PLAVA LAGUNA d.d., POREČ

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2017

STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES

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

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

The Management Board is responsible for submitting the Company's Annual Report, including the Company's annual financial statements, to the Supervisory Board. The Management Board and the Supervisory Board then jointly propose to the General Assembly to issue a decision on profit distribution.

The financial statements were approved by the Management Board on 27 April 2018 and are signed below to signify this.

The Management Board of Plava laguna d.d.:

Neven Staver President	Ronald Korotaj Member	Damir Mendica Member
Dragan Pujas Member	Danira Renčić Member	

Independent Auditor's Report

To the Shareholders and Management Board of Plava laguna d.d.:

Report on the audit of the separate financial statements

Our opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of Plava laguna d.d. (the Company) as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Company's separate financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2017;
- the balance sheet as at 31 December 2017;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that we have not provided to the Company non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Company in the period from 1 January 2017 through 31 December 2017.

Emphasis of matter

We draw attention to Note 21 to these financial statements that describes the Company's contingencies with respect to ownership of land not evaluated in the transformation and privatisation process. Problems with respect to land ownership disputes are common for the majority of tourism companies in the Republic of Croatia. Their resolution is expected in the future upon completion of the process of obtaining concessions and establishing ownership rights in accordance with and pursuant to the provisions of the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, which entered into force on 1 August 2010. Our opinion is not qualified in this respect.

Our audit approach

Overview

Materiality	• Overall materiality for separate financial statements as a whole: HRK 10 million, which represents 8% of profit before tax.
Key audit matters	• Estimated useful life of property, plant and equipment and impairment indicators

We designed our audit by determining materiality and assessing the risks of material misstatement in the separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate financial statements as a whole.

Overall materiality for separate financial statements as a whole	HRK 10 million
How we determined it	8% of profit before tax
Rationale for the materiality benchmark applied	We consider profit before tax to be the key metric in the industry of the Company, and it is the benchmark against which the performance of the Company is most commonly measured by shareholders.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Estimated useful life of property, plant and equipment and impairment indicators *See Note 2.6 to the financial statements entitled "Property, Plant and Equipment" (Accounting policies), Note 4 (Key accounting estimates) and Note 13.* At the balance sheet date, the Company recorded property, plant and equipment in the amount of HRK 956,414 thousand (2016: HRK 956,345 thousand) at cost less accumulated depreciation and impairment, if any. Management assesses annually whether there are any circumstances due to which the estimated useful lives of property, plant and equipment should change compared to those previously determined and whether there are any impairment indicators. We focused on this area due to possible significant effects on the financial statements if the circumstances affecting the estimation of useful life and/or impairment indicators are not identified on time.	We have obtained and gained an understanding of the accounting policies of Management in relation to the measurement of property, plant and equipment. We have verified that at the time of the disposal of the assets their net book value is not significant. We have compared the value of fully depreciated assets that are still in use with total assets. We have also discussed with Management the frequency of adaptation and reconstruction of assets to confirm that it is in line with the estimated useful life. We have considered the data available from the Central Bureau of Statistics and the Ministry of Tourism on market trends, the results of the tourist season and announcements for the coming season, as well as changes in laws that have a direct impact on the Company's business. We have also reviewed the Company's internal reports, which present an overview of the realised financial result by profit units, i.e. hotels, tourist resorts, campsites, apartments and marinas. For each profit unit, we have compared the operating revenues generated in 2017 with the budget and revenues realised in 2016. We have determined that the earnings before tax, interest, depreciation and amortisation (EBITDA) realised in 2017 is positive, and we have compared it with the budget and EBITDA realised in 2016. We have compared the EBITDA margin realised in 2017 with the budget and with year 2016. We agree with the Management's estimate that, on the basis of available information, there are no circumstances that significantly affect the estimation of the useful life of property, plant and equipment and the impairment indicators of assets. We also believe that the disclosures in Notes 2.6, 4 and 13 are appropriate.

Reporting on other information including the Management Report of the Company

Management is responsible for the other information. The other information comprises the Annual Report of the Company, which includes the Management Report and Corporate Governance Statement (but does not include the financial statements and our independent auditor's report thereon). The Management Report and Corporate Governance Statement are expected to be made available to us after the date of this independent auditor's report.

Our opinion on the financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

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

With respect to the Management Report and Corporate Governance Statement, we will also perform procedures required by the Accounting Act in Croatia, when they become available to us. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Responsibilities of management and those charged with governance for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the separate 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 independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 could be identified during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Company for uninterrupted period of over than 14 years. Our appointment has been renewed annually by shareholder resolution, with the last renewal by the General Assembly as of 11 August 2017.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Marija Mihaljević.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
27 April 2018

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**2017**	**2016**
Sale of services	5	575,272	529,957
Other income		1,736	3,515
Cost of materials and services	6	(163,548)	(146,463)
Staff costs	7	(130,789)	(124,215)
Depreciation and amortisation		(95,047)	(96,464)
Other operating expenses	8	(53,250)	(33,101)
Other gains – net		474	468
Operating profit		**134,848**	**133,697**
Finance income	9	5,932	8,163
Finance costs	9	(12,476)	(28,202)
Finance income/(costs) – net	9	(6,544)	(20,039)
Profit before tax		**128,304**	**113,657**
Income tax	10	(22,875)	(12,940)
Profit for the year		**105,429**	**100,717**
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets	18	1,062	821
Total comprehensive income for the year		**106,491**	**101,538**
Basic and diluted earnings per share (in HRK):			
- ordinary shares	11	164.01	156.67
- preference shares		165.01	157.67

