

PLAVA LAGUNA d.d., POREČ

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT**

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

STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES

Based on the Accounting Act of the Republic of Croatia, the Management Board is required to ensure that the financial statements for each financial year are prepared in accordance with International Financial Reporting Standards as adopted by the EU so as to provide a true and fair view of the Group's financial position and results period.

After conducting the research, the Management Board reasonably expects the Group to have adequate resources to continue its operations in the foreseeable future. For this reason, the Management Board continues to accept the principle of continuing operations in the preparation of financial statements.

When preparing the financial statements, the Management Board is responsible for:

- appropriate accounting policies selected and then consistently applied;
- judgments and assessments are reasonable and cautious;
- valid accounting standards are applied and any material deviation is disclosed and explained in the financial statements; and
- financial statements are prepared on the basis of business continuity, unless it is inappropriate to assume that the Group will continue its business activities.

The Management Board is responsible for conducting the correct accounting records which will at any time reflect acceptable accuracy of the financial position of the Group as well as their compliance with the Croatian Accounting Act. The Management is also responsible for safeguarding the Group's assets, and therefore for taking reasonable measures to prevent and detect fraud and other illegalities.

The Group separately prepares and publishes the Management's report in accordance with applicable legal and regulatory regulations.

The Company's financial statements were approved by the Management Board on April 26, 2019, which was confirmed by the signature below.

Management Board of the company Plava laguna d.d.:

Neven Staver
President

Marco Antonio Buzolic Buzolic
Member

Damir Mendica
Member

Dragan Pujas
Member

Danira Rančić
Member

INDEPENDENT AUDITOR'S REPORT

To the Owners of Plava laguna d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the group Plava laguna d.d. Plava laguna d.d. („the Company”) and its subsidiaries (together: „the Group”), which comprise the statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies („the financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union („IFRS”).

Basis for Opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we 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 opinion.

Emphasis of matter

We draw attention to the Note 25 *Contingent liabilities* to the accompanied financial statements describing contingent liabilities of the Group for the land ownership that was not appraised in the process of conversion and privatization. Until the date of issuing the accompanied financial statements the court proceeding is not finalized. As described in Note 25 *Contingent liabilities* to the accompanied financial statements, the process cannot be finalized until a response from the State audit office to the Company's complaint. The outcome of the court proceeding and audit findings by the State audit office cannot be predicted with certainty, neither can their potential effects to the financial and business position of the Group. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Branislav Vrtačnik, Marina Tonžetić, Juraž Moravek, Dražen Nimčević; poslovna banka: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, ž. račun/bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008-1100240905; SWIFT Code: RZBHR2X IBAN: HR1024840081100240905.

Deloitte se odnosi na Deloitte Touche Tohmatsu Limited, skraćeno DTTL, poznat i pod nazivom „Deloitte Global”, pravnu osobu osnovanu prema pravu Ujedinjenog Kraljevstva Velike Britanije i Sjeverne Irske (izvorno „UK private company limited by guarantee”) i mrežu njegovih članova i s njima povezanih subjekata. DTTL i svaki njegov član su pravno odvojeni i samostalni subjekti. Usluge klijentima ne pruža DTTL. Detaljan opis DTTL-a i njegovih članova možete pronaći na adresi www.deloitte.com/hr/o-nama.

INDEPENDENT AUDITOR’S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matter (continued)

Estimated useful life of property, plant and equipment and impairment indicators

For accounting policies see Summary of significant accounting policies, Notes 2.5, 2.7 and 4.a. For additional information related to the identified key audit matter, see Note 14 to the financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>The Group disclosed property, plant and equipment in the amount of 2.527.285 thousand kuna in its statement of financial position. The Group accounts for the property, plant and equipment at historical cost less accumulated depreciation and impairment, where required. Historical cost includes the cost that is directly attributable to the acquisition of assets.</p> <p>The Management Board reviews impairment of assets that have an indefinite useful life and are not depreciated. Assets subject to depreciation are reviewed by the Management Board for impairment when events or changed circumstances indicate that the carrying amount may not be recoverable.</p> <p>Since the estimated useful life and identification of impairment indicators requires a significant judgement of the Company's management, this may lead to bias in determining the useful life assessment process and / or impairment. This has led to the conclusion that estimated useful life of property, plant and equipment and impairment indicators is our key audit matter for the audit of the Group's financial statements for the year ended 31 December 2018.</p>	<p>In order to respond to risks related to estimating useful life of property, plant and equipment and impairment indicators identified as the key audit matter, we designed audit procedures that enabled us to obtain sufficient appropriate audit evidence for our conclusion on this matter.</p> <p>We conducted the following audit procedures considering the property, plant and equipment area:</p> <ul style="list-style-type: none"> • Review and verification of accuracy of the accounting policy for impairment produced by the Management, including a review of defined indicators of impairment and the reasonableness and justification of key assumptions and input variables based on our knowledge of the business and the sector, and reliance on available evidence such as generated financial result, profitability per each profit unit, their earnings before tax, interest and depreciation and amortization, expense budgets and forecasts as well as market data referred to future prices and other basic assumptions; • Based on our experience within the industry a comparison of estimated useful life for property, plant and equipment with those applied to assets with similar characteristics; • Analysis of the property, plant and equipment in order to conclude on correctness of defined estimated useful life disclosed in the statement of financial position as at 31 December 2018.

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

INDEPENDENT AUDITOR'S REPORT (continued)**Report on the Audit of the Financial Statements (continued)****Other Matter**

The Financial Statements of the Group for the year ended 31 December 2017, were audited by another auditor who expressed an unqualified opinion on those financial statements on 27 April 2018.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

We were appointed as the statutory auditor of the Group at the General Shareholders' Meeting held on 30 August 2018 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 1 year and covers period 1 January 2018 to 31 December 2018.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Group on 12 April 2019 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

The engagement partner on the audit resulting in this independent auditor's report is Vanja Vlak.



Branislav Vrtačnik

President of the Board



Vanja Vlak
Certified auditor

Deloitte d.o.o.

26 April 2019

Radnička cesta 80

10 000 Zagreb

Croatia

PLAVA LAGUNA d.d., POREČ

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(all amounts expressed in thousands of HRK)</i>	Note	2018	2017
Sales	5	1,099,318	1,068,962
Other income		10,358	13,419
Cost of materials and services	6	(296,554)	(306,310)
Staff costs	7	(273,069)	(259,790)
Depreciation and amortisation	14, 15	(212,544)	(165,182)
Other operating expenses	8	(81,199)	(90,841)
Other losses – net	9	8,228	(4,351)
Operating profit		254,538	255,907
Finance income		4,970	14,874
Finance costs		(11,051)	(21,584)
Finance costs – net	10	(6,081)	(6,710)
Share in associate	16	28,413	19,032
Profit before tax		276,870	268,229
Income tax	11	(239)	(42,991)
Profit for the year		276,631	225,238
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets	22	5	1,062
Total comprehensive income for the year		276,636	226,300
Attributable to:			
Equity holders of the Company		276,636	219,916
Non-controlling interest		-	5,322
Profit for the year		276,636	225,238
Basic and diluted earnings per share (in HRK) attributable to the equity holders of the Company during the year:	12		
- ordinary shares		105,73	342,29
- preference shares		105,98	343,29

The accompanying notes form an integral part of these consolidated financial statements.

PLAVA LAGUNA d.d., POREČ
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

<i>(all amounts are expressed in thousands of HRK)</i>	Note	31/12/2018	31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment	14	2,527,285	2,299,617
Investment property	14	41,332	41,365
Intangible assets	15	19,691	20,737
Investments in associate	16	246,491	280,467
Financial asset measured at fair value through comprehensive income option	17	11,064	9,217
Deposits and loans given		21	60
Deferred tax assets	18	345	-
		2,846,229	2,651,463
Current assets			
Inventories		4,563	4,886
Trade and other receivables	19	17,098	18,707
Income tax prepayments receivable	11	29,063	-
Bank deposits		756	239,632
Financial assets measured at fair value through profit or loss	20	-	1,840
Cash and cash equivalents		185,830	88,844
		237,310	353,909
Total assets		3,083,539	3,005,372
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	21	1,444,530	1,436,911
Capital reserves	21	693	10,803
Treasury shares	21	(1,430)	(22,288)
Reserves	22	125,122	83,975
Retained earnings	22	648,574	608,112
		2,217,489	2,117,513
Non-controlling interests		-	60,073
		2,217,489	2,177,586
LIABILITIES			
Non-current liabilities			
Borrowings	23	581,046	527,934
Provisions		4,571	-
Deferred tax liability	18	10,601	10,467
		596,218	538,401
Current liabilities			
Trade and other payables	24	180,469	182,884
Borrowings	23	89,363	91,588
Provisions for other liabilities and expenses	25	-	3,318
Income tax payable		-	11,595
		269,832	289,385
Total liabilities		866,500	827,786
Total equity and liabilities		3,083,539	3,005,372

The accompanying notes form an integral part of these consolidated financial statements.

