PLAVA LAGUNA d.d., POREČ

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED 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 Group and of its operating results 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 Group 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 Group will continue in business.

The Management Board is responsible for submitting the Annual Report 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 of the Group were approved by the Management Board of the company Plava laguna d.d. on 27 April 2018 and are signed below to signify this.

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

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

Independent Auditor's Report

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

Report on the audit of the consolidated financial statements

Our opinion

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

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

What we have audited

The Group's consolidated financial statements comprise:

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

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 Consolidated 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 Group 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.

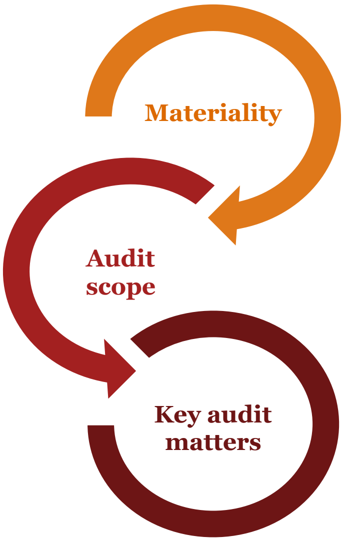
To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Company in the period from 1 January 2017 through 31 December 2017.

Emphasis of matter

We draw attention to Note 25 to these financial statements that describes the Group'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 was not qualified in this respect.

Our audit approach

Overview



- Overall materiality for consolidated financial statements as a whole: HRK 20 million, which represents 8% of profit before tax and share in profit of associate.

- We conducted audit work at 3 legal entities in Croatia (Plava laguna d.d., Istraturist Umag d.d. and Istra D.M.C. d.o.o.).
- Our audit scope addressed 100% of the Group's revenues and 100% of the Group's absolute value of underlying profit.

- 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 consolidated 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 consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated 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 consolidated financial statements as a whole.

Overall materiality for consolidated financial statements as a whole	HRK 20 million
How we determined it	8% of profit before tax and share in profit of associate
Rationale for the materiality benchmark applied	We consider profit before tax to be the key metric in the industry of the Group, and it is the benchmark against which the performance of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 2.5 to the financial statements entitled "Property, Plant and Equipment" (Accounting policies), Note 4 (Key accounting estimates) and Note 14.* At the balance sheet date, the Group recorded property, plant and equipment in the amount of HRK 2,340,982 thousand (2016: HRK 2.298,864 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 Group's business. We have also reviewed the Group'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 2.5, 4 and 14 are appropriate.

Reporting on other information including the Management Report and Corporate Governance Statement

Management is responsible for the other information. The other information comprises the Annual Report of the Group, which includes the Management Report and Corporate Governance Statement (but does not include the consolidated 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 consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

In connection with our audit of the consolidated 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 consolidated 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 and 24 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 consolidated 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts expressed in thousands of HRK)	**Note**	**2017**	**2016**
Sales	5	1,068,962	987,334
Other income		13,419	9,539
Cost of materials and services	6	(306,310)	(277,156)
Staff costs	7	(259,790)	(245,965)
Depreciation and amortisation	14, 15	(165,182)	(164,505)
Other operating expenses	8	(90,841)	(73,175)
Other losses – net	9	(4,351)	(2,659)
Operating profit		**255,907**	**233,413**
Finance income		14,874	14,561
Finance costs		(21,584)	(37,388)
Finance costs – net	10	(6,710)	(22,827)
Share in associate	16	19,032	36,309
Profit before tax		**268,229**	**246,895**
Income tax	11	(42,991)	(34,089)
Profit for the year		**225,238**	**212,806**
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets	22	1,062	821
Total comprehensive income for the year		**226,300**	**213,627**
Attributable to:			
Equity holders of the Company		219,916	208,714
Non-controlling interest		5,322	4,092
Profit for the year		**225,238**	**212,806**
***Basic and diluted earnings per share (in HRK) attributable to the equity holders of the Company during the year*:**	12		
- ordinary shares		342.29	324.85
- preference shares		343.29	325.85