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

PLAVA LAGUNA d.d., POREČ

BALANCE SHEET

AS AT 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**31 December 2017**	**31 December 2016**
ASSETS			
Non-current assets			
Property, plant and equipment	13	956,414	956,345
Intangible assets		2,567	540
Investments in subsidiaries and associate	14	1,124,615	1,123,781
Available-for-sale financial assets	15	9,217	8,041
		2,092,813	2.088.707
Current assets			
Inventories		2,499	2,574
Trade and other receivables	16	6,011	8,636
Income tax prepayments receivable	10	-	3,282
Bank deposits		239,610	152,063
Cash and cash equivalents		27,514	3,891
		275,634	170.446
Total assets		**2,368,447**	**2,259,153**
EQUITY			
Capital and reserves			
Share capital	17	1,436,911	1,385,151
Capital reserves	17	10,803	9,937
Treasury shares	17	(22,288)	(21,422)
Reserves	18	83,975	79,303
Retained earnings		288,468	238,514
Total equity		1,797,869	1,691,483
LIABILITIES			
Non-current liabilities			
Borrowings	19	394,467	434,573
Provisions for other liabilities and expenses		192	-
		394,659	434,573
Current liabilities			
Current portion of borrowings	19	58,193	35,237
Trade and other payables	20	114,397	97,860
Income tax payable		3,329	-
		175,919	133,097
Total liabilities		570,578	567,670
Total equity and liabilities		**2,368,447**	**2,259,153**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	Note	Share capital	Capital reserves	Treasury shares	Reserves	Retained earnings	Total
At 1 January 2016		**1,347,327**	**9,304**	**(20,789)**	**75,089**	**179,119**	**1,590,050**
Profit for the year		-	-	-	-	100,717	100,717
Other comprehensive income		-	-	-	821	-	821
Total comprehensive income for 2016		-	-	-	821	100,717	101,538
Share capital increase	17	37,824	633	(633)	-	(37,824)	-
Distribution of profit from 2015		-		-	3,393	(3,393)	-
Dividend relating to 2015	11	-	-	-	-	(105)	(105)
Total transactions with owners of the Company, recognised in equity		37,824	633	(633)	3,393	(41,322)	(105)
At 1 January 2017		**1,385,151**	**9,937**	**(21,422)**	**79,303**	**238,514**	**1,691,483**
Profit for the year		-	-	-	-	105,429	105,429
Other comprehensive income		-	-	-	1,062	-	1,062
Total comprehensive income for 2017		-	-	-	1,062	105,429	106,491
Share capital increase	17	51,760	866	(866)	-	(51,760)	-
Distribution of profit from 2016		-	-	-	3,610	(3,610)	-
Dividend relating to 2016	11	-	-	-	-	(105)	(105)
Total transactions with owners of the Company, recognised in equity		51,760	866	(866)	4,672	49,954	106,386
At 31 December 2017		**1,436,911**	**10,803**	**(22,288)**	**83,975**	**288,468**	**1,797,869**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts expressed in thousands of HRK)	Note	2017	2016
Profit before tax		**128,304**	**113,657**
Adjustments for:			
Depreciation and amortisation		95,047	96,464
Provision for impairment of receivables - net	8	739	(1,235)
Tangible assets written off		13,903	-
Provisions for legal disputes - net	8	192	(387)
Dividend income		(375)	(157)
Other gains – net		(473)	(420)
Interest income	9	(693)	(1,524)
Interest expense	9	12,476	28,202
Finance income and costs - other	9	(5,239)	(6,639)
Other adjustments		-	(205)
Changes in working capital:			
Trade and other receivables		2,106	(959)
Inventories		74	(187)
Trade and other payables		16,663	11,926
Cash flow from operating activities		**262,724**	**238,536**
Interest and fees paid	19	(17,395)	(29,028)
Income tax paid		(16,264)	(5,240)
Net cash flow from operating activities		**229,065**	**204,268**
Cash flows from investing activities			
Purchase of intangible assets		(2,343)	(81)
Purchase of tangible assets	13	(108,607)	(54,727)
Purchase of shares from minority shareholders	14	(834)	(16,918)
Acquisition of available-for-sale financial assets		-	(38)
Proceeds from sale of tangible assets		138	83
Deposits given		(85,480)	7,667
Dividend received		375	157
Interest received		693	1,527
Net cash used in investing activities		**(196,058)**	**(62,330)**
Cash flows from financing activities			
Proceeds from loans and borrowings	19	445,355	-
Repayment of borrowings	19	(454,634)	(141,698)
Dividends paid		(105)	(105)
Net cash used in financing activities		**(9,384)**	**(141,803)**
Net increase in cash and cash equivalents		**23,623**	**135**
Cash and cash equivalents at beginning of year		3,891	3,756
Cash and cash equivalents at end of year		27,514	3,891

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

NOTE 1 – GENERAL INFORMATION

Plava laguna d.d., Poreč (the Company), a public limited liability company for hospitality and tourism, is incorporated in the Republic of Croatia. The Company's principal activities are hotel and hospitality services. In accordance with the laws of the Republic of Croatia and with the approval of the Croatian Privatisation Fund, the Company was transformed from a state-owned into a public limited liability company in 1993. The Company is registered at the Commercial Court in Pazin.

The majority owner of the Company as at 31 December 2017 was Sutivan Investments Anstalt, Vaduz (registered in Liechtenstein), and the ultimate parent company and controlling party is Vallum Foundation, registered in Vaduz, Liechtenstein. Since 11 January 2018, the majority owner of the Company is Adriatic Investment Group with its registered office in the Grand Duchy of Luxembourg, which is wholly owned by Sutivan Investment Anstalt, Vaduz.

The Company’s registered address is in Poreč, Rade Končara 12, Croatia.

Balance at 31 December 2017 and 2016, the Company’s shares were listed on the regular public limited liability company listing on the Zagreb Stock Exchange.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The Company’s financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with International Financial Reporting Standards as endorsed by the EU (IFRS) requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The Company also prepares consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group). In the consolidated financial statements, subsidiaries - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2017 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

The Company has adopted the following new and amended standards for their annual reporting period commencing 1 January 2017 which were endorsed by the European Union and which are relevant for the Company's financial statements:

- *Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12*
- *Disclosure Initiative – Amendments to IAS 7*

The adoption of these amendments has required additional disclosure of changes in liabilities arising from financing activities (Note 19), and did not have any impact on the current period or any prior period and is not likely to affect future periods

(b) Standards and interpretations not yet effective:

Certain new standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below:

- *IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

  IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new model for impairment of financial assets.

