nor did it employ greater numbers of employees which are usually employed as of end of Q1.

The Management of the Company is taking significant steps to try and mitigate the negative effects as much as possible (risk management). These actions include, but are not limited to:

1. Strict cost management where suppliers and other vendors of the Company have been approached to prolong the due dates on their existing claims and new procurement is limited to bear minimum
2. Management is negotiating with the commercial banks funding the Company on the refinancing terms with the targeted grace period of 1 year, with already provided stand-still arrangements
3. Management is also negotiating with the commercial banks on the new lines of credit for possible bridge loan coverage
4. Management is negotiating with unions related to the employee rights, terms and conditions of the collective bargaining agreements and the overall HR structure
   a. Company is developing internal employee communication plans, with a more streamlined approach, transparent content and with higher frequency of interactions (in electronic form mostly)
5. Company filed for state subsidies related to i) employee measures (to receive undefendable grants for salary coverage) and ii) tax postponement, which has already been approved

- ***Risk management (continued)***

6. Management is diligently and on daily basis following the situation with the new state subsidies to adjust to the new legal framework
7. Sales and marketing of the Company are intensively communicating with clients and partners to prepare a restart of the Company as soon as possible
8. Company is continuously adjusting the pricing structure to the current circumstances, combined with an analysis of anticipated trends following the crisis end.

Moreover, the Company is constantly assessing and upgrading emergency response plans for the pandemic expansion with cross-functional contingency plans across number of scenarios. the Company set up a monitoring and reporting plan as well as procedures which allow live tracking of the market developments, health-security issues and risks, implemented measures and restrictions all providing for “live-feed” on the crisis in which the Company is currently operating from reliable and objective sources.

- **Management conclusions**

While analyzing the Company’s status and resilience to the market conditions and corona virus outbreak, management reached following conclusions/judgements:

1. The Company in the current state holds sufficient liquidity and solvency to unilaterally bear its own costs and sustainability is not questioned subject to the assumptions from the plausible case scenarios
2. The Company holds a very valuable asset base and the balance sheet provides reassurances with commercial banks and majority shareholder that the Company shall remain sustainable as an ongoing concern, even in the worst case scenario of zero revenue environment by end of 2020
3. The Company has successfully negotiated and reached understanding with vast majority of its business partners on joint understanding of the current market status, where liquidity and solvency issues are not considered as a material risk on the Company as a permanent (long-term) going concern
4. The management has implemented as of October 2019 new rules and procedures on the strategy of the Company which are more equipped and adequate to deal with the current crisis

The management is on daily levels reassessing the effects of the crisis and implementing measures by the state authorities into the business model, while crisis management plans and risk control measures being implemented and adjusted regulatory.

## Statement of implementation of the Corporate Governance Code

Pursuant to Article 272. of the Companies Act (NN 111/93, 34/99, 52/00, 118/03, 107/07 and 148/08, hereinafter referred to as the CA) and Article 22 of the Accounting Act (NN 120/16), the Management Board of Liburnia Riviera Hoteli d.d. Opatija, M. Tita 198 ("The Company") at 30 April 2020, brings the following

**CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT**

1. The Company voluntarily applies the Corporate Governance Code prescribed by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d., Zagreb
2. In 2019, the Company followed and applied the recommendations set out in the Code, publishing all the information whose publishing is anticipated by positive regulations and the information that is in the best interests of the Company's shareholders. The Company has an Audit Committee. The Company does not deviate from the Corporate Governance Code.
3. In accordance with a requirement of the Code and with the directives of the CA, the Supervisory Board conducts internal control of the Company through regular audits of the presented reports. The members of the Supervisory Board are regularly (at least once a month) provided with detailed information on the management and operations of the Company. At the Supervisory Boards meetings, all the matters within the competence of that body, prescribed by the CA and the Company's Articles of Association, are discussed and the decisions are made. The Supervisory Board's report on the conducted supervision of the management is a part of the Company's Annual Report, submitted to the General Assembly. In addition, the Supervisory Board performs internal control and oversight through the Audit Committee which provides professional support to the Supervisory Board and the Management Board in the effective performance of corporate governance, risk management, financial reporting and control of the Company. The Management Board is responsible for monitoring that the Company runs its business and other records and documentation, complies the accounting documents, evaluates assets and liabilities and prepares financial and other reports in accordance with accounting rules and standards, as well as applicable laws and regulations.
   The Company does not have a formal diversity policy in place with respect to gender, age, education or education for its executive, management and supervisory bodies. The Company's policy of appointment to executive bodies is carried out in accordance with the needs of specific business activities in terms of knowledge, qualifications and competence on the part of potential executives, without taking into account gender or age. The Company's management and oversight bodies also require certain knowledge, education and competence on the part of potential executives in these bodies, in accordance with the criteria and decisions of the Supervisory Board and the Company's Assembly.
4. Ten main shareholders as at 31 December 2019:

| Nr. | Shareholder | Number of shares | Percentage of ownership |
|---|---|---|---|
| 1. | GITONE ADRIATIC D.O.O. | 215,568 | 71.23 |
| 2. | NOVA LIBURNIJA D.O.O. | 75,661 | 25.00 |
| 3. | CERP/REPUBLIKA HRVATSKA | 5,612 | 1.85 |
| 4. | KOVAČIĆ MARIN | 300 | 0.10 |
| 5. | KOLETIĆ STELLA | 119 | 0.04 |
| 6. | ZAGREBAČKA BANKA D.D./KRASS GUIDO ALEXANDER GISBERT | 100 | 0.03 |
| 7. | MIHELIĆ ŽELJKO | 86 | 0.03 |
| 8. | KOVAČ ZDENKO | 80 | 0.03 |
| 9. | TODORIĆ IVANA | 75 | 0.02 |
| 10. | Group of accounts with the same number of shares | 66 | 0.02 |

## Statement of implementation of the Corporate Governance Code *(continued)*

In accordance with the Company's Articles of Association, the voting right of a shareholder is not limited to a certain percentage or number of votes, nor there are time constraints to gain voting rights. Each regular share entitles to one vote at the General Assembly.

The Company's rights and obligations arising from the acquisition of its own shares are achieved in accordance with the directives of the CA.

5. The Management Board of the Company is composed of two members of the Management Board of the Company:

- Mr. Heimo Waldemar Hirn, president of the Management Board
- Mr. Johannes Böck, member of the Management Board

Management board of the Company is nominated and revoked by the Supervisory Board. Management manages the Company's business in accordance with the Company's Articles of association and legal regulations.

Supervisory Board of the Company is nominated and revoked by the general assembly of the Company in accordance with the Company’s Articles of Association and the CA and it is composed of the following members as at 31 December 2019:

- Klaus Riederer, president,
- Alexander Paul Zinell, vice president,
- Philip Goeth, member,
- Thomas Mayer, member,
- Petar Crnov, member,
- Branimir Žarković, member,
- Andreja Rudančić, member,
- Helena Masarić, member and
- Domijan Mršić, member.

The Supervisory Board appoints and revokes the Audit Board in accordance with the Company’s Articles of Association and the CA. As at 31 December 2019 members of the Audit Board were:

- Franco Palma, president,
- Helena Masarić, vice president
- Joško Marić, member,

As at 20th February 2020 new members of the Audit Board were appointed.

- Philip Goeth, member
- Domijan Mršić, member
- Branimir Žarković, member,

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

## Statement of Management Board's responsibilities

The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and its cash flows, in accordance with International Financial Reporting standards as adopted by EU, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management is also responsible for the preparation and content of the Management Report and the Statement of the implementation of corporate governance code, as required by the Croatian Accounting Act. The Management Report and the Corporate Governance Code Compliance Statement set out on pages 1 to 8, were authorised for issuance by the Management Board. The Management Board is responsible for submitting the Annual Report to the Supervisory Board, including financial statements, and the Supervisory Board is required to approve the financial statements for submission to the General Assembly of Shareholders for adoption.

The Annual report was approved by the Management Board on 8 May 2020 for submission to the Supervisory Board and was signed below by:

Heimo Waldemar Hirn

President of the Management Board

LIBURNIA RIVIERA HOTELI
DIONIČKO DRUŠTVO
OPATIJA 1A

Johannes Böck

Member of the Management Board

# Independent Auditors’ Report to the shareholders of Liburnia Riviera Hoteli d.d.

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Liburnia Riviera Hoteli d.d. (“the Company”), which comprise the statement of financial position of the Company as at 31 December 2019, and the statements of comprehensive income, cash flows and changes in equity of the Company 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 financial position of the Company as at 31 December 2019 and of its financial performance and its 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 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.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 4 c) *Going concern* and Note 25 *Events after the reporting date*, which indicates negative impact of COVID-19 outbreak which is expected to have significant impact on the Company’s operations. Without financial support from banks and government of Republic of Croatia, the Company may be unable to settle its liabilities as they fall due. As stated in Note 4 c), these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

# Independent Auditors' Report to the shareholders of Liburnia Riviera Hoteli d.d. *(continued)*

## Report on the Audit of the Financial Statements *(continued)*

### *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. . In addition to the matter described in the Material Uncertainty Relating to Going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

**Impairment and useful lives of tourism properties**

The carrying amount of *property, plant and equipment* as at 31 December 2019 was HRK 967,295 thousand *(2018: HRK 866,891 thousand)*.

