

JADROPLOV d.d., SPLIT

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

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Consolidated Management Report

The Management Board presents its annual report for the year ended 31 December 2019.

Principal activity

Jadroplov d.d. (the "Company") was incorporated in Croatia as a joint stock company, registered with the Commercial Court in Split, number 060000041. The Company and its subsidiaries (collectively the "Group") own and operate a fleet of vessels which sail under the Croatian flag. The Group's principal activities are chartering, crew and technical management. The business is carried on primarily outside Croatia.

At the end of 2019, the Group's fleet consisted of 6 ships, with a total capacity of 292,939 DWT and average age of 13.7 years.

Supervisory Board

Supervisory Board members were as follows: Paško Karlo (President until 03 June 2019), Ksenija Košćević Čuvalo (Vice-President), Zoran Miletić (resigned on 11 March 2019), Siniša Prnjak and Vesna Gudelj (President from 03 December 2019).

Management Board

Management Board members were as follows: Branimir Kovačić (President), Dalibor Filipović (until 10 May 2019) and Mario Radačić (members), with a 5-year mandate until 31 July 2022.

Shareholder's structure of Jadroplov d.d. as at 31 December 2019	Number of shares	Percentage %
Restructuring and Sale Center	1,152,904	70.44%
Domestic natural persons	425.709	26.00%
Financial institutions	37.161	2.27%
Companies	5.123	0.33%
Foreign investors	5.766	0.35%
Treasury shares	10.011	0.61%
Total	1,636,674	100.00%

Total number of shareholders as at 31 December 2019 was 2,872.

Result

The Group realized a loss of HRK 293,799 thousand (USD 44,181 thousand) in 2019 (2018.: HRK 34,020 thousand (USD 5,259 thousand)). With the exclusion of the effect of foreign exchange losses in the amount of HRK 2,249 thousand (USD 247 thousand) (2018.: HRK 1,889 thousand (USD 292 thousand)) and the vessels impairment losses amounting to HRK 291,898 thousand (USD 33,068 thousand) (2018.: there was no value adjustment), the normalized loss would amount to HRK 71,652 thousand (USD 10,866 thousand) (2018.: HRK 32,136 thousand (USD 4,967 thousand)). EBITDA for 2019 is HRK 1,743 thousand (USD 262 thousand) loss (2018.: HRK 32,836 thousand (USD 5,075 thousand) profit).

Management Report (continued)

Significant events during 2019

(1) *Trends in the shipping market*

Growth of the global economy has continued in 2019 at slightly higher rate compared to 2018.

World's GDP increased by 2.9% in 2019 compared to 3.6% in 2018.

Same as the previous year, China retained the primacy in the total size of industrial development in 2019 with a growth rate of 6.1%. The significant growth was achieved in the United States with a growth rate of 2.3% and in Germany with growth rate of 1.0% compared to the previous year.

The European Union's economy recovered and annual GDP grew by 1.2% in comparison to 2018, when GDP grew by 1.9%.

These indicators should have positive effects on global trade as a whole and, thus, maritime transport of goods.

During 2019, the maritime commerce increased by 0.7%. Thereof, the transportation of oil and oil products decreased by 1.85%, container transport by 2.1% and dry bulk transportation increased by 0.8%.

Throughout the year, transportation capacity of the dry bulk carrier fleet increased by 3.9%, but for us, of particular interest is the market segment with capacity from 40,000 to 65,000 DWT, which grew at the rate of 3.6%.

The Company possesses 6 dry bulk carriers. Therefore, we will give a brief overview of this particular maritime market segment.

Dry bulk market

Since the majority of our ships for transport of bulk cargo (bulk carriers) have individual capacity of about 48,823 DWT, we pay attention to the market of "Supramax" ships, although their average capacity is slightly higher than the capacity of our ships.

Over the past years, the BSI (Baltic Supramax Index) experienced significant fluctuations and was as follows:

- 02 January 2015 - 884 points,
- 16 April 2015 - 612 points,
- 12 February 2016 - 243 points,
- 22 April 2016 - 558 points
- 23 December 2016 - 903 points,
- 08 June 2017 - 649 points
- 22 December 2017 - 914 points
- 13 February 2018 - 817 points
- 11 October 2018 – 1,207 points.
- 07 February 2019 - 414 points
- 04 September 2019 – 1,351 points.

Management Report (continued)

Significant events during 2019 (continued)

(1) Trends in the shipping market (continued)

This market segment has been in recession since 2010, and reached its historical minimum on 12 February 2016, when the index value amounted to 243, after which the market bounced back and the index strengthened.

Annual average of hire rates in USD:

	T/C BCI	T/C BPI	T/C BSI	T/C BHSI
2016	7,557	5,515	6,750	5,371
2017	15,751	9,812	10,680	7,840
2018	16,276	11,670	12,783	8,945
2019	17,880	12,301	10,867	9,608
% change	9.9	5.4	-15.0	7.4

The above table shows that BDI increased from 5.4% to 9.9% compared to 2018 for all types of vessels other than Supramax (15 % decrease in relation to the prior year).

The main reason for this was a balanced increase in fleet capacity in the observed period, growing by an average of 2.9% annually until 2019. At the same time, the transported cargo volume increased by approximately 2.7% p.a. In the prior year, the increase in fleet capacity was disproportionate to the increase in the dry bulk freight market. During 2018, the fleet capacity increased by 2.9%, accompanied by a growth in the bulk cargo trade of 2.7%. In 2019, the fleet increased by 3.9%, while maritime cargo commerce increased by 0.8%. This data shows that supply and demand equalised, and further market trends will be a result of the movement of oil prices.

Subsequent events

(1) Trends in the shipping market

a) Dry bulk market

Freight rates are somewhat lower in 2020 than in 2019.

The daily charter rate - hire expressed in USD (for a period of 12 months) for the modern "Handymax" and "Supramax" vessels in the first weeks of the months was as follows:

Year/												
Month	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
2017	7,000	7,250	8,750	10,500	9,250	8,500	9,750	9,750	10,250	11,250	11,000	11,000
2018	11,000	11,750	13,000	13,000	13,250	13,250	13,000	13,000	13,250	13,250	12,750	12,000
2019	11,750	9,500	11,125	10,000	10,625	9,125	9,750	10,000	12,438	9,750	9,750	9,625
2020	9,375	9,813	9,625	9,313	8,625	9,625	9,875					

Management Report (continued)

Subsequent events (continued)

The above table shows that daily charter rates lower than in the beginning of 2019.

b) Expectations for 2020

According to the order books, around 42.4 million DWT of new dry bulk deliveries should have been made in 2019, out of which the Handymax sector accounted for about 7.1 million DWT. Realized deliveries amounted to 41.29 million DWT. This data is important because the realisation of deliveries was around 97% of what was planned. Considering the overall market situation, a further decline in the influx of newly built vessels is expected due to problems related to financing their construction and purchase. Demolition activity of older ships shows that 4.191 million DWT was scrapped up on the global market up to 13 March of this year, compared to 1.829 million DWT up to 15 March of the year before. During last year, only 7.882 million DWT of bulk carriers was scrapped. If we look at the realisation in this year's Q1, the fleet capacity grew by 0.7%, which would result in a 2.8% growth p.a. Further increase in capacity will be based on financial assets available and the size of ships intended for demolition, considering the entry into force of new regulations.

Application of new regulations, more demanding environmental protection regulations and high energy prices driven by the usage of low-sulphur fuels from 01 January 2020, should lead to a more successful results of the shipping companies. In particular, due to the increase in energy prices, driven by the decrease in their sulphur ratio, vessels should operate in a lower speed, thus reducing the number of vessels available and making them more valuable.

Having focused on the gradual cost reduction in previous years, Jadroplov managed to become cost competitive in relation to other international dry bulk shipping companies, enabling the Company's quick recovery in case of small-scale market improvements.

Business projections for 2020

In the second semester of 2020, considering the use of more expensive energy sources, freights are expected to stagnate, which would make the 2020 business results similar to those in 2019.

The rapid development of the Covid-19 virus and its social and economic impact in the Republic of Croatia and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. The Management Board expects the assumptions and estimates used in determining recoverable amounts of vessels to be affected. At this stage, the Management Board is not able to reliably estimate the impact on the consolidated financial statements of the Company as events are unfolding day-by-day.

Management Report (continued)

Risks that the Company is exposed to

Market risk

The Group operates in the international shipping market, and therefore is exposed to considerable market risk due to cyclical changes in supply and demand in the shipping market, which affects the level of freights. Also, there are risks due to potential changes in foreign exchange rates.

Interest risk

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. All of the Group loans were contracted at variable interest rates. The Company does not have instruments to hedge against interest rate risk.

Credit risk

Credit risk is related to trade receivables, and refers to the risk of not meeting contractual obligations of the counter party, whereby the Group would have suffered financial losses. The Group has no significant concentration of credit risk because it has adopted a policy of operating only with creditworthy parties, i.e. giving ships into lease to first class charterers.

Currency risk

Since the Group operates in the international market, most transactions are denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group is mainly exposed to the currencies of the countries whose currency is USD and EUR.

Liquidity risk

Due to the prolonged crisis in the shipping market and the historically low freight rates that reached the lowest level in 2016, the Group operates under conditions of aggravated liquidity. Considering the historically low rates recorded in the previous period, in order to ensure the existence of the Group, negotiations with the Group's creditors on the deferral of the principle were made, which allowed the maintenance of the level of liquidity sufficient for the operational business of the Group. In order to improve liquidity, the Company has undertaken several measures. For more details on liquidity risk, see Note 2 (b).

Environment protection

The Company's principal activity is the international maritime transport, which means that it is exposed to environmental risk. In 2019, there were no environmental incidents. In order to increase environmental protection, great attention is paid to regular maintenance and renewal of the fleet, and also to the professional training of maritime personnel.

Share buy-back

In 2019, no shares were bought back from the Company nor the Company's Management Board.

Management Report (continued)

Subsidiaries

The company Jadroplov d.d., Split performs its international maritime transport activities using vessels owned by foreign related parties. Considering the fact that the company Jadroplov d.d. manages the relevant subsidiaries from a single registered office, under a single name and leadership, it makes business records and prepares consolidated financial statements for all of its business operations in the domestic and foreign market.

For and on behalf of the Management Board:

Branimir Kovačić

President of the Management Board

Mario Radačić

Member of the Management Board

31 August 2020

Corporate Governance Statement

General info

The Company adheres to the objectives and guidelines of the Corporate Governance Code and the principles contained therein, in accordance with the legal regulations and regulations of the Republic of Croatia. The goal of such corporate governance is to ensure an effective and transparent distribution of corporate body roles and responsibilities, balanced strategic oversight, management and control functions, with emphasis on risk management and property protection.

Jadroplov d.d. is a company whose shares are quoted on the official market of the Zagreb Stock Exchange and applies the Code of Corporate Governance which was brought by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange. The Code was published on the Zagreb Stock Exchange website.

Corporate governance structure

In line with the Companies Act and Company's Articles of Association, the Company bodies are the following: General Assembly, Supervisory Board, and Management Board, and the relevant acts govern their duties and responsibilities.

General Assembly

The General Assembly decides in the matters specified by the law and the Company's Statute which it also adopts, as well as on the increase and decrease of share capital, election and revocation of the Supervisory Board members, it provides note of release to the members of the Management and the Supervisory Board, appoints the external auditor and performs other duties in accordance with the law and the Company's Statute.

The regular annual General Assembly was held on 11 November 2019.

Supervisory Board

The Supervisory Board oversees the management of the Company's affairs. To this end, it reviews and examines the business records, accounts and documentation of the Company. The Supervisory Board submits its report on the supervision over the management of the Company's affairs to the General Assembly. The Supervisory Board of the Company consists of five members. Ordinary Supervisory Board meetings usually take place on a quarterly basis. The Supervisory Board may decide on important and irrelevant matters at sessions held in writing / via telephone.

Supervisory Board members were as follows: Paško Karlo (President until 03 June 2019), Ksenija Košćević Čuvalo (Vice-President), Zoran Miletić (resigned on 11 March 2019), Siniša Prnjak and Vesna Gudelj (President from 03 December 2019).

Management Board

The Management Board manages the Company's affairs, establishes business plans and controls their realization, and coordinates the activities of individual organizational units of the Company. The number of board members varies from one to five. Management Board members were as follows: Branimir Kovačić (President), Dalibor Filipović (until 10 May 2019) and Mario Radačić (members), with a 5-year mandate until 31 July 2022.