  The Company does not expect the new guidance to affect the classification and measurement of these financial assets. The Company may choose to reclassify the equity instruments currently classified as available for sale as financial assets at fair value in other comprehensive income.

  There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement have not been changed.

  The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, and loan commitments. Based on the estimates undertaken to date, the Company does not expect a significant increase in the loss on impairment of trade receivables.

  The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

  This standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRS 15 Revenue from contracts with customers and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

  The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

  The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

  The application of IFRS 15 may further result in the idenfitication of separate performance obligations which could affect the timing of the recognition of revenue going forward.

  This standard must be applied for financial years commencing on or after 1 January 2018. The Company intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. Management has assessed the effects of applying the new standard on the Company's financial statements and does not expect any significant impact..

- *IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, early adoption is permitted only if IFRS 15 is adopted at the same time)*

  IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

  Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  The standard will affect primarily the accounting for the Company's operating leases. As at the reporting date, the Company has no non-cancellable operating lease commitments (Note 21). The Company estimates that the effect of the new standard will not have a significant effect on the financial statements, it will make more detailed assessments of the impact over the next twelve months. The Company plans to adopt this standard on its effective date. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Investments in subsidiaries

Subsidiaries are those entities in which Plava laguna d.d., directly or indirectly, has an interest of more than one half of the voting rights or otherwise has control over its operations. The Company's subsidiaries are disclosed in Note 17 and are accounted for at cost. The Company does not control any other enterprises.

2.3 Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are carried at cost.

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates 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 income/(costs) – net'. All other foreign exchange losses and gains are recorded in the statement of comprehensive income within 'other gains – net'.

2.5 Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group responsible for allocating resources and assessing performance of the operating segments of a company. The Company determined the Management Board as the chief operating decision-maker for business segments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment

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

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

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 Company 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 Company 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 2.8). Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income within 'other gains – net'.

2.7 Intangible assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 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 (11 hotels, 2 tourist resorts, 2 apartment resorts, 4 campsites, 2 marinas as cash-generating units). Non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Management Board determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade, deposit, loan and other receivables and cash and cash equivalents.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Management Board intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value.

2.9.2 Measurement and recognition

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Loans, deposits and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the statement of comprehensive income, and other changes in carrying amount are recognised in other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

2.9.2 Measurement and recognition (continued)

Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income in 'gains and losses on investment securities' within 'other gains - net'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income within other income.

Dividends on available-for-sale securities are recognised in the statement of comprehensive income within other income when the right to receive payment is established.

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivables are impaired. The amount of the provision is the difference between the receivable's carrying amount and recoverable amount, being the present value of estimated future cash flows discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income within 'other operating expenses'. Subsequent recoveries of amounts previously written off are credited against 'other operating expenses' in the statement of comprehensive income as a deductive item.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of financial assets (continued)

(b) Assets classified as available for sale

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income – is removed from equity and recognised in the income statement. Impairment losses which are recognised in the income statement for equity instruments are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income and recorded within ‘other gains-net’.

2.11 Derivative financial instruments

Derivative financial instruments, including foreign exchange forward contracts for the purpose of cash flow hedging, are initially recognised in the balance sheet at cost and subsequently measured at fair value. Gains and losses arising from the forecast transaction are recognised in the statement of comprehensive income in the period in which the effect of the forecast transaction is reflected in the statement of comprehensive income.

2.12 Leases

Leases where the significant portion of risks and rewards of ownership are retained by the Company are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company retains 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 the 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 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.

2.14 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.

2.15 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 selling expenses. Small inventory and tools are fully written off when put into use.

2.16 Share capital

Ordinary and preference shares are classified as equity. Preference shares bear a fixed dividend of HRK 1.00 per share per annum, 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.

2.17 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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.

2.19 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% (2016: 20%) 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 (tax loss). Deferred tax assets and liabilities are measured using tax rates and in accordance with the 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.20 Employee benefits

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits (continued)

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

2.21 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax 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.

2.22 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 Company’s activities. Revenue is shown net of value added tax.

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

(a) Sales of services

Revenues from hotel and tourism services are recognised when the services are provided.

Revenue from fixed-price contracts for services is generally recognised in the period the services are provided. Revenue from individual guests who pay by credit cards – commission is recognised as a decrease in income.

(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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue recognition (continued)

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash inflow 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.

2.23 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.

2.24 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.

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

The accounting policies are applied to financial instruments as follows:

- *Assets*

(in thousands of HRK):	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
31 December 2017			
Investments in shares of domestic companies	-	9,217	9,217
Trade and other receivables	1,874	-	1,874
Deposits and loans given	239,610	-	239,610
Cash and cash equivalents	27,514	-	27,514
Total	**268,998**	**9,217**	**278,215**
31 December 2016			
Investments in shares of domestic companies	-	8,041	8,041
Trade and other receivables	4,308	-	4,308
Deposits and loans given	152,063	-	152,063
Cash and cash equivalents	3,891	-	3,891
Total	**160,262**	**8,041**	**168,303**

- *Liabilities - at amortised cost*

	2017	**2016**
	(in thousands of HRK):	
Borrowings	452,660	469,810
Trade and other payables	65,515	52,362
	518,175	**522,172**

(a) Market risk

(i) Foreign exchange risk
The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The majority of foreign sales revenue, cash deposits and borrowings are denominated in Euro. 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 flow. The Company uses derivative instruments on an occasional basis.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2017 and 2016, the currency structure of the Company's financial instruments within the scope of IAS 39 is as follows:

2017	**EUR**	**HRK**	**Other**	**Total**
Financial assets				
Trade and other receivables	918	956	-	1,874
Loans and deposits given	239,610	-	-	239,610
Available-for-sale financial assets	-	9,217	-	9,217
Cash and cash equivalents	23,750	3,448	316	27,514
	264,278	**13,621**	**316**	**278,215**
Financial liabilities – at amortised cost				
Borrowings	452,660	-	-	452,660
Trade and other payables	260	64,832	423	65,515
	452,920	**64,832**	**423**	**518,175**
2016				
Financial assets				
Trade and other receivables	808	3,479	21	4,308
Loans and deposits given	152,063	-	-	152,063
Available-for-sale financial assets	-	8,041	-	8,041
Cash and cash equivalents	713	2,764	414	3,891
	153,584	**14,284**	**435**	**168,303**
Financial liabilities – at amortised cost				
Borrowings	469,810	-	-	469,810
Trade and other payables	1,395	50,885	82	52,362
	471.205	**50,885**	**82**	**522.172**

As at 31 December 2017, if the EUR had weakened/strengthened by 1% (2016: 1%) against the HRK, with all other variables held constant, the net profit for the reporting period would have been HRK 1,547 thousand higher/lower (2016: HRK 2,541 thousand higher/lower), mainly as a result of foreign exchange losses/gains on translation of EUR-denominated borrowings and bank deposits.

(ii) Cash flow and fair value interest rate risk

The Company has interest-bearing assets and it has borrowings from which it generates interest expense. The Company's net result and operating cash flows are dependent on changes in market interest rates since bank deposits are contracted at variable interest rates. Borrowings from the bank were contracted at fixed interest rates and expose the Company to fair value interest rate risk

The Company does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

The carrying amount of borrowings approximates their fair values due to the amount of their contractual interest rates and maturities.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Price risk

The Company has no significant exposure to price risk. The Company owns equity securities and is exposed to price risk of listed equity securities, classified as available-for-sale financial assets. The Company is not exposed to commodity price risk (e.g. oil or gold) due to the nature of its operations. The Company 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 Company has no significant concentrations of credit risk. Credit risk arises from cash, time deposits and trade receivables.

The maximum exposure to credit risk at the reporting date arises from financial assets classified as loans and receivables in accordance with IAS 39 and is equal to the carrying value of each item, as follows:

	2017	**2016**
	(in thousands of HRK):	
Trade and other receivables	1,874	4,308
Deposits and loans given	239,610	152,063
Cash and cash equivalents	27,514	3,891
Total	**268,998**	**160,262**

The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Company's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Receivables are mainly secured by advances received and mortgages over property in the business premises lease segment. The provisions for impairment of trade, loan and other receivables have been made based on credit risk assessment. The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. The Company has policies that limit the amount of credit risk exposure to any financial institution. Cash transactions are carried out through high quality Croatian banks. The Company has only short-term highly liquid instruments with maturity periods of 3 to 12 months.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The credit quality of financial assets:

	2017	2016
	(in thousands of HRK):	
Neither past due nor impaired	267,650	159,350
Past due but not impaired	1,348	912
Impaired	953	1,295
Impairment	(953)	(1,295)
	268,998	**160,262**

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

	2017	2016
	(in thousands of HRK):	
Trade and other receivables	526	3,396
Deposits given – financial institutions	239,610	152,063
Cash at bank	27,514	3,891
	267,650	**159,350**

None of the financial assets that are fully recoverable has been renegotiated in the last year.

Financial institutions comprise domestic banks without a credit rating. However, their foreign parent banks have the following ratings: A, BB, BBB (2016: BBB-, BBB+) (S&P).

As at 31 December 2017, trade receivables were past due but not impaired. The ageing analysis of these receivables is as follows:

	2017	2016
	(in thousands of HRK):	
Up to 1 month	342	320
1 to 2 months	114	44
2 to 3 months	84	54
Over 3 months up to 1 year	808	494
	1,348	**912**

Receivables are mainly secured by advances received.

Impaired receivables relate to trade receivables in the amount of HRK 953 thousand (2016: HRK 1,295 thousand). The majority of impaired trade receivables is disputed. Both the outcome of the proceedings related to receivables under litigation or the extent to which they will be collected cannot be anticipated with certainty.

The carrying amounts of trade and other receivables approximate their fair value.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Company aims to maintain flexibility in funding by keeping committed credit lines available. The Management Board monitors available cash resources based on reports on the balance of cash and liabilities on a daily basis.

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

	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
		(in thousands of HRK)		
At 31 December 2017				
Borrowings	65,143	249,585	175,006	489,734
Trade payables	65,515	-	-	65,515
Total liabilities	**130,658**	**249,585**	**175,006**	**555,249**
At 31 December 2016				
Borrowings	51,682	321,407	194,264	567,353
Trade payables	52,362	-	-	52,362
Total liabilities	**104,044**	**321,407**	**194,264**	**619.715**

3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Company 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 Company is 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 Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

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

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 Company'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 2017, assets carried at fair value in the amount of HRK 9,217 thousand (2016: HRK 7,921 thousand) were allocated into level 1.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

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

By using a certain asset, the Company uses the economic benefits contained in this asset, which diminish more intensely with economic and technological ageing. Consequently, in the process of determining the useful life of an asset, in addition to assessing the expected physical utilisation, it is necessary to consider the changes in demand on the tourist market, which will cause a faster economic obsolescence as well as a more intense development of new technologies. Current business operations in the hotel industry impose the need for more frequent investments, and this circumstance contributes to the fact that the useful life of an asset is decreasing. 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 reassessed as disclosed in Note 2.6.

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

If the useful lives of property, plant and equipment 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 7,062 thousand higher (2016: HRK 6,992 thousand higher).

If the useful lives of property, plant and equipment 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 8,631 thousand lower (2016: HRK 8,546 thousand lower).

(b) Ownership over land

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 2017, the Company settled all liabilities arising from the invoices received, issued by governing authorities on the basis of the provisions of the Regulations.

NOTE 5 – SEGMENT INFORMATION

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

The Company monitors its operations according to the types of services rendered by distinguishing three main operating segments: hotels and apartments, campsites and other segments. Other segments comprise marina services, rental services, sports and supporting services and other similar services.