Refer to Notes 2.3 of *Accounting policies*, Note 4(a) of *Critical accounting estimates*, and Note 14.1 on *Property, plant and equipment* of the financial statements.

| Key audit matter | How our audit addressed the matter |
|---|---|
| As at 31 December 2019, the carrying amount of property, plant and equipment represented approximately 95% of the Company's total assets. These assets, carried at cost less accumulated depreciation and any accumulated impairment losses, consist primarily of tourism properties and related assets, and are subject to annual analysis to determine whether there are indicators of a possible impairment.<br><br>If such indicators are identified, management determines the recoverable amount of the tourism properties and an impairment loss is recognized, if necessary.<br><br>As described in Note 14.1 of the financial statements, in the current year, the Company identified impairment indicators relating to certain underperforming tourism properties. As a result, as at 31 December 2019 the Company tested the above tourism properties for impairment and determined the assets recoverable amount based on an estimate of their fair value less costs to sell. The test did not indicate any impairment loss of those properties as at 31 December 2019.<br><br>Determination of the recoverable amount requires making significant assumptions and judgments, in particular those relating to comparability of properties. | Our audit procedures in this area included, among others:<br><br>o Evaluating the Company's accounting policy for identification of impairment, measurement and recognition of any impairment losses and determination of remaining useful lives in respect of tourism properties against the requirements of the relevant financial reporting standards;<br><br>o Assessing the Company's judgments regarding identification of impairment indicators for tourism properties by analysing the financial performance of the respective properties against the expected levels of performance;<br><br>o For the underperforming assets, challenging the key assumptions used in determining their recoverable amounts by comparing the carrying values of these assets with quoted prices for assets identified by as comparable or considering Company's recent sales of similar assets; |

**Independent Auditors' Report to the shareholders of Liburnia Riviera Hoteli d.d. *(continued)***

**Report on the Audit of the Financial Statements *(continued)***

| Key audit matter | How our audit addressed the matter |
|---|---|
| Also as discussed in Note 4(a) significant management judgement is required to determine whether the estimated useful life of tourism properties requires revision considering their national heritage status.<br><br>The Company has assessed the remaining useful lives for tourism properties based on the detailed analysis performed for each property, by applying inputs from the Company's technical experts as well as the analysis provided by an external appraiser engaged by the Company.<br><br>Due to the above factors the assessment of impairment for tourism properties as well as determination of remaining useful life were 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. | o Challenging the key assumptions used in determining the remaining useful lives of the tourism properties by:<br><br>o Inquiring the Company's technical experts, its finance team members as well as management;<br>o Benchmarking estimated useful life against publicly available data for similar properties;<br>o Evaluating professional experience and objectivity of the external appraiser;<br>o Assessing consistency of assumptions used in other related estimates, including the estimate of recoverable amount of tourism properties;<br><br>o Assessing the appropriateness and completeness of related disclosures in the financial statements. |

***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, 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 Article 21 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

# Independent Auditors' Report to the shareholders of Liburnia Riviera Hoteli d.d. *(continued)*

### *Other Information (continued)*

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:

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

### *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 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 or to cease operations, or has no realistic alternative but to do so.

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

# Independent Auditors’ Report to the shareholders of Liburnia Riviera Hoteli d.d. *(continued)*

## Report on the Audit of the Financial Statements *(continued)*

### *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 internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 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.

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# Independent Auditors' Report to the shareholders of Liburnia Riviera Hoteli d.d. *(continued)*

## Report on the Audit of the Financial Statements *(continued)*

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

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.

## Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 29 August 2019 to audit the financial statements of Liburnia Riviera Hoteli d.d. for the year ended 31 December 2019. Our total uninterrupted period of engagement is four years, covering the periods ended 31 December 2016 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 2 May 2020;
- we have not provided any prohibited non-audit services (NASs) 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 Domagoj Hrkać.

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

**8 May 2020**

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
6

Domagoj Hrkać
*Board Member, Croatian Certified Auditor*

This version of 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 our report takes precedence over this translation.

## LIBURNIA RIVIERA HOTELI d.d.
## STATEMENT OF COMPREHENSIVE INCOME
## AS AT 31 DECEMBER 2019

| *(in thousands of HRK)* | **Note** | **2019** | **2018** |
|---|---|---|---|
| Revenue | 5, 6.1 | 312,419 | 308,558 |
| Other income | 6.2 | 13,413 | 11,214 |
| Cost of materials and services | 7 | (94,175) | (91,140) |
| Staff costs | 8 | (86,328) | (120,719) |
| Depreciation and amortisation | | (103,350) | (97,957) |
| Other operating expenses | 9 | (25,458) | (25,665) |
| Impairment loss on trade receivables | 2.1.1, 16 | (1,099) | (338) |
| Other gains – net | 10 | 136 | 195 |
| **Operating profit / (loss)** | | 15,558 | (15,852) |
| Finance income | 11 | 1,009 | 2,560 |
| Finance costs | 11 | (3,312) | (3,434) |
| **Net finance costs** | 11 | (2,303) | (874) |
| **Profit / (loss) before tax** | | 13,255 | (16,726) |
| Income tax expense | 12 | (2,539) | 3,787 |
| **Profit / (loss) for the year** | | **10,716** | **(12,939)** |
| Other comprehensive income | | - | - |
| **Total comprehensive income / (loss) for the year** | | **10,716** | **(12,939)** |
| Earnings/(loss) per share (in HRK) - basic and diluted | 13 | 35.41 | (42.75) |

## LIBURNIA RIVIERA HOTELI d.d.
## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2019

| *(in thousands of HRK)* | **Note** | **31 December 2019** | **31 December 2018** |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14.1 | 967,295 | 866,891 |
| Intangible assets | | 529 | 421 |
| Right of use assets | 14.2 | 4,306 | - |
| Investments | 15 | 500 | 500 |
| Deferred tax assets | 12 | 2,652 | 5,191 |
| | | 975,282 | 873,003 |
| **Current assets** | | | |
| Inventories | | 3,648 | 3,100 |
| Loans granted | 24 | - | 37,500 |
| Trade and other receivables | 16 | 9,847 | 6,721 |
| Current tax receivables | | 705 | 2,265 |
| Cash and cash equivalents | 17 | 25,943 | 13,090 |
| | | 40,143 | 62,676 |
| **Total assets** | | **1,015,425** | **935,679** |
| **EQUITY** | | | |
| Share capital | 18 | 696,074 | 696,074 |
| Legal reserves | 18 | 45,019 | 45,019 |
| Capital reserves | 18 | 1,511 | 1,511 |
| Retained earnings | | 27,105 | 16,389 |
| | | 769,709 | 758,993 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 19 | 149,813 | 101,595 |
| Provisions for other liabilities and expenses | 20 | 4,560 | 3,941 |
| Lease liabilities | 14.2 | 3,557 | - |
| | | 157,930 | 105,536 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | 35,400 | 33,464 |
| Borrowings | 19 | 51,767 | 29,526 |
| Provisions for other liabilities and expenses | 20 | - | 8,160 |
| Lease liabilities | | 619 | - |
| | | 87,786 | 71,150 |
| **Total liabilities** | | **245,716** | **176,686** |
| **Total liabilities and equity** | | **1,015,425** | **935,679** |

**LIBURNIA RIVIERA HOTELI d.d.**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

| *(in thousands of HRK)* | **Note** | **Share capital** | **Legal reserves** | **Capital reserves** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|---|
| Balance at 1 January 2018 | | 696,074 | 45,019 | 1,511 | 29,328 | 771,932 |
| Loss for the year | | - | - | - | (12,939) | (12,939) |
| Total comprehensive loss | | - | - | - | (12,939) | (12,939) |
| **Balance at 31 December 2018** | **18** | **696,074** | **45,019** | **1,511** | **16,389** | **758,993** |
| Balance at 1 January 2019 | | 696,074 | 45,019 | 1,511 | 16,389 | 758,993 |
| Profit for the year | | - | - | - | 10,716 | 10,716 |
| Total comprehensive loss | | - | - | - | 10,716 | 10,716 |
| **Balance at 31 December 2019** | **18** | **696,074** | **45,019** | **1,511** | **27,105** | **769,709** |

The accompanying notes form a part of these financial statements.

| *(in thousands of HRK)* | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flow generated from operating activities** | | | |
| Cash from operations | 22 | 112,341 | 93,167 |
| Income tax paid/returned | | 1,560 | (4,360) |
| Interest paid | | (2,528) | (2,515) |
| **Net cash generated from operating activities** | | **111,373** | **86,292** |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | | (205,963) | (120,188) |
| Purchase of intangible assets | | (332) | (177) |
| Proceeds from disposal of property, plant and equipment | | 136 | 362 |
| Loans received | | 37,500 | 26,000 |
| Interest received | | 407 | 1,008 |
| Loans granted | | - | (63,500) |
| **Net cash used in investing activities** | | **(168,252)** | **(156,495)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Borrowings received | | 110,000 | 69,072 |
| Repayments of borrowings | | (39,541) | (29,542) |
| Repayments of right of use liabilities | | (727) | - |
| **Net cash from financing activities** | | **69,732** | **39,530** |
| | | | |
| **Net decrease/ (decrease) in cash and cash equivalents** | | **12,853** | **(30,673)** |
| | | | |
| Cash and cash equivalents at beginning of year | | 13,090 | 43,763 |
| Cash and cash equivalents at end of year | 17 | 25,943 | 13,090 |

## NOTE 1 – GENERAL INFORMATION

Liburnia Riviera Hoteli d.d. (hereinafter: the Company or LRH) with its registered office in Opatija, Maršala Tita 198, Croatia was established as a result of the transformation of the socially-owned company Liburnia Riviera Hoteli to a public limited company on 1 January 1993, when the transformation was registered at the Commercial District Court in Rijeka. The Company's principal activities are accommodation and hospitality services, travel agency and tour operator services, retail and wholesale as well as sports and recreational activities.

As at 31 December 2019 the Company's shares were listed on the Zagreb Stock Exchange.

### Management Board and Supervisory Board

*Management Board*

| | |
|---|---|
| Heimo Waldemar Hirn | President (since 27 September 2019) |
| Giorgio Cadum | President (since 30 June until 27 September 2019) |
| Johannes Böck | Member (since 27 September 2019) |
| Dino Hrelja | Member (since 1 October 2015 until 27 September 2019) |

The President and the members of the Management Board represent the Company solely and independently.