Corporate Governance Statement (continued)

Key components of the internal control and risk management system in the area of financial reporting

Complete control systems include the following:

- An appropriate organisational structure at all levels, with appropriate segregation of duties and defined levels of powers;
- Internal controls integrated into business processes and activities;
- Provision of reasonable and prudent judgements and estimates;
- A comprehensive set of accounting policies and procedures governing the preparation of annual report in accordance with International Accounting Standards and International Financial Reporting Standards adopted by the European Union.

Branimir Kovačić

President of the Management Board

Mario Radačić

Member of the Management Board

31 August 2020

Statement of the Management Board's Responsibility

Pursuant to the Accounting Act of the Republic of Croatia, the Management Board is responsible for ensuring that consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") to give a truthful and objective review of the financial position and the results of the business operations of Jadroplov d.d. and its subsidiaries ("the Group") for that reporting period.

After making inquiries and taking into account events after the reporting date, the Management Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, the responsibilities of the Management Board include the following:

- Selection and consistent implementation of suitable accounting policies;
- Provision of reasonable and prudent judgements and estimates;
- Adherence to the applicable accounting standards, subject to any material discrepancies disclosed and explained in the consolidated financial statements; and
- Preparation of consolidated financial statements on the going concern basis, unless it is inappropriate to assume that the Group will continue as a going concern.

The Management Board is responsible for keeping proper accounting records, which shall at any time reflect with reasonable accuracy the financial position and the results of operations of the Group. Furthermore, the Management Board is responsible for ensuring that the consolidated financial statements are prepared in line with the Accounting Act of the Republic of Croatia. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Furthermore, the Management Board shall ensure the accuracy and completeness of all elements of the Corporate Governance Statement and Management Report in line with Article 21 of the Accounting Act.

The consolidated financial statements set out on pages 16 to 55 and supplementary information set out on pages 56 to 57 were authorised by the Management Board and are signed below to signify this.

Signed on behalf of the Management Board on 31 August 2020.

Branimir Kovačić

President of the Management Board

Mario Radačić

Member of the Management Board

INDEPENDENT AUDITOR'S REPORT

to the shareholders of the Company Jadroplov d.d., Split

Statement of Audit of the Consolidated Financial Statements

Opinion with Remark (Reserve)

We performed an audit of the financial statements of Jadroplov d.d. (The "Company"), and its subsidiaries (the "Group"), which include the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows. for the year then ended and the accompanying notes to the consolidated financial statements, including a summary of significant accounting policies (further referred to as "the financial statements").

In our opinion, except for the effects of the issue described in our report in the *Basis for Opinion with Remark (Reserve)* section, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and consolidated cash flows for the then ended year in accordance with International Financial Reporting Standards, adopted by the European Union ("IFRS").

Basis for Opinion with Remark (Reserve)

As stated in *Note 4 Other operating income and Note 5 Operating expenses of ships in the financial statements* as at 31 December 2019, the Group has recognized HRK 49,794 thousand of fuel income (31 December 2018: HRK 68,439 thousand) and has recognized HRK 59,581 thousand of fuel costs (31 December 2018: HRK 71,823 thousand). In fuel transactions, where the Group has an obligation to purchase fuel at the agreed price, the Group has recognized it as a sale of fuel. This is not in line with *International Financial Reporting Standard 15: Contracts with Customers*, as the buyer does not take control of the asset because it has a limited ability to manage the use of the asset and realize almost all remaining benefits from it even though it has physical ownership of the asset. Based on the audit evidence obtained, the effect of this deviation from IFRS 15 on the financial statements for 2019 and 2019 has not been determined.

Company entered into the registry of the Commercial Court in Zagreb under the company registration number 030022053; with share capital of HRK 44,900.00; directors: Marina Tonžetić, Dražen Nimčević; commercial bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT

Statement of Audit of the Consolidated Financial Statements (continued)

Basis for Reserved Opinion (continued)

We conducted our audit in accordance with the Law on Auditing and International Standards on Auditing ("MRevS"). Our responsibilities under these standards are described in more detail in our Independent Auditor's Report in the Auditors' Responsibilities for Auditing Financial Statements section. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants ("IESBA Code") and have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

Management is responsible for other information. Other information contains information included in the Consolidated Annual Report, but does not include the financial statements and our independent auditor's report thereon.

Our opinion on the financial statements does not include other information.

In relation to our audit of the financial statements, it is our responsibility to read other information and, in doing so, consider whether other information is materially inconsistent with the financial statements or our findings or otherwise appears to be materially misstated. Regarding the consolidated report of the Group's management and the Statement on the application of the corporate governance code, which are included in the Consolidated Annual Report, we also performed the procedures prescribed by the Accounting Law. These procedures include verifying that the Consolidated Management Report and the Statement on the Application of the Corporate Governance Code include the necessary disclosures referred to in Articles 21, 22 and 24 of the Accounting Act and whether the Statement on the Application of the Corporate Governance Code includes the information specified in Articles 22 and 24. of the Accounting Law.

Based on the procedures performed during our audit, to the extent that we have been able to assess this, we report the following:

1. The information included in other information is consistent, in all material respects, with the accompanying consolidated financial statements.
2. The consolidated management report has been prepared, in all material respects, in accordance with Articles 21 and 24 of the Accounting Law.
3. The statement on the application of the corporate governance code has been prepared, in all relevant respects, in accordance with Article 22, paragraph 1, items 3 and 4 of the Accounting Act and includes the information referred to in Article 22, paragraph 1, items 2, 5, 6 and 7 and Article 24, paragraph 2.

If, based on the work we have done on other information, we conclude that there is a material misstatement of that other information, we are required to report that fact. As previously described in the Reserve Opinion Basis Section, we have not been able to obtain sufficient and appropriate evidence for an accurate and complete presentation of fuel revenues and fuel costs. Accordingly, we could not conclude whether or not the other information was significantly misrepresented in relation to this issue.

Significant Uncertainty related to Going Concern

We draw attention to Notes 2 c) Infinity of business hours and 26 Events after the reporting date in the financial statements, which describe adverse business circumstances, which significantly marked the operations of the Company and its subsidiaries during 2019. In addition, the Group incurred a loss from ordinary activities in the amount of HRK 293,799 thousand (2018: HRK 34,020 thousand) and as at 31 December 2019 has a negative principal amount of HRK 53,144 thousand (2018: positive principal in the amount of HRK 232,540 thousand). kuna). As explained in Notes 2 c) and 26, these circumstances indicate the existence of significant uncertainty that raises significant doubts about the Group's ability to continue as a going concern. During 2020, new credit borrowings in the amount of HRK 278,344 thousand were taken and liabilities on existing loans in the amount of HRK 357,975 thousand were closed, of which HRK 194,148 thousand were paid and HRK 163,827 thousand were written off. Our opinion has not been modified on this issue.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Statement of Audit of the Consolidated Financial Statements (continued)

Key Audit Matter

The key audit issue is the issue that was, in our professional judgment, of the utmost importance for our audit of the consolidated financial statements for the current period. We have addressed this issue in the context of our audit of the consolidated financial statements as a whole and in forming our opinion on them, and we do not give a separate opinion on this issue. In addition to the issues described in the Basis for Opinion with Remark (Reserve) section and the issues described in the Significant Uncertainty related to Going Concern section, we have determined that the issues described below are key audit issues to be reported in our report.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Valuation and impairment of investments in ships</p> <p>The Group made a net loss of HRK 293,799 thousand for the year ended 31 December 2019. Furthermore, the deteriorating economic outlook and low rental rates in the dry cargo market are indicators of a potential decline in the Group's long-term tangible assets, ie the ship fleet. In accordance with International Accounting Standard 36: Impairment of Assets, the Group's management is required to test individual items of property, plant and equipment or cash-generating units for those items for which there is an indication of impairment. Any such impairment is recognized to the extent that the asset's carrying amount exceeds its recoverable amount. The assessment of the recoverability of ships, which is generally considered to be their value in use (based on discounted cash flow models) or, in some cases, fair value less costs to sell, relies on significant judgments and assumptions about the future, including:</p> <ul style="list-style-type: none"> - future profitability growth, - capital expenditures, - working capital, - residual value, - inflation and the most appropriate discount rate <p>These projections are subject to significant variability due to changing market conditions. Therefore, estimating the recoverable amount and examining the impairment of a vessel is a key audit issue.</p>	<p>In line with the identified key audit issue, we performed the following procedures during our audit:</p> <ul style="list-style-type: none"> - Review the Group's conclusions on identifying impairment triggers; - Assess the appropriateness of the Group's judgments regarding the identification of assets or cash-generating units that may be subject to impairment; - Assess the adequacy of the allocation of assets to cash-generating units; - Critically evaluate the Group's assumptions and estimates used to determine the recoverability of ships and recognized impairment losses, using our own assessment experts. These included: <ul style="list-style-type: none"> o Retroactive assessment of the accuracy of the model based on discounted cash flows, comparing the estimated amounts of previous periods with the realized amounts; o Checking the mathematical accuracy and completeness of the model and checking the key applied model assumptions (future rents, estimated operating costs, residual value estimate, estimated discount rate and growth rate used) for reasonableness compared to publicly available data; o Verification of the adequacy of disclosures related to recognized impairment.

INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Consolidated Financial Statements (continued)

Other Matters

The Group's financial statements for the year ended 31 December 2018 were audited by another auditor, who expressed an unmodified opinion on those financial statements on 30 April 2019.

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

Management is responsible for the preparation and fair presentation of financial statements in conformity with IFRS, and for those internal controls that the Management Board determines are necessary to enable the preparation of financial statements that are free from material misstatement due to fraud or error. In preparing the financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, if applicable, matters relating to its indefinite operations and using an accounting basis based on indefinite operation, unless management intends to liquidate or terminate the Group. business or there is no realistic alternative than to do so. Those charged with governance are responsible for overseeing the financial reporting process established by the Group.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As an integral part of auditing in accordance with MRevS, we make professional judgments and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements due to fraud or error, design and perform audit procedures in response 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 greater than the risk arising from error, as fraud may involve collusion, forgery, willful misrepresentation, misrepresentation, or circumvention of internal controls.
- gain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of the accounting basis used based on the going concern used by the Management Board and, based on the audit evidence obtained, we conclude whether there is significant uncertainty about events or circumstances that may cast significant doubt on the Group's ability to continue as a going concern. . If we conclude that there is significant uncertainty, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are not appropriate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to discontinue operations on an indefinite basis.

INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- evaluate the overall presentation, structure and content of the financial statements, including disclosures, as well as whether the financial statements reflect the transactions and events on which they are based in a way that achieves a fair presentation.
- obtain sufficient appropriate audit evidence about the financial information of entities or business activities within the Group to express an opinion on those financial statements. We are responsible for directing, overseeing and conducting the Group's audit. We are solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and important audit findings, including those related to significant deficiencies in internal controls identified during our audit.

We also make a statement to those charged with governance that we have complied with the relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other matters that may reasonably be considered to affect our independence, as well as, where applicable, on related protections.

Among the matters communicated to those charged with governance, we identify those matters that are of the utmost importance in the audit of the current period's financial statements and are therefore key audit matters. We describe these matters in our independent auditor's report unless the law or regulation prevents the matter from being made public or when we decide, in extremely rare circumstances, that the matter should not be disclosed in our independent auditor's report because the negative consequences of communication would outweigh the benefits of public interest from such communication.

INDEPENDENT AUDITOR'S REPORT (continued)

Reporting in line with Other Legal and Regulatory Requirements

Other Regulatory Requirements of Regulation (EU) No. 537/2014 of the European Parliament and the Council and Audit Act

The General Assembly of the Group appointed us as the Group's auditor on 11 November 2019 for the purpose of auditing the accompanying consolidated financial statements. Our uninterrupted engagement lasts a total of one year and covers the period from January 1, 2019 to December 31, 2019.

We confirm the following:

- Our audit opinion on the accompanying financial statements is consistent with the supplementary report issued to the Company's audit committee on 31 August 2020, in accordance with Article 11 of Regulation (EU) no. 537/2014 of the European Parliament and of the Council;
- the unauthorized non-audit services referred to in Article 5 (1) of Regulation (EU) no. 537/2014 of the European Parliament and of the Council.

In addition to the services of legal audit, we did not provide other services to the company and the companies under its control, except for those services that were published in the consolidated Annual Report.