The segment information provided to the Company's Management Board for the year ended 31 December 2017 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other segments**	**Total**
Total sales	444,012	117,428	43,917	605,357
Inter-segment revenue	(2,131)	-	(27,954)	(30,085)
Revenue from external customers	441,881	117,428	15,963	575,272
EBITDA	**168,942**	**67,304**	**3,887**	**240,133**
Depreciation and amortisation	73,713	12,364	8,970	95,047
Income tax				22,875
Total assets	**678,984**	**188,464**	**38,978**	**906,426**
Total liabilities	**18,289**	**4,697**	**2,336**	**25,322**

The segment information for the year ended 31 December 2016 are as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other segments**	**Total**
Total sales	403,728	112,041	46,919	562,688
Inter-segment revenue	(1,807)	-	(30,924)	(32,731)
Revenue from external customers	401,921	112,041	15,995	529,957
EBITDA	**151,895**	**66,018**	**4,958**	**222,871**
Depreciation and amortisation	75,154	11,751	9,559	96,464
Income tax				12,940
Total assets	**700,546**	**175,236**	**59,117**	**934,899**
Total liabilities	**13,502**	**3,931**	**2,393**	**19,826**

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of EBITDA with profit before tax is as follows:

	2017	2016
	(in thousands of HRK)	
EBITDA by segments	236,246	217,913
EBITDA by other segments	3,887	4,958
Total segments	**240,133**	**222,871**
Depreciation and amortisation	(95,047)	(96,464)
Penalty interest income (Other income)	38	2,332
Dividend income	375	157
Other expenses	-	(7)
Net other income/(expenses)	(10,893)	4,423
Net foreign exchange gains – other	362	384
Impairment of non-current financial assets/loan receivable	(120)	-
Finance income – net	(6,544)	(20,039)
Profit before tax	**128,304**	**113,657**

The Company uses internal managerial reporting by activities/products where the indicator of successful performance is represented by EBITDA (earnings before interest, taxes, depreciation and amortisation).

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

	2017		2016	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	867,448	22,986	875,782	17,433
Other segment assets/liabilities	38,978	2,336	59,117	2,393
Unallocated:	1,462,021	545,256	1,324,254	547,844
Investments in subsidiaries and associate	1,124,615	-	1,123,781	-
Available-for-sale financial assets	9,217	-	8,041	-
Loans and deposits given	239,610	-	152,063	-
Cash and cash equivalents	27,514	-	3,891	-
Other assets	61,065	-	36,478	-
Provisions	-	-	-	-
Borrowings	-	452,660	-	469,810
Other liabilities	-	92,596	-	78,034
Total	**2,368,447**	**570,578**	**2,259,153**	**567,670**

All assets and capital expenditures are located in the Republic of Croatia.
All the Company's services and sales are provided to customers in the Republic of Croatia.

NOTE 6 – COST OF MATERIALS AND SERVICES

	2017	2016
	(in thousands of HRK)	
Raw materials and supplies		
Raw materials and supplies used	49,606	48,478
Energy and water used	36,544	35,714
Small inventories	3,554	3,112
	89,704	87,304
External services		
Maintenance services	22,785	18,976
Laundry and cleaning services	19,194	10,821
Entertainment and animation	6,925	6,111
Transportation and telecommunication	1,611	1,655
Advertising and promotion	4,008	5,673
Utility services	5,532	4,642
Rentals	1,411	760
Student employment agency services	2,035	1,950
Security services for assets and individuals	5,955	5,745
Other services	4,388	2,826
	73,844	59,159
	163,548	**146,463**

NOTE 7 – STAFF COSTS

	2017	2016
	(in thousands of HRK)	
Salaries	72,694	67,624
Pension insurance contributions	20,412	19,314
Health insurance contributions	15,059	14,399
Other contributions and taxes on salaries	13,944	14,344
Other staff costs /i/	8,680	8,534
	130,789	**124.215**
Number of employees as at 31 December	822	833

/i/ Other staff costs comprise compensations for transportation costs, jubilee awards, etc. and remunerations for temporary services.

NOTE 8 – OTHER OPERATING EXPENSES

	2017	2016
	(in thousands of HRK)	
Utility and similar charges, taxes and contributions	20,792	21,415
Write-off of non-current tangible assets	13,903	48
Professional services	5,026	2,671
Insurance premiums	1,876	2,412
Travel and entertainment	586	655
Bank charges and membership fees	1,508	1,311
Increase in provisions for legal disputes	192	-
Reversal of provisions for legal disputes	-	(387)
Provision for impairment of trade and other receivables (Note 16)	1,149	379
Collection of receivables previously written-off (Note 16)	(410)	(1,614)
Other	8,628	6,211
	53,250	**33,101**

NOTE 9 – FINANCE INCOME AND COSTS

	2017	2016
	(in thousands of HRK)	
Finance income		
Interest income on cash deposits and loans	693	1,524
Net foreign exchange gains from financing activities	5,019	6,391
Other finance income	220	248
	5,932	8,163
Finance costs		
Interest expense	(12,476)	(28,202)
	(12,476)	(28,202)
Finance costs - net	**(6,544)**	**(20,039)**

NOTE 10 – INCOME TAX

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 18% (2016: 20%) as follows:

	2017	2016
	(in thousands of HRK)	
Profit before tax	**128,304**	**113,657**
Income tax at 18% (2016: 20%)	23,095	22,731
Effect of non-taxable income	(1,595)	(762)
Effect of reinvested profit /i/	-	(10,352)
Effect of non-deductible expenses	1,375	1,323
Income tax expense	**22,875**	**12,940**
Income tax prepayments	(19,546)	(16,222)
Current income tax payable	3,329	-
Income tax receivable	-	3,282
Effective tax rate	17.83%	11.38%

/i/ In accordance with article 6, paragraph 1, item 6 of the Income Tax Act, and which Article was in force in 2016, the Company reinvested a portion of its profit in 2016 in the amount of HRK 52 million and pursuant to the decision of the General Assembly the Company increased its share capital in 2017.

In accordance with local regulations, the Tax Administration may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported and may impose additional tax liabilities and penalties. The Company's Management Board is not aware of any circumstances, which may give rise to a potential material liability in this respect.

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, the Company received a second-instance decision by which the appeal was rejected, whereupon the Company filed an appeal with the Administrative Court, in accordance with the instructions on the right of appeal.