*Supervisory Board*

Klaus Riederer, President since 7 October 2019
Alexander Paul Zinell, Vice President since 7 October 2019
Philip Göth, Member since 7 October 2019
Thomas Mayer, Member since 7 October 2019
Petar Crnov, Member since 7 October 2019
Branimir Žarković, Member since 7 October 2019
Helena Masarić, Member since 7 September 2015
Andreja Rudančić, Member since 13 July 2017
Domijan Mršić, Member since 23 August 2017
Franco Palma, President since 22 September 2015 until 7 October 2019
Božena Mesec, Vice President since 22 September 2015 until 7 October 2019
Joško Marić, Member since 27 August 2015 until 7 October 2019
Darko Ostoja, Member since 27 August 2015 until 7 October 2019
Tin Dolički, Member since 27 August 2015 until 7 October 2019
Ksenija Juhn Bojađijev, Member since 27 August 2015 until 7 October 2019

## NOTE 2 – 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.

### 2.1 Basis of preparation

The Company’s financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”). The financial statements have been prepared under the historical cost convention except except where otherwise disclosed. These financial statements have been prepared under the assumption that the Company will be able to continue as a going concern.

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

This is the first set of the Company’s annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in note *2.1.1.* (Changes in accounting policies and disclosures).

### 2.1.1 Changes in accounting policies and disclosures

**IFRS 16- Leases**

The 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 Company is a lessee***

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

Previously, the 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.

The Company does not expect the adoption of IFRS 16 to impact its ability to comply with the loan covenant.

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

### IFRS 16- Leases *(continued)*

The Company applies IFRS 16 from 1 January 2019. The Company applied IFRS16 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.

### A. Definition of lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The 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 Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The 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 Company has contracts for the lease of vehicles and leases of maritime assets (hereinafter referred to as concessions). The 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 Company. Under IFRS 16, the 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 Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

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

### IFRS 16- Leases *(continued)*

***i. Leases classified as operating leases under IAS 17***

Previously, the Company classified vehicles leases and leases of maritime assets as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application: the Company applied this approach to all other leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets should be impaired.

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

***ii. Leases classified as finance leases under IAS 17***

The Company does not have leases classified as finance leases under IAS 17.

### C. As a lessor

The Company leases out its investment property. The Company has classified these leases as operating leases.

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

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

### IFRS 16- Leases *(continued)*

### D. Impact on financial statements

On transition to IFRS 16, the 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 | 4,289 |
| Vehicles | 666 |
| | **4,955** |
| Lease liabilities | - |
| Current portion | 655 |
| Non-current portion | 4,048 |
| | **4,703** |

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

| *(in thousands of HRK)* | **2019** |
|---|---|
| Operating lease commitments disclosed on 31 December 2018 | 4,780 |
| Adjustments to the contractual duration of individual concessions | 106 |
| Operating lease commitments disclosed on 31 December 2018 | **4,886** |
| Discounted liability on date of recognition | 4,703 |
| Lease liabilities recognised on 1 January 2019 | **4,703** |

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

### 2.2 Foreign currencies

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

Foreign exchange gains and losses relating to borrowings and cash and cash equivalents are recorded in the statement of comprehensive income within Finance income and costs. All other foreign exchange losses and gains are recorded in the statement of comprehensive income within "Finance income/costs"

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

### 2.3 Property, plant and equipment

Property, plant and equipment is included in the statement of financial position at historical cost less accumulated depreciation and provision for 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 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, artwork and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings (hotels)* | 12-25 years |
| Equipment | 2-15 years |

*Average remaining useful life is defined based on the rest of weighted average useful life of individual building components.

Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant. The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of comprehensive income within "Other gains/(losses) – net".

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

### *2.3.1 Impairment of non-financial assets*

The Company determines indicators for impairment of property, plant and equipment by applying the method of multiplying net carrying value and operating profit of the segment, in the way that the net carrying value of certain asset or its segment (identified as a cash generating unit) is put in a relationship with realized operating profit of the asset or segment.

In case that, for certain assets or segments (cash generating unit) multiplier of net carrying value and segment's operating profit exceeds set values, it's recoverable amount is determined as greater of its value in use and its fair value less costs to sell, whichever is higher.

Determining impairment indicators, together with assessing future cash flows and determining fair value of assets (or group of assets) requires significant judgement from management when recognizing and estimating impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values.

Calculation of fair value less costs to sell is based on the method of market approach which uses prices and other relevant information from market transactions for the same or comparable (similar) assets, the same or comparable liabilities or group of assets or liabilities, for example certain business segment.

### 2.4 Intangible assets

Intangible assets comprising investments in technical documentation and the value of computer software licences are stated at cost. These costs are amortised over their estimated useful lives of 5 years. Assets under construction are not amortised.

### 2.5 Investments in associates

*Associates*

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights or otherwise has significant influence over the operations. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Company's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

*Impairment of investments in associates*

The net carrying amount of investments in associates is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income.

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

### 2.6 Financial assets

### 2.6.1 Classification

Trade and other receivables and loans granted that were classified as loans and receivables under IAS 39 are now classified at amortised cost under IFRS 9.

*Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the 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 discount in future periods is recognised as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### 2.6.2 Measurement and recognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

Fail values of investments listed on stock exchange are based on current supply prices. If the market for certain financial asset is not active (as for unlisted securities), the Company determines fair value using valuation techniques which take into account recent transactions under usual trading conditions and comparison with other similar instruments, taking full use of market information and relaying minimally on information specific to business subject.

### 2.6.3. Impairment of non-derivative financial assets

*Financial instruments*

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort.

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

### 2.6 Financial assets *(continued)*

### 2.6.3. Impairment of non derivative financial assets *(continued)*

This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 360 days past due.

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

*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 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 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or being significantly past due;

- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or

*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.

*Write-off*

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 360 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

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

### 2.7 Inventories

Inventories of food, beverages and trade goods are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.8 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. 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 receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment.

### 2.9 Cash and cash equivalents

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

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

### 2.10 Leases

The 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 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 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 Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The 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 Company by the end of the lease term or the cost of the right-of-use asset reflects that the 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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The 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

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

### 2.10 Leases (continued)

**i. As a lessee (continued)**

— the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

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 Company’s estimate of the amount expected to be payable under a residual value guarantee, if the 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 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 Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The 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 Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the 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 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 Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the 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 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 Company applies IFRS 15 to allocate the consideration in the contract.

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

### 2.10 Leases (continued)

**ii. As a lessor (continued)**

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

The 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 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.

**Policy applicable before 1 January 2019**

Leases where the significant portion of risks and rewards of ownership are not retained by the 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.

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

### 2.11 Share capital

Ordinary shares are classified as equity. Gains directly attributable to the issue of new shares are shown in equity as a deduction, net of transactions costs and income tax.

### 2.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. 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 payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.13 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 there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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

### 2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In that case the tax is recognised directly in equity. The current income tax charge is calculated at a rate of 18% according to Croatian laws and regulations. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions, where appropriate, on the basis of amounts expected to be paid to the Tax Administration.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred Tax assets and liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted at the reporting date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### 2.15 Employee benefits

*(a) Pension obligations and post-employment benefits*

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

*(b) Termination benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits falling due more than 12 months after the reporting sheet date are discounted to their present value.

*(c) Short-term employee benefits*

The 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 Company recognises liabilities for accumulated compensated absences based on unused vacation days at the reporting date, as well as labour hours realised from the reorganisation of working hours not utilised up to the reporting date.

*(d) Long-term employee benefits*

The 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.

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

### 2.16 Provisions

Provisions are recognised when the 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 has been 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.

### 2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in hotels and apartments, campsites and restaurants of the Company. Revenue is presented net of agency fees and value-added tax.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities and specific criteria have been met for each of the Company's activities as described below.

*(a) Sales of services*

The Company sells hotel and tourism services. These services are provided based on fixed-price contracts. Revenues from hotel and tourism services are recognised over time when the services are provided. The Company offers to its customers food and beverages in hotel rooms as well as in hotel restaurants. Revenues are recognized when services are provided at the point of time. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

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

### 2.18 Earnings per share

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

### 2.19 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 statement of financial position on a net basis. Where receivables have been impaired for the purpose of adjustment, impairment loss is recorded for the gross amount of the debtor, including VAT.

### 2.20 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 Company's Management Board which is in charge of managing hotel and tourist facilities and contents.

### 2.21 Standards issued but not yet effective

The following amended standards and interpretations are not expected to have a significant impact on the 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)

### 2.22 Determination of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The 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:

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

**2.22 Determination of fair values (continued)**

- 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.

## NOTE 3 – FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Company's activities expose them to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Company does not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Company's Management Board.

The accounting policies for financial instruments have been applied to the line items below:

| *(in thousands of HRK)* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| ***Financial assets at amortised cost*** | | |
| Trade receivables | 6,535 | 5,428 |
| Other receivables | 3,312 | 1,293 |
| Loans granted | - | 37,500 |
| Cash and cash equivalents | 25,943 | 13,090 |
| | **35,790** | **57,311** |
| ***Liabilities at amortised cost*** | | |
| Trade and other payables | 10,346 | 10,980 |
| Borrowings | 201,580 | 131,121 |
| Lease liabilities | 4,176 | |
| | **216,102** | **142,101** |

### *(a) Market risk*

*(i) Currency risk*

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro (EUR). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Most of long-term debt is denominated in EUR. Therefore, movements in exchange rates between the euro and kuna may have an impact on the results of future operations and future cash flow.

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

### 3.1 Financial risk factors *(continued)*

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands of HRK)* | **EUR** | **HRK** | **Other** | **Total** | **EUR** | **HRK** | **Other** | **Total** |
| **Financial assets** | | | | | | | | |
| Trade receivables | 2,718 | 3,817 | - | 6,535 | 556 | 4,872 | - | 5,428 |
| Loans granted | - | - | - | - | - | 37,500 | - | 37,500 |
| Cash and cash equivalents | 2,920 | 22,579 | 444 | 25,943 | 10,794 | 2,296 | - | 13,090 |
| | **5,638** | **26,396** | **444** | **32,478** | **11,350** | **44,668** | **-** | **56,018** |
| **Financial liabilities** | | | | | | | | |
| Trade and other payables | 793 | 9,537 | 16 | 10,346 | 560 | 10,420 | - | 10,980 |
| Borrowings | 102,580 | 99,000 | - | 201,580 | 131,121 | - | - | 131,121 |
| Lease liabilities | 335 | 3,841 | - | 4,176 | - | - | - | - |
| | **103,708** | **112,378** | **16** | **216,102** | **131,681** | **10,420** | **-** | **142,101** |
| **Net exposure** | **(98,070)** | **(85,982)** | **428** | **(183,624)** | **(120,331)** | **34,248** | **-** | **(86,083)** |

As at 31 December 2019, if the euro had weakened/strengthened by 1% (2018: 1%), with all other variables held constant, the Company's net profit for the year would have been HRK 981 thousand higher/lower (2018: HRK 1,203 thousand higher/lower), mainly as a result of foreign exchange gains /losses on translation of EURO-denominated borrowings and foreign cash funds. EUR foreign exchange rate as at 31 December 2019 was HRK 7.442580 per 1 EURO (2018: 7.417575).