The partner responsible for engaging the audit on the basis of which this independent auditor's report was compiled is Domagoj Vuković.

Marina Tonžetić

Director

Domagoj Vuković

Certified Auditor

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31 August 2020

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Republic of Croatia

**Consolidated statement of comprehensive income
for the year ended 31 December 2019**

(All amounts are expressed in thousands of HRK)

	Note	2019	2018
Operating revenue	3	111,722	128,743
Other operating income	4	<u>63,754</u>	<u>100,454</u>
Total operating income		<u>175,476</u>	<u>229,197</u>
Vessel operating costs	5	(165,117)	(162,019)
Amortisation expense	10	(42,584)	(37,946)
Staff costs	6	(5,297)	(4,968)
Other operating expenses	7	<u>(226,882)</u>	<u>(30,322)</u>
Total operating expenses		<u>(439,880)</u>	<u>(235,255)</u>
Operating loss		<u>(264,404)</u>	<u>(6,058)</u>
Financial income	8	1,950	6,652
Financial expenses	8	<u>(31,347)</u>	<u>(34,619)</u>
Net financial expense		<u>(29,397)</u>	<u>(27,967)</u>
Loss before taxation		<u>(293,801)</u>	<u>(34,025)</u>
Income tax	9	<u>2</u>	<u>5</u>
Loss for the year attributable to owners of the Group		<u>(293,799)</u>	<u>(34,020)</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating the foreign operations		<u>8,115</u>	<u>10,168</u>
Other comprehensive income for the year attributable to owners of the Group		<u>8,115</u>	<u>10,168</u>
Total comprehensive loss attributable to owners of the Group		<u>(285,684)</u>	<u>(23,852)</u>
Basic and diluted loss per share (in HRK)	19	<u>(180.61)</u>	<u>(20.91)</u>

The accompanying notes on pages 20 to 67 form an integral part of these financial statements.

Consolidated statement of financial position

as at 31 December 2019

(All amounts are expressed in thousands of HRK)

	Note	31 December 2019	31 December 2018
ASSETS			
Property, plant and equipment	10	412,978	656,800
Intangible assets	11	-	1
Deferred tax assets	9	35	33
Non-current assets		413,013	656,834
Inventories	12	7,390	12,116
Assets held at amortised cost			
- Trade receivables	13	2,526	1,604
- Cash and cash equivalents	17	607	1,517
- Term deposits	16	3,638	3,546
- Housing loans to employees		5	63
- Other receivables	15	4,526	5,152
Prepaid expenses and advance payments	14	18,263	11,185
Current assets		36,955	35,183
Total assets		449,968	692,017
EQUITY AND LIABILITIES			
Share capital	18	81,834	81,834
Treasury shares	18	(2,423)	(2,423)
Reserves	18	237,414	229,299
Loss carried forward		(76,170)	(42,150)
Loss of the year		(293,799)	(34,020)
Equity		(53,144)	232,540
Interest-bearing loans and borrowings	20	171,134	164,246
Provisions	21	180	170
Non-current liabilities		171,314	164,416
Interest-bearing loans and borrowings and accrued interest	20	276,046	256,127
Trade and other payables.	22	55,752	38,934
Current liabilities		331,798	295,061
Total liabilities		503,112	459,477
Total equity and liabilities		449,968	692,017

The accompanying notes on pages 20 to 55 form an integral part of these financial statements.

**Consolidated statement of changes in equity
for the year ended 31 December 2019**

(All amounts are expressed in thousands of HRK)

	Shareholders' equity	Treasury shares	Translation and other reserves	Accumulated losses	Total
As at 01 January 2018	81,834	(2,423)	219,131	(42,150)	256,392
Total comprehensive income					
Loss for the year	-	-	-	(34,020)	(34,020)
<i>Other comprehensive income</i>					
Translation reserves	-	-	10,168	-	10,168
Total other comprehensive income	-	-	10,168	-	10,168
Total comprehensive income	-	-	10,168	(34,020)	(23,852)
As at 31 December 2018	81,834	(2,423)	229,299	(76,170)	232,540
Total comprehensive income					
Loss for the year	-	-	-	(293,799)	(293,799)
<i>Other comprehensive income</i>					
Translation reserves	-	-	8,115	-	8,115
Total other comprehensive income	-	-	8,115	-	8,115
Total comprehensive income	-	-	8,115	(293,799)	(285,684)
As at 31 December 2019	81,834	(2,423)	237,414	(369,969)	(53,144)

The accompanying notes on pages 20 to 55 form an integral part of these financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2019
(All amounts are expressed in thousands of HRK)

	Note	2019	2018
Operating activities			
Loss for the year		(293,799)	(34,025)
<i>Adjusted by:</i>			
Amortisation	10.11	42,584	37,946
Impairment of property, plant and equipment	7	219,898	-
Impairment and write-off of trade receivables	7	1,164	25,028
Impairment and write-off of other receivables	7	146	-
Movement in provisions	21	10	(14,914)
Write-off of other liabilities	4	(246)	(332)
Gain from sale of property, plant and equipment		0	(24)
Interest and similar expenses	8	26,538	24,450
Interest and similar income	8	(273)	(509)
Income tax		(2)	-
Impact of FX rate changes		2,279	2,583
		<u>(1,701)</u>	<u>40,203</u>
Changes in working capital			
Increase in trade and other receivables	13	(9,257)	(24,830)
(Increase)/decrease in inventories	12	4,726	(3,269)
Increase in trade and other payables	22	17,064	1,032
		<u>10,832</u>	<u>13,136</u>
Cash used in operating activities		<u>(11,177)</u>	<u>(15,543)</u>
Net cash used in operating activities		<u>(345)</u>	<u>(2,407)</u>
Investing activities			
Purchase of property, plant and equipment	10	(644)	(292)
Proceeds from sale of property, plant and equipment		-	24
Net investment in deposits		-	(4)
Given loans		-	(20)
Proceeds from repayment of given loans		22	4
Interest collected		273	509
		<u>(349)</u>	<u>221</u>
Net cash (used in) / generated from investing activities		<u>(349)</u>	<u>221</u>
Financing activities			
Repayment of borrowings		(216)	(674)
		<u>(216)</u>	<u>(674)</u>
Net cash used in financing activities		<u>(216)</u>	<u>(674)</u>
Net decrease in cash and cash equivalents		<u>(910)</u>	<u>(2,860)</u>
Cash and cash equivalents at beginning of year		<u>1,517</u>	<u>4,377</u>
Cash and cash equivalents at end of year	17	<u>607</u>	<u>1,517</u>

The accompanying notes on pages 20 to 55 form an integral part of these financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

1. GENERAL INFORMATION

Jadroplov d.d. (the "Company") is a joint stock company registered at the Commercial Court in Split, Croatia, under the registration number 060000041. The Company and its subsidiaries (collectively the "Group") own and operate a fleet of vessels that sail under Croatian and Maltese flags. The Group's principal activities are chartering, crew and technical management.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below.

a) Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The financial statements have been prepared on the historical cost basis. The consolidated financial statements of Jadroplov d.d. include assets and liabilities, i.e. income and expenses of the following subsidiaries wholly owned by Jadroplov d.d.:

1. April Marine Inc., Monrovia, Liberia
2. Bene Maritime Inc., Majuro, Marshall Islands
3. Mosor Maritime Inc., Majuro, Marshall Islands
4. Peristil Maritime Inc., Majuro, Marshall Islands
5. Radunica Maritime Inc., Majuro, Marshall Islands
6. Split Maritime Inc., Majuro, Marshall Islands
7. Trogir Maritime Inc., Majuro, Marshall Islands

The financial statements are denominated in Croatian kuna (HRK) and rounded to the nearest thousand. At 31 December 2019, the exchange rate for USD 1 was HRK 6.65 and for EUR 1 was HRK 7.44, respectively (31 December 2018: USD 1 was HRK 6.47 and EUR 1 was HRK 7.42, respectively).

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the Management Board to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the reporting date and actual results could differ from those estimates.

Estimates and related presumptions are continuously reviewed. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

c) Going concern

In the year ended 31 December 2019, the Company incurred a net loss after tax amounting to HRK 293,799 thousand (2018: HRK 34,020 thousand). Furthermore, as at 31 December 2019, the Group's current liabilities exceeded its current assets by HRK 294,843 thousand (2018: HRK 259,878 thousand).

Considering the relevant difference, it should be noted that the Company obtained a permit from the European Commission on 02 May 2018, as a process for the realisation of restructuring plan, which has now reached its final realisation stage.

The intention of the restructuring was to provide aid in the amount of HRK 105.6 million, consisting of bank guarantees for financial restructuring of the company in the amount of USD 10 million and HRK 24.3 million, and non-refundable aid amounting to HRK 13 million. Own contribution to restructuring costs was estimated at HRK 144.9 million, consisting of credit loans and funds realised from vessel sales in 2015, credit loans in the amount of HRK 24.3 million, which will be approved by two banks and which is not covered by the government guarantees, and of savings on reprogramming of loans for which the State guarantees 20% of the value.

The plan provides for refinancing of most credit liabilities for a period of seven to ten years which would result in a better solvency of the Group, thus creating the preconditions for stabilizing the business over a longer period. Refinancing of credit liabilities is explained in more detail in Note 17.

In the process of preparing the restructuring plan, the Company has agreed on a moratorium on loan repayment with all creditors with a regular liability to settle interest. The restructuring plan was prepared in cooperation with the Ministry of the Sea, Transport and Infrastructure and the Ministry of Finance, and was aligned with the European Commission in the pre-notification stage. The implementation of the plan started after its approval.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Going concern (continued)

On 30 November 2018, the State adopted a decision granting a USD 10 million guarantee which serves as a guarantee for a new loan that will refinance loan liabilities under points (1) and (2) within Note 17. On 06 June 2019, the State adopted a decision granting a HRK 24.3 million guarantee which serves as a guarantee for a new loan that will refinance loan liabilities under points (3) and (4) within Note 17. On 30 January 2020, the State adopted a decision granting a HRK 44 million guarantee which serves as a guarantee for a new loan that will refinance a portion of loan liabilities under points (1), (2), and (3) within Note 17. This decision cancelled the previous decisions granting State guarantees amounting to USD 10 million and HRK 24.3 million dated 30 November 2018 and 06 June 2019, respectively. During 2018 and 2019, the Company, in accordance with the restructuring plan, received HRK 13 million of non-refundable subsidy funds intended for the restructuring of the Company. On 05 March 2020, the Company settled its loan liabilities towards its largest creditor amounting to HRK 180.6 million (USD 26.5 million), having secured new credit arrangements, thus decreasing the Company's total debt by HRK 182.7 million (USD 26.8 million).

With the realisation of the restructuring plan and the improved conditions on the global freight market, the Management Board considers that the Group can provide adequate resources in the foreseeable future, i.e. to continue operating on the going concern basis.

In addition, the Company is considering another option envisaged in the restructuring plan, that is to sell the property which currently holds the Group's registered seat, in order to improve the Group's solvency.

In the event of non-existence of planned market conditions, which could be achieved in accordance with external expert forecasts, while at the same time implementing measures from the restructuring plan, the Group has enough space to realize the economic benefits of its assets and to ensure the solvency of the Group in the future. The detailed description of the restructuring activities carried out during July 2020 is described in Note 20.

If for some reason the continuation of the restructuring process does not continue, there is a significant uncertainty that the Group will not be able to continue operating according to the going concern principle. This would have an impact on the ability of the Group to realize economic benefits from its assets at current recognized values or to settle its liabilities in the normal course of business in the amounts recognized in the consolidated financial statements.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Consolidation

Subsidiary undertakings are enterprises controlled by the Company. Control is achieved when the investor has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. The consolidated financial statements incorporate the financial statements of the subsidiaries from the effective date of acquisition and up to the effective date on which the Company has no longer control over a subsidiary. A listing of subsidiaries is provided in Note 2a.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intercompany transactions and balances between the Group enterprises are eliminated on consolidation.

e) Foreign currencies

The functional currency of the company is the Croatian kuna (HRK), and the functional currency of the subsidiaries is the US dollar (USD).

(i) *Foreign currency transactions*

Transactions in currencies other than Croatian kuna are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Gains and losses arising on exchange are included in net profit or loss for the period. Non-monetary assets carried at historical cost of foreign currency are not retranslated at the new rates.