PLAVA LAGUNA d.d., POREČ

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(all amounts are expressed in thousands of HRK)</i>	Attributable to shareholders of the Company					Total	Non-controlling interest	Total equity
	Share capital	Capital reserves	Treasury shares	Reserves	Retained earnings			
Year ended 31 December 2017								
At 1 January 2017	1,385,151	9,937	(21,422)	79,303	443,614	1,896,583	55,644	1,952,227
Profit for the year	-	-	-	-	219,916	219,916	5,322	225,238
Other comprehensive income	-	-	-	1,062	-	1,062	-	1,062
Total comprehensive income for 2017	-	-	-	1,062	219,916	220,978	5,322	226,300
Share capital increase (Note 21)	51,760	866	(866)	3,610	(55,370)	-	-	-
Dividend relating to 2016 (Note 12)	-	-	-	-	(105)	(105)	-	(105)
Transactions with non-controlling interests	-	-	-	-	57	57	(893)	(836)
Total transactions with owners, recognised in equity	51,760	866	(866)	3,610	(55,418)	(48)	(893)	(941)
At 31 December 2017	1,436,911	10,803	(22,288)	83,975	608,112	2,117,513	60,073	2,177,586
Year ended 31 December 2018								
At 1 January 2018	1,436,911	10,803	(22,288)	83,975	608,112	2,117,513	60,073	2,177,586
Profit for the year	-	-	-	-	276,631	276,631	-	276,631
Other comprehensive income	-	-	-	5	-	5	-	5
Total comprehensive income for 2018	-	-	-	5	276,631	276,636	-	276,636
Share capital increase (Note 21)	7,619	-	-	-	-	7,619	-	7,619
The realisation of treasury shares	-	(10,110)	20,858	-	-	10,748	-	10,748
Effect of merger	-	-	-	38,554	866	39,420	(60,073)	(20,653)
Dividends paid	-	-	-	-	(234,447)	(234,447)	-	(234,447)
Decision of profit using – legal reserve	-	-	-	2,588	(2,588)	-	-	-
At 31 December 2018	1,444,530	693	(1,430)	125,122	648,574	2,217,489	-	2,217,489

The accompanying notes form an integral part of these consolidated financial statements.

PLAVA LAGUNA d.d., POREČ

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(all amounts are expressed in thousands of HRK)</i>	Note	2018	2017
Cash flow from operating activities			
Cash generated from operations	26	459,433	470,635
Income tax paid		(41,108)	(17,797)
Interest paid	23	(11,992)	(28,065)
Net cash generated from operating activities		406,333	424,773
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(439,553)	(220,886)
Purchase of intangible assets	15	(2,098)	(3,319)
(Increase)/decrease in investments in funds		0	31,591
Decrease/(increase) in deposits and loans		235,273	(57,243)
Proceeds from sale of property, plant and equipment		10,538	1,135
Interest received		766	2,171
Dividends received		62,911	375
Net cash used in investing activities		(132,163)	(246,176)
Cash flows from financing activities			
Transactions with non-controlling interest		(2,409)	(835)
Proceeds from borrowings	23	148,352	612,203
Repayment of borrowings	23	(88,678)	(719,365)
Dividends paid to the Company's shareholders		(234,449)	(105)
Net cash flow from financing activities		(177,184)	(108,093)
Net increase in cash and cash equivalents		96,986	70,504
Cash and cash equivalents at beginning of year		88,844	18,340
Cash and cash equivalents at end of year		185,830	88,844

The accompanying notes form an integral part of these consolidated financial statements.

NOTE 1 – GENERAL INFORMATION

Plava laguna Group, Poreč comprises the company Plava laguna d.d., Poreč, a public limited liability company for hospitality and tourism (parent company) and its subsidiaries (the Group):

- Travel d.o.o. d.o.o. with an ownership interest of 100%,
- Istraturist j.d.o.o. with an ownership interest of 100%.
- ISTRA DMC d.o.o. with an ownership interest of 100%

On 23 February 2018 Laguna Invest d.o.o. changed of its name to Travel d.o.o. and business objectives, tourist agency. The Company Laguna invest d.o.o. did not have any business activity during 2017.

The parent and her affiliates are registered at the Pazin Commercial Court.

The affiliated company is Jadranski luksuzni hoteli d.o.o. with a shareholding of 32.48%:

The majority owner of the Company on 31 December 2017 was Sutivan Investments Anstalt, Liechtenstein, and the ultimate parent and controlling company is the Vallum Foundation, registered in Vaduz, Liechtenstein. As of January 11, 2018, the majority owner of the Company is the Adriatic Investment Group headquartered in the Grand Duchy of Luxembourg, wholly owned by Sutivan Investments Anstalt, Liechtenstein.

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

As at 31 December 2018 and 2017, the shares of the parent company were listed on the regular joint stock company listing on the Zagreb Stock Exchange.

Based on the Decision of the General Assembly of the Plava Laguna d.d. and Istraturist Umag d.d. from 11 August 2017 on the Commercial Court in Pazin, Istraturist Umag d.d. (former subsidiary) was merged to Plava laguna d.d. with the effect as at January 1, 2018. (Note 12).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards which were endorsed by the European Union (IFRS).

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group:

In the current period, the following standards, amendments to existing standards and interpretations published by the International Accounting Standards Board (IASB) are in force and are adopted by the European Union:

- IFRS 9 "Financial Instruments", adopted in the European Union on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018)
- IFRS 15 "Customer Contract Revenue" and amendments to IFRS 15 "Effective date of effective IFRS 15", adopted in the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 2 "Share-based Payments" - Classification and measurement of share-based payment transactions, adopted in the European Union on February 27, 2018 (effective for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 4 "Insurance Contracts" - Use of IFRS 9 Financial Instruments in conjunction with IFRS 4 Contracts and Insurance, adopted in the European Union on 3 November 2017 (effective for annual periods beginning on or after January 1, 2018 or those in which IFRS 9 "Financial Instruments" applies for the first time)
- Amendments to IFRS 15 "Customer Acquisition Revenues" - IFRS Statement 15 Revenue from customer agreements, adopted in the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January)
- Amendments to IAS 40 "Investments in Real Estate" - Transfer of real estate investments, adopted in the European Union on March 14, 2017 (effective for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 1 and IAS 28 under the heading "Adjustment of IFRS for the 2014-2016 Cycle" arising from the annual IFRS update (IFRS 1, IFRS 12 and IAS 28), primarily to eliminate discrepancies and clarifications adopted in the European Union on 7 February 2018 (amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018),
- IFRS 22 "Transactions and prepayments in foreign currencies", adopted in the European Union on March 28, 2018 (effective for annual periods beginning on or after 1 January 2018)

Adoption of these amendments to existing standards and interpretations did not result in material changes in the Company's financial statements. The application of IFRS 9 is explained in Note 3. .

(b) Amendments to the existing standards published by the IASB and adopted in the European Union but not yet in force:

At the date of approval of the financial statements, the following new standards and amendments to the existing standards were published but not in force, published by IASB and adopted by the European Union:

- IFRS 16 "Leases", adopted in the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) *Amendments to the existing standards published by the IASB and adopted in the European Union but not yet in force (continued):*

- Amendments to IFRS 9 "Financial Instruments" - advantages with negative compensation features - adopted in the European Union on March 22, 2018 (effective for annual periods beginning on or after 1 January 2019)
- IFRIC 23 "Uncertainties regarding the application of taxation rules on income tax" - adopted in the European Union on October 23, 2018 (effective for annual periods beginning on or after 1 January 2019).

The Group has chosen not to apply new standards, amendments to existing standards and interpretations before the date of their entry into force.

At the time of writing, the Group does not have any information as to whether the application of these standards and the amendment to existing standards will lead to material changes to the financial statements in the first adoption period of the standard, but will certainly not call into question the financial stability of the Group.

New standards and changes to existing standards issued by the IASB not yet adopted in the European Union

The IFRSs currently adopted in the European Union do not differ significantly from the regulations issued by the International Accounting Standards Board (IAS) except for the following standards, amendments to existing standards and interpretations that have not yet been adopted by the European Union until 31 December 2018 (dates the entry into force of the following standards refers to MSFI as a whole):

- IFRS 14 "Delegated Transaction Regulatory Regulation" (effective for annual periods beginning on or after 1 January 2016) - The European Commission has decided to postpone the transitional arrangements for this transitional standard until the publication of its final version,
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IAS 3 "Business Combinations" - Business definition (effective for business combinations for which the acquisition date is on or after the commencement of the first annual reporting period commencing on or after 1 January 2020 and on the acquisition of or after the beginning of that period).
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Shares in Associates and Joint Ventures" - Sales or investments of assets between investors and associates or joint ventures and subsequent amendments (the initial date of entry into force was postponed to the completion of the research project on the theme of applying the share)
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates of Misconduct" - Significance definition (effective for annual periods beginning on or after January 1, 2020)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

New standards and changes to existing standards issued by the IASB, not yet adopted in the European Union (continued)

- Amendments to IAS 19 Employee Benefits - Amendments to, suppression of rights, or disbursements from income plans (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Shares in Associates and Joint Ventures" - Long-term investments in associates and joint ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various Standards due to the "Review of IFRS from the 2015-2017 Cycle" arising from the IFRS Annual Compensation Project (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily to eliminate discrepancies and clarification (effective for annual periods beginning on or after 1 January 2019),
- Amendments to the Guidelines for the Conceptual Framework in IFRSs (effective for annual periods beginning on or after 1 January 2020).