*(ii) Interest rate risk*

The Company has interest-bearing short-term cash deposits which are contracted at variable rates and expose the Company to risk of changes in interest rates. This risk is not material given the low interest rates. The interest rate for time deposits was set at 0.05% (2018: 0.1%-0.6%) The interest rate on funds held on giro and foreign currency accounts was 0.001% (2018: 0.001%).

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. As at 31 December 2019, the borrowings contracted at variable interest rates amount to HRK 201,580 thousand (2018: HRK 131,121 thousand). The Company has no objectives or policies with respect to interest rate risk management. The interest rates on borrowings are 6M EURIBOR plus 1.5% and 6M EURIBOR plus 1.6%.

As at 31 December 2019, if interest rates on borrowings with variable interest rates had been 0.5% lower/higher (2018: 0.5% lower/higher), with all other variables held constant, the Company's net profit for the year would have been HRK 503 thousand higher/lower (2018: HRK 653 thousand).

*(iii) Price risk*

As at 31 December 2019, the Company did not had investment in equity securities and was not exposed to price risk. The Company is not exposed to commodity price risk.

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

### 3.1 Financial risk factors *(continued)*

#### *(b) Credit risk*

The maximum exposure of the Company to credit risk as at the reporting date:

| *(in thousands of HRK)* | 31 December 2019 | 31 December 2018 |
|---|---|---|
| ***Loans and receivables*** | | |
| Trade receivables | 6,535 | 5,428 |
| Loans granted | - | 37,500 |
| Cash and cash equivalents | 25,943 | 13,090 |
| **Total** | **32,478** | **56,018** |

The credit quality of the Company's exposure is as follows:

| *(in thousands of HRK)* | Trade receivables | Cash and cash equivalents | Loans granted | Total |
|---|---|---|---|---|
| **2019** | | | | |
| Neither past due nor impaired | 1,281 | 25,943 | - | **27,224** |
| Past due but not impaired | 1,343 | - | - | **1,343** |
| Past due and impaired | 3,579 | - | - | **3,579** |
| Impairment | (3,579) | - | - | **(3,579)** |
| | 2,624 | 25,943 | - | **28,567** |

| *(in thousands of HRK)* | Trade receivables | Cash and cash equivalents | Loans granted | Total |
|---|---|---|---|---|
| **2018** | | | | |
| Neither past due nor impaired | 1,217 | 13,090 | 37,500 | **51,807** |
| Past due but not impaired | 582 | - | - | **582** |
| Past due and impaired | 3,446 | - | - | **3,446** |
| Impairment | (3,446) | - | - | **(3,446)** |
| | 1,799 | 13,090 | 37,500 | **52,389** |

The Company deposits its cash at banks with the following credit ratings by Standard & Poor's:

| *(in thousands of HRK)* | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Cash at bank** | | |
| BBB+ | 24,583 | 10,664 |
| BBB- | 323 | 702 |
| Other or without rating | 1,037 | 1,724 |
| | **25,943** | **13,090** |

The Company has policies that limit the amount of credit exposure to any financial institution.

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

### 3.1 Financial risk factors *(continued)*

The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Company's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers, i.e. natural persons).

The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. Trade receivables are impaired when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been impaired to their recoverable amount.

The Company's trade and other receivables are mainly secured by collaterals. The majority of impaired trade receivables is subject to legal proceedings. Both the outcome of the proceedings related to disputed receivables or the extent to which they will be collected cannot be anticipated with certainty.

Receivables past due but not impaired as at the reporting date have the following maturities:

| *(in thousands of HRK)* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Up to one month | 210 | 112 |
| One to two months | 355 | 103 |
| Two to three months | 194 | 84 |
| Over three months | 584 | 283 |
| | **1,343** | **582** |

### *(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 Company aims to maintain flexibility in funding by keeping committed credit lines available. The Management Board monitors available cash resources based on reports on the balance of cash and liabilities on a daily basis.

The table below analyses the Company's financial assets into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| *as at 31 December 2019*<br>*(in thousands of HRK)* | **Carrying amount** | **Contractual cash flows** | **Up to 1 year** | **1-2 years** | **2-5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|
| ***Non-interest bearing assets*** | | | | | | |
| Other receivables | 3,312 | 3,312 | 3,312 | - | - | - |
| Trade receivables | 6,535 | 6,535 | 6,535 | - | - | - |
| | 9,847 | 9,847 | 9,847 | - | - | - |
| ***Interest bearing assets*** | | | | | | |
| Cash and cash equivalents | 25,943 | 25,943 | 25,943 | - | - | - |
| | 25,943 | 25,943 | 25,943 | - | - | - |
| | **35,790** | **35,790** | **35,790** | **-** | **-** | **-** |

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

### 3.1 Financial risk factors *(continued)*

### *(c) Liquidity risk (continued)*

| *as at 31 December 2018 (in thousands of HRK)* | Carrying amount | Contractual cash flows | Up to 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| ***Non-interest bearing assets*** | | | | | | |
| Other receivables | 1,293 | 1,293 | 1,293 | - | - | - |
| Trade receivables | 5,428 | 5,428 | 5,428 | - | - | - |
| | 6,721 | 6,721 | 6,721 | - | - | - |
| ***Interest bearing assets*** | | | | | | |
| Loans granted | 37,500 | 37,972 | 37,972 | - | - | - |
| Cash and cash equivalents | 13,090 | 13,090 | 13,090 | - | - | - |
| | 50,590 | 51,062 | 51,062 | - | - | - |
| | **57,311** | **57,783** | **57,783** | **-** | **-** | **-** |

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| *as at 31 December 2019 (in thousands of HRK)* | Carrying amount | Contractual cash flows | Up to 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| ***Non-interest bearing liabilities*** | | | | | | |
| Other payables | 25,054 | 25,054 | 25,054 | - | - | - |
| Interest payables | 642 | 642 | 642 | - | - | - |
| Trade payables | 10,346 | 10,346 | 10,346 | - | - | - |
| | 36,042 | 36,042 | 36,042 | - | - | - |
| ***Interest bearing liabilities*** | | | | | | |
| Loan liabilities | 100,602 | 205,869 | 53,292 | 52,690 | 99,887 | - |
| Lease liabilities | 4,176 | 4,218 | 625 | 625 | 1,876 | 1,092 |
| | 104,778 | 210,087 | 53,917 | 53,315 | 101,763 | 1,092 |
| | **140,820** | **246,129** | **89,959** | **53,315** | **101,763** | **1,092** |

| *as at 31 December 2018 (in thousands of HRK)* | Carrying amount | Contractual cash flows | Up to 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| ***Non-interest bearing liabilities*** | | | | | | |
| Other payables | 22,411 | 22,411 | 22,411 | - | - | - |
| Interest payables | 498 | 498 | 498 | - | - | - |
| Trade payables | 11,059 | 11,059 | 11,059 | - | - | - |
| | 33,968 | 33,968 | 33,968 | - | - | - |
| ***Interest bearing liabilities*** | | | | | | |
| Loan liabilities | 130,622 | 134,794 | 30,602 | 30,235 | 73,957 | - |
| | **164,590** | **168,762** | **64,570** | **30,235** | **73,957** | **-** |

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

### 3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the 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. In accordance with the Companies Act, the Company is committed to maintain the level of capital above HRK 200 thousand as required for public limited companies.

### 3.3 Fair value estimation

Fair value represents the amount at which an asset could be exchanged, or a liability settled between knowledgeable and willing parties acting in their best interest.

The carrying amounts of current trade and other receivables and trade payables approximate their fair value. The carrying amount of borrowings approximates their fair value due to market interest rates on borrowings.

## NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under existing circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

By using a certain asset, the Company uses 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.

The useful lives of property, plant and equipment will periodically be revised to reflect any changes in circumstances since the previous assessment. An analysis in prior periods performed determined that the existing depreciation rates do not reflect estimated useful life of these assets in the accounting records. Taking into account the current capacity utilisation and the assessment of assets used in future periods and based on the experience with similar hotels and market practice, the remaining useful life of building components was changed to weighted average of 12 years.

The Company regularly assess useful lives of properties for new properties and significant reconstructions. Taking into consideration current capacity utilisation, estimation of property usage in the upcoming period, and based on experience with similar hotels and market practice, useful life of building components for newly build hotels was estimated at 25 years.

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.
For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

## NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

The Company determines the impairment indicators by using the gross operating profit multiplier and segment carrying net book values, which are determined by comparing the property segment carrying values with the gross operating profit. If the determined multiples are not in line with expected amounts or targeted levels, the recoverable amount is determined as the higher amount of fair value less costs of disposal and its value in use.
To determine recoverable amount, the Company use both internal and external valuations. Management also considers occupancy rates, revenue per available room, etc. Determination of fair value less the costs of disposal is based on the market approach, which uses prices and other relevant information generated by market transactions involving similar assets.

*(b) Land ownership and legal disputes*

Problems with respect to land ownership disputes are common for tourism entities in the Republic of Croatia. Their resolution is expected in accordance with and pursuant to the provisions of the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process, which entered into force on 1 August 2010 and which mandated companies to submit the relevant requirements under this Act within six months from the date of its entry into force (up to 1 February 2011). On 28 January 2011, regulations were issued elaborating in more detail the manner of complying with the above Act. On 31 January 2011, the Company submitted the relevant requirements to the relevant authorities in respect of the property on which the above-mentioned law can be applied.