(ii) *Financial statements of foreign operations*

Assets and liabilities are translated in HRK at the exchange rate at the reporting date, while items of income and expense are translated at the exchange rate at the date of the transaction. Resulting exchange differences are recognised in statement of comprehensive income within reserves (translation reserves), through a cumulative translation adjustment. Translation of subsidiary company balances into HRK at year end is done using the current rate method.

Notes to the consolidated financial statements *(continued)*

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Property, plant and equipment

Property, plant and equipment are recognised at purchase cost less accumulated amortisation and any impairment loss. Property, plant and equipment under construction are stated at cost less any recognised impairment loss. Cost includes expenditures directly attributable to bringing the assets to a working condition for their intended use, including borrowing costs during construction of the qualifying asset.

If acquisition of property, plant and equipment was aided through government grant, purchase cost or carrying value of property, plant and equipment, respectively, is reduced by the amount of government grant.

Depreciation of assets commences when the assets are ready for their intended use. The basis for depreciation is the purchase cost less the amount of government grant and estimated residual value of the asset.

Depreciation is charged to profit or loss and it is calculated using the straight-line method over their estimated useful lives. Assets under construction are not depreciated.

Depreciation method and useful life, as well as the residual value are revised each year. If there is an indication for impairment, impairment estimates are made.

Estimated useful lives of property, plant and equipment are as follows:

Buildings	40 years
Plant and equipment	4-10 years
Vessels	25 years

g) Repairs and maintenance

Repair and maintenance costs are charged to profit or loss when incurred, except for reconstruction, adaptation, and replacement by which the capacity or purpose of the property, plant and equipment is changed, in which case the costs are capitalized.

Notes to the consolidated financial statements *(continued)*

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

h) Intangible assets

Intangible assets are stated at purchase cost less accumulated amortisation and any impairment loss. Subsequent expenditure on capitalised intangible assets is capitalised only when they increase the future economic benefits embodied in the specific asset to which it relates and if these benefits will flow to the Company. All other expenses are recognised in the profit and loss statement as they are incurred.

Intangible assets are depreciated from the date on which they are available for use.

Amortisation is charged to profit or loss and it is calculated using the straight-line method over the estimated useful lives of individual items of intangible assets, unless the estimated useful life is unlimited.

Estimated useful lives are revised on an annual basis. If there is an indication for impairment, impairment estimates are made.

Estimated useful lives of intangible assets are as follows:

Software	5 years
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Notes to the consolidated financial statements *(continued)*

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

i) Impairment of property, plant and equipment and intangible assets

Carrying value of property, plant and equipment and intangible assets of the Group is revised at every reporting date to determine if there is any indication for impairment. If there is such indication, the recoverable amount of assets is estimated.

Assets subject to depreciation and amortisation are revised every time there is an event or change in circumstances which indicate that the carrying value of assets may not be recoverable. Loss resulting from impairment is charged to profit or loss when the carrying value of asset or money generating unit exceeds its recoverable amount.

Loss from impairment is charged to profit and loss statement under other operating expenses. Impairment losses on assets are recognized in profit or loss within other operating expenses.

The recoverable amount of an asset is its fair value less cost to sell or value in use, depending on which of the two is higher. Value in use is estimated through discounting of estimated cash receipts and expenditures, using a discount rate before tax, which reflects the current market estimated time value of money and risks specific to the asset. For assets not generating independent cash inflows, the recoverable amount is determined based on the group to which the asset belongs.

Loss from impairment is reversed if there has been a change in the estimates used for determining the recoverable amount. Reversal of loss from impairment is charged to the amount not exceeding the book value of the asset which would have been determined after reduction for depreciation (amortisation), if the loss from impairment had not been initially recognised. A reversal of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined, net of depreciation or amortization, without any impairment loss.

j) Leases

(a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 01 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation

Notes to the consolidated financial statements *(continued)*

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

j) Leases *(continued)*

for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group. The new accounting standard for leases has negligible impact on the group since the Group is a lessee for only two cars.

Impact on lessee accounting

(i) Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below), the Group:

Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);

Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Lease costs' in profit or loss.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Leases (*continued*)

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application;
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(ii) Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption. The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

The Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

j) Leases (*continued*)

Policies applicable from 1 January 2019

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

j) Leases (*continued*)

The Group did not make any modifications to leases during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as lessor

The accounting policies applied were the same in 2018 and 2019. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Notes to the consolidated financial statements (*continued*) for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all direct costs and those costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Inventories consist mainly of lubricants, fuels and spare parts.

l) Financial assets

Jadroplov, at initial recognition, allocates financial assets to business models and thus tests contractual cash flows. Subsequent measurement depends on the allocation and tests of contractual cash flows. The classification depends on the purpose for which the financial assets were acquired. The Management Board classifies financial assets at initial recognition and examines this decision at each reporting date. Considering their characteristics and credit risk management, Jadroplov classifies its financial assets in the following business models and, as a result, certain measurement categories:

- i. 'Hold to collect' model – trade and other receivables; cash and cash equivalents. Having passed the test of cash flows that are solely payments of principal and interest on the principal outstanding, financial assets are measured at depreciated cost in this business model.

(l) Financial assets measured at amortised cost

Jadroplov measures financial assets at amortised cost if both of the following conditions have been met: the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows; and contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. All gains or losses arising from the derecognition, adjustment or impairment of assets are recognised in profit or loss. Financial assets at amortised cost include trade and other receivables, prepaid expenses and accrued income, and deposits given.

Jadroplov recognises impairment for all expected credit loss (ECL) for all debt instruments not measured at fair value in profit or loss. Expected credit loss is estimated as the difference between contractual cash flows and all cash flows that are due to Jadroplov. Expected credit loss are calculated using the historical loss rate resulting from uncollected cash flows for each financial instrument. The loss rate is applied to financial assets as detailed below.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

l) Financial assets (continued)

(l) Financial assets measured at amortised cost (continued)

In case of credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit loss is recognised for credit losses resulting from the probability of default in the following 12 months (12-month ECL). For all credit exposures with significant increase in credit risk since initial recognition, an allowance for lifetime expected credit losses will be recognised, regardless of the time of borrowing (lifetime ECL). For trade receivables and contract assets, Jadroplov applies a simplified approach to calculating expected credit losses and therefore does not monitor changes in credit risk but recognises a lifetime expected credit loss allowance at the end of each reporting period. Financial assets are written off when there is no reasonable expectation of recovery.

m) Receivables

Receivables represent the right to collect determined amounts from customers or other debtors with regard to Jadroplov's operations. Trade and other receivables are recognised initially at fair value and subsequently at amortised cost, which is determined using the effective interest method, less an allowance for expected credit losses.

n) Cash

For the needs of statement of financial position and statement of cash flows, cash and cash equivalents comprise cash in hand and bank account balances, and highly liquid instruments with original maturities of up to three months or less and are subject to risk of change in value.

o) Liabilities

Trade and other payables are carried at amount required to settle the obligation, which is usually the invoiced amounts.

p) Provisions

A provision is recognised only if Jadroplov has an outstanding liability (legal or constructive obligation) as a result of a past event and if it is probable that an outflow of funds with economic benefits will be necessary in order to settle the liability, and a reliable estimate can be made of the amount of the obligation. . Provisions are calculated by discounting future cash flows using a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

q) Retirement benefit costs and jubilee awards

The Group has no defined post-retirement benefit plans for its employees or management in Croatia or abroad. Accordingly, the Company has no outstanding liabilities in this respect, either to its present or former employees. The Company makes payments to its employees for retirement benefits and jubilee awards in accordance with the Rules of operation. Retirement benefit right is defined as a HRK 8,000 lump sum per employee. Employees earn jubilee awards under the following criteria:

HRK 1,500 for 10 years of continuous service

HRK 2,000 for 15 years of continuous service

HRK 2,500 for 20 years of continuous service

HRK 3,000 for 25 years of continuous service

HRK 3,500 for 30 years of continuous service

HRK 4,000 for 35 years of continuous service

HRK 4,500 for 40 years of continuous service

r) Revenues

In line with IFRS 15, an entity recognises revenue when (or as) it satisfies a performance obligation by transferring the promised goods or services (i.e. assets) to the customer. The assets are considered transferred when (or as) the customer obtains control over the assets. The control over the assets relates to the power to control the use of the assets and enjoy substantially all residual benefits thereof. The control includes the power to prevent other entities from controlling the use of the asset and enjoying benefits thereof. Control is transferred over time or a particular point in time.

Freight revenue is realised from time charter and voyage charter operations.

Time charter operations – revenue from rental

Time charter makes the vessel available to the customer for a certain period of time and the customer uses it in exchange for a daily freight rate. Performance obligations stipulated in a time charter has been settled during the contract term, starting from the moment the vessels was submitted to the customer up to its return to Jadroplov. Time charters are considered operating leases and do not, therefore, fall into the scope of IFRS 15 because (i) vessels are identifiable assets; (ii) Jadroplov does not hold the right to substitute assets; and (iii) the customer has the right to control the use of a vessel during the contract term and obtains all of the economic benefits from such use (note 2g)

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

r) Revenues (*continued*)

Voyage charters

In case of voyage charters, the vessel is contracted for a single voyage between two or more ports. Jadroplov transfers the control of services over time and thus satisfies the performance obligation over time and recognises revenue, since the customer simultaneously receives and uses the benefits resulting from Jadroplov's performance, while Jadroplov satisfies the performance obligations. The satisfaction of the performance obligation in the voyage charter starts when the vessel begins loading cargo. Jadroplov established that its voyage charters entail a single performance obligation concerning shipping cargo within a certain period of time. Therefore, the performance obligation is satisfied evenly as the voyage progresses and, as a result, revenue is recognised on a straight-line basis from the moment cargo loading starts until cargo loading ends.

Jadroplov uses the output method for measuring the progress towards complete satisfaction of the performance obligations based on the time elapsed. Output methods recognise revenues based on direct measuring of the value goods or services transferred by a certain date have for the customer, in relation to the remaining goods or services promised in the contract.

Voyage charters are not considered operating leases and do not, therefore, fall into the scope of IFRS 16 because (i) Jadroplov does hold the right to substitute assets; and (ii) the customer has no right to control the use of a vessel during the contract term.

Jadroplov uses a practical expedient from IFRS 15.B16 since it has the right to consideration from the customer in the amount which directly corresponds to the value – it recognises revenue in the amount it is entitled to invoice.

Commission costs for contracts are depreciated during the contract term, unless the depreciation period lasts for 1 year or less, in which case it is recognised as revenue when incurred.

s) Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs. Grants related to tangible assets are recognised in profit or loss over the periods and in the proportions in which depreciation on those assets is recognised. In the statement of financial position, government grant is deducted in arriving at the carrying amount of the underlying asset and is recognised in the profit or loss over the useful life of depreciable asset by way of a reduced depreciation charge.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

t) Net finance (cost)/income

Net finance costs consist of loan interest expense, interest income on investments and foreign exchange gains or losses.

Interest expense on borrowings is recognised in profit or loss using the applicable interest rate. Borrowing costs for loans raised to finance items of property, plant and equipment that take a substantial period of time to get ready for their intended use are capitalised.

Interest income arising from receivables is recognised in profit or loss in the period when incurred. Dividend income is recognised in profit or loss when declared.

u) Tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the date of the financial statements, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The measurement of deferred tax is based on the assumed manner of realisation or settlement of the carrying amount of assets and liabilities, based on tax rates enacted at the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available. Deferred tax assets are reduced by the amount that is no longer a probable tax relief. Income tax was calculated based on the regulations and acts in currently in force. Jadroplov has been included in the system of tonnage tax for a 10-year period on 01 January 2014. Companies meeting the requirements stipulated in the Maritime code and choosing the tonnage tax option are required to stay in the system for ten years. The condition is that the relevant company is a shipping company and income taxpayer in the Republic of Croatia based on all of its belonging profit. Another condition is to manage ships meeting all stipulated requirements and, most importantly, to engage in strategic and commercial management of ships in Croatia. Tonnage tax is not subject to IAS 12.

Jadroplov has been included in the system of tonnage tax for a 10-year period on 01 January 2014. Companies meeting the requirements stipulated in the Maritime code and choosing the tonnage tax option are required to stay in the system for ten years. The condition is that the relevant company is a shipping company and income taxpayer in the Republic of Croatia based on all of its belonging profit. Another condition is to manage ships meeting all stipulated requirements and, most importantly, to engage in strategic and commercial management of ships in Croatia.

v) Operating segments

Since most of the Group's operations relate to the core business, shipping, and the fleet consists only of bulk carriers, the Management believes that the Group has only one operating segment. The Group generates operating lease revenues by global waters in the Atlantic, Indian and Pacific Oceans.