According to the Group's estimates, the application of these new standards and the amendment of existing standards would not have a material material impact on the financial statements. Hedge accounting in a portfolio of financial assets and liabilities whose policies have not been adopted in the EU remains unregulated.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

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

Business Combinations

The Group applies IFRS 3 "Business Combinations" for accounting for business combinations, and the accounting policies applied to these acquisitions are described below.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

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

The Group measures goodwill at the acquisition date as:

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

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

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

Acquisition-related costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(a) Subsidiaries

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

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

(b) Changes in ownership interests in subsidiaries without change of control

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

Business Combinations (continued)

(b) Changes in ownership interests in subsidiaries without change of control (continued)

For purchases from non- controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Associates

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

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

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

(d) Acquisition of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for using the following principles:

- the assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the controlling shareholder of the Group,
- the difference between the consideration paid and the carrying value of transferred assets and liabilities is recognized in Group equity,
- the components of equity of the acquired entities are added to the same components within Group equity (except any issued capital of the acquired entities which is recognised as part of share premium),
- any cash paid for the acquisition is recognised directly in equity.

(e) Non-controlling interest

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

Business Combinations (continued)

(f) Transactions eliminated during consolidation

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

(g) Goodwill

Goodwill represents the difference between the fair value of the acquisition cost and fair value of the Group's share in the net identifiable assets acquired by the subsidiary on the acquisition date. Goodwill arising on the acquisition of a subsidiary is recognized as an intangible asset. Separate goodwill is tested annually for impairment or whenever there are any impairment provisions and are recognized at cost less accumulated impairment losses. Goodwill impairment losses are not eliminated.

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

2.3 Segment reporting

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

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant. The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive income within line item 'other gains – net'.

2.6 Intangible assets

(a) Software

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

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and depreciation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

The Company classifies its financial assets into the following categories: A business model whose objective is to collect the contractual cash flow - loans and receivables and a business model whose objective is both to collect contractual cash flows and to sell - Financial assets measured at fair value through other comprehensive income. The classification depends on the purpose for which the financial asset was acquired and the risk that is managed by the acquisition of that asset. Management classifies financial assets at initial recognition and estimates that classification at each reporting date. At the initial recognition, the Board executes the allocation of financial assets in business models and accordingly conducts a test of contracted cash flows. Subsequent measurement depends on allocation and test of contracted cash flows.

(a) Financial assets in the business model whose objective is to collect the contractual cash flow

Financial assets in the business model whose objective is to collect contractual cash flow is non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. It is stated in the context of short-term assets, except for assets with maturities of more than 12 months after the reporting date. Such assets are classified as non-current financial assets. Receivables are stated at amortized cost using the effective interest rate method. In continuation of the note is given the financial asset allocation in business models. The impairment of these financial assets is carried out on the basis of days of delay. Based on the age structure of receivables, the Management Board makes a decision on impairment on the basis of historical losses and the expected loan losses that may arise due to non-payment.

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

Financial assets measured at fair value through other comprehensive income are non-derivative assets classified in this category or are not classified in another category and refer to equities listed on an active market. Initially, this property is measured at fair value plus transaction costs. At each subsequent financial statement date, investments in securities that are not quoted in an active market and whose fair value cannot be reliably determined are measured at cost of acquisition. This financial asset is not subject to impairment because according to IFRS 9 Financial Instruments is not in the scope of impairment. The Company has decided to measure the stated financial asset at fair value through other comprehensive income because it is also an investment in equity instruments that are not created for trade.

The impact of the implementation of IFRS 9 requirements on January 1, 2018 is as follows:

	IAS 39		IFRS 9		Impact
	Assessment	Measurement	Business model	Measurement	
Trade and other receivables	Loans and Receivables	Amortized cost	To receive contractual cash flow	Amortized cost	The Company estimates that the impact on the financial statements is not significant.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

(c) Financial liabilities

Financial liabilities includes all financial liabilities that are not classified at fair value through profit or loss. Financial liabilities include liabilities to suppliers, borrowings and other liabilities. Initially, they are recognized at fair value less any directly attributable transaction costs. After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest rate method (for accounting policy on lending, see note 2.15).

The fair value of interest-free liabilities is its discounted repayment amount. If the maturity date is less than one year, discounting is left out.

A financial liability is derecognised when the liability has been or is canceled or expired.

2.9 Derivative financial instruments

Derivative financial instruments include forward and swap contracts (floating-to-fixed interest rate swaps) denominated in foreign currencies. Derivative financial instruments are recognised in the balance sheet at their fair value. Fair values are obtained from quoted market prices or pricing models as appropriate. All derivatives are carried as assets in the balance sheet when fair value is positive and as liabilities when fair value is negative. These derivatives do not qualify for hedge accounting and are therefore treated as derivatives held for trading. Gains and losses arising from the forecast transaction are recognised in profit or loss in the period in which the effect of the forecast transaction is reflected in profit or loss.

2.10 Leases

Leases where the significant portion of risks and rewards of ownership is not retained by the Group are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments.

Each lease payment is allocated between the liability and finance costs so as to achieve a constant rate on the balance outstanding. The corresponding rental obligations, net of finance costs, are included in other non-current liabilities. The interest element of finance costs is charged to the statement of comprehensive income over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

2.11 Inventories

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Trade, deposit and loan receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. Deposits are amounts held with banks with original maturities over three months. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade, deposit and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary and preference shares are classified as equity. Preference shares bear a fixed dividend of HRK 0,25 per share per annum (2017: HRK 1,00), in addition to ordinary dividends in the amount equal to the dividend paid on each ordinary share. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable transaction costs, is included in equity attributable to the Company's equity holders.

2.15 Borrowings

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

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

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

2.16 Trade payables

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In that case tax is also recognised in equity.

The current income tax charge is calculated at a rate of 18% according to Croatian laws and regulations. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions, where appropriate, on the basis of amounts expected to be paid to the Tax Administration.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investment in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

(c) Short-term employee benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Provisions

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

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

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

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in hotels, campsites and hospitality facilities in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and after eliminating sales within the Group.

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

(a) Sales of services

Revenues from hotel and tourism services are recognised when the services are provided. Revenue from services provided to individual guests paying with credit cards - credit card commissions is recognized as a reduction in revenue.

(b) Rental services

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

(c) Interest income

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

(d) Dividend income

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Dividend distribution

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

2.22 Earnings per share

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

2.23 Value added tax

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

The accounting policies are applied to financial instruments as follows:

<i>(in thousands of HRK)</i>	Loans and receivables	Financial assets at fair value through profit or loss	Financial asset through comprehensive income	Total
31 December 2018				
Assets at the balance sheet date				
Investments in shares of domestic companies	-	-	11,064	11,064
Trade and other receivables	9,867	-	-	9,867
Deposits with banks and loans given	777	-	-	777
Cash and cash equivalents	185,830	-	-	185,830
Total	196,474	-	11,064	207,538
31 December 2017				
Assets at the balance sheet date				
Investments in shares of domestic companies	-	1,840	9,217	11,057
Trade and other receivables	9,090	-	-	9,090
Deposits with banks and loans given	239,692	-	-	239,692
Cash and cash equivalents	88,844	-	-	88,844
Total	337,626	1,840	9,217	348,683

	2018	2017
<i>(in thousands of HRK)</i>		
Liabilities at the balance sheet date – at amortised cost		
Trade and other payables	101,013	108,330
Borrowings	670,409	619,522
	772,025	727,852

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro (EUR).

The majority of the Group's foreign sales revenue, cash deposits and long-term debt is denominated in Euros. Therefore, movements in exchange rates between the Euro and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flows. The Group uses derivative instruments on an occasional basis only.

As at 31 December 2018 and 2017, the currency structure of the Group's financial instruments is as follows:

2018	EUR	HRK	CHF	Other	Total
Financial assets					
Trade and other receivables	5,595	4,272	-	-	9,867
Loans and deposits given	777	-	-	-	777
Available-for-sale financial assets		11,064	-	-	11,064
Cash and cash equivalents	178,650	6,243	167	770	185,830
	185,022	21,579	167	770	207,538
Financial liabilities – at amortised cost					
Borrowings	670,409	-	-	-	670,409
Trade and other payables	3,340	97,604	-	69	101,013
	673,749	97,604	-	69	771,422
2017					
Financial assets					
Trade and other receivables	1,782	7,308	-	-	9,090
Loans and deposits given	239,692	-	-	-	239,692
Available-for-sale financial assets	-	9,217	-	-	9,217
Financial assets at fair value through profit or loss	-	1,840	-	-	1,840
Cash and cash equivalents	70,705	17,823	-	316	88,844
	312,179	36,188	-	316	348,683
Financial liabilities – at amortised cost					
Borrowings	619,522	-	-	-	619,522
Trade and other payables	947	106,761	-	622	108,330
	620,469	106,761	-	622	727,852

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

As at 31 December 2018, if the EUR had weakened/strengthened by 1% (2017: 1%) against the HRK, with all other variables held constant, the net profit for the reporting period would have been HRK 4.008 thousand higher/lower (2017: HRK 2.528 thousand), mainly as a result of foreign exchange losses/gains on translation of EUR-denominated borrowings and bank cash deposits.