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

CONSOLIDATED 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	14	2,340,982	2,298,864
Intangible assets	15	20,737	19,022
Investments in associate	16	280,467	261,435
Available-for-sale financial assets	17	9,217	8,041
Deposits and loans given		60	59
Deferred tax assets	18	-	427
		2,651,463	**2.587.848**
Current assets			
Inventories		4,886	4,261
Trade and other receivables	19	18,707	23,358
Income tax prepayments receivable	11	-	2,748
Bank deposits		239,632	178,299
Financial assets at fair value through profit or loss	20	1,840	39,324
Cash and cash equivalents		88,844	18,340
		353,909	**266,330**
Total assets		**3,005,372**	**2,854,178**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	21	1,436,911	1,385,151
Capital reserves	21	10,803	9,937
Treasury shares	21	(22,288)	(21,422)
Reserves	22	83,975	79,303
Retained earnings	22	608,112	443,614
		2,117,513	1,896,583
Non-controlling interests		60,073	55,644
		2,177,586	**1,952,227**
LIABILITIES			
Non-current liabilities			
Borrowings	23	527,934	604,940
Deferred tax liability	18	10,467	-
		538,401	604,940
Current liabilities			
Trade and other payables	24	182,884	158,258
Borrowings	23	91,588	136,622
Provisions for other liabilities and expenses	25	3,318	2,131
Income tax payable		11,595	-
		289,385	297.011
Total liabilities		**827,786**	**901,951**
Total equity and liabilities		**3,005,372**	**2,854,178**

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

PLAVA LAGUNA d.d., POREČ

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to equity holders of the Company							
(all amounts are expressed in thousands of HRK)	**Share capital**	**Capital reserves**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Year ended 31 December 2016								
At 1 January 2016	1,347,327	9,304	(20,789)	75,089	276,409	1,687,340	68,285	1,755,625
Profit for the year	-	-	-	-	208,714	208,714	4,092	212,806
Other comprehensive income	-	-	-	821	-	821	-	821
Total comprehensive income for 2016	**-**	**-**	**-**	**821**	**208,714**	**209,535**	**4,092**	**213,627**
Share capital increase (Note 21)	37,824	633	(633)	-	(37,824)	-	-	-
Distribution of profit from 2015	-	-	-	3,393	(3,393)	-	-	-
Dividend relating to 2015 (Note 12)	-	-	-	-	(105)	(105)	-	(105)
Transactions with non-controlling interests	-	-	-	-	(187)	(187)	(16,733)	(16,920)
Total transactions with owners, recognised in equity	**37,824**	**633**	**(633)**	**3,393**	**(41,509)**	**(292)**	**(16,733)**	**(17,025)**
At 31 December 2016	**1,385,151**	**9,937**	**(21,422)**	**79,303**	**443,614**	**1,896,583**	**55,644**	**1,952,227**
Year ended 31 December 2017								
At 1 January 2017	**1,385,151**	**9,937**	**(21,422)**	**79,303**	**443,614**	**1,896,583**	**55,644**	**1,952,227**
Profit for the year	-	-	-	-	219,916	219,916	5,322	225,238
Other comprehensive income	-	-	-	1,062	-	1,062	-	1,062
Total comprehensive income for 2017	**-**	**-**	**-**	**1,062**	**219,916**	**220,978**	**5,322**	**226,300**
Share capital increase (Note 21)	51,760	866	(866)	3,610	(55,370)	-	-	-
Dividend relating to 2016 (Note 12)	-	-	-	-	(105)	(105)	-	(105)
Transactions with non-controlling interests	-	-	-	-	57	57	(893)	(836)
Total transactions with owners, recognised in equity	**51,760**	**866**	**(866)**	**3,610**	**(55,418)**	**(48)**	**(893)**	**(941)**
At 31 December 2017	**1,436,911**	**10,803**	**(22,288)**	**83,975**	**608,112**	**2,117,513**	**60,073**	**2,177,586**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	Note	2017	2016
Cash flow from operating activities			
Cash generated from operations	26	470,635	403,536
Income tax paid		(17,797)	(5,978)
Interest paid	23	(28,065)	(36,641)
Net cash generated from operating activities		**424,773**	**360,917**
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(220,886)	(97,949)
Purchase of intangible assets	15	(3,319)	(918)
(Increase)/decrease in investments in funds		31,591	(27,035)
Decrease/(increase) in deposits and loans		(57.243)	16,270
Proceeds from sale of property, plant and equipment		1,135	83
Interest received		2,171	3,927
Dividends received		375	157
Net cash used in investing activities		**(246.176)**	**(105,465)**
Cash flows from financing activities			
Transactions with non-controlling interest		(835)	(16,920)
Proceeds from borrowings	23	612,203	-
Repayment of borrowings	23	(719,365)	(232,940)
Dividends paid to the Company's shareholders		(105)	(108)
Net cash flow from financing activities		**(108,093)**	**(249,968)**
Net increase in cash and cash equivalents		**70,504**	**5,484**
Cash and cash equivalents at beginning of year		18,340	12,856
Cash and cash equivalents at end of year		**88,844**	**18,340**