**Notes to the consolidated financial statements (*continued*)
for the year ended 31 December 2019**

(All amounts are expressed in thousands of HRK)

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

w) Financial instruments

Financial assets

The principal financial assets of the Group consist of bank accounts, cash and receivables. Trade receivables are shown at fair value, net of adequate allowance for irrecoverable amounts.

Financial liabilities and financing instruments

Significant financial liabilities include principal and interest payable on borrowings, trade and other payables. Finance cost is accounted for on an accrual basis and is added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Trade and other payables are stated at their nominal value.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2.1. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, as described in Note 2, the Management Board is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Please find below the Management Board's key judgements description, during the process of implementation of the Company's accounting policies, which have affected the amounts recognised in the consolidated financial statements the most.

Revenue recognition

In line with IFRS 15, Jadroplov uses the input method to measure performance progress. Output methods recognise revenues based on direct measuring of the value goods or services transferred by a certain date have for the customer, in relation to the remaining goods or services promised in the contract. The Company uses a practical solution from IFRS 15.B16 since it has the right to consideration from the client in the amount which directly corresponds to the value – it recognises revenue in the amount it is entitled to invoice. When (or as) Jadroplov satisfies a performance obligation, it recognises the amount of the transaction price as revenue (excluding the estimates of variable considerations that are limited) allocated to the relevant performance obligation. Transaction price is the amount of the consideration to which the entity expects to be entitled in exchange for the transfer of promised goods or services to the customer, excluding amounts collected on behalf of third parties. Consideration stipulated in the contract with the customer may include fixed amounts, variable amounts or both.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

2.1. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of financial assets

At each reporting date, Jadroplov examines whether the credit risk for the financial instrument significantly increased since the initial recognition, using changes in risk of default during the expected lifetime of the financial instrument instead of changes in the amount of expected credit losses. In order to complete the assessment, Jadroplov compares the risk of default of the financial instrument as at the reporting date with the risk of default of the financial instrument as at the date of initial recognition and considers reasonable and acceptable data.

Provisions for contingent liabilities

Jadroplov recognises provisions resulting from court proceedings initiated against Jadroplov which will probably lead to an outflow of funds in order to settle receivables from Jadroplov if the amounts can be reasonably measured. When assessing provisions, Jadroplov considers professional legal advice.

Vessel depreciation

Residual value is estimated as "lightweight" tonnage of each vessel multiplied by an expected "scrap" value per tonne estimated at USD 365 per tonne, which represents the market price of steel scrap, determined based on data disclosed on the website Clarksons Shipping Intelligence Network (<http://www.clarksons.net/sin2010>) maintained by Clarkson Research Services Limited, London, England.

Impairment of value of vessels and dry-docking costs

Fair value of vessels, less costs to sell, is determined based on the assessment of independent appraisers, and value in use is calculated as net current value of future cash flows of the vessel during its useful life. When determining value in use, certain assumptions (including expected daily freight rates, operating costs, discount interest rate, and average price of steel as a secondary raw material) referring to the estimates of future cash flows are of predictable nature, including revenue estimates within existing contracts. Certain assumptions, referring to the estimates of future cash flows of the vessel are probably less predictable, such as expected daily freight rates outside of the existing contract term and residual value of the vessel, due to the long-term volatility of factors such as freight rates on the spot and time charter market and the expected residual value of the vessel.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

3. OPERATING REVENUE

	2019	2018
- Time charter	101,606	115,172
- Voyage charter	10,116	13,571
Route charter shipping – operating lease	<u>111,722</u>	<u>128,743</u>

4. OTHER OPERATING INCOME

	2019	2018
Fuel reimbursement	49,794	68,439
Restructuring subsidy	5,000	8,000
Insurance refunds and damage claims	3,514	3,245
Hold cleaning	1,809	1,449
Rent income	952	824
Income from government grants for trainee boarding	900	1,240
Income after end of dispute with the Tax Administration	591	-
Write-off of liabilities	246	332
Release of provisions	-	14,940
Income from settlements	-	810
Other	948	1,175
	<u>63,754</u>	<u>100,454</u>

5. VESSEL OPERATING COSTS

	2019	2018
Fuel	59,581	71,823
Crew	38,690	34,244
Materials and spare parts	23,679	17,856
Insurance	8,160	7,523
Costs incurred from lessees inability to use the vessel	7,637	2,516
Repairs and maintenance	6,844	7,065
Dry-docking	5,990	6,107
Brokerage, agency, commissions	5,751	5,947
Port costs	800	1,772
Other	7,985	7,166
	<u>165,117</u>	<u>162,019</u>

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

6. STAFF COSTS

	2019	2018
Net salaries and wages	2,977	2,895
Taxes and contributions from salaries	1,237	1,188
Contributions on salaries	688	685
Other staff costs	395	200
	<u>5,297</u>	<u>4,968</u>

The number of employees at the year-end was 31 (2018: 31).

Remuneration to Management Board members:

	2019	2018
Gross salaries	769	914
Other benefits (benefits in kind)	1	1
	<u>770</u>	<u>915</u>

7. OTHER OPERATING EXPENSES

	2019	2018
Impairment of property, plant and equipment	219,898	-
Impairment and write-off of trade receivables (Note 13)	1,164	25,028
Other services	1,131	1,165
Bank charges and commissions	924	724
Taxes and contributions irrespective of operating result	575	566
Intellectual services	539	433
Business travel expenses	456	347
Raw materials	423	395
Damage compensations	379	585
Fees to the members of Supervisory Board	139	198
Other	1,254	881
	<u>226,882</u>	<u>30,322</u>

The largest portion of cost in the item 'Other services' relates to current maintenance costs amounting to HRK 221 thousand (2018: HRK 238 thousand), legal costs amounting to HRK 214 thousand (2018: HRK 178 thousand), post services amounting to HRK 166 thousand (2018: HRK 180 thousand) and utility services amounting to HRK 109 thousand (2018: HRK 114 thousand). In the item 'Other', the largest portion relates to membership, administrative, and court fees amounting to HRK 229 thousand (2018: HRK 147 thousand), insurance costs amounting to HRK 184 thousand (2018: HRK 187 thousand).

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

7. OTHER OPERATING EXPENSES (CONTINUED)

Write off of financial assets amounting to HRK 181 thousand (2018: HRK 0) and the right to use software amounting to HRK 121 thousand (2018: HRK 126 thousand).

Impairment of receivables incurred in 2018 refers to a court proceeding with one customer concerning the damage to one of the fleet vessels, subject to a time charter. Considering the course of the proceedings, the collection of the relevant receivable is uncertain.

8. FINANCIAL INCOME AND EXPENSES

	2019	2018
Interest and similar income	273	509
Foreign exchange gains	1,677	6,143
Total financial income	1,950	6,652
Interest and similar expenses	(27,421)	(24,450)
Foreign exchange losses	(3,926)	(10,169)
Total financial costs	(31,347)	(34,619)
Net financial expense	(29,397)	(27,967)

9. INCOME TAX

Corporate income tax is calculated at a rate of 12% (2018: 12%) on the tax base determined by the Croatian law.

Reconciliation of income tax expense is as follows:

	2019	2018
Current tax expense	-	-
Deferred tax income	(2)	(5)
Income tax	(2)	(5)

Reconciliation of deferred tax assets is as follows:

	2019	2018
Balance at 01 January	33	28
Increase/(release) of deferred tax assets	2	5
Balance at 31 December	35	33

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

9. INCOME TAX (*CONTINUED*)

A deferred tax asset is recognised on tax non-deductible provisions for jubilee awards and regular retirement benefits. Deferred tax assets arose from non-deductible provisions for jubilee awards and severance pay for regular retirement.

The reconciliation of income tax for the year and the profit reported in profit or loss is as follows:

	2019	2018
Loss before taxation	(293,799)	(34,020)
Loss from the shipping activities taxed on the basis of the net tonnage	<u>(280,225)</u>	<u>(21,896)</u>
Loss from the activities taxed by income tax	<u>(13,574)</u>	<u>(12,124)</u>
Income tax at rate of 12%	(1,629)	(1,455)
Non-deductible tax expenses	9	2
Tax loss for which deferred tax asset has not been recognised	<u>1,620</u>	<u>1,448</u>
Income tax	<u>(2)</u>	<u>(5)</u>

Tax losses

Tax losses can be utilised for offsetting against future taxable profits. Tax losses may be carried forward for 5 years subsequent to the year in which the loss was incurred. No deferred tax assets were recognized on tax losses carried forward.

	2019	2018
Tax loss from 2014 – expires 31 December 2019	-	(5,971)
Tax loss from 2015 – expires 31 December 2020	(18,609)	(18,609)
Tax loss from 2016 – expires 31 December 2021	(12,534)	(12,534)
Tax loss from 2017 – expires 31 December 2022	(12,454)	(12,454)
Tax loss from 2018 – expires 31 December 2023	(12,066)	(12,066)
Tax loss from 2019 – expires 31 December 2024	<u>(13,496)</u>	<u>-</u>
	<u>(69,159)</u>	<u>(61,634)</u>

Pursuant to the Article 429 of the Maritime code, which defines terms and conditions of the shipping companies in international shipping market, shipping companies may choose to have their shipping activities taxed on the basis of the net tonnage of their fleet rather than income tax which they would otherwise have to pay on profits earned from international shipping. Tonnage tax is a tax that is accounted for and paid instead of income tax as regulated by the Income Tax Act, irrespective of profit or loss generated in the tax period for which the tax liability based on net tonnage is determined. Income Tax Act is applied to all other business activities. The Company registered six vessels in the system of tonnage tax. Tonnage tax for 2019 in the amount of HRK 199 thousand (2018: HRK 199 thousand) is disclosed within other operating expenses (Note 7).

Based on the amendment to the Income Tax Act in 2017, the Company is obliged to calculate income tax at a rate of 12%, since taxable income for income tax is less than HRK 7.5 million in the tax period.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Vessels	Assets under construction	Total
Cost					
At 01 January 2018	42,335	12,567	1,144,571	142	1,199,615
Additions	-	-	-	292	292
Transfers	-	292	-	(292)	-
Decreases	-	(179)	-	-	(179)
Foreign exchange differ.	-	84	36,412	5	36,501
At 31 December 2018	42,335	12,764	1,180,983	147	1,236,229
At 01 January 2019	42,335	12,764	1,180,983	147	1,236,229
Additions	-	644	-	53	697
Transfers	-	-	-	(53)	(53)
Decreases	-	(1,602)	-	(147)	(1,749)
Foreign exchange diff	-	92	32,991	0	33,083
At 31 December 2019	42,335	11,898	1,213,974	0	1,268,207
Accumulated depreciation and impairment					
At 01 January 2018	37,889	11,588	475,841	-	525,318
Depreciation charge for the year	997	215	36,701	-	37,913
Decrease	-	(179)	-	-	(179)
Foreign exchange differ.	-	62	16,315	-	16,377
At 31 December 2018	38,886	11,686	528,857	-	579,429
At 01 January 2019	38,886	11,686	528,857	-	579,429
Depreciation charge for the year	997	351	41,236	-	42,584
Impairment	-	-	219,898	-	219,898
Decrease	-	(1,602)	-	-	(1,602)
Foreign exchange differ.	-	59	14,861	-	14,920
At 31 December 2019	39,883	10,494	804,852	-	855,229
Net carrying amount					
Balance at 31 December 2019	2,452	1,404	409,122	0	412,978
Balance at 31 December 2018	3,449	1,078	652,126	147	656,800

Property, plant and equipment in the amount of HRK 410,334 thousand (2018: HRK 656,446 thousand) is pledged as a security for the repayment of borrowings (Note 20).

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Fleet fair value and impairment

Based on the Management Board's valuations as at 31 December 2019, vessels are estimated below their carrying value.

Since the fair value less cost to sell is below carrying value of the vessels in the fleet, therefore leading to indications of impairment, the Company determined value in use of the vessels for which the carrying value as at 31 December 2019 was below their net fair value.

In accordance with IAS 36: *Impairment of Assets*, the Company calculated the vessels' value in use by applying a discount rate of 7.2% (2018: 7.2%) to estimated cash flows and risks specific for the Company's assets and activities. Estimated cash flows are based on a five-year business plan, which assumes a 10% growth rate over the next five years (2018: 3.8%) and a growth rate of 2% in the period after the fifth year until the end of the lifetime of a single vessel (2018: 2%).