It is not expected that the outcome of mentioned disputes will have a significant effect on the financial statements or the performance of the Company.

*(c) Going concern*

The financial statements have been prepared on the going concern basis. Due to the COVID-19 pandemic, current and expected levels of operating results and cash flows from operations will not be sufficient to meet current liabilities, the Company's ability to continue as a going concern may depend on support from the Government of the Republic of Croatia through measures to assist the economy and the financial support from banks as explained in Note 25 *Events after the reporting date*.

The Management confirms the uncertainty surrounding the Company's ability to repay bank loans and settle liabilities when they fall due. However, by taking all of the above measures as set out in Note 25 *Events after the reporting date*, and adapting the business to future developments together with planning additional measures the Management believes that it will be able to maintain the Company's liquidity in the upcoming period.

Due to the fact that the situation related to the outbreak of the disease is very dynamic and responses of the Croatian and other governments worldwide are evolving rapidly, and certain of the above measures initiated by management are still in progress, their outcome is uncertain at this stage. Accordingly, there is a risk is that in a severe but plausible scenario of prolonged lockdown management plans might be insufficient to mitigate the operating and liquidity risks. The ability of the Company to continue as a going concern depends on the availability of financing resources, including State aids. The specific and negative scenario related to events after the reporting date explained in more detail above and in Note 25 *Events after the reporting date* indicates that material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

## NOTE 5 – SEGMENT INFORMATION

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

The Company records its operating revenue and costs by the type of services rendered in two basic segments: hotels & apartments and other business segments. Other business segments include campsite services, tourist agency services, rental services, central kitchen services and other similar services as well as central sector services.

The segment information for the year ended 31 December 2019 is as follows:

| *(in thousands of HRK)* | **Hotels & apartments** | **Other business segments** | **Total** |
|---|---|---|---|
| Total sales | 300,115 | 12,521 | 312,636 |
| Inter-segment revenue | (217) | - | (217) |
| Revenue from external customers | 299,898 | 12,521 | 312,419 |
| **GOP** | 127,170 | 6,653 | 133,823 |
| Capital expenditure | 205,746 | 217 | 205,963 |
| Depreciation and amortisation | 101,407 | 1,943 | 103,350 |
| Income tax | 2,539 | - | 2,539 |
| **Total assets** | **931,772** | **53,853** | **985,625** |
| **Total liabilities** | **238,846** | **2,310** | **241,156** |

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

| *(in thousands of HRK)* | **Hotels & apartments** | **Other business segments** | **Total** |
|---|---|---|---|
| Total sales | 296,657 | 12,084 | 308,741 |
| Inter-segment revenue | (183) | - | (183) |
| Revenue from external customers | 296,474 | 12,084 | 308,558 |
| **GOP** | 101,054 | 4,286 | 105,340 |
| Capital expenditure | 119,967 | 194 | 120,161 |
| Depreciation and amortisation | 95,932 | 2,025 | 97,957 |
| Income tax | (3,787) | - | (3,787) |
| **Total assets** | **858,240** | **56,393** | **914,633** |
| **Total liabilities** | **170,387** | **2,358** | **172,745** |

## NOTE 5 – SEGMENT INFORMATION (continued)

Segment assets and liabilities are reconciled to the Company's assets and liabilities as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Segment assets/liabilities | 985,625 | 241,156 | 914,633 | 172,745 |
| Unallocated: | 29,800 | 4,560 | 21,046 | 3,941 |
| - investments | 500 | - | 500 | - |
| - cash and cash equivalents | 25,943 | - | 13,090 | - |
| - current tax receivable | 705 | - | 2,265 | - |
| - deferred tax assets | 2,652 | - | 5,191 | - |
| - provisions | - | 4,560 | - | 3,941 |
| **Total** | **1,015,425** | **245,716** | **935,679** | **176,686** |

## NOTE 6.1 – REVENUE

### *Revenue streams*

The Company generates revenue primarily from the accommodation services, food and beverages sales and provision of ancillary hotel services to its customers.

The Company's sales revenues can be classified according to the customers' origin:

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| Domestic sales | 68,781 | 66,819 |
| Foreign sales | 243,638 | 241,739 |
| | **312,419** | **308,558** |

| **Foreign sales** | **2019** | **%** | **2018** | **%** |
|---|---|---|---|---|
| Germany | 51,164 | 21 | 53,308 | 22 |
| Austria | 58,473 | 24 | 54,999 | 23 |
| Italy | 14,618 | 6 | 17,348 | 7 |
| Slovenia | 17,055 | 7 | 17,168 | 7 |
| United Kingdom | 9,746 | 4 | 7,025 | 3 |
| France | 4,873 | 2 | 6,495 | 3 |
| Russia | 2,436 | 1 | 2,718 | 1 |
| Other EU members* | 53,600 | 22 | 56,742 | 23 |
| Other* | 31,673 | 13 | 25,936 | 11 |
| | **243,638** | **100** | **241,739** | **100** |

*None of the customers' share in sales exceeds 10%.

**NOTE 6.1 – REVENUE (continued)**

The Company's sales revenues are classified according to the sales channel and type of service:

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| ***Revenue from hotel services*** | | |
| Individual guests | 136,716 | 135,822 |
| Groups | 59,283 | 59,479 |
| Allotment | 50,718 | 49,922 |
| MICE | 13,596 | 12,388 |
| | **260,313** | **257,611** |
| ***Revenue from other services*** | | |
| Food and beverages - other than hotel guests | 32,616 | 31,184 |
| Revenue from services rendered to hotel guests | 8,745 | 9,311 |
| Other revenue | 10,745 | 10,294 |
| | **52,106** | **50,789** |
| **Total sales revenue** | **312,419** | **308,400** |

***Performance obligations and revenue recognition policies***

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer. Details on revenue recognition are disclosed in Note 2.17.

## NOTE 6.2 – OTHER INCOME

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| Write-off of liabilities | 1,042 | 572 |
| Income from litigation | 2,256 | - |
| Insurance claims recovered | 17 | 876 |
| Penalty interest income | 44 | 46 |
| Recharged costs to lessees and others | 1,092 | 758 |
| Collection of receivables previously written-off | 776 | 178 |
| Income from reversal of provision for legal disputes | 650 | 1,000 |
| Rental income | 6,699 | 6,503 |
| Other income | 837 | 1,281 |
| | **13,413** | **11,214** |

## NOTE 7 – COST OF MATERIALS AND SERVICES

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| Food, beverages and other supplies | 35,717 | 34,264 |
| Energy and water used | 16,306 | 17,578 |
| | **52,023** | **51,842** |
| Tourist agency services | 14,870 | 16,048 |
| Maintenance | 3,352 | 2,813 |
| Advertising and promotion | 2,587 | 2,495 |
| Laundry services | 6,395 | 6,606 |
| Utilities | 6,591 | 4,520 |
| Rent | 2,160 | 2,121 |
| Entertainment of guests | 1,740 | 1,892 |
| Other expenses | 4,457 | 2,803 |
| | **42,152** | **39,298** |
| | **94,175** | **91,140** |

## NOTE 8 – STAFF COSTS

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| Gross salaries and wages | 67,088 | 66,417 |
| Contributions on salaries | 10,217 | 15,074 |
| Other staff costs /i/ | 9,023 | 39,228 |
| | **86,328** | **120,719** |
| Number of employees at year end | 606 | 586 |

/i/ Other staff costs comprise termination benefits, compensations for transportation costs, remunerations for temporary services, jubilee awards, etc. In 2018 other staff costs include include reward bonus to former president of the management board of HRK 28,075 thousand and current board members of HRK 8,160 thousand.

## NOTE 9 – OTHER OPERATING EXPENSES

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| Professional services | 3,646 | 3,453 |
| Utility and similar fees | 7,912 | 7,867 |
| Write-off of property, plant and equipment and intangible assets | 3,245 | 5,449 |
| Insurance | 1,102 | 1,178 |
| Provisions for legal disputes (note 20) | 658 | 40 |
| Bank charges and membership fees | 1,152 | 1,086 |
| Travel and entertainment | 847 | 1,130 |
| Other expenses | 6,896 | 5,462 |
| | **25,458** | **25,665** |

Write-off of property, plant and equipment in 2019 relates mainly to the replacement of the equipment due to the new investments.

## NOTE 10 – OTHER GAINS – NET

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| Net gains on sale of property, plant and equipment | 136 | 195 |
| | **136** | **195** |

## NOTE 11 – NET FINANCE COSTS

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| **Finance income** | | |
| Interest income from financial assets at amortised cost | 407 | 1,008 |
| Net foreign exchange gains | 602 | 1,552 |
| | **1,009** | **2,560** |
| **Finance costs** | | |
| Interest expense | (2,725) | (2,654) |
| Net foreign exchange losses | (587) | (780) |
| | **(3,312)** | **(3,434)** |
| **Net finance costs** | **(2,303)** | **(874)** |

## NOTE 12 – INCOME TAX

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| **Current tax expense** | | |
| Current year | - | - |
| | | |
| **Deferred tax (income)/expenses** | | |
| Origination and reversal of temporary differences | 2,539 | (2,000) |
| Recognition of tax losses | - | (877) |
| Recognition of previously unrecognised temporary differences | - | (910) |
| | 2,539 | (3,787) |
| | | |
| **Tax (income)/expense** | **2,539** | **(3,787)** |

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| Profit/(loss) before tax | 13,255 | (16,726) |
| Tax rate of 18% | 2,386 | (3,010) |
| The effect of non-deductible expenses | 153 | 133 |
| Recognition of previously unrecognised temporary differences | - | (910) |
| Tax (income)/expense | 2,539 | (3,787) |
| | | |
| Effective tax rate | 19.2% | 22.6% |

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 18%. The reconciliation of the tax expense of the Company per the statement of comprehensive income and taxation at the statutory rate is detailed in the table above.