NOTE 11 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated as follows:

	2017			2016		
	(in thousands of HRK)			*(in thousands of HRK)*		
	Preference shares	**Ordinary shares**	**Total**	**Preference shares**	**Ordinary shares**	**Total**
Dividends declared and paid in the year	105	-	105	105	-	105
Undistributed earnings	17,221	88,103	105,324	16,451	84,161	100,612
Profit for the year	**17,326**	**88,103**	**105,429**	**16,556**	**84,161**	**100,717**
Weighted average number of shares in issue excluding treasury shares	105,000	537,176		105,000	537,176	
Distributed earnings	1	-		1	-	
Undistributed earnings	164.01	164.01		156.67	156.67	
Basic earnings per share (in HRK)	**165.01**	**164.01**		**157.67**	**156.67**	

Diluted earnings per share

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

NOTE 12 – 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 2017 of HRK 5,362 thousand (2016: HRK 5,362 thousand) are disclosed as dividends payable in ‘trade and other payables’ (Note 20).

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
At 31 December 2015					
Cost	2,449,624	295,977	36,689	3,805	2,786,095
Accumulated depreciation and impairment	(1,496,205)	(259,738)	(32,343)	-	(1,788,286)
Net book amount	**953,419**	**36,239**	**4,346**	**3,805**	**997,809**
Year ended 31 December 2016					
Opening net book amount	953,419	36,239	4,346	3,805	997,809
Additions	41,479	9,679	401	3,168	54,727
Transfer	138	(138)	-	-	-
Disposal and impairment	-	(48)	-	-	(48)
Depreciation	(82,503)	(12,573)	(1,067)	-	(96,143)
Closing net book amount	**912,533**	**33,159**	**3,680**	**6,973**	**956,345**
At 31 December 2016					
Cost	2,491,551	300,475	37,090	6,973	2,836,089
Accumulated depreciation and impairment	(1,579,018)	(267,316)	(33,410)	-	(1,879,744)
Net book amount	**912,533**	**33,159**	**3,680**	**6,973**	**956,345**
Year ended 31 December 2017					
Opening net book amount	912,533	33,159	3,680	6,973	956,345
Additions	59,551	15,931	2,617	30,508	108,607
Disposal and impairment	(13,684)	(125)	-	-	(13,809)
Depreciation	(81,575)	(12,057)	(1,097)	-	(94,729)
Closing net book amount	**876,825**	**36,908**	**5,200**	**37,481**	**956,414**
At 31 December 2017					
Cost	2,445,134	297,004	39,707	37,481	2,819,326
Accumulated depreciation and impairment	(1,568,309)	(260,096)	(34,507)	-	(1,862,912)
Net book amount	**876,825**	**36,908**	**5,200**	**37,481**	**956,414**

Additions under ‘Land and buildings’ relate to various construction works in hotels and campsites which were completed in 2017 and 2016, respectively, and to the purchase of land.

As at 31 December 2017, the net carrying amount of assets pledged as security for the repayment of borrowings is HRK 172,469 thousand (2016: HRK 184,514 thousand).

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying value of property, plant and equipment of the Company leased out under operating leases is as follows:

	2017	**2016**
	(in thousands of HRK)	
Cost	121,352	118,903
Accumulated depreciation	(90,798)	(86,938)
Depreciation charge for the year	(2,950)	(3,860)
Net book amount	**27,604**	**28.105**

Operating leases relate to leases of business premises and hospitality facilities. During 2017, the Company realised rental income in the amount of HRK 23,448 thousand (2016: HRK 23,216 thousand). During the year, there were no direct operating expenses arising from the utilisation of these assets except for the depreciation charge.

Operating lease commitments - where the Company is the lessor. The future aggregate proceeds from operating leases are as follows:

	2017	**2016**
	(in thousands of HRK)	
Up to 1 year	20,375	19,475
From 2 to 5 years	81,500	77,828
	101,875	**97,303**

In 2017 and 2016, there were no contingent rents recognised as income in the statement of comprehensive income. There is no purchase option.

NOTE 14 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	2017	2016
	(in thousands of HRK)	
Subsidiaries	933,883	933,049
Associates	190,732	190,732
	1,124,615	**1,123,781**

Changes in investments in subsidiaries are as follows:

	2017	2016
	(in thousands of HRK)	
At beginning of year	933,049	916,131
Purchase of shares from minority shareholders	834	16,918
	933,883	**933,049**

	Country	Ownership %	
		2017	**2016**
Subsidiaries			
Laguna invest d.o.o., Poreč	Croatia	100.00	100.00
Istraturist Umag d.d., Umag	Croatia	94.83	94.74
Associates			
Jadranski luksuzni hoteli d.d.	Croatia	32.48	32.48

The subsidiary Laguna invest d.o.o., Poreč did not have any business activities in 2017 or 2016. In February 2018, the company name was changed to Travel d.o.o.

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Ownership	2017	2016
		(in thousands of HRK)	
Investments in banks	3.63 %	6,346	5,647
Investments in companies	/i/	2,871	2,394
		9,217	**8,041**

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

	2017	2016
	(in thousands of HRK)	
Opening balance	8,041	6,977
Acquisition	-	38
Write-off of investments	(120)	-
Revaluation gains	1,296	1,026
Closing balance	**9,217**	**8,041**

Available-for-sale investments are as follows:

	2017	2016
	(in thousands of HRK)	
Equity securities		
- listed	9,217	7,921
- unlisted	-	120
	9,217	**8,041**

The fair values of unlisted available-for-sale securities are stated at cost or according to the latest available price parameters for shares delisted from a regulated market. All available-for-sale financial assets are denominated in HRK.