Impairment was made on the single vessel level, since each vessel makes a separately identified cash-generating unit and taking into account the remaining useful life of the vessel and the estimated value of the vessel's value at the end of its useful life.

Based on the analysis, it was determined that the carrying amounts of the vessels were higher than their values in use and the vessels were impaired. The impairment loss was recognised in the statement of comprehensive income in Note 7.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2019, the Group owned and operated a fleet of six vessels (2018: six vessels), whose technical description is presented in the following table.

Technical data of the vessels in the fleet of the Group as at 31 December 2019

No.	Vessel	Class	Type	Gross tonnage	Net tonnage	Deadweight tonnage (DWT)	Volume	Engine power - kW	Lifting (in tonnes)	Length (in m)	Width (in m)	Max draft (in m)	Manufactured in	Age (in yrs)	Flag
1	Trogir	CRS, BV	Bulk Carrier	25,600	14,558	44,389	53,648	8,260	4x30	183.00	32.20	11.50	Croatia	18	Croatia
2	Split	CRS, LR	Bulk Carrier	24,533	13,824	42,584	51,125	7,150	4x30	187.63	30.80	10.987	Croatia	21	Croatia
3	Sveti Dujam	CRS, BV	Bulk Carrier	30,092	17,852	52,096	64,985	8,600	4x35	189.90	32.24	12.369	Croatia	9	Croatia
4	Peristil	CRS, BV	Bulk Carrier	30,092	17,852	52,113	64,985	8,600	4x35	189.90	32.24	12.350	Croatia	9	Croatia
5	Solin	CRS, BV	Bulk Carrier	30,092	17,852	51,545	62,330	7,500	4x35	189.90	32.24	12.371	Croatia	7	Croatia
6	Bene	CRS, LR	Bulk Carrier	27,993	17,077	50,212	58,136	8,090	4x30	189.80	32.26	11.925	Japan	18	Croatia
TOTAL				168,402	99,015	292,939	355,209	48,200	-	-	-	-	-	-	-

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In the course of its ordinary business, the Group charters its vessels to various charterers under operating leases.

As at 31 December 2019, vessels under operating lease were disclosed in accordance with IFRS 16: *Leases*

	Vessels	Plant and equipment	Total
Cost			
Balance at 01 January 2018	1,144,571	2,115	1,310,724
Additions	-	269	269
Foreign exchange differences	36,412	84	36,496
Balance at 31 December 2018	1,180,983	2,978	1,183,961
Balance at 01 January 2019	1,180,983	2,978	1,183,961
Additions	-	640	640
Foreign exchange differences	32,991	92	33,083
Balance at 31 December 2019	1,213,974	3,710	1,217,684
Balance at 01 January 2018	478,841	1,844	477,685
Depreciation charge for the year	36,701	201	36,902
Foreign exchange differences	16,315	62	16,377
Balance at 31 December 2018	528,857	2,107	530,964
Balance at 01 January 2019	528,857	2,107	530,964
Depreciation charge for the year	41,236	334	41,570
Impairment	219,898	-	219,898
Foreign exchange differences	14,861	59	14,920
Balance at 31 December 2019	804,852	2,500	807,352
Net carrying amount			
Balance at 31 December 2019	409,122	1,210	410,332
Balance at 31 December 2018	652,126	871	652,997

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All vessels owned by the Group are chartered under operating lease terms, which vary from contract to contract. Lease term ranges from 1 month to 3 months. An average daily charter rate (hire) as at 31 December 2019 amounts to USD 7,019 (2018: USD 8,210).

Total minimum lease payments under non-cancellable operating leases per contracts effective on 31 December were as follows (in thousands of USD):

	2019	2018
Up to 1 year	3,274	661
1 to 5 years	-	-
	<u>3,274</u>	<u>661</u>

11. INTANGIBLE ASSETS

	Software
Purchase value	
Balance at 01 January 2018	1,373
Additions	-
Balance at 31 December 2018	<u>1,373</u>
Balance at 01 January 2019	1,373
Additions	-
Balance at 31 December 2019	<u>1,373</u>
Accumulated depreciation	
Balance at 01 January 2018	1,339
Depreciation charge for the year	33
Balance at 31 December 2018	<u>1,372</u>
Balance at 01 January 2019	1,372
Depreciation charge for the year	1
Balance at 31 December 2019	<u>1,373</u>
Balance at 31 December 2019	<u>-</u>
Balance at 31 December 2018	<u>1</u>

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

12. INVENTORIES

	2019	2018
Lubricants	1,802	2,063
Fuel	5,588	10,024
Low-valued inventory and spare parts	-	29
	<u>7,390</u>	<u>12,116</u>

13. RECEIVABLES

	2019	2018
Trade receivables	29,566	27,551
Impairment allowance on trade receivables	<u>(27,040)</u>	<u>(25,947)</u>
	<u>2,526</u>	<u>1,604</u>

Ageing of net trade receivables after impairment	2019	2018
Up to 30 days	439	56
30 – 90 days	1,118	423
90 – 180 days	146	210
180 – 365 days	388	200
Over 365 days	<u>435</u>	<u>715</u>
Balance at 31 December	<u>2,526</u>	<u>1,604</u>

Impairment allowance on trade receivables	2019	2018
Balance at 01 January	25,947	1,358
Increase (Note 7)	634	25,028
Write-off	(274)	(402)
Foreign exchange differences	<u>733</u>	<u>(37)</u>
Balance at 31 December	<u>27,040</u>	<u>25,947</u>

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

13. RECEIVABLES (CONTINUED)

2019

Impairment

	12-month expected credit loss	Lifetime expected loss - no credit losses	Lifetime expected loss - credit losses	Total
Balance at 01 January			25,947	25,947
Recognised in profit and loss	-	-	634	634
Increase / (decrease) in impaired assets	-	-	(274)	(274)
Foreign exchange differences	-	-	733	733
As at 31 December	-	-	27,040	27,040

2018

Impairment

	12-month expected credit loss	Lifetime expected loss - no credit losses	Lifetime expected loss - credit losses	Total
Balance at 01 January			1,358	1,358
Recognised in profit and loss	-	-	25,028	25,028
Increase / (decrease) in impaired assets	-	-	(402)	(402)
Foreign exchange differences	-	-	(37)	(37)
As at 31 December	-	-	25,947	25,947

Total trade receivables, net of allowances, held by the Group at 31 December 2019 amounted to HRK 2.526 thousand (2018: HRK 1,604 thousand).

Within trade receivables from time charters, HRK 25,028 thousand refers to receivables that arose from lease contract with the lessee. Given that the collection of the entire claim will be the subject of arbitration or of out-of-court settlement, the full amount of trade receivables from the noted lease contract is impaired (see Note 7).

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

13. RECEIVABLES (CONTINUED)

Credit risk coming from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. Credit risk is managed on a group basis. Risk management processes assess the creditworthiness of the customer, taking into account his financial position, taking advantage of experience and other factors. The Group has applied individual approaches to IFRS 9 to measure expected credit losses using the correction of expected losses for all receivables from customers. To measure expected credit losses, the search for buyers and contractual asset groups are based on common credit risk characteristics and past days.

Expected loss rates are based on the payment profiles for the 36-month suspension before 31 December 2019 or 1 January 2019 or on the corresponding historical credit losers incurred during that period.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited, as customer base is formed from a limited number of customers from the international market. Accordingly, the Management Board believes that there is no further impairment required in excess of the allowance for doubtful debts. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds.

For trade receivables, Jadroplov applies a simplified calculation of expected credit losses as shown below:

2019	Up to 365	Over 365 and claimed	Total
Expected credit loss rate	8%	98%	
Gross book value of trade receivables	2,091	27,475	29,566
Compensation for loss	-	(27,040)	(27,040)

2018	Up to 365	Over 365 and claimed	Total
Expected credit loss rate	3%	97%	
Gross book value of trade receivables	889	26,662	27,551
Compensation for loss	-	(25,947)	(25,947)

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

14. PREPAID EXPENSES AND ADVANCE PAYMENTS / ACCRUED INCOME

	2019	2018
Prepaid expenses	18,071	10,243
Accrued income	29	327
Advances given	163	615
	<u>18,263</u>	<u>11,185</u>

Prepaid expenses predominantly refer to limited dry-docking fees amounting to HRK 17,074 thousand (2018: HRK 9,109 thousand), as well as limited insurance costs amounting to HRK 933 thousand (2018: HRK 886 thousand) and the brokerage fee amounting to HRK 64 thousand (2015: HRK 55 thousand).

15. OTHER RECEIVABLES

	2019	2018
Receivables for damages	2,857	3,541
Receivables for court proceedings	830	830
Impairment of receivables for court proceedings	(790)	(790)
Other receivables	1,629	1,571
	<u>4,526</u>	<u>5,152</u>

16. TERM DEPOSITS

	2019	2018
Receivables for term deposits	<u>3,638</u>	<u>3,546</u>

Receivables for term deposits consist of deposits related to the loan agreements and guarantee liabilities at an interest rate from 0.01% to 0.1% annually (2018: at an interest rate from 2.5% to 3% annually).

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

17. CASH AND CASH EQUIVALENTS

	2019	2018
Foreign currency accounts at banks	528	1,417
Giro account balance	72	94
Cash in hand	7	6
	<u>607</u>	<u>1,517</u>

18. CAPITAL AND RESERVES

Share capital

	Number of shares issued	Total amount	Treasury shares	Total
Balance at 31 December 2018	<u>1,636,674</u>	<u>81,834</u>	<u>(2,423)</u>	<u>79,411</u>
Balance at 31 December 2019	<u>1,636,674</u>	<u>81,834</u>	<u>(2,423)</u>	<u>79,411</u>

Ownership structure of the Company is as follows:

Overview of shareholders as at 31 December	Number of shares	Capital share %	Number of shares	Capital share %
	2019	2019	2018	2018
Restructuring and Sale Center	1,152,904	70.44%	1,152,519	70.42 %
Domestic natural persons	425,709	26.00%	420,759	25.70 %
Financial institutions	37,161	2.27%	39,896	2.44 %
Companies	5,123	0.33%	10,233	0.63 %
Foreign investors	5,766	0.35%	3,256	0.20 %
Treasury shares	10,011	0.61%	10,011	0.61 %
Total	<u>1,636,674</u>	<u>100.00%</u>	<u>1,636,674</u>	<u>100.00%</u>

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

18 CAPITAL AND RESERVES (*CONTINUED*)

Share capital of the Company consists of 1,636,674 ordinary shares (2018: 1,636,674), of which 10,011 were treasury shares (2018: 10,011).

Translation and other reserves

Translation reserves in the amount of HRK 234,911 thousand (2018: HRK 226,795 thousand) arose on conversion of the financial statements of foreign subsidiaries.

Other reserves relate to reserves for treasury shares in the amount of HRK 2,423 thousand (2018: HRK 2,423 thousand) and to reserves for investments in the amount of HRK 81 thousand (2018: HRK 81 thousand).

19. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share are calculated as follows:

	2019	2018
Net loss for the year in thousands of HRK	(293,799)	(34,020)
Weighted average number of shares in issue	<u>1,626,663</u>	<u>1,626,663</u>
Basic and diluted loss per share (in HRK)	<u>(180.61)</u>	<u>(20.91)</u>

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

20. INTEREST-BEARING LOANS AND BORROWINGS

	Principal in foreign currency (on loan origination)	Principal in foreign currency at 31 December 2019	2019	2018
(a) Long-term bank borrowings				
(1) Secured loan	\$ 33,000,000	\$ 23,100,000	153,613	149,439
(2) Secured loan	\$ 30,000,000	\$ 26,840,000	178,483	173,633
(3) Secured loan	\$ 2,750,000	\$ 1,390,675	9,248	9,210
(3) Secured loan	EUR 2,500,000	EUR 1,187,460	8,838	8,808
(4) Secured loan	\$ 4,150,000	\$ 4,150,000	27,597	26,847
(5) Secured loan	\$ 6,045,000	\$ 6,045,000	40,199	39,106
Total long-term bank borrowings			417,978	407,043
Current portion of long-term borrowings			(246,844)	(242,797)
Long-term portion of bank borrowings			171,134	164,246
Long-term portion of bank borrowings			171,134	164,246
Total current portion of long-term borrowings			246,844	242,797
Total interest-bearing borrowings			417,978	407,043
Accrued interest			29,202	13,330
Total			447,180	420,373

Borrowings totalling HRK 417.978 thousand (2018: HRK 407,043 thousand) are secured by the Group's fleet (Note 10).