(ii) Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2017, the Group reprogrammed its bank borrowings and the newly approved borrowings were contracted at a fixed interest rate. The new debt in 2018 was also contracted at a fixed interest rate.

During 2017, the contract under which the Group had an active derivative cash flow hedging instrument IRSwap - interest rate swap expired. This was used to replace the variable interest rate 3m Libor with CHF fixed interest rate of 1.78% per annum for the entire borrowing term, i.e. until 2017. Also, the EURCHF currency interest rate swap was active in accordance with the above-mentioned conditions for the term of the borrowing.

(iii) Equity securities risk

The Group has no significant exposure to price risk. The Group owns equity securities and is exposed to price risk of listed equity securities, classified as available-for-sale financial assets. The Group is not exposed to commodity price risk (e.g. oil or gold) due to the nature of its operations. The Group invests in securities listed on the Zagreb Stock Exchange (ZSE). Changes in the index at the stock exchange would not significantly affect the financial statements of the Company.

b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that premises are leased to customers with an appropriate credit history. Receivables are mainly secured by advances received and a mortgage over property. Provisions for impairment of trade and other receivables have been made on the basis of credit risk assessment. The Management Board monitors the collectibility of receivables through weekly reports on individual balances of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. Credit risk related to loan receivables is reduced to a minimum. The Group has policies that limit the amount of credit risk exposure to any financial institution.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

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

	2018	2017
	<i>(in thousands of HRK)</i>	
Trade and other receivables	9,867	9,090
Deposits and loans given	777	239,692
Cash and cash equivalents	185,830	88,844
Total	196,474	337,626

The credit quality of financial assets:

	2018	2017
	<i>(in thousands of HRK)</i>	
Neither past due nor impaired	191,123	334,707
Past due but not impaired	5,351	2,919
Impaired	7,592	4,224
Impairment	(7,592)	(4,224)
Total	196,474	337,626

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

	2018	2017
	<i>(in thousands of HRK)</i>	
Trade and other receivables	4,516	6,171
Deposits and loans given		
- Financial institutions	742	239,610
- Other	35	82
	777	239,692
Cash at bank	185,830	88,844
Total	191,123	334,707

Financial institutions comprise domestic banks without a credit rating. However, their foreign parent banks have the following ratings: A, BBB+, BBB (2017: A, BB, BBB) (Standard & Poor's).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

	2018	2017
	<i>(in thousands of HRK)</i>	
Up to 1 month	810	655
1 to 2 months	962	422
2 to 3 months	591	1.034
Over 3 months up to 1 year	2.988	808
	5.351	2.919

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

As at December 31, 2017 and December 31, 2018, the Company has evaluated the application of IFRS 9 for impairment of receivables from customers for expected loan losses and since they do not have material effect on the financial statements, they are not recorded in the business books.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash (Note 24), the availability of funding through an adequate amount of committed credit facilities (Note 28) and the ability to meet all obligations. The Management Board daily monitors available cash resources based on reports on the balance of cash and liabilities.

The table below analyses financial liabilities of the Group according to contracted maturities. The amounts stated below represent undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant, except for borrowings.

<i>In thousands of HRK</i>	Up to 1 year	1-5 years	Over 5 years	Total
At 31 December 2018				
Trade and other payables	101,013	-	-	101,013
Borrowings	100,212	449,898	164,593	714,703
Total liabilities	201,225	449,898	164,593	815,716
At 31 December 2017				
Trade and other payables	108,330	-	-	108,330
Borrowings	100,942	387,440	175,006	663,388
Total liabilities	209,272	387,440	175,006	771,718

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to the owner, return capital to the owner, increase share capital or sell assets to reduce debt. In accordance with the Companies Act, the Group companies are committed to maintain the level of capital above HRK 200 thousand as required for public limited liability companies.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for determining the fair value of financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value of trade receivables less provision for impairment and trade payables are assumed to approximate their fair values.

Quoted market prices for similar instruments are used for long-term debt. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

As at 31 December 2018, total assets carried at fair value in the amount of HRK 11,064 thousand (2017: HRK 11.057 thousand) were allocated into level 1.

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

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

Based on historical information, and in line with the technical department, the useful life of buildings was assessed by Management Board to be 10-25 years. The useful lives of equipment and other assets have also been assessed as disclosed in Note 2.5.

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

If the useful lives of property had been 10% longer, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 15.610 thousand higher (2017: HRK 10.060 thousand higher).

If the useful lives of property had been 10% shorter, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 19.079 thousand lower (2017: HRK 12.295 thousand lower).

(b) Impairment of financial assets

An impairment of financial assets allocated to the business model whose objective is to collect contractual cash flows based on days of a delay. Based on the age structure of receivables, the Management Board makes a decision on impairment on the basis of historical losses and the expected loan losses that may arise due to non-payment. Impairment of financial assets is disclosed in Note 2.8.

(c) Goodwill

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

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

There are no goodwill impairment indicators, taking into account the valuation of the associated company Istraturist Umag for the purpose of the merger, which was carried out by an independent appraiser in May 2017, and taking into account the business results for 2017 and the related units created money after merging in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 5 – SEGMENT INFORMATION

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

The Group records its operations according to the types of services rendered by distinguishing three main reporting segments: hotels and apartments, campsites and other business segments. Other business segments comprise tourist agency services, á la carte services, marina services, rental services, sports (ATP tournament) and recreation services and other similar services. The Group uses internal management reports by activities / products where EBITDA (earnings before taxes, interest and depreciation) is the indicator of business performance.

The segment information provided to the Group's Management Board for the year ended 31 December 2018 is as follows:

<i>(in thousands of HRK)</i>	Hotels & apartments	Campsites	Other business segments	Total
Total sales	816,611	241,015	94,312	1,151,938
Inter-segment revenue	(2,074)	-	(50,546)	(52,620)
Revenue from external customers	814,537	241,015	43,766	1,099,318
EBITDA	307,819	138,913	219	446,951
Depreciation and amortisation (Note 14 and 15)	(154,934)	(34,662)	(22,948)	(212,544)
Income tax				239
Share in profit in the associate				28,413
Total assets	1,912,054	475,406	147,953	2,535,413
Investment in associate				246,491
Total liabilities	28,422	7,971	3,507	39,900

NOTE 5 – SEGMENT INFORMATION (continued)

The segment information for the year ended 31 December 2017 is as follows:

<i>(in thousands of HRK)</i>	Hotels & apartments	Campsites	Other business segments	Total
Total sales	808,160	225,005	98,224	1,131,389
Inter-segment revenue	(3,069)	(162)	(59,196)	(62,427)
Revenue from external customers	805,091	224,843	39,028	1,068,962
EBITDA	298,384	124,887	3,471	426,742
Depreciation and amortisation (Note 14 and 15)	(121,587)	(21,668)	(21,927)	(165,182)
Income tax	-	-	-	(42,991)
Share in profit in the associate				19,032
Total assets	1,724,266	406,743	104,540	2,235,549
Investment in associate				280,467
Total liabilities	47,532	20,395	67,920	135,847

Reconciliation of EBITDA with profit before tax is as follows:

	2018	2017
	<i>(in thousands of HRK)</i>	
EBITDA by segments	446,732	423,271
EBITDA by other segments	219	3471
Total segments	446,951	426,742
Depreciation and amortisation	(212,544)	(165,182)
Share in profit in the associate	28,413	19,032
Interest income	6	16
Dividend income	521	456
Net other income/(expenses)	11,376	(1,774)
Other gains/(losses) – net	8,228	(4,351)
Finance income – net	(6,081)	(6,710)
Profit before tax	276,870	268,229

NOTE 5 – SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Segment assets/liabilities	2,387,460	36,393	2,131,003	67,927
Other segment assets/liabilities	147,953	3,507	104,540	67,920
Unallocated:	548,126	826,150	769,829	691,939
Available-for-sale financial assets	11,064	-	9,217	-
Loans and deposits given	756	-	239,692	-
Financial assets at fair value through profit or loss	-	-	1,840	-
Cash and cash equivalents	185,830	-	88,844	-
Share in associate	246,491	-	280,467	-
Deferred tax assets	345	-	-	-
Other assets	-	-	149,769	-
Provisions	-	4,571	-	3,318
Borrowings	-	670,409	-	619,522
Deferred tax liability	-	10,601	-	10,467
Income tax payable	-	-	-	11,595
Other liabilities	103,640	140,569	-	47,037
Total	3,083,539	866,050	3,005,372	827,786

NOTE 6 – COST OF MATERIALS AND SERVICES

	2018	2017
	<i>(in thousands of HRK)</i>	
Raw materials and supplies		
Raw materials and supplies used	92,272	95,821
Energy and water used	74,050	67,140
Small inventories	9,099	9,166
	<u>175,421</u>	<u>172,127</u>
External services		
Franchise costs /i/	8,764	8,308
Maintenance services	26,215	38,674
Laundry and cleaning services	15,312	12,544
Entertainment and animation	11,413	10,062
Telecommunication and other transport services	4,143	2,991
Marketing	11,028	12,912
Utility services	12,106	11,291
ATP tennis tournament	4,169	4,600
Rental costs (Note 25)	4,466	5,330
Student employment agency and similar services	5,843	7,243
Other services	17,674	20,228
	<u>121,133</u>	<u>134,183</u>
Total	<u>296,554</u>	<u>306,310</u>

/i/ The subsidiary realises business cooperation under the franchise agreement with Melia Hotels International for accommodation facilities-hotels and apartments in Umag.