In accordance with local regulations, the Tax Administration may at any time inspect the Company's books and records within three years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's Management Board is not aware of any circumstances, which may give rise to a potential material liability in this respect.

## NOTE 12 – INCOME TAX (*continued*)

### Deferred tax assets and liabilities

As of 31 December 2019, deferred tax assets amount to HRK 2,652 thousand *(2018: HRK 5,191 thousand)*.

| | Assets at 31 December | | Liabilities at 31 December | | **Net at 31 December** | |
|---|---|---|---|---|---|---|
| *(in thousands of HRK)* | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Provisions for other liabilities and expenses | - | 1,468 | - | - | - | **1,468** |
| Property, plant and equipment | **2,351** | 2,846 | - | - | **2,351** | **2,846** |
| Tax losses recognised | **301** | 877 | - | - | **301** | **877** |
| | **2,652** | 5,191 | - | - | **2,652** | 5,191 |

The movement in deferred tax assets and liabilities during the year relates to the temporary differences as follows:

| *(in thousands of HRK)* | **As at 31 December 2018** | Recognised in profit or loss | **As at 31 December 2019** |
|---|---|---|---|
| Provisions for other liabilities and expenses | **1,468** | **(1,468)** | **-** |
| Property, plant and equipment | **2,846** | **(495)** | **2,351** |
| Tax losses recognised | **877** | **(576)** | **301** |
| | **5,191** | **(2,539)** | **2,652** |

## NOTE 13 – EARNINGS/(LOSS) PER SHARE (basic and diluted)

### Basic earnings/(loss) per share

Basic earnings/(loss) per share are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

| | **2019** | **2018** |
|---|---|---|
| Profit/(loss) for the year *(in thousands of HRK)* | 10,716 | (12,939) |
| Weighted average number of shares (basic and diluted) | 302,641 | 302,641 |
| Earnings/(loss) per share (basic and diluted) *(in HRK)* | 35.41 | (42.75) |

### Diluted earnings/(loss) per share

Diluted earnings/(loss) per share are equal to basic earnings per share, since the Company did not have any convertible instruments nor share options outstanding.

## NOTE 14.1 – PROPERTY, PLANT AND EQUIPMENT

| *(in thousands of HRK)* | Land | Buildings | Equipment | Assets under construction | Artwork | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2018** | | | | | | |
| Cost | 100,878 | 1,502,713 | 313,299 | 24,245 | 3,506 | 1,944,641 |
| Accumulated depreciation | - | (893,695) | (200,876) | - | - | (1,094,571) |
| **Net carrying amount** | **100,878** | **609,018** | **112,423** | **24,245** | **3,506** | **850,070** |
| **Year ended 31 December 2018** | | | | | | |
| Opening net carrying amount | 100,878 | 609,018 | 112,423 | 24,245 | 3,506 | 850,070 |
| Additions | - | 2,294 | 28,711 | 89,152 | 4 | 120,161 |
| Disposals and write-offs | - | (1,702) | (3,914) | - | - | (5,616) |
| Depreciation | - | (71,716) | (26,008) | - | - | (97,724) |
| Transfer | - | 74,722 | 16,366 | (91,088) | - | - |
| **Closing net carrying amount** | **100,878** | **612,616** | **127,578** | **22,309** | **3,510** | **866,891** |
| **As at 31 December 2018** | | | | | | |
| Cost | 100,878 | 1,576,043 | 304,298 | 22,309 | 3,510 | 2,007,038 |
| Accumulated depreciation | - | (963,427) | (176,720) | - | - | (1,140,147) |
| **Net carrying amount** | **100,878** | **612,616** | **127,578** | **22,309** | **3,510** | **866,891** |
| **As at 1 January 2019** | | | | | | |
| Cost | 100,878 | 1,576,043 | 304,298 | 22,309 | 3,510 | 2,007,038 |
| Accumulated depreciation | - | (963,427) | (176,720) | - | - | (1,140,147) |
| **Net carrying amount** | **100,878** | **612,616** | **127,578** | **22,309** | **3,510** | **866,891** |
| **Year ended 31 December 2019** | | | | | | |
| Opening net carrying amount | 100,878 | 612,616 | 127,578 | 22,309 | 3,510 | 866,891 |
| Additions | - | 1,666 | 17,882 | 186,415 | - | 205,963 |
| Disposals and write-offs | - | (1,532) | (1,702) | - | - | (3,234) |
| Depreciation | - | (72,978) | (29,347) | - | - | (102,325) |
| Transfer | - | 116,278 | 56,776 | (173,054) | - | - |
| **Closing net carrying amount** | **100,878** | **656,050** | **171,187** | **35,670** | **3,510** | **967,295** |
| **As at 31 December 2019** | | | | | | |
| Cost | 100,878 | 1,692,455 | 377,254 | 35,670 | 3,510 | 2,209,767 |
| Accumulated depreciation | - | (1,036,405) | (206,067) | - | - | (1,242,472) |
| **Net carrying amount** | **100,878** | **656,050** | **171,187** | **35,670** | **3,510** | **967,295** |

As at 31 December 2019, land and buildings in the amount of HRK 283,455 thousand (2018: HRK 213,088 thousand) have been pledged as collateral for the repayment of borrowings (note 19).

The land surface included in the Company's records as at 31 December 2019 comprised 190,145 m$^2$ (2018: 190,145 m$^2$) and together with the respective buildings has a net carrying value of HRK 756,928 thousand (2018: HRK 713,494 thousand).

Of the total land surface, a surface of 17,215 m$^2$ (2018: 14,323 m$^2$) or land and buildings with a value of HRK 5.840 thousand (2018: HRK 16,727 thousand) are not legally owned by the Company (according to land registry data, see note 23), while 172,930 m$^2$ (2018: 175,822 m$^2$) is legally owned by the Company and with the buildings has a value of HRK 750,354 (2018: HRK 689.227). Assets under construction relate to advance for reconstruction of hotel Ambasador, Admiral and Exelsior and other reconstructions. The carrying value of property, plant and equipment of the Company leased out is as follows:

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| Cost | 17,018 | 17,021 |
| Accumulated depreciation as at 1 January | (9,751) | (9,066) |
| **Net carrying amount** | **7,267** | **7,955** |

## NOTE 14.1 – PROPERTY, PLANT AND EQUIPMENT *(continued)*

The operating lease relates to the lease of hospitality facilities and stores. During 2019, the Company realised rental income in the amount of HRK 6,699 thousand *(2018: HRK 6,503 thousand).*

The aggregate lease payments receivable from operating leases is as follows:

| | 2019 | 2018 |
|---|---|---|
| Up to 1 year | 5,815 | 4,816 |
| Between 2 and 5 years | 1,815 | 1,896 |
| | **7,630** | **6,712** |

Lease agreements have been concluded for a period from 1 to 3 years (mainly 3 years) and are renewable at the end of the lease period at market prices.

The Company identified impairment indicators relating to certain underperforming tourism properties. As a result, as at 31 December 2019 the Company tested the above tourism properties for impairment and determined the assets recoverable amount based on an estimate of their fair value less costs to sell. The test did not indicate any impairment loss of those properties as at 31 December 2019.

## NOTE 14.2 – RIGHT OF USE OF ASSETS

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)* | Concessions | Vehicles | Total |
|---|---|---|---|
| **Year ended 31 December 2019** | | | |
| Opening net carrying amount | 4,289 | 666 | 4,955 |
| Additions | - | 147 | 147 |
| Depreciation | (485) | (311) | (796) |
| **Closing net carrying amount** | **3,804** | **502** | **4,306** |

| *(in thousands of HRK)* | 31 December 2019 |
|---|---|
| Lease liabilities | |
| Current portion | 619 |
| Non-current portion | 3,557 |
| | **4,176** |

The statement of comprehensive income presents the amounts for leases as follows:

| *(in thousands of HRK)* | 2019 |
|---|---|
| Depreciation of assets with right of use | |
| Concessions | 485 |
| Vehicles | 311 |
| | **796** |
| Interest expense (included in financial expenses) | **53** |

## NOTE 15 – INVESTMENTS

| *(in thousands of HRK)* | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Investments in Remisens | 500 | 500 |

The Company owns 33% of total shares in Remisens d.o.o. (2018: 33%).

## NOTE 16 – TRADE AND OTHER RECEIVABLES

| *(in thousands of HRK)* | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Domestic receivables | 2,677 | 3,366 |
| Foreign receivables | 3,526 | 1,879 |
| Uninvoiced receivables /i/ | 3,911 | 3,629 |
| Provision for impairment of trade receivables | (3,579) | (3,446) |
| Trade receivables – net | **6,535** | **5,428** |
| State and other receivables | 3,312 | 1,293 |
| | **9,847** | **6,721** |

/i/ Uninvoiced receivables relate to receivables from guests staying at the hotel as at 31 December.

Movements in the impairment of trade and other receivables are as follows:

| *(in thousands of HRK)* | 31 December 2019 | 31 December 2018 |
|---|---|---|
| At 1 January | 3,446 | 3,388 |
| Increase | 1,099 | 338 |
| Collection | (776) | (178) |
| Write-off | (190) | (102) |
| **At 31 December** | **3,579** | **3,446** |

## NOTE 17 – CASH AND CASH EQUIVALENTS

| *(in thousands of HRK)* | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Deposits up to 90 days | 21,841 | 8,161 |
| Foreign currency accounts | 2,131 | 2,632 |
| Cash on hand | 709 | 903 |
| Giro accounts | 1,262 | 1,394 |
| | **25,943** | **13,090** |

During the term of the deposit, the Company may call the funds with a prior notification of three days.

## NOTE 18 – CAPITAL AND RESERVES

### Share capital

As at 31 December 2019, the Company's share capital amounted to HRK 696,074 thousand (2018: HRK 696,074 thousand) and comprises 302,641 ordinary shares with a nominal value of HRK 2,300 per share (2018: HRK 2,300 per share). Ordinary shares have equal voting rights and rights to receive dividend. The Company's share capital has been fully paid in cash.