Movement adjustments of loan liabilities with cash flows from financial activities

During the year HRK 216 thousand (2018: HRK 674 thousand) was repaid on loans, while the remaining change in financial liabilities in the amount of HRK 11,151 thousand (2018: HRK 12,174 thousand) is a result of the foreign exchange rate differences.

	2019	2018
Balance at 01 January	407,043	395,543
New loans	-	-
Repayment of borrowings	216	674
Foreign exchange differences	11,151	12,174
Balance at 31 December	417,978	407,043

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

20. INTEREST-BEARING LOANS AND BORROWINGS (*CONTINUED*)

The repayment schedule of bank borrowings for the next five years, according to the balance as of 31 December 2019 is as follows:

Year	Amount
2020	262,804
2021	138,622
2022	9,458
2023	7,094
2024	-
After 2024	-
	<hr/> 417,978 <hr/>

In 2020, new loans in the amount of HRK 230,344 thousand were taken and HRK 351,946 thousand of existing loans were closed (HRK 191,815 thousand paid and HRK 160,131 thousand written off), which is stated under Note 26.

- (1) The long-term loan was approved to finance the building of the motor vessel "Solín" in the amount of USD 33,000,000. The loan was approved in December 2010, with an interest rate equal to LIBOR + 3.0% and withdrawn on 24 May 2011. The loan principal and interest are repayable on a quarterly basis, with the first instalment due on 24 August 2011 and the ultimate repayment deadline 24 May 2018. As security, mortgage on the vessels "Peristil" and "Sveti Dujam" has been registered in favour of the Bank. On 02 November 2016 an Annex to the Agreement was signed by which the moratorium period for repayment of principal until February 2018 was agreed. According to Letter of intent from 02 January 2019, it is planned to reprogram this loan in such a way that the remaining principal of this loan and loan under number (2) will be aggregated into one loan in the total amount of USD 50 million with the offered interest rate of LIBOR plus 2.75%, a quarterly payments in 28 instalments of USD 1 million starting from the second quarter of 2019 and ending in 2026 with a one-time payment of the remaining principal. Security for a single loan will be mortgages on the vessels "Peristil", "Sveti Dujam", "Solín" and "Bene" and a state guarantee in the amount of 20% of the loan value Based on the notification received on 09 July 2019 and the Bank's decision on its intent to stop approving loans to the shipping sector and stop reprogramming existing loans to the shipping sector, after several months of negotiations, on 05 March 2020, the company settled its loan liabilities using new credit arrangements.
- (2) The long-term loan was approved for working capital and for the purchase of the motor vessel "Bene" in the amount of USD 30,000,000. The loan was approved in September 2013 and withdrawn on 01 October 2013 in several tranches, with weighted average interest rate equal to LIBOR + 2.98%. The loan principal and interest are repayable on a quarterly basis, with the first instalment due on 01 October 2014 and the ultimate repayment deadline 01 July 2023 and 01 July 2021. As security, a mortgage on the vessels "Solín" and "Bene" has been registered in favour of the Bank. On 02 November 2016 an Amendment Agreement was signed by which the moratorium period for repayment of principal until April 2018 was agreed. According to the Letter of intent from 02 January 2019, it is planned to reprogram this loan together with the loan under number (1). On 05 March 2020, the Company settled its loan liabilities using new credit arrangements, as described in the previous paragraph.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

20 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

- (3) The long-term loans were approved to restructure consolidated balance sheet of Jadroplov Group in June 2012. Both loans were withdrawn on 29 June 2012; first in the amount of EUR 2,500,000 with interest rate of 3-month EURIBOR + 4.0%, and second in the amount of USD 2,750,000 with interest rate of 3-month LIBOR + 4.8%. The principal and interest are repayable on a quarterly basis. Interest repayment started on 1 October 2012, with the first instalment due on 01 April 2013, and the ultimate repayment deadline 1 January 2019. As security, a mortgage on the vessel "Split" has been recognised. On 25 October 2017 the bank decided on the moratorium period for principal repayment by 01 January 2018, with the first instalment on 01 April 2018, and with unchanged maturity date. On 06 June 2018, the bank decided on the moratorium period for principal repayment by 01 July 2018 with unchanged maturity date. On 23 October 2018, a decision was made on the one-time repayment of the outstanding loan amount by the end of the repayment deadline on 01 January 2019. On 18 January 2019, a decision was made on a one-off repayment of the remaining loan amount by the end of the repayment deadline on 01 April 2019. On 18 April 2019, a decision was made on a one-off repayment of the remaining loan amount by the end of the repayment deadline on 01 June 2019. Based on the bank's offer dated 06 December 2019 and the Agreement on Debt Settlement dated 27 February 2020, the Company settled a portion of the liability in the amount of EUR 1,500,000 with a new loan, under the condition of settling the debt amounting to EUR 400,000 by 31 July 2020. In case the debt is not settled by the relevant date, the entire debt in the amount of EUR 1.1 million will become due.
- (4) The long-term loan was approved for working capital in the amount of USD 4,150,000. The loan was approved in May 2015 and withdrawn in 2 parts: first in the amount of USD 2,500,000 on 5 June 2015 and second in the amount of USD 1,650,000 on 31 July 2015 with interest rate of 6,75% per annum. The loan principal is repayable on semi-annually basis, with the first instalment due on 30 November 2016 and the ultimate repayment deadline 31 May 2020. The interest is repayable on the monthly basis, beginning from the 30 June 2015. As security, a mortgage on the vessel "Trogir" and property has been registered in favor of the Bank. On 14 December 2017, the bank decided on the moratorium period for principal repayment by 31 March 2018 with unchanged maturity date. On 27 June 2018, the bank decided on the moratorium period for principal repayment by 30 September 2018 with unchanged maturity date. On 13 February 2019, the bank decided on the moratorium period for principal repayment by 31 March 2019 with an unchanged maturity date. On 30 June 2020, the bank decided on the moratorium period for principal repayment by 31 March 2021, reducing the loan principal by the amount of the term deposit in the amount of USD 500,000. The repayment of the newly formed principal shall be done in 48 equal instalments, with the first one maturing on 30 April 2021, and the last one maturing on 31 March 2025.
- (5) The long-term loan was approved for working capital in the amount of USD 6,045,000. The loan was approved in July 2016 and withdrawn in 5 parts in the period from 03 August 2016 until 12 December 2016, with interest rate of 5.18% per annum. The loan principal is repayable quarterly, with the first instalment due on 30 September 2018 and the ultimate repayment deadline on 30 September 2022. The interest is repayable quarterly, beginning from 31 December 2016. As security, a mortgage on the properties of the Company have been recognised. The Management Board believes that the fair value of fixed interest loans is not significantly different from the carrying amount. Annex IV to the Loan Agreement dated 19 February 2020 defined the additional grace period for loan principal repayment, with the first instalment due on 30 September 2020 and the ultimate repayment deadline on 30 September 2022. Due to the impact of the coronavirus epidemic on the business, an additional moratorium on the repayment of liabilities due on 1 July 2020 prolonged to 31 December 2020 is being obtained.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

21. RESERVATIONS

	Reservations for jubilee awards and retirement bonuses	Reservations for liabilities and expenses	Total provisions
Balance at 01 January 2018	144	14,479	14,623
Provided for during the year	39	-	39
Used during the year	(13)	-	(13)
Released during the year	-	(14,940)	(14,940)
Exchange rate conversion effect	-	461	461
Balance at 31 December 2018	170	-	170
Provided for during the year	21	-	21
Used during the year	(11)	-	(11)
Balance at 31 December 2019	180	-	180

The nature of provisions for risks and charges is further discussed in Note 20 – Contingent liabilities.

22. TRADE AND OTHER PAYABLES

	2019	2018
Trade payables	44,653	32,031
Accrued expenses and deferred income	1,937	1,746
Amounts due to employees	5,565	4,618
Other liabilities	3,597	539
	55,752	38,934

23. CONTINGENT LIABILITIES

In 2018, a dispute with SSM, for which the Company's recognised trade payables amount of HRK 2,944 thousand, was finalized in favour of the supplier. In the other two disputes with the same supplier, the Company has receivables in the amount of HRK 5,515 thousand, with statutory penalty interest, reported in the bankruptcy proceedings and expected to be offset. The Management Board believes that no additional provision for potential interest is needed, as it is unlikely that there will be any additional cash outflows.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Capital risk management

The Group manages its capital to ensure it will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged since 2007.

The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

b) Gearing ratio

The Management Board of the Group reviews the capital structure. As part of this review, the Management Board considers the risks associated with each class of capital. The actual gearing ratio in 2019 was 241.18% in 2019 (2018: 174.39%).

The gearing ratio at the end of the year was as follows:

	2019	2018
Interest-bearing loans and borrowings (Note 17)	417,978	407,043
Cash and cash equivalents (Note 14)	(607)	(1,517)
Net debt (Note 17)	<u>417,371</u>	<u>405,526</u>
Equity	<u>(53,144)</u>	<u>232,540</u>
Debt-to-equity ratio	<u>(785.36)%</u>	<u>174.39%</u>

Debt is defined as long-term and short-term borrowings. Equity includes all capital and reserves of the Group.

**Notes to the consolidated financial statements (*continued*)
for the year ended 31 December 2019**

(All amounts are expressed in thousands of HRK)

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (*CONTINUED*)

c) Categories of financial instruments

	2019	2018
Financial assets		
Trade receivables	2,526	1,604
Cash and cash equivalents	607	1,517
Term deposits	3,638	3,546
Housing loans to employees	5	63
Other receivables	4,524	5,151
Financial liabilities		
Interest-bearing loans and borrowings and accrued interest	447,180	420,373
Trade and other payables	55,752	38,934

As at the reporting date, there are no significant concentrations of credit risk for loans and receivables designated at fair value through profit or loss. The above stated amount represents the Group's maximum exposure to credit risk for loans given and receivables.

The clients with the largest outstanding balance as of December 31 are as follows:

2019 (in thousand HRK)	
MINISTARSTVO FINANCIJA-POREZNA UPRAVA SPLIT	862
TEHNIKA D.D. ZAGREB	435
SOL SHIPPING INTERNATIONAL PTE LTD	398
CENTURY SCOPE GROUP	352
PELIG D.O.O.	128
Total receivables	2,526
Top 5 %	86%

2018 (in thousand HRK)	
Split Ship Management Inc.,Liberia	430
TEHNIKA D.D. ZAGREB	391
DAYANG (HK)MARINE SHIPPING CO.,LTD	288
DAEWOO LOGISTICS CORP	125
PELIG D.O.O.	113
Total receivables	1,604

**Notes to the consolidated financial statements (*continued*)
for the year ended 31 December 2019**

(All amounts are expressed in thousands of HRK)

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (*CONTINUED*)

d) Financial risk management objectives

The Corporate Treasury function of the Group provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group operates in the international market, which exposes it to the risk arising from fluctuations in exchange rates.

e) Price risk management

The largest market in which the Group sells and provides its services is international market. The Management Board of the Company determines the prices of its services on the basis of market rates.

Notes to the consolidated financial statements (*continued*) for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (*CONTINUED*)

f) Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. All of the Group loans were contracted at variable interest rates.

Interest rate risk sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates during the year. For floating rate liabilities, the analysis is prepared according to repayment plan per separate liability over borrowing or received financial lease. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had changed for 50 basis points with the presumption of all other variables being constant, there would be following changes in interest expenses of the Group: for the year 2019 the change would amount to HRK 4,598 thousand (2018: change would amount to HRK 2,138 thousand).

g) Credit risk

The Group has no significant concentration of credit risk with any counter party having similar characteristics. The Group monitors financial position of a customer as a part of its credit risk management.

The maximum credit risk exposure is represented by the carrying amount of each financial asset included in the statement of financial position. In the opinion of the Management Board, its maximum exposure is reflected by the amount of trade receivables and other current asset net of provisions for impairment recognised at the reporting date.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. The Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade receivables consist of receivables from limited number of customers from international market. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (*CONTINUED*)

h) Currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The table below details the carrying amounts of the Company's foreign-currency denominated monetary assets and liabilities at the reporting date.