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

NOTE 1 – GENERAL INFORMATION

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

- Laguna Invest, usluge d.o.o. with an ownership interest of 100%,
- Istraturist Umag d.d. with an ownership interest of 94.83%.

The parent company and its subsidiaries Laguna Invest d.o.o., Poreč and Istraturist Umag d.d., Umag are registered with the Commercial Court in Pazin.

As at 31 December 2017, Plava laguna Group, Poreč controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is Vallum Foundation, registered in Vaduz, Liechtenstein. Since 11 January 2018, Group is controlled by the Company Adriatic Investment Group with its registered office in the Grand Duchy of Luxembourg, which is wholly owned by Sutivan Investment Anstalt, Vaduz.

The equity ownership structure as at 31 December 2017 and 2016 is presented in Note 21.

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

As at 31 December 2017 and 2016, the shares of the parent company were listed on the regular joint stock company listing on the Zagreb Stock Exchange.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards which were endorsed by the European Union (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for sale financial assets and financial assets at fair value through profit or loss.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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 improvements resulted in additional disclosures of movements in liabilities from financing activities (Note 23) 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 issued but not yet adopted:

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 Group'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. Equity instruments currently classified as available for sale may be classified at fair value in other comprehensive income.

  There will be no impact on the Group'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 Group 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 assessments undertaken to date, the Company does not expect a significant increase in the loss allowance for trade creditors impairment of customer receivables.

  The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group'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. Comparative information 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 identification 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 Group 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 Group's operating leases. As at the reporting date, the Group has no significant non-cancellable operating lease commitments (Note 21). The Group estimates estimate that the impact of the new standard will not have a significant impact on its financial statements, and it will make more detailed assessments of the impact over the next twelve months The Group plans to adopt this standard on its effective date. The Group 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 Consolidation

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

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

(b) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

2.3 Segment reporting

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

2.4 Foreign currencies

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

Buildings	10 – 35 years
Plant and equipment	3 – 20 years
Other assets	4 – 20 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

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

2.6 Intangible assets

(a) Software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of up to 5 years.

(b) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment, or whenever there are indications of impairment, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.7 Impairment of non-financial assets

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

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available for sale. 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) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the Management Board. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets.

(b) Loans, deposits and receivables

Loans, deposits and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted 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, deposits and receivables comprise trade receivables, deposits, loans and other receivables and cash and cash equivalents in the balance sheet (Notes 2.13 and 2.14).

(c) 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

2.8.2 Measurement and recognition

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets, except those carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and the transaction costs are recorded in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets available for sale and financial assets at fair value through profit or loss are subsequently recognised at fair value. Loans 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 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. Changes in the fair value of other monetary securities available for sale 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 as ‘gains and losses on investment securities’. 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.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the statement of comprehensive income within ‘other gains – net’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of ‘other income’ when the Group’s right to receive payment is established.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The Group 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

A provision for impairment of trade receivables, deposits and loans is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade, deposit and loan receivables are impaired. The amount of the provision is the difference between the receivables' carrying amount and the recoverable amount; more precisely, it is the present value of estimated cash inflows discounted at the effective interest rate. The amount of the provision for impairment of trade, deposit and loan receivables 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.

(b) Assets classified as available for sale

The Group 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'.

2.10 Derivative financial instruments

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Leases

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

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

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

2.12 Inventories

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

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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Borrowings

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

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

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

2.17 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.