NOTE 16 – TRADE AND OTHER RECEIVABLES

	2017	2016
	(in thousands of HRK)	
Domestic trade receivables	1,870	1,810
Foreign trade receivables	918	825
Due from brokers – agencies	13	18
Impairment of trade receivables	(953)	(1,294)
Trade receivables – net	1,848	1,359
Interest receivable	7	-
Accrued income not yet invoiced	19	2,949
Total financial assets	1,874	4,308
Due from state institutions	394	322
VAT prepayments	2,750	3,308
Advances to suppliers	183	603
Other current receivables	810	125
Impairment of other receivables	-	(30)
	6,011	**8,636**

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

	2017	2016
	(in thousands of HRK)	
At 1 January	1,324	3,494
Increase (Note 8)	1,149	379
Collection (Note 8)	(410)	(1,614)
Write-off	(1,110)	(935)
At 31 December	**953**	**1,324**

The majority of impaired trade receivables is subject to legal disputes. Both the outcome of the proceedings related to receivables under litigation or the extent to which they will be collected cannot be anticipated with certainty.

NOTE 17 – SHARE CAPITAL

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

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

/i/ In 2018, Adriatic Investment Group, registered in Luxembourg, became the majority shareholder of the Company (Note 23/ii/).
The equity structure as at 31 December 2016 was as follows:

Shareholder	Total number of shares	Total amount (HRK)	Holding in share capital %
Ownership of ordinary shares:			
Sutivan Investments Anstalt, Liechtenstein	438,899	1,028,443,509	80.34
Deutsche Bank Trust Company Americas	23,939	56,094,703	4.38
Treasury shares /i/	9,142	21,421,855	1.67
Other legal entities and natural persons	74,338	174,191,404	13.61
	546,318	**1,280,151,471**	**100,00**
Ownership of preference shares:			
Sutivan Investments Anstalt, Liechtenstein	105,000	105,000,000	100.00
Total	**105,000**	**105,000,000**	**100,00**
		1,385,151,471	

Following the decision of the Company's General Assembly of 11 August 2017 (2016: 19 August 2016), the Company's share capital was increased by reinvesting a portion of profit in the amount of HRK 51,760 thousand (2016: 37,824 thousand). The share capital is distributed among 546,318 ordinary shares, without nominal value, and 105,000 preference series B shares, registered, with a nominal value of HRK 1,000.00.

All shares are fully paid. In addition to the regular dividend, preference shares carry a right to a fixed annual preferred dividend of HRK 1 per share and are non-voting. Preference shares have priority right of settlement in the liquidation process of the Company. Based on the decision of the General Assembly from 11 August 2017, a preference fixed dividend was paid to holders of eligible capital in the amount of HRK 105 thousand.

/i/ As at 31 December 2017 and 2016, treasury shares comprise 9,142 own shares redeemed in the period from 1997 to 2002 at prices ranging from HRK 718.70 to HRK 1,516.50 per share through a commission house broker, and the total average price of HRK 1,256.27. Gains and losses on the purchase and sale of treasury shares are recorded within capital reserves and amount to HRK 10,803 thousand (2016: HRK 9,937 thousand).

NOTE 18 – RESERVES

	2017	2016
	(in thousands of HRK)	
Legal reserves	50,433	46,823
Other reserves	33,542	32,480
	83,975	**79,303**
Changes in reserves:		
Legal reserves /i/		
Opening balance	46,823	43,430
Transfer from retained earnings	3,610	3,393
Closing balance	**50,433**	**46,823**
Other reserves /ii/		
Opening balance	32,480	31,659
Revaluation of available-for-sale financial assets	1,062	821
Closing balance	**33,542**	**32,480**

/i/ Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until total reserves together with the capital reserves reach 5% of the Company's share capital. This reserve is not distributable. Based on the Decision of the General Assembly of 11 August 2017, the Company transferred an amount of HRK 3,610 thousand from current profit to legal reserves. As at 31 December 2017, legal reserves amounted to HRK 50,433 thousand (2016: HRK 46,823 thousand) or 3.51% of the share capital (2016: 3.38%), while the share of legal reserves together with capital reserves which are not distributable (HRK 18,824 thousand) and which were formed by denominating the share value in 2001 (from HRK 1,860 to HRK 1,800 per share), form a share of 4.82% (2016: 4.74%) in the Company's share capital.

/ii/ As at 31 December 2017, other reserves amounted to HRK 33,542 thousand (2016: HRK 32,480 thousand) and comprise treasury shares reserves of HRK 11,485 thousand (2016: HRK 11,485 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 3,233 thousand (2015: HRK 2,171 thousand). These other reserves are not distributable. The remaining other reserves in the amount of HRK 18,824 thousand relate to the above stated capital reserves formed by denominating the nominal value of shares in HRK. During 2013, they were increased based on the above stated decrease in reserves by treasury shares in the amount of the released treasury shares as a result of the merger (HRK 412 thousand), since treasury share reserves are generated in the amount of the purchased treasury shares. Following the Supervisory Board's decision, these reserves were used to cover the negative effect of the merger in 2013 in the amount of HRK 2,470 thousand.

NOTE 19 – BORROWINGS

	2017	2016
	(in thousands of HRK)	
Long-term:		
Bank borrowings	394,467	236,181
Borrowings from the majority shareholder	-	198,392
	394,467	**434,573**
Short-term:		
Current portion of bank borrowings	56,352	-
Current portion of borrowings from majority shareholder	-	28,342
Accrued interest and fees	1,841	6,895
	58,193	**35,237**
	452,660	**469,810**

Bank borrowings are secured by properties (Note 13). During 2017, the Company fully repaid the loan received from the majority shareholder with the funds from the newly received bank loan and to a smaller extent with its own resources (EUR 1.25 million).

In 2017, the Company refinanced the existing loans with a new bank loan in the amount of EUR 60 million at a fixed interest rate of 1.95% with final maturity in 2025.