NOTE 7 – STAFF COSTS

	2018	2017
	<i>(in thousands of HRK)</i>	
Salaries	147,044	148,463
Pension insurance contributions	41,608	40,939
Health insurance contributions	30,113	29,700
Other contributions and taxes on salaries	27,658	22,890
Other staff costs /i/	26,646	17,798
	<u>273,069</u>	<u>259,790</u>
Number of employees as at 31 December	<u>1,618</u>	<u>1,500</u>

/i/ Other rights of employees include reimbursement and transportation costs, non-taxable reimbursement for accommodation and meals, non-taxable income (Christmas bonus, jubilee awards) etc.

NOTE 8 – OTHER OPERATING EXPENSES

	2018	2017
	<i>(in thousands of HRK)</i>	
Utility and similar charges and contributions	43,170	41,104
Write-off of non-current tangible assets	-	13,903
Professional services	12,294	14,059
Provisions for impairment of trade and other receivables	3,969	3,726
Provisions for legal disputes	1,320	547
Reversal of provisions for legal disputes	-	-
Bank charges	2,564	2,277
Insurance premiums	4,181	3,481
Travel and entertainment	1,338	2,930
Other	12,363	8,814
	81,199	90,841

NOTE 9 – OTHER GAINS/LOSSES - NET

	2018	2017
	<i>(in thousands of HRK)</i>	
Change in fair value of derivative instrument	-	(5,957)
Change in fair value of financial asset	-	64
Net gains (losses) on the sale of property, plant and equipment	8,020	1,190
Other gains	208	352
Other gains/losses – net	8,228	(4,351)

NOTE 10 – FINANCE INCOME AND COSTS

	2018	2017
	<i>(in thousands of HRK)</i>	
Finance income		
Interest income from cash deposits	327	2,161
Net foreign exchange gains	4,204	12,411
Other finance income	439	302
	4,970	14,874
Finance costs		
Interest and commission expense	(11,051)	(21,584)
	(11,051)	(21,584)
Finance costs - net	(6,081)	(6,710)

NOTE 11 – INCOME TAX

	2018	2017
	<i>(in thousands of HRK)</i>	
Current income tax charge	(450)	(32,099)
Deferred tax income (Note 18)	211	(10,892)
Income tax	(239)	(42,991)

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

	2018	2017
	<i>(in thousands of HRK)</i>	
Profit before tax	276,870	268,229
Income tax at 18%	49,836	48,281
Effect of non-taxable income	(7,089)	(7,562)
effect of unrecognized tax expense	1,336	-
The effect of the tax incentive /i/	(43,730)	-
Effect of tax loss	96	-
Deferred tax liability recognized in profit and loss	(403)	-
Deferred tax asset	193	2,272
Income tax	239	42,991
Income tax prepayments receivable	29,063	-
Income tax payable	-	11,595
Effective tax rate	0.1%	16.00%

/i/ Company Plava laguna d.d. on the basis of the Investment Incentive Act, announced investment projects for the period from 2017 to 2020 in order to acquire the status of holder of incentive measures. Based on this, the Company used a tax incentive in the amount of HRK 43,730 thousand in 2018, which, based on the calculation of the maximum aid intensity, meets the criteria for the level of investments realized in late 2017 and 2018.

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

To date, the Tax Administration carried out a full scope tax audit of the Company's income tax and VAT returns for 2003, 2004, 2005, 2008, 2013 and 2014. In March 2015, the Company filed an appeal to the second instance body regarding the administrative procedure relating to the tax audit from 2014. In September 2017, a second-instance decision was dismissed, rejecting the appeal, and following an administrative dispute initiated in April 2018, the Administrative Court's judgment dismissed the Company's claim. In accordance with the legal remedy, the Company filed a complaint with the High Court of Appeal.

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares (ordinary and preference) in issue during the year excluding ordinary and preference shares purchased by the Company and held as treasury shares (Note 21).

	2018		
	<i>(in thousands of HRK)</i>		
	Preference shares	Ordinary shares	Total
Dividends declared and paid in the year	37,737	196,710	234,447
Undistributed earnings	6,774	35,409	42,184
Profit for the year attributable to equity holders of the Company	44,511	232,119	276,631
Weighted average number of shares in issue excluding treasury shares	420,000	2,195,426	2,615,426
Distributed earnings	89.85	89.60	
Undistributed earnings	16.13	16.13	
Basic earnings per share (in HRK)	105.98	105.73	
	2017		
	<i>(in thousands of HRK)</i>		
	Preference shares	Ordinary shares	Total
Dividends declared and paid in the year	105	-	105
Undistributed earnings	35,941	183,870	219,811
Profit for the year attributable to equity holders of the Company	36,046	183,870	219,916
Weighted average number of shares in issue excluding treasury shares	105,000	537,176	642,176
Distributed earnings	1	-	
Undistributed earnings	342.29	342.29	
Basic earnings per share (in HRK)	343.29	342.29	

For the purpose of merger implementation, corporate actions have been made to increase the share capital by issuing new shares and dividing the shares. Each regular share and each preferred share is divided into four shares that are denominated without a nominal amount. In the share exchange process, the Company's share capital was increased by issuing 12.500 new ordinary shares that were denominated without a nominal amount, and 34.222 of its own shares were released, so that after the corporate action in question the number of ordinary shares of the Company in circulation was 2,615,426 shares and 420,000 preference shares share.

Diluted earnings per share

Diluted earnings per share for 2017 and 2016 are equal to basic earnings per share, since the Group did not have any convertible instruments or share options outstanding during either years.

NOTE 13 – DIVIDEND PER SHARE

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

Unpaid dividends in respect of 2005 through 2018 of HRK 5,360 thousand are disclosed as dividends payable in “trade and other payables” (Note 24).

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land and buildings	Plant and equipment	Other asset	Assets under construction	Total
At 1 January 2017					
Cost	4,235,605	612,055	182,262	22,726	5,052,648
Accumulated depreciation and impairment	(2,157,769)	(510,086)	(85,929)	-	(2,753,784)
Net book amount	2,077,836	101,969	96,333	22,726	2,298,864
Year ended 31 December 2017					
Opening net book amount	2,077,836	101,969	96,333	22,726	2,298,864
Additions	150,198	35,435	16,543	18,710	220,886
Sale and impairment	(13,822)	(1,261)	(107)	-	(15,190)
Depreciation	(128,029)	(27,804)	(7,745)	-	(163,578)
Closing net book amount	2,086,183	108,339	105,024	41,436	2,340,982
At 31 December 2017					
Cost	4,267,261	586,911	197,544	41,436	5,093,152
Accumulated depreciation and impairment	(2,181,078)	(478,572)	(92,520)	-	(2,752,170)
Net book amount	2,086,183	108,339	105,024	41,436	2,340,982
Year ended 31 December 2018					
Opening net book amount	2,086,183	108,339	105,024	41,436	2,340,982
Transfer	67,684	(39)	(67,645)	-	-
Additions	401,742	45,687	10,613	(18,489)	439,553
Sale and impairment	(2,066)	(452)	-	-	(2,518)
Other movements between accounts	(6,223)	(460)	6,683	-	-
Depreciation	(163,964)	(37,938)	(7,498)	-	(209,400)
Closing net book amount	2,383,356	115,137	47,177	22,947	2,568,617
At 31 December 2018					
Cost	4,784,438	569,437	111,742	22,947	5,488,564
Accumulated depreciation and impairment	(2,401,082)	(454,300)	(64,565)	-	(2,919,947)
Net book amount	2,383,356	115,137	47,177	22,947	2,568,617

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Additions under ‘Land and buildings’ relate to various construction works in hotels and campsites that were completed in 2018 and 2017 respectively.

As at 31 December 2018 the net carrying value of land and buildings pledged by the Group as collateral for repayment of long-term borrowings amounted to HRK 1,242,516 thousand (2017: HRK 554,612 thousand).