2.18 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. Deferred tax assets and liabilities are measured using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

(c) Short-term employee benefits

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

2.20 Provisions

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Revenue recognition

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

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

(a) Sales of services

Revenues from hotel and tourism services are recognised when the services are provided.
Revenue from fixed-price contracts for services is generally recognised in the period the services are provided, on a straight-line basis over the terms of the contracts with tourist agencies and tour operators. 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.

(c) Interest income

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

(d) Dividend income

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

2.22 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 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.

2.24 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.

2.25 Business combinations under common control

A business combination involving entities under common control is a business combination or merger in which all of the combining or merging entities are ultimately controlled by the same party or parties both before and after the business combination, and where control is not transitory. The predecessor method of accounting is used to account for the merger of entities under common control. The carrying value of assets and liabilities of the predecessor entity are transferred as balances in the merged entity. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated. The net assets of the merged companies are credited to capital and reserves. The effect of transfer of equity instruments or swap of shares between companies under common control is recognised in the same manner.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

The accounting policies are applied to financial instruments as follows:

(in thousands of HRK)	**Loans and receivables**	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Total**
31 December 2017				
Assets at the balance sheet date				
Investments in shares of domestic companies	-	1,840	9,217	11,057
Trade and other receivables	9,090	-	-	9,090
Deposits with banks and loans given	239,692	-	-	239,692
Cash and cash equivalents	88,844	-	-	88,844
Total	**337,626**	**1,840**	**9,217**	**348,683**
31 December 2016				
Assets at the balance sheet date				
Investments in shares of domestic companies	-	1,783	8,041	9,824
Trade and other receivables	7,675	-	-	7,675
Deposits with banks and loans given	178,358	-	-	178,358
Investments in investment funds	-	31,584	-	31,584
Derivative financial instruments		5,957	-	5,957
Cash and cash equivalents	18,340	-	-	18,340
Total	**204,373**	**39,324**	**8,041**	**251,738**

	2017	**2016**
	(in thousands of HRK)	
Liabilities at the balance sheet date – at amortised cost		
Trade and other payables	108,330	91,686
Borrowings	619,522	741,562
	727,852	**833,248**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro (EUR), and in 2016 also with respect to the Swiss franc (CHF), which was offset by contracting a EURCHF currency interest rate swap. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

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

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

2017	**EUR**	**HRK**	**CHF**	**Other**	**Total**
Financial assets					
Trade and other receivables	1,782	7,308	-	-	9,090
Loans and deposits given	239,692		-	-	239,692
Available-for-sale financial assets	-	9,217	-	-	9,217
Financial assets at fair value through profit or loss	-	1,840	-	-	1,840
Cash and cash equivalents	70,705	17,823	-	316	88,844
	312,179	**36,188**	**-**	**316**	**348,683**
Financial liabilities – at amortised cost					
Borrowings	619,522	-	-		619,522
Trade and other payables	947	106,761	-	622	108,330
	620,469	**106,761**	**-**	**622**	**727,852**
2016					
Financial assets					
Trade and other receivables	1,975	5,667	-	33	7,675
Loans and deposits given	178,300	58	-	-	178,358
Available-for-sale financial assets	-	8,041	-	-	8,041
Financial assets at fair value through profit or loss	-	33,367	5,957	-	39,324
Cash and cash equivalents	6,161	11,496	-	683	18,340
	186,436	**58,629**	**5,957**	**716**	**251,738**
Financial liabilities – at amortised cost					
Borrowings	643,086	30,230	68,246	-	741,562
Trade and other payables	19,663	71,916	-	107	91,686
	662,749	**102.146**	**68,246**	**107**	**833,248**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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 2,528 thousand higher/lower (2016: HRK 3,811 thousand), mainly as a result of foreign exchange losses/gains on translation of EUR-denominated borrowings and bank cash deposits.

For the purpose of managing foreign exchange risk, as at 30 October 2014 a EURCHF currency interest rate swap was agreed on the remaining unpaid borrowing principal of the UniCredit Group initially contracted in CHF at an interest rate of CHF 3m LIBOR + 1.5% k.m. where the 3m LIBOR is fixed at 1.78%. Thereby, initially contracted cash flows in CHF are changed into cash flows in EUR at a fixed interest rate of 4.7% until the borrowing expires. The contract expired in 2017.