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

| | Number of shares | HRK | % |
|---|---|---|---|
| Gitone Adriatic d.o.o. | 215,568 | 495,806,400 | 71.23 |
| Nova Liburnija d.o.o., Opatija | 75,661 | 174,020,300 | 25.00 |
| CERP | 5,617 | 12,919,100 | 1.86 |
| Small shareholders | 5,795 | 13,328,500 | 1.91 |
| **Total** | **302,641** | **696,074** | **100.00** |

### Legal reserves

Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until total reserves together with the capital reserves reach 5% of the Company's share capital. Legal reserves are not distributable. Legal reserves include HRK 43,278 thousand from reduction of share capital in 2014.

### Capital reserves

Capital reserves were created from reduction of share capital in 2014.

## NOTE 19 – BORROWINGS

| *(in thousands of HRK)* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Bank borrowings | 201,580 | 131,121 |
| Less: non-current portion | (149,813) | (101,595) |
| Current portion | **51,767** | **29,526** |

Bank borrowings are secured by a mortgage over land and a building (note 14). Of the total amount of current borrowings, HRK 642 thousand relates to interest payable *(2018: HRK 498 thousand)*. Bank loan contract contains a loan covenant.

Maturities of long-term borrowings are as follows:

| *(in thousands of HRK)* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Between 1 and 2 years | 51,767 | 29,027 |
| Between 2 and 5 years | 98,046 | 72,568 |
| | **149,813** | **101,595** |

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| ***Borrowings*** | | |
| *At 1 January* | **131,121** | **91,591** |
| Borrowings received | 110,000 | 69,072 |
| Repayments of borrowings | (40,024) | (28,408) |
| Net foreign exchange gains | 483 | (1,135) |
| *At 31 December* | **201,580** | **131,121** |

Carrying value of borrowings is denominated in EUR. Effective interest rates at the reporting date are:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | (in thousands of HRK) | | (in thousands of HRK) | |
| EUR | 201,580 | 6M EURIBOR + 1.5% to 1.6% | 131,121 | 6M EURIBOR + 1.5% to 1.6% |
| | 201,580 | | 131,121 | |

## NOTE 20 – PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

| *(in thousands of HRK)* | Termination benefits and jubilee awards | Legal disputes /i/ | Provision for bonus | Total |
|---|---|---|---|---|
| **As at 1 January 2019** | 577 | 3,364 | 8,160 | 12,101 |
| Increase | - | 658 | - | 658 |
| Paid during the year | - | - | (7,549) | (7,549) |
| Released during the year | - | (39) | (611) | (650) |
| **As at 31 December 2019** | **577** | **3,983** | **-** | **4,560** |
| **Current portion** | - | - | - | - |
| **Non-current portion** | **577** | **3,983** | **-** | **4,560** |

/i/ The Company recorded provisions for legal disputes for the potential payment of the fee to the former property owners which is expected to be settled within 2 to 4 years.

## NOTE 21 – TRADE AND OTHER PAYABLES

| *(in thousands of HRK)* | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Domestic trade payables | 9,534 | 10,372 |
| Foreign trade payables | 812 | 687 |
| *Total financial liabilities* | 10,346 | 11,059 |
| Due to employees | 7,725 | 7,356 |
| Taxes and contributions payable | 1,512 | 1,793 |
| Advances payable | 8,790 | 7,552 |
| Other liabilities | 7,027 | 5,704 |
| | **35,400** | **33,464** |

## NOTE 22 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

| *(in thousands of HRK)* | **2019.** | **2018** |
|---|---|---|
| **Profit/(loss) before taxation** | 10,716 | (12,939) |
| Adjustments for: | | |
| Depreciation and amortization | 103,350 | 97,957 |
| Write-off of disposed property, plant and equipment and intangible assets | 3,234 | 5,477 |
| Gains on sale of property, plant and equipment | (136) | (195) |
| Provision for impairment of trade receivables – net | 1,685 | 58 |
| Net finance costs | 2,303 | 874 |
| Increase in provisions-net | (7,541) | 5,222 |
| Income tax | 2,539 | (3,787) |
| Changes in working capital: | | |
| - trade and other receivables | (4,811) | 1,318 |
| - inventories | (548) | (139) |
| - trade and other payables | 1,550 | (679) |
| **Cash generated from operations** | **112,341** | **93,167** |

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

| *(in thousands of HRK)* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Net carrying value of sold property, plant and equipment | - | 168 |
| Gains on sale of property, plant and equipment (note 10) | 136 | 195 |
| Proceeds from sale of property, plant and equipment | **136** | **363** |

## NOTE 23 – CONTINGENCIES AND COMMITMENTS

### Legal disputes

The Company is involved in a number of legal disputes arising from the ordinary course of business. In the financial statements for the year ended 31 December 2019, provisions for legal disputes have been made for which the Company anticipates outflow of economic benefits in the amount of HRK 3,804 thousand (2018: HRK 3,364 thousand), as set out in note 20.

### Land ownership

Pursuant to the Agreement on the resolution of legal ownership rights and the transfer of 25% + 1 shares concluded on 14 June 2007 with the Croatian Privatisation Fund, Zagreb (CPF) and the City of Opatija (which concluded the Agreement in its own name and for the account of the Municipalities of Lovran, M. Draga and Matulji), the Company acquired the ownership right over the properties entered into the Company's share capital based on the Decision of CPF dated 5 July 1995, the Conclusion of CPF dated 30 April 1998, the Conclusion of CPF dated 10 June 1998 and the Conclusion of CPF dated 27 February 1998. In line with the stated Agreement, legal documentation has been issued for most of the properties subject to the Agreement, except for the cases where the land plot division process is still ongoing, since they have been entered into the Company's share capital as part of the cadastral plot, and not as the entire cadastral plot. It is not expected that the outcome of mentioned disputes will have a significant effect on the financial statements or the performance of the Company.

***Dispute G.H.B. d.o.o. in bankruptcy***

The claim was filed by G.H.B. d.o.o. (1st prosecutor) and Mr. Miroslav Brković (2nd prosecutor). After the bankruptcy was opened, the bankruptcy trustee G.H.B. d.o.o. in bancruptcy continued proceeding due to the fulfilment of the contractual obligations (deliver and transfer of the right of ownership of the property) in connection with the hotels and annex Belvedere in Opatija. A first-instance verdict was issued on August 8, 2014, which granted the claim of the 1st prosecutor, and the defendant was ordered to conclude with the 1st prosecutor a contract on the transfer of ownership of the property. The 2nd prosecutor's claim was dismissed in its entirety. The Company filed an appeal on 18 August 2014 against the verdict as well as the 2nd prosecutor. The respondent filed a response to the appeal of the 2nd prosecutor, and the 1st prosecutor filed a response to the Appellant's appeal. The second-instance proceedings before the High Commercial Court in Zagreb is legally completed.

Second-instance verdict no. 91. Pž-9806/2014 was issued on 31 May 2017 by High Commercial Court of Republic of Croatia and delivered to the attorney of the defendant on 6 July 2017, by which the defendant's appeal was rejected and above quoted first-instance verdict by the Commercial Court in Rijeka confirmed in its entirety. The defendant filed a revision against the above mentioned second-instance verdict to the Supreme Court of Republic of Croatia, by his attorney and within the statutory deadline. On 16 October 2017, based on the above mentioned final verdict, the Company handed over the hotel and annex Belvedere in Opatija to G.H.B. d.o.o. in bancruptcy, free of persons and things.

### Capital and loan commitments

As at 31 December 2019, capital commitments with respect to investments in tourist facilities amount to HRK 6,485 thousand (2018: HRK 86,240 thousand).

## NOTE 24 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the power to exercise control over the other party or under common control or if it has significant influence over the other party in making financial or operational decisions. As of 31 December 2019, the Company has one majority shareholder Gitone Adriatic d.o.o. with 71.23% shares and shareholder Nova Liburnija d.o.o with 25% shares (note 18).

Related party transactions at the year-end are as follows:

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| **Sales of services:** | | |
| Related companies | 97 | 525 |
| Associates | - | 3 |
| City of Opatija | 10 | 67 |
| Municipality of Lovran | 29 | 30 |
| Municipality of Mošćenička Draga | 4 | - |
| | **140** | **625** |
| **Other income – income from recharging – related companies** | **-** | **14** |
| **Cost of materials and services:** | | |
| City of Opatija | 19 | 643 |
| **Other operating expenses:** | | |
| Municipality of Opatija | 4,042 | 3,928 |
| Municipality of Lovran | 1,340 | 1,330 |
| Municipality of Mošćenička Draga | 598 | 580 |
| Bogdanović&Dolički | 101 | 176 |
| Associates | 254 | 262 |
| Other related companies | 1,048 | 12 |
| | **7,383** | **6,288** |
| **Trade and other payables** | | |
| Related companies | 668 | - |
| Associates | 77 | 25 |
| Bogdanović&Dolički | - | 12 |
| City of Opatija | 225 | 85 |
| Municipality of Lovran | - | 9 |
| | **970** | **131** |
| **Trade and other receivables:** | | |
| Loans granted | - | 37,500 |
| Associates | - | - |
| Municipality of Lovran | 1 | - |
| Other related companies | 12 | 157 |
| | **13** | **37,657** |

## NOTE 24 – RELATED PARTY TRANSACTIONS (continued)

The Management Board comprises two members as at 31 December 2019 (31 December 2018: two members).

| *(in thousands of HRK)* | **2019** | **2018** |
|---|---|---|
| **Management board compensation** | | |
| Net salaries | 872 | 19,067 |
| Pension contributions | 223 | 1,886 |
| Health insurance contribution | 292 | 5,504 |
| Other costs | 344 | 11,319 |
| | **1,731** | **37,776** |

For the year 2018, compensation to management board include additional bonus to former President of the Management Board of HRK 28,075 thousand which was paid out based on the decision of Supervisory Board (Note 8).