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

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Cost	151,718	152,435
Accumulated depreciation at 1 January	(106,491)	(107,305)
Charge for the year	(3,895)	(3,765)
Net book amount	<u>41,332</u>	<u>41,365</u>

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

During 2018, the Group realised rental income in the amount of HRK 40,677 thousand (2017: HRK 38,611 thousand). During the year, there were no direct operating expenses arising from the utilisation of these assets except for the depreciation charge.

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

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	41,076	30,927
From 2 to 5 years	164,304	89,344
	<u>205,380</u>	<u>120,271</u>

NOTE 15 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Software	Goodwill	Asset in preparation	Total
At 31 January 2017				
Cost	25,725	12,480	-	38,205
Accumulated amortisation	(19,183)	-	-	(19,183)
Net book amount	6,542	12,480	-	19,022
Year ended 31 December 2017				
Opening net book amount	6,542	12,480	-	19,022
Additions	3,295	-	24	3,319
Amortisation	(1,604)	-	-	(1,604)
Closing net book value	8,233	12,480	24	20,737
At 31 December 2017				
Cost	28,949	12,480	24	41,453
Accumulated amortisation	(20,716)	-	-	(20,716)
Net book amount	8,233	12,480	24	20,737
Year ended 31 December 2018				
Opening net book amount	8,233	12,480	24	20,737
Additions	2,122	-	(24)	2,098
Amortisation	(3,144)	-	-	(3,144)
Closing net book value	7,211	12,480	-	19,691
At 31 December 2018				
Cost	31,085	12,480	-	43,565
Accumulated amortisation	(23,874)	-	-	(23,874)
Net book amount	7,211	12,480	-	19,691

PLAVA LAGUNA D.D., POREČ**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTE 16 – INVESTMENTS IN ASSOCIATE

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
At the beginning of the year	280,467	261,435
Net gains in associate	28,413	19,032
Dividend received	(62,389)	-
At the end of the year	<u>246,491</u>	<u>280,467</u>

The unlisted associate is as follows:

(in thousands of HRK)

2018					
<u>Name</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>	<u>Profit</u>	<u>% share in ownership</u>
Jadranski luksuzni hoteli d.d., Dubrovnik	1,272,924	550,067	522,313	87,479	32.48
2017					
<u>Name</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>	<u>Profit</u>	<u>% share in ownership</u>
Jadranski luksuzni hoteli d.d., Dubrovnik	1,452,973	625,218	464,739	58,597	32.48

PLAVA LAGUNA D.D., POREČ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 17 – FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME OPTION

	<u>Ownership</u>	<u>31/12/2018</u>	<u>31/12/2017</u>
		<i>(in thousands of HRK)</i>	
Investments in credit institutions	4.46%	8,505	6,346
Investments in companies	/i/	2,559	2,871
		<u>11,064</u>	<u>9,217</u>

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

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Opening balance	9,217	8,041
Effect of sale	1,840	-
Write-off of investments	-	(120)
Revaluation gains	7	1,296
Closing balance	<u>11,064</u>	<u>9,217</u>

Available-for-sale investments are as follows:

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Equity securities		
- listed	11,064	9,217
Closing balance	<u>11,064</u>	<u>9,217</u>

Investments in securities are stated at fair value using quoted prices on the domestic capital market. The Company does not trade with the above investments.

NOTE 18 – DEFERRED TAX ASSETS AND LIABILITIES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Deferred tax assets		
Differences by financial instrument	345	537
	<u>345</u>	<u>537</u>
Deferred tax liability:		
Difference in fair value of assets of acquired subsidiary	(10,601)	(11,004)
	<u>(10,601)</u>	<u>(11,004)</u>
Deferred tax assets/(liability), net	<u>(10,256)</u>	<u>(10,467)</u>

A deferred tax liability is calculated on temporary differences between the tax base of tangible assets in the acquired subsidiary and its fair value in the consolidated financial statements.

Movements in deferred tax assets and liabilities:

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
At 1 January	(10,467)	427
Effect of tax incentives, recognised in profit and loss	-	(9,214)
Effect of temporary tax differences	(192)	(2,138)
Change in deferred tax liability, recognised in statement of comprehensive income	403	458
Deferred tax (liability)/assets, net	<u>(10,256)</u>	<u>(10,467)</u>

NOTE 19 – TRADE AND OTHER RECEIVABLES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	6,727	9,197
Foreign trade receivables	8,975	4,073
Due from brokers – agencies	176	13
Provision for impairment of trade receivables	<u>(7,592)</u>	<u>(4,224)</u>
Trade receivables – net	8,286	9,059
Interest receivable	-	12
Accrued income not yet invoiced	1,581	19
<i>Total financial assets</i>	<u>9,867</u>	<u>9,090</u>
Due from state institutions	747	570
VAT prepayments	5,635	7,649
Advances to suppliers	159	231
Other receivables	698	1,167
Provisions for impairment of other receivables	(8)	-
	<u>17,098</u>	<u>18,707</u>

Movements in provisions for impairment of trade and other receivables.

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
At 1 January	1,008	2,167
Effect of sale	3,207	-
New provisions	3,948	3,713
Collection	(52)	(534)
Write-off	<u>(519)</u>	<u>(1,122)</u>
At 31 December	<u>7,592</u>	<u>4,224</u>

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

NOTE 20 – FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Financial assets		
Shares and interests	-	1,840
Investment funds	-	-
Derivative financial instruments	-	-
Total	<u>-</u>	<u>1,840</u>

Changes in the fair value of financial assets and liabilities measured through profit or loss are disclosed in other losses – net.

NOTE 21 –EQUITY

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

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

/ i / In 2018, the majority shareholder of the Company became the Adriatic Investment Group company registered in Luxembourg (Note 1).

The equity ownership structure as at 31 December 2017 was as follows:

Shareholder	<u>Total number of shares</u>	<u>Total amount (HRK)</u>	<u>Holding in share capital %</u>
Ownership of ordinary shares:			
Sutivan Investments Anstalt, Liechtenstein	462,838	1,128,388,955	84.72
Treasury shares /ii/	9,142	22,287,997	1.67
Other legal entities and natural persons	74,338	181,234,423	13.61
	<u>546,318</u>	<u>1,331,911,375</u>	<u>100.00</u>
Ownership of preference shares:			
Sutivan Investments Anstalt, Liechtenstein	105,000	105,000,000	100.00
Total	<u>105,000</u>	<u>105,000,000</u>	<u>100.00</u>
		<u>1,436,911,375</u>	

PLAVA LAGUNA D.D., POREČ**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018****NOTE 21 – EQUITY (continued)**

/i/ In 2018, the majority shareholder of the Company became the Adriatic Investment Group company registered in Luxembourg, wholly owned by Sutivan Investments Anstalt, Liechtenstein.

Based on the Merger Agreement dated 29 June 2017 and the Decision of the General Assembly of Societies held on 11th of August 2017, the merger was carry out of the company ISTRATURIST UMAG d.d. Umag and company PLAVA LAGUNA d.d. Poreč with the merger effect on January 1, 2018. Following the merger, according to the resolutions of the aforementioned shareholders' meetings, corporate shares were increased by issuing new shares and dividing the share capital. Each regular share and each preferred share is divided into four shares that are denominated without a nominal amount. Also, the Company's share capital was increased from HRK 1.436.911.375,30 to the amount of HRK 7.618.681,88 to HRK 1.444.530.057,18 by issuing 12.500 new ordinary shares that are denominated in a nominal amount, so that after the corporate shares the number of ordinary shares of the Company is 2.197.772 shares and 420.000 preferred shares.

In the process of replacing the shares, the Company, in addition to newly issued shares in the amount of 12.500, also granted 34.222 shares by disposing of their own shares, so that the Company had 2.346 treasury shares outstanding following the implementation of the corporate acquisition and increase of the share capital.

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

By the decision of the General Assembly of the Company, as of 30 August 2018, dividend payment was paid in the amount of HRK 89.60 per ordinary share and HRK 89.85 per eligible share, totaling HRK 234,447 thousand.

NOTE 22 – RESERVES AND RETAINED EARNINGS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Legal reserves	53,021	50,433
Other reserves	72,101	33,542
	<u>125,122</u>	<u>83,975</u>
Changes in reserves:		
Legal reserves /i/		
At the beginning of the year	50,433	46,823
Transfer from retained earnings	2,588	3,610
At the end of the year	<u>53,021</u>	<u>50,433</u>
Other reserves /ii/		
At the beginning of the year	33,542	32,480
Effect of merger	38,554	-
Fair value of financial asset through comprehensive income	5	1,062
At the end of the year	<u>72,101</u>	<u>33,542</u>

NOTE 22 – RESERVES AND RETAINED EARNINGS (continued)

/i/ Legal reserves are formed in accordance with Croatian regulations stipulating that the Company is obliged to enter into the legal reserve twentieth part (5%) of the year's profit until the reserves together with the capital reserves reach the five percent (5%) of the Company's registered capital. This reserve is non-distributable. By a decision of the Assembly of 30 August 2018, the Company has allocated from the current profit the amount of HRK 2,588 thousand in legal reserves. As at 31 December 2018, the legal reserves amounted to HRK 53,021 thousand (2017: HRK 50,433 thousand) or 3.67% of the share capital (2017: 3.51% of the share capital), while the share of legal reserves together with the capital reserves that are not distributable to the amount of HRK 29,572 thousand (2017: HRK 18,824 thousand), which are formed by the denomination of the value of shares in 2001 (from 1.860 to HRK 1,800 per share), representing a share of 5.72% (2017: 4.82% the Company's share capital).