(ii) Cash flow and fair value interest rate risk

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

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

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

(iii) Equity securities risk

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

b) Credit risk

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

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

	2017	2016
	(in thousands of HRK)	
Trade and other receivables	9,090	7,675
Deposits and loans given	239,692	178,358
Cash and cash equivalents	88,844	18,340
Total	**337,626**	**204,373**

The credit quality of financial assets:

	2017	2016
	(in thousands of HRK)	
Neither past due nor impaired	334,707	201,303
Past due but not impaired	2,919	3,070
Impaired	4,224	2,139
Impairment	(4,224)	(2,139)
	337,626	**204,373**

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

	2017	2016
	(in thousands of HRK)	
Trade and other receivables	6,171	4,606
Deposits and loans given		
- Financial institutions	239,610	177,909
- Other	82	450
	239,692	178,359
Cash at bank	88,844	18,338
	334,707	**201,303**

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).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

	2017	2016
	(in thousands of HRK)	
Up to 1 month	655	855
1 to 2 months	422	707
2 to 3 months	1,034	954
Over 3 months up to 1 year	808	554
	2,919	**3,070**

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

Receivables are mainly secured by advances received and a mortgage over property. Impaired receivables relate to trade receivables in the amount of HRK 4,224 thousand (2016: HRK 2,139 thousand). The majority of impaired trade receivables is subject to legal disputes. Both the outcome of the disputes related to disputed receivables or the extent to which they will be collected cannot be anticipated with certainty.

(c) Liquidity risk

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

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

In thousands of HRK	**Up to 1 year**	**1-5 years**	**Over 5 years**	**Total**
At 31 December 2017				
Trade and other payables	108,330	-	-	108,330
Borrowings	100,942	387,440	175,006	663,388
Total liabilities	**209,272**	**387,440**	**175,006**	**771,718**
At 31 December 2016				
Trade and other payables	91,686	-	-	91,686
Borrowings	161,099	447,916	257,351	866,366
Total liabilities	**252,785**	**447,916**	**257,351**	**958,052**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

3.3 Fair value estimation

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

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

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

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

Fair value hierarchy

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

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

As at 31 December 2017, total assets carried at fair value in the amount of HRK 11,057 thousand (2016: HRK 41,288 thousand) were allocated into level 1. As at 31 December 2016, financial assets of HRK 6,077 thousand were allocated into level 2.

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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

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

Based on historical information, and in line with the technical department, the useful life of buildings was assessed by Management Board to be 10-35 years. The useful lives of equipment and other assets have also been assessed as disclosed in Note 2.5.

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

If the useful lives of property had been 10% longer, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 10,060 thousand higher (2016: HRK 9,995 thousand higher).

If the useful lives of property had been 10% shorter, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 12,295 thousand lower (2016: HRK 12,216 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 Group's Management Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

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

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

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	808,160	225,005	98,224	1,131,389
Inter-segment revenue	(3,069)	(162)	(59,196)	(62,427)
Revenue from external customers	805,091	224,843	39,028	1,068,962
EBITDA	**298,384**	**124,887**	**3,471**	**426,742**
Depreciation and amortisation (Note 14 and 15)	(121,587)	(21,668)	(21,927)	(165,182)
Income tax				(42,991)
Share in profit in the associate				19.032
Total assets	**1,724,266**	**406,743**	**104,540**	**2,235,549**
Investment in associate				**280,467**
Total liabilities	**47,532**	**20,395**	**67,920**	**135,847**

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

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	738,181	209,411	101,060	1,048,652
Inter-segment revenue	(3,045)	(162)	(58,111)	(61,318)
Revenue from external customers	735,136	209,249	42,949	987,334
EBITDA	**267,741**	**119,585**	**6,545**	**393,871**
Depreciation and amortisation (Note 14 and 15)	(121,706)	(20,743)	(22,056)	(164,505)
Income tax				**(34,089)**
Share in profit in the associate				**36,309**
Total assets	**1,697,754**	**378,777**	**125,185**	**2,201,716**
Investment in associate			**261,435**	**261,435**
Total liabilities	**29,047**	**16,343**	**5,731**	**51,121**