The maturity of long-term borrowings is as follows:

	2017	2016
	(in thousands of HRK)	
From 1 to 2 years	56,352	28,342
From 2 to 5 years	169,057	226,734
Over 5 years	169,058	179,497
	394,467	**434,573**

Net debt

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

	2017	2016
	(in thousands of HRK)	
Cash and cash equivalents	27,514	3,891
Bank deposits	239,610	152,063
Listed shares	9,217	7,921
Borrowings maturing within a period of 1 year.	(58,193)	(35,237)
Borrowings maturing after a period of 1 year	(394,467)	(434,573)
Net debt	**(176,319)**	**(305,935)**
Cash and liquid assets	276,341	163,875
Liabilities at fixed interest rate	(452,660)	(240,162)
Borrowings at variable interest rate	-	(229,648)
Net debt	**(176,319)**	**(305,935)**

NOTE 19 – BORROWINGS (continued)

The table below presents the movement in debt of the Company in 2017:

(in thousands of HRK)	**Borrowings**
As at 1 January 2017	**469,810**
Cash inflow	445,355
Cash outflow	(454,634)
Interest paid	(17,395)
Interest expense	12,476
Net foreign exchange difference	(2,952)
As at 31 December 2017	**452,660**

NOTE 20 – TRADE AND OTHER PAYABLES

	2017	**2016**
	(in thousands of HRK)	
Trade payables	27,574	22,105
Due to related parties (Note 22)	206	129
Dividends payable (Note 12)	5,362	5,362
Accrued costs not yet invoiced	10,472	5,998
Concession payable /i/	21,901	18,768
Total financial liabilities	65,515	52,362
Net salaries payable	17,523	16,158
Taxes and contributions payable	13,213	12,273
Advances payable	13,141	12,776
Other current liabilities	5,005	4,291
	114,397	**97,860**

/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 21 – CONTINGENCIES AND COMMITMENTS

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 gaining 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 2017, the Company settled all liabilities arising from the invoices received, issued by governing authorities on the basis of the provisions of the Regulations.

Provisions for other contingent liabilities. In the financial statements for the year ended 31 December 2017, the Company has provisions for other contingent liabilities in the amount of HRK 192 thousand (2014:

Capital commitments Future commitments contracted for investments in tourist facilities, for which provisions were not made, as at 31 December 2017 amounted to HRK 238 million (2017: HRK 28 million).

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

	2017	2016
	(in thousands of HRK)	
Up to 1 year	622	616
From 2 to 5 years	680	918
	1,302	**1,534**

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 21 – CONTINGENCIES AND COMMITMENTS (continued)

Legal disputes of subsidiary Istraturist Umag d.d., Umag. At the beginning of the 1990s, the company Istraturist Umag d.d. contracted loans and other financial arrangements approximating DEM 31 million (approximately EUR 16 million) with Ljubljanska banka d.d. In accordance with applicable legislation governing the resolution of deposits of Croatian citizens with banks registered outside of the Republic of Croatia, Zagrebačka banka d.d. kept a portion of its receivables from Ljubljanska banka d.d. in the amount of DEM 31 million, credited as ‘old foreign currency savings’ and sold it to its client Istraturist Umag d.d., Umag, obtaining in return a holding in the share capital of the company Istraturist Umag d.d. Istraturist Umag d.d. offset the (acquired) receivables from Ljubljanska banka d.d. in the amount of DEM 31 million through its financial liabilities of the same amount towards Ljubljanska banka d.d.

In a special Constitutional Act adopted after the above offsetting, the Republic of Slovenia established Nova Ljubljanska banka d.d. (NLB), transferring all of the claims, but not the liabilities, of Ljubljanska banka d.d., excluding in the transfer also liabilities of Ljubljanska banka towards Istraturist Umag d.d.

Since 1994, several legal disputes before Croatian and Slovenian courts have been initiated by NLB requesting the payment of liabilities of the company Istraturist Umag d.d. During October 2014, in proceedings initiated before the Commercial Court in Rijeka following an enforcement request, the Supreme Court of the Republic of Croatia rejected NLB’s appeal on points of law and upheld all of the lower-instance judgements; thus, the highest appellate court of the Republic of Croatia confirmed that the above offsetting of the borrowings in question made by Istraturist Umag d.d. was completely valid and legal.

In the Agreement on Purchase and Sale of Shares of Istraturist Umag d.d. of 26 August 2014, Zagrebačka banka d.d., as the Seller, issued a so-called “NLJB guarantee”, under the conditions and limitations set out in the provision thereof, that the legal proceedings with the bank in question will not produce any losses to the Plava laguna Group.

NOTE 22 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the power to exercise control over the other party or under common control or if it has significant influence over the other party in making financial or operational decisions. As at 31 December 2017 Plava laguna d.d., Poreč was controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is 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 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,

1) Transactions with related companies within the Plava laguna Group are as follows:

	2017	**2016**
	(in thousands of HRK)	
Trade and other receivables	170	42
Other income	877	242
Trade and other payables	206	153
Other expenses	9,367	3
Non-current intangible assets	170	19

2) Transactions with the majority owner:

As at 31 December 2016, liabilities arising from a borrowing from the majority shareholder and interest payable amounted to HRK 229,648 thousand (2015: In 2016, interest and fee expense amounted to HRK 12,071 thousand. In 2017, the loan to the majority shareholder was repaid, and by then the Company had incurred the interest expense in the amount of HRK 2,373 thousand.

3) Key Management and Supervisory Board compensation

	2017	**2016**
	(in thousands of HRK)	
Net salaries	6,478	6,065
Pension insurance contributions	1,615	1,613
Health insurance contributions	1,584	1,578
Other costs (contribution and taxes)	2,701	3,074
	12,378	**12.330**
Supervisory Board compensation	597	597
	12,975	**12,927**

Key management comprises 15 persons (2016: 15 persons). Following the General Assembly held at 11 August 2017, the Supervisory Board comprised 5 members (2016: 7 members).

NOTE 23 – EVENTS AFTER THE BALANCE SHEET DATE

/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
	(in thousands of HRK)
Increase:	
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)
Decrease:	
Elimination of carrying amount of the investments in subsidiary	(933,807)
Difference recognised in capital and reserves	**273,121**

/ii/ Change of majority shareholder

At 10 January 2018, a change in the majority shareholder of the Company was registered with CCDD, with Adriatic Investment Group being registeres as holder of 84,72% of ordinary and 100% preference shares in the Company, in place of the former Sutivan Investment Anstalt. The ultimate controlling entity remained unchanged.