/ii/ As at 31 December 2018, the remaining reserves amount to HRK 72,101 thousand and consist of a capital reserve in the amount of HRK 18,824 thousand (2017: HRK 18,824 thousand), which are increased by HRK 10,748 thousand due to the decrease in the reserves for own shares due to the release of listed shares due to merger. Total capital reserves amount to 29,572 thousands. Also, as a result of the merger, other reserves were generated in the amount of HRK 38,554 thousand. The remainder of the total amount of other reserves constitutes reserves for treasury shares in the amount of HRK 737 thousand and the fair value of financial assets in the amount of HRK 3,238 thousand (2017: 3,233)

Other reserves

	31/12/2018	31/12/2017
	<i>(in thousands of HRK)</i>	
Capital reserves	29,572	18,824
Other reserves	38,554	-
Reserves for treasury shares	737	11,485
Reserves-fair value of financial asset	3,238	3,233
	72,101	33,542

Other reserves	Capital reserve	Other reserve	Reserve for treasury shares	Reserve for fair value of financial asset	Total
Opening balance	18,824	-	11,485	3,233	33,542
Effect of merger	10,748	38,554	(10,748)	-	38,554
Fair value of financial asset	-	-	-	5	5
Total	29,572	38,554	737	3,238	72,101

NOTE 23 – BORROWINGS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Long-term borrowings:		
Bank borrowings	581,046	527,934
	581,046	527,934
Current portion of long-term bank borrowings	88,600	89,747
Accrued interest and fees	763	1,841
	89,363	91,588
Total borrowings	670,409	619,522

Bank borrowings are secured by real estate (note 14). During 2018, the repayment of the first installment loan contracted in 2017 in the amount of HRK 88.678 thousand was made in accordance with the contracts with:

I. Private Bank Zagreb d.d Zagreb to a contracted amount of EUR 60 million with fixed maturity on 28 February 2025.

II. Raiffeisenbank Austria d.d. Zagreb at a contracted amount of EUR 22.2 million with a fixed interest rate of 30 September 2022.

In December 2018, a syndicated loan agreement was concluded with Privredna banka d.d. Zagreb, amounting to EUR 50 million, using two tranches, of which EUR 20 million in 2018 and EUR 30 million in 2019. The loan is contracted at a fixed interest rate, the first repayment installment matures on 30 September 2020. year, with a maturity date of 30 September 2025. years.

The maturity of long-term borrowings is as follows:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
From 1 to 2 years	113,326	89,747
From 2 to 5 years	307,007	269,129
After 5 years	160,713	169,058
	581,046	527,934

PLAVA LAGUNA D.D., POREČ**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTE 23 – BORROWINGS (continued)*Net debt*

The table below presents the net debt of the Company as at 31 December:

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Cash and cash equivalents	185,830	88,844
Bank deposits	777	239,610
Listed shares	11,064	11,057
Borrowings - maturing within 1 year	(89,363)	(91,588)
Borrowings - maturing after 1 year	(581,046)	(527,934)
Net debt	(472,738)	(280,011)
Cash and liquid assets	197,671	339,511
Borrowings - at fixed interest rate	(670,409)	(619,522)
Net debt	(472,738)	(280,011)

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
At 1 January	619,522	741,562
Proceeds from borrowings	148,352	612,203
Repayments of borrowings	(88,678)	(719,356)
Interest paid	(11,992)	(28,065)
Accrued interest	11,051	21,562
Net foreign exchange differences	(7,846)	(8,384)
At 31 December	670,409	619,522

NOTE 24 – TRADE AND OTHER PAYABLES

	31/12/2018	31/12/2017
	<i>(in thousands of HRK)</i>	
Trade payables	42,096	39,604
Dividends payable (Note 13)	5,360	5,362
Accrued costs not yet invoiced	3,295	20,023
Concession payable /ii/	50,262	43,341
<i>Total financial liabilities</i>	<u>101,013</u>	<u>108,330</u>
Net salaries payable	28,425	28,411
Taxes and contributions payable	21,192	19,020
Advances payable	20,778	18,265
Other current liabilities	9,061	8,858
	<u>180,469</u>	<u>182,884</u>

/i/ The concession payable is calculated on the basis of the submitted relevant requirements to the governing authorities for concessions on tourist land in campsites, hotels and tourist resorts in accordance with the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process and the Regulations which elaborate in more detail the manner of complying with the stated Act.

NOTE 25 – CONTINGENT LIABILITIES

Transformation and privatisation audit. On 22 May 2003, the State Audit Office (Regional office in Pazin) issued a Report on the audit of the transformation and privatisation of the state-owned company Plava laguna, Poreč. The Report states that the transformation and privatisation procedure has not entirely been executed in accordance with the law, especially with respect to acquiring ownership over the land by the Company. Subsequently, the Company was sued to determine the ownership of part of the land used by the Company and over which the Company is registered as the owner. On 20 May 2003, the Company expressed an opinion on the State Audit Office's Report.

Up to the date of this report, the legal dispute has not been finalised, i.e. there has been no reply from the State Audit Office on the Company's complaint, so that neither the outcome of this legal dispute or audit findings nor their effect (if any) on the Company's financial or operating position can be reliably anticipated.

The stated problems with respect to land ownership are common in other tourist companies in the Republic of Croatia. On 1 August 2010, the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process, entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures for submitting requests for concessions and other prescribed requests. In the period since the adoption of legal regulations, in the procedures initiated, and in line with requirements of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land, etc. Up to 31 December 2018, the Company settled all liabilities arising from the invoices received, issued by governing authorities on the basis of the provisions of the Regulations.

NOTE 25 – CONTINGENT LIABILITIES (continued)

Court Disputes (NLB Disputes of the Joined Company Istraturist Umag d.d., Umag)

Istraturist Umag d.d., which was on 01 January 2018 merged with Plava laguna d.d. (hereinafter: Company), at the beginning of the 90's with Ljubljanska banka d.d. contracted loans and other financial arrangements of approximate value of DEM 31 million (approximately EUR 16 million), which, due to the business difficulties related to war events, failed to return.

In accordance with the relevant regulations that determine resolution of deposits of Croatian savings banks with banks headquartered outside the Republic of Croatia, Zagrebačka banka d.d. retained part of its claims towards Ljubljanska banka d.d., titled "foreign currency savings", amounting to DEM 31 million, and then sold them to its client Istraturist Umag d.d. Umag, in return for the share in the Company's share capital. After having acquired the respective receivables against Ljubljanska banka d.d. in the amount of DEM 31 million, The Company set them off with its financial obligations towards Ljubljanska banka d.d. in the same amount.

After the set off the Republic of Slovenia established Nova Ljubljanska Banka d.d. by a special constitutional law, to which the allotment of all claims but not the obligations of Ljubljanska banka were transferred, excluding from the transfer also the obligations of Ljubljanska Banka to Istraturist Umag d.d.

Nova Ljubljanska banka d.d. in the period between 1994 and 1998, filed two lawsuits against the Company before a Court in the Republic of Slovenia, requesting the payment of an amount of DEM 31 million in interest (Pg 16/2005 and Pg 117/05). Both disputes were finalized in favor of the Nova Ljubljanska Banka and the Nova Ljubljanska Banka initiated proceedings before the Commercial Court in Pazin for recognition of the effects of the aforementioned verdicts in the Republic of Croatia with the aim to conduct enforcement against the Company. In both proceedings, the Company filed objections rejecting completely the statements of Nova Ljubljanska Banka, note that in one of the proceedings (and the Company expects similar decisions and other recognition procedures) recognition was delayed until the completion of proceedings at the Commercial Court in Zagreb (below). The key reasons for the Company's complaint are:

- (i) the Slovenian rulings in the Republic of Croatia would be contrary to the legal order of the Republic of Croatia not only because of the (unlawful) calculation of interest rates but also because of the dispute over the validity of the set off;
- (ii) in the Republic of Croatia there is an ongoing process in which the Company disputes the existence of the claim of Nova Ljubljanska Banka

In addition to the ones in the Republic of Slovenia, Nova Ljubljanska Banka also initiated court enforcement proceedings in the Republic of Croatia: proceedings before the Buje Municipal Court for settlement of the mortgage claim (Ovr 436/00); proceedings before the Commercial Court in Rijeka for settlement of credit claims (P-89/10).