As at 31 December	Liabilities		Assets	
	2019	2018	2019	2018
USA (USD)	480,588	441,181	7,818	9,316
European Union (EUR)	13,797	13,312	473	351

Foreign currency sensitivity analysis

The Group is mainly exposed to the currencies of the countries whose currency is USD and EUR.

The following table details the Company's sensitivity to a 10% decrease in Croatian Kuna against USD and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to the Management Board and represents the Board's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the 10% change in the relevant foreign exchange rate. The sensitivity analysis includes external borrowings, as well as loans to foreign operations of the Group denominated in a currency that is not the currency of the lender or the borrower. A positive number indicates an increase in profit and other equity where Croatian kuna strengthens against the relevant currency by 10%. For a 10% weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD exposure		EUR exposure	
	2019	2018	2019	2018
Loss	(47,277)	(43,187)	(1,332)	(1,296)

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (*CONTINUED*)

i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, using appropriate banking facilities and central reserves borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest rate risk tables

The Group's remaining contractual maturity for its financial liabilities is analysed in the following table. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest rate %	Up to 1 month	1 to 3 months	3 months to 1 year	1 – 2 years	Over 2 years	Total
2019							
Non-interest bearing		20,294	7,917	8,230	4,674	9,569	50,684
Interest bearing	5,88 %	292,006	-	-	148,080	7,094	447,180
		312,300	7,917	8,230	152,754	16,663	497,864
2018							
Non-interest bearing		13,213	7,070	5,289	2,313	9,303	37,188
Interest bearing	6.25 %	260,670	2,880	6,725	90,990	59,108	420,373
		273,883	9,950	12,014	93,303	68,411	457,561

The Group's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 14,486 thousand for 2019 (2018: HRK 8,099 thousand) and liabilities towards employees in the amount of HRK 5,565 thousand for 2019 (2018: HRK 4,575 thousand).

Interest bearing liabilities include short-term and long-term borrowings.

The Management Board is aware of the uncertainty of the Company's ability to realize its financing needs and to refinance or service its liabilities as they fall due, but it is important to note that, in the current period of improved freight, the Company is in a position to regularly settle current liabilities, including financial liabilities to banks (Note 17).

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (*CONTINUED*)

i) Liquidity risk management (*continued*)

The tables below detail contractual maturities of the Group's financial assets presented in the statement of financial position at the end of the period.

The tables were prepared based on the undiscounted cash outflows on financial assets at the maturity date. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Up to 1 month	1 to 3 months	3 months to 1 year	1 – 2 years	Over 2 years	Total
2019							
Non-interest bearing		1,047	3,936	717	3,728	2,030	11,458
Interest bearing	4.44 %	-	-	-	5	-	5
		<u>1,047</u>	<u>3,936</u>	<u>717</u>	<u>3,933</u>	<u>2,030</u>	<u>11,463</u>
2018							
Non-interest bearing		1,574	4,139	3,987	431	2,303	12,434
Interest bearing	4.82 %	-	-	27	-	36	63
		<u>1,574</u>	<u>4,139</u>	<u>4,014</u>	<u>431</u>	<u>2,339</u>	<u>12,497</u>

j) Fair value of financial assets and financial liabilities

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

As at 31 December 2019, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments correspond to their market value due to the short-term nature of those assets and liabilities.

**Notes to the consolidated financial statements (*continued*)
for the year ended 31 December 2019**

(All amounts are expressed in thousands of HRK)

25. RELATED-PARTY TRANSACTIONS

Ultimate parent

As shown in Note 18, the Company is indirectly owned by Republic of Croatia through the Restructuring and Sale Centre, which is the legal successor of the Agency for State Property Management.

Transactions with key management and members of the Supervisory Board

Remuneration to the Management Board includes regular monthly salary payments and other receipts.

Remuneration paid to the Management Board is disclosed in Note 6.

Remuneration to members of the Supervisory board is disclosed in Note 7.

Other related-party transactions

The Company is associated with government institutions and other state-owned entities since its majority owner is the Republic of Croatia.

Significant related-party transactions refer to the government grant for trainee boarding received from the Ministry of Maritime Affairs, Transport and Infrastructure under the Programme of co-financing boarding for deck, engine and electrical engineering trainees on ships in international and domestic voyages. Income from government grants for trainee boarding is disclosed in Note 4. During 2019, in accordance with the approved Restructuring Plan, the Company received from the Ministry of Maritime Affairs, Transport and Infrastructure HRK 5 million of subsidy intended for restructuring. Revenue from restructuring subsidy is shown in Note 4. Bank loans under numbers (4) and (5) in the Note 17 are received from banks with majority state ownership. Interest expense for these loans during the year were HRK 4,260 thousand (2018: HRK 4,688 thousand).

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

26. EVENTS AFTER THE REPORTING DATE

1. In 2020, new loans in the amount of HRK 278,344 thousand were taken and liabilities on existing loans in the amount of HRK 357,975 thousand were closed, of which HRK 194,148 thousand were paid and HRK 168,827 thousand were written off (listed in Note 20 under paragraphs 1, 2 and 3).

1.1. New loans

The long-term loan was approved for fixed assets (closing liabilities to financial institutions) and working capital in the amount of HRK 55.00,000. The loan was approved in February 2020, and withdrawn in 5 individual applications for use in the period from 28 February to 18 March 2020. The interest rate is 4% per annum (fixed). The principal is repaid semi-annually, the first annuity matures on 30 September 2022, and the maturity date is 30 September 2030. Repayment of interest is made quarterly, with a defined start of payment on 30 June 2020. As collateral for these loans, the Bank registered a mortgage on the ships "Split" and "Trogir" and on the company's real estate.

Appendix I to the Loan Agreement dated 27 April 2020 defined installment payment of interest due on 30 June 2020 in 12 equal monthly installments starting from 31 July 2020. Due to the business impact of the coronavirus epidemic, an additional moratorium on the repayment of liabilities due from 1 July 2020 to 31 December 2020 at the latest is being obtained.

The long-term loan was approved for fixed assets (closing liabilities to financial institutions) in the amount of USD 25,500,000. The loan was approved in February 2020 with an interest rate of 9% + LIBOR per year. Repayment of the principal is made quarterly, the first annuity matures on 30 June 2020, and the maturity date is 31 March 2025, with the repayment of the remaining 50% of the principal. Repayment of interest is made quarterly, with the beginning of repayment on 30 June 2020. The loan collateral are the mortgages on the vessels "Peristil", "Sveti Dujam", "Solin" I "Bene".

The long-term loan was approved for current assets (closing liabilities to financial institutions and trade payables) in the amount of HRK 48,000,000. The loan was approved in August 2020 with an interest rate of 4% + EURIBOR per year. Repayment of the principal is made quarterly, the first annuity matures on 6 August 2021, and the maturity date is 6 August 2030. Repayment of interest is made quarterly, with the beginning of repayment on November 6, 2020. The loan collateral is a guarantee of the Republic of Croatia.

1.2. Closing credit liabilities

- (1) and (2) Based on the notification received on 9 July 2019 and a bank's decision on its intent to stop approving loans to the shipping sector and stop reprogramming existing loans to the shipping sector, after several months of negotiations, on 5 March 2020, the company settled its loan liabilities towards its largest creditor in the amount of HRK 363,365 thousand by HRK 180.617 thousand (USD 26.5 thousand), having secured new credit arrangements, thus decreasing the Company's total debt by HRK 182.748 thousand (USD 26.8 thousand).

Notes to the consolidated financial statements (*continued*)

for the year ended 31 December 2019

(All amounts are expressed in thousands of HRK)

26. EVENTS AFTER THE REPORTING DATE (*CONTINUED*)

1.2. Closing credit liabilities (continued)

- (3) Based on the offer from the bank from 6 December 2019, and Debt settlement agreement from 27 February 2020, the company closed a portion of the liability in the amount of EUR 1,810,000 of the newly opened loan and a portion in the amount of EUR 90,000 from the core business.

Pursuant to the Restructuring Plan of Jadroplov d.d., Split, approved on 2 May 2018, the Government of the Republic of Croatia on 31 July 2020 approved a state guarantee in the amount of HRK 48,000,000 for the company's new credit indebtedness.

1.3. COVID 19

The rapid global development of the Covid-19 virus from January 2020 initially hit China, which is the most influential market for shipping. The spread of the virus to the rest of the world has resulted in slowed international trade in goods with reduced quantities as most of the countries in the world have approached the closure of borders for the movement of goods and people. The social and economic impact of such measures in the world has resulted in a reduction in freight rates and thus the value of ships as the most important assets of shipping companies. As a result, assumptions and estimates that require audits may lead to significant adjustments to the carrying amounts of items of assets and liabilities within the next financial year. Management expects that these events will affect the assumptions and estimates used in determining the value of ships, real estate and the general atmosphere in the shipping, investment and financial markets. At present, the Company's Management Board is not able to reliably assess the impact on the Company's financial statements given the daily development of these events and their volatility and the impact on a wide range of economic activities at the global level.

27. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 31 August 2020.

Branimir Kovačić

President of the Management Board

Mario Radačić

Member of the Management Board

Appendix 1
Supplementary statements in thousands of
USD (continued)
for the year ended 31 December 2019

Consolidated statement of comprehensive income

The consolidated statement of comprehensive income and the consolidated statement of financial position have been prepared on different bases as follows. The consolidated statement of comprehensive income represents the USD values of transactions in USD and USD equivalent values of transactions in other currencies translated into USD at the exchange rates prevailing at the transaction date. The consolidated statement of financial position is derived from the statement of financial position prepared in HRK translated into USD at the respective year end rates at 31 December 2019 (USD 1 = HRK 6.65) and 31 December 2018 (USD 1 = HRK 6.47).

(All amounts are expressed in thousands of USD)

	2019	2018
Operating income	16,842	20,370
Other operating income	<u>9,671</u>	<u>15,883</u>
Total income	<u>26,513</u>	<u>36,253</u>
Vessel operating costs	(25,006)	(25,882)
Depreciation expense	(6,417)	(6,053)
Staff costs	(799)	(790)
Other operating expenses	<u>(34,129)</u>	<u>(4,705)</u>
Total operating expenses	<u>(66,351)</u>	<u>(37,430)</u>
Operating loss	<u>(39,838)</u>	<u>(1,177)</u>
Net financial loss	<u>(4,343)</u>	<u>(4,083)</u>
Loss before taxation	<u>(44,181)</u>	<u>(5,260)</u>
Income tax	<u>-</u>	<u>1</u>
Loss for the year	<u>(44,181)</u>	<u>(5,259)</u>
Other comprehensive income		
Translation reserves	<u>1,220</u>	<u>1,572</u>
Other comprehensive income for the year	<u>1,220</u>	<u>1,572</u>
Total comprehensive income	<u>(42,961)</u>	<u>(3,687)</u>
Basic and diluted loss per share (in USD)	<u>(27.61)</u>	<u>(3.23)</u>

These supplementary statements are not part of the audited consolidated financial statements and are provided for illustrative purposes only. They represent the consolidated statement of financial position and statement of comprehensive income of the Group.

Appendix 1
Supplementary statements in thousands of
USD (continued)
for the year ended 31 December 2019

Consolidated statement of financial position

(All amounts are expressed in thousands of USD)

	2019	2018
ASSETS		
Non-current assets		
Property, plant and equipment	62,103	101,527
Intangible assets	-	-
Receivables and other assets	-	-
	<u>62,103</u>	<u>101,527</u>
Current assets		
Inventories	1,111	1,873
Receivables and other assets	4,360	3,336
Cash and cash equivalents	91	235
	<u>5,562</u>	<u>5,444</u>
Total assets	<u>67,665</u>	<u>106,971</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	12,306	12,650
Own shares	(365)	(375)
Reserves	35,702	35,445
Accumulated losses	(55,635)	(11,774)
	<u>(7,992)</u>	<u>35,946</u>
Non-current liabilities		
Interest-bearing loans and borrowings	25,735	25,389
Provisions	27	26
	<u>25,762</u>	<u>25,415</u>
Current liabilities		
Interest-bearing loans and borrowings	37,120	37,531
Trade and other payables.	12,775	8,079
	<u>49,895</u>	<u>45,610</u>
	<u>75,657</u>	<u>71,025</u>
Total equity and liabilities	<u>67,665</u>	<u>106,971</u>

These supplementary statements are not part of the audited consolidated financial statements and are provided for illustrative purposes only. They represent the consolidated statement of financial position and statement of comprehensive income of the Group.