Additionally, as described in note 8 *Staff costs*, the Company recorded a provision for management board bonuses of HRK 8,160 thousand.

| | **2019** | **2018** |
|---|---|---|
| **Supervisory board compensation** | 488 | 489 |

## NOTE 25 – EVENTS AFTER THE REPORTING DATE

At the beginning of 2020, as a result of the new Management, operational results have highly exceeded the 12/2019 budget and forecast, until February 2020 when the issues with the corona virus on the global market started emerging. At the beginning of 2020, management noticed sudden and frequent cancellations of reservations and arrangements offered by the Company to guests from the pre-season (beginning in February 2020) and for the whole of 2020, attributed by the Company to the spread of COVID - 19 (Corona virus). The cancellations came primarily from far eastern markets (China, South Korea, Japan, Taiwan, and the like). The situation was further expanded with the transition from February to March 2020, when the first cases were recorded in European countries, including Italy, which is only approx. 100 km away from the Opatija Riviera.

On March 11, 2020, the World Health Organization declared a global pandemic of the Corona virus (COVID - 19 disease). One of the first cases of infection in Croatia included persons from the area of Primorsko Goranska County (Rijeka), which forms an integral part with Opatija, and thus with the business of the Company. The Company is located geographically on the far eastern tip of the Istrian Peninsula, and shortly after the pandemic was declared on March 11, 2020, the County of Istria introduced rigorous disease control measures, including the closure of schools and restaurants.

By continuing spread of the disease, the hospitality industry became drastically limited by the Decision on measures to limit social gatherings, work in commerce, service activities and sports and cultural events adopted by the Civil Health Department on 19 March 2020 (Official Gazette 33/2020). Notwithstanding all these measures, the mere spread and the health threat of COVID-19 have led to cancellation of reservations and reduced occupancy, which negative impact becomes more pronounced as the disease has spread across Europe and neighboring countries, especially in Italy, and subsequently in Croatia itself. The following accommodation reservations have been canceled, solely because of the impact of the COVID-19 virus:

- for February 2020, 19% of bookings were canceled compared to the same period last year;
- for March 2020, 72% of bookings were canceled compared to the same period last year;
- for April 2020, 100% of bookings were canceled compared to the same period last year;
- May 2020 65% of bookings were canceled compared to the same period last year;
- for June 2020, 32% of bookings were canceled compared to the same period last year.

Further effects of CORONA VIRUS spread are expected while exact effects on the Company's performance cannot be quantified as of now. On all possible scenarios, Management of LRH is on daily level preparing analysis of changes that occurring and the effects on the business. These scenarios cannot be limited nor fixed as situation is continuously changing. Main base models provided as integral part of this statement are i) worst case scenario model with assumed zero revenue environment and ii) plausible (mid-case) scenario assumption business resuming mid 2020.

Losses have been evidenced also in regard to room nights as one of the KPIs on the Company level, where the overall loss from March until June 2020 amounted to over 78.89% compared to the booking status beginning of March 2020.

Following the measures implemented by the management to mitigate the effects of the corona virus outbreak, Company has prepared number of financial and operational models with different assumptions on the market conditions by end of 2020.

There, main focus is on the worst-case scenario, which basically provides that the Company does not expect any revenues by end of 2020, except during the Christmas/New Year holidays. Other main scenario provides for the most plausible case as considered by the management, which includes that business shall start to take its regular course as of July 2020.

## NOTE 25 – EVENTS AFTER THE REPORTING DATE (continued)

While there is a risk that in a severe but plausible scenario of prolonged lockdown management plans might be insufficient, management still believes that on the balance, considering the facts outlined further below, management's plans appear realistic and the Company should be able to continue as a going concern.  This conclusion was reached under the following considerations and projections:

The Company has settled all loan liabilities as they fell due and were invoiced by the banks and Company has been greeted with understanding from all the commercial partners. Company has serviced all loan obligations made due by banks as of the date hereof. It is also envisaged that there will be no loan instalments due in 2020, as refinanced and agreed with the banks (agreement is pending) and Management is also trying to reach an understanding with the social partners of the Company.

The Company's 4 existing loan facilities as of 31 March 2020 are being negotiated and are partially provided for a stand-still of at least six months, providing for first instalments due earliest October 2020. The Company has in addition been also successful in opening negotiations to refinance the overall existing loan facilities, jointly or in part, to be refinanced into a long term loan facility with a 1 year grace period.

Moreover, the Company owns various valuable assets and has partially leveraged those assets, with minimal amount of net debt. Even in a worst case scenario of a zero revenue environment, the assets base of the Company should provide more than enough leverage for additional funding to be obtained if necessary.

The Company identified impairment indicators relating to certain underperforming tourism properties. As a result, as at 31 December 2019 the Company tested the above tourism properties for impairment and determined the assets recoverable amount based on an estimate of their fair value less costs to sell. The test did not indicate any impairment loss of those properties as at 31 December 2019. No assets were impaired subsequently as a result of pandemics. CAPEX plans have been placed on hold for now, considering the zero-revenue environment.

The lock-down of the entire market as noticed in the first quarter of 2020 would have a far reaching impact not, just only on the Company but the entire economy, if it would be prolonged. As of May 2020,  government noted that restrictions shall be alleviated and management believes that operations shall commence end of Q2 2020 in a lower scope, still sufficient to provide self-sustaining business operations.

The current state of liquidity of the Company provides comfort for a specific time period, dependent on the scope of state subsidies and fixed costs expected. LRH is adjusting its business models constantly, being able to instantly implement additional crisis control measures and more, to mitigate the risks.

Management is in frequent contacts with lenders of the Company which all expressed understanding and willingness to assist the business. This assistance was first noticed by i) stand-still arrangements being negotiated and partially provided to the Company and subsequently by ii) open discussions on the refinancing of existing loans with envisaged grace period until season 2021. As per the expected refinancing terms of loan facilities, main financial burdens on the Company would be postponed until expected regular business resumes order (worst case in 2021).

The Company so far conducted its business by keeping a high level of collateral coverage from the debtors and advance payments in lease agreements. Company's overall exposure of un-collected debt provides for less than 1% of usually annual revenues where default period is less than 90 days in most cases. Company is not a lender to any party as a borrower, and Company as the lessor has provided some alleviation of terms and conditions for the leases, providing a discounted rent during the corona virus crisis period.

**NOTE 25 – EVENTS AFTER THE REPORTING DATE (continued)**

On the Company's request, communication channels with trade unions has been opened. Basic employee remunerations and obligations have been timely and orderly fulfilled in excess of the provided state subsidies. Negotiations are pending and Company is applying massive efforts to facilitate a reasonable and viable solution with social partners.

Employees organization and work assignments have been adjusted to the new zero revenue business model while having in mind the state implemented restrictions and health requirements.

The Company filed for state subsidies related to employee salaries and also for the postponement and alleviation of taxes. Both requests have been approved, while the Company is also expecting that the initial granted postponement of taxes and state contributions (excluding VAT) shall also be converted in to full alleviation of liabilities (subject to revenue drop of over 50%).

Corona virus outbreak occurred in Q1 2020, which in the light of seasonality of Company's business model is an extremely negative time for such crisis, but also it may be considered as the optimal point in time for such extreme circumstances to take place. Negative effects have cause the Company to have zero operational revenue as of 16 March 2020 from when Company is relaying on its current account balance (earnings from before 16 March 2020).

The main start of the seasons is expected usually at the beginning of Q2, the Covid-19 outbreak had a significant impact on the forecasted revenue. Nevertheless, positive views on the timing of this pandemic is that the Company did not receive significant refundable advance payments, did not have cancellations and penalties for non-provided services in high values and the management implemented the right strategy and did not stock on massive supplies nor did it employ greater numbers of employees which are usually employed as of end of Q1. The Management of the Company is taking significant steps to try and mitigate the negative effects as much as possible (risk management). These actions include, but are not limited to:

1. strict cost management where suppliers and other vendors of the Company have been approached to prolong the due dates on their existing claims and new procurement is limited to bear minimum
2. Management is negotiating with the commercial banks funding the Company on the refinancing terms with the targeted grace period of 1 year, with already provided stand-still arrangements
3. Management is also negotiating with the commercial banks on the new lines of credit for possible bridge loan coverage
4. Management is negotiating with unions related to the employee rights, terms and conditions of the collective bargaining agreements and the overall HR structure
    a. Company is developing internal employee communication plans, with a more streamlined approach, transparent content and with higher frequency of interactions (in electronic form mostly)
5. Company filed for state subsidies related to i) employee measures (to receive undefendable grants for salary coverage) and ii) tax postponement, which has already been approved
6. Management is diligently and on daily basis following the situation with the new state subsidies to adjust to the new legal framework
7. sales and marketing of the Company are intensively communicating with clients and partners to prepare a restart of the Company as soon as possible
8. Company is continuously adjusting the pricing structure to the current circumstances, combined with an analysis of anticipated trends following the crisis end.

**NOTE 25 – EVENTS AFTER THE REPORTING DATE (continued)**

Moreover, the Company is constantly assessing and upgrading emergency response plans for the pandemic expansion with cross-functional contingency plans across number of scenarios. LRH set up a monitoring and reporting plan as well as procedures which allow live tracking of the market developments, health-security issues and risks, implemented measures and restrictions all providing for "live-feed" on the crisis in which the Company is currently operating from reliable and objective sources.

While analyzing the Company's status and resilience to the market conditions and corona virus outbreak, management reached following conclusions/judgements:

1. The Company in the current state holds sufficient liquidity and solvency to unilaterally bear its own costs and sustainability is not questioned subject to the assumptions from the plausible case scenarios
2. The Company holds a very valuable asset base and the balance sheet provides reassurances with commercial banks and majority shareholder that the Company shall remain sustainable as an ongoing concern, even in the worst case scenario of zero revenue environment by end of 2020
3. The Company has successfully negotiated and reached understanding with vast majority of its business partners on joint understanding of the current market status, where liquidity and solvency issues are not considered as a material risk on the Company as a permanent (long-term) going concern
4. The management has implemented as of October 2019 new rules and procedures on the strategy of the Company which are more equipped and adequate to deal with the current crisis
5. The management is on daily levels reassessing the effects of the crisis and implementing measures by the state authorities into the business model, while crisis management plans and risk control measures being implemented and adjusted regulatory.