On the other hand, the Company protects its rights, arguing that the abovementioned set off was completely lawful and valid and that the mutual claims were completely terminated and that the transfer of the right to a universal legal successor without the simultaneous transfer of obligations is contrary to Croatian legal system, i.e. before the following Croatian courts: the Municipal Court in Buje, aiming to declare that the above-mentioned enforcement order Ovr 436/00 is inadmissible and to declare the termination of the related pledges (P-585/06 and P-246/03), and before the Commercial Court in Zagreb aiming to declare that no claim by Nova Ljubljanska Banka and its predecessor Ljubljanska Banka

NOTE 25 – CONTINGENT LIABILITIES (continued)

towards the Company exists on any legal basis - financial contracts concluded between the Company and LJB in period from 1989 to 1991 (P – 3502/13). In October 2014, the Supreme Court of the Republic of Croatia, in the process initiated by the enforcement motion of Nova Ljubljanska Banka before the Commercial Court in Rijeka (P-89/10 - see above), rejected the revision of the Nova Ljubljanska Banka and confirmed all the lower court judgments. Therefore, in that proceeding the Supreme Court of the Republic of Croatia, as the highest Croatian court of appeal, confirmed that the set off issued by the Company, when it comes to respective loans in this judgment, was entirely valid and lawful. This judgment has the effect of legal precedent in the proceedings conducted in the Republic of Croatia and which, in the understanding of the Company and its legal advisers, should have had an important influence on the further development of all the above procedures, i.e. final decision-making in favor of the Company.

Although in February 2016 the Company received the Findings and Opinion of the expert from which it is apparent that the Company completely settled all its obligations to the Ljubljanska Banka or Nova Ljubljanska Banka by set off, the Commercial Court in Zagreb in the proceeding registered under court file No P-3502/13 in March 2017, by a non-final verdict, partially rejected the Company's claim directed to determine that there were no obligations of the Company towards Ljubljanska banka or Nova Ljubljanska banka. Against this judgment, the Company filed an appeal for serious procedural breaches and violations in applying the material law that were, as per the Company's understanding, committed by the first instance court. In December 2017, the High Commercial Court, by adjudicating in the appeal, rendered the verdict by which the case was returned to trial, ordering to perform the evidence by hearing the expert as a witness, and by taking a clear and binding legal position for the first instance court that the set off of the receivables was valid, thus eliminating the doubts whether the Company could have obtained claims from Zagrebačka banka d.d. and then to set them off with the debt towards Ljubljanska banka d.d.. Nova Ljubljanska banka filed a revision to the Supreme Court of the Republic of Croatia against the decision of the High Commercial Court, whereupon until the date of the compilation of this Note the Company did not receive a court decision.

Following the final verdicts in Slovenia, during 2017 and early 2018, the Company received documents proving that Nova Ljubljanska banka initiated procedures for the recognition and enforcement of Slovenian judgments in the Republic of Slovenia, the Republic of Austria, the Czech Republic and the Kingdom of the Netherlands during 2017 on the debtor's debtors, i.e. tourist agencies. In relation to these procedures, the Company has engaged lawyers and exploits all available legal remedies for the purpose of suspending such proceedings, none of which until the date of issuance of this report has been finalized. The exception are the recognition and enforcement proceedings in the Kingdom of the Netherlands which were finally terminated in favor of the Company, by which the High Court, following comprehensive objections and arguments of the Company, overturned the lower court's decision, which previously confirmed the enforceability of the Slovenian verdict and the execution of the same. At the same time, based on the established business model in relations with foreign travel agencies, taking into consideration Zagrebačka banka d.d. Zagreb guarantees in relation to Plava laguna d.d. Poreč as well, the Company undisturbedly manages and fully controls the business segment of sales, and the Management estimates that the proceedings initiated by Nova Ljubljanska banka will not have a negative impact on the business and achievement of the Company's goals.

Provisions for other contingent liabilities. In the financial statements for the period ended 31 December 2018, the Company has provisions for other contingent liabilities in the amount of HRK 4.571 thousand (2017: HRK 2.131 thousand)

NOTE 25 – CONTINGENT LIABILITIES (continued)

Capital commitments. Future commitments contracted for investments in tourist facilities, for which provisions were not made, as at 31 December 2018 amounted to HRK 54 million (2017: HRK 340 million).

Operating lease commitments – where the Group is the lessee (Note 6). The future aggregate operating lease payments are as follows:

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	550	1,018
From 2 to 5 years	911	702
	<u>1.461</u>	<u>1,720</u>

The lease terms are between 1 and 5 years and the majority of the lease contracts for land and business premises is renewable at the end of the lease term at market prices.

NOTE 26 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Profit before tax	276,870	268,229
Adjustments for:		
Depreciation and amortisation (Notes 14, 15)	212,544	165,182
Impairment of property, plant and equipment	-	14,526
Provision for impairment of trade and other receivables and loans, net	1,437	3,304
Provisions for legal disputes, net	1,253	995
Dividend income	(522)	(375)
Other gains – net	(8,228)	4,351
Net finance costs (Note 10)	6,081	6,710
Profit of associate	(28,413)	(19,032)
Other non-cash items	126	(5)
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade and other receivables	375	1,637
- inventories	323	138
- trade and other payables	(2,413)	24,975
Cash generated from operations	<u>459,433</u>	<u>470,635</u>

NOTE 27 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if a party has the ability to control another party or is under joint control or has a significant influence on the other party when making a financial or business decision. The Company considers that it is directly related to its owner and their subsidiaries, their affiliated and associated companies and other companies under the control of the Vallum Foundation, Vaduz, Liechtenstein, then members of the Supervisory Board, Management Board members, close family members of the Management Board, jointly controlled companies, companies under significant influence of key management and their immediate families, according to the definition stated in International Accounting Standard 24 "Disclosure of Related Parties" (IAS 24).

On January 10, 2018, a change of majority shareholder of the Company was made to the CDCC, in the manner that the company Adriatic Investment Group registered in Luxembourg registered as a holder of 84.24% of ordinary shares and 100% of preferential shares of the Company instead of the former Sutivan Investments Anstalt. The ultimate control company remained unchanged.

The ultimate control company is the Vallum Foundation, registered in Vaduz, Liechtenstein

In the ordinary course of business, the Company enters into transactions with related parties. Related parties are subsidiaries, the majority owner, ultimate owner and companies under the common control of the ultimate owner. These transactions were carried out under commercial terms and conditions and at market rates.

Transactions with the majority shareholder of the parent company:

During 2018, pursuant to the Decision of the General Assembly of the Company, a dividend was paid to the majority shareholding company in the gross amount of HRK 203,618 thousand.

Also, the transaction with the majority shareholder was realized in the amount of HRK 2 thousand, based on the provided accommodation service.

During 2018, the Company Plava Laguna d.d. received a dividend from the Associated Company in the amount of HRK 62,390 thousand.

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

Group key management and Supervisory Board compensation

<i>(in thousands of HRK)</i>	2018	2017
Net salaries	10,788	13,256
Pension insurance contributions	2,677	3,576
Health insurance contributions	2,674	3,238
Other costs (contribution and taxes)	4,751	5,231
	20,890	25,301
Supervisory Board compensation	627	1,056
Total	21,517	26,357

Key management comprises 24 persons (2017: 41 persons). The Supervisory Board comprises 5 members.

PLAVA LAGUNA D.D., POREČ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 28 – MERGER

/i/ Merger

In line with the Merger Agreement concluded on 29 June 2017 between Istraturist Umag d.d., Umag, as the merged company, and Plava laguna d.d. Poreč, as the acquiring company, and the decision of the General Assembly from 11 August 2017, at 29 December 2017 the Commercial Court in Pazin adopted the Decision based on which the stated merger was entered into the court register. The effects of the merger are effective as of 1 January 2018. Since the merger applies to companies under common control of Vallum Foundation, Vaduz, the effect of the merger in the amount of HRK 273,121 thousand will be recognised in capital and reserves.

The effect of the merger on the balance sheet of the Company is as follows:

	Effect of merger
	<i>(in thousands of HRK)</i>
<i>Increase:</i>	
Property, plant and equipment	1,383,997
Intangible assets	18,001
Investments in subsidiaries and associate	37
Inventories	2,273
Trade and other receivables	11,892
Loans and deposits	86
Financial assets at fair value through profit or loss	1,840
Cash and cash equivalents	50,258
Borrowings	(176,863)
Provisions for other liabilities and expenses	(3,126)
Trade and other payables	(63,024)
Deferred tax liability	(10,659)
Income tax payable	(7,785)
<i>Decrease:</i>	
Elimination of carrying amount of the investments in subsidiary	(933,807)
Difference recognised in capital and reserves	273,121

NOTE 29 – EVENTS AFTER THE BALANCE SHEET DATE

After the business year, there were no significant business events that could affect the business results of 2018.

PLAVA LAGUNA D.D., POREČ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 30- APPROVAL OF FINACIAL STATEMENTS

The financial statements were approved by the Management Board and approved for their issuance of 26 April 2019.

For and in the name of Management Board:

Neven Staver
President

Marco Antonio Buzolic Buzolic
Member

Damir Mendica
Member

Dragan Pujas
Member

Danira Rančić
Member