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of EBITDA with profit before tax is as follows:

	2017	2016
	(in thousands of HRK)	
EBITDA by segments	423,271	387,326
EBITDA by other segments	3471	6,545
Total segments	**426,742**	**393,871**
Depreciation and amortisation	(165,182)	(164,505)
Share in profit in the associate	19,032	36,309
Interest income	16	2,332
Dividend income	456	188
Net other income/(expenses)	(1,774)	4,222
Other gains/(losses) – net	(4,351)	(3,079)
Net foreign exchange gains – other		384
Finance income – net	(6,710)	(22,827)
Profit before tax	**268,229**	**246,895**

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

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

	2017		2016	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	2,131,003	67,927	2,076,531	45,390
Other segment assets/liabilities	104,540	67,920	125,185	5,731
Unallocated:	769,829	691,939	652,462	850,830
Available-for-sale financial assets	9,217		8,041	
Loans and deposits given	239,692		178,358	
Financial assets at fair value through profit or loss	1,840		39,324	
Cash and cash equivalents	88,844		18,340	
Share in associate	280,467		261,435	
Deferred tax assets			427	
Other assets	149,769		146,538	
Provisions		3,318		2,131
Borrowings		619,522		741,562
Deferred tax liability		10,467		
Income tax payable		11,595		
Other liabilities		47,037		107,137
Total	**3,005,372**	**827,786**	**2,854,178**	**901,951**

NOTE 6 – COST OF MATERIALS AND SERVICES

	2017	2016
	(in thousands of HRK)	
Raw materials and supplies		
Raw materials and supplies used	95,821	91,341
Energy and water used	67,140	61,226
Small inventories	9,166	4,522
	172,127	157,089
External services		
Franchise costs /i/	8,308	8,303
Maintenance services	38,674	30,374
Laundry and cleaning services	12,544	11,058
Entertainment and animation	10,062	9,116
Telecommunication and other transport services	2,991	2,989
Marketing	12,912	15,067
Utility services	11,291	10,339
ATP tennis tournament	4,600	4,687
Rental costs (Note 25)	5,330	5,056
Student employment agency and similar services	7,243	6,200
Other services	20,228	16,878
	134,183	120,067
	306,310	**277,156**

/i/ The subsidiary realises business cooperation under the franchise agreement with Melia Hotels International, of which Sol Melia Hrvatska d.o.o. is a Group member, for which an annual fee is charged.

NOTE 7 – STAFF COSTS

	2017	2016
	(in thousands of HRK)	
Salaries	148,463	137,693
Pension insurance contributions	40,939	38,747
Health insurance contributions	29,700	28,494
Other contributions and taxes on salaries	22,890	24,044
Other staff costs /i/	17,798	16,987
	259,790	**245,965**
Number of employees as at 31 December	1,500	1,463

/i/ Other staff costs comprise compensation for transportation costs, jubilee awards, etc.

NOTE 8 – OTHER OPERATING EXPENSES

	2017	2016
	(in thousands of HRK)	
Utility and similar charges and contributions	41,104	41,433
Write-off of non-current tangible assets	13,903	-
Professional services	14,059	9,834
Provisions for impairment of trade and other receivables	3,726	968
Collected receivables previously written off	(410)	(1,614)
Provisions for legal disputes	547	899
Reversal of provisions for legal disputes	-	(387)
Bank charges	2,277	2,031
Insurance premiums	3,481	4,560
Travel and entertainment	2,930	3,044
Other	9,224	12,407
	90,841	**73,175**

NOTE 9 – OTHER LOSSES - NET

	2017	2016
	(in thousands of HRK)	
Change in fair value of derivative instrument	(5,957)	(3,336)
Other gains	1,606	677
Other losses – net	**(4,351)**	**(2,659)**

NOTE 10 – FINANCE INCOME AND COSTS

	2017	2016
	(in thousands of HRK)	
Finance income		
Interest income from cash deposits	785	1,574
Interest income from derivatives	1,376	2,328
Other finance income	302	279
Net foreign exchange gains	12,411	10,380
	14,874	14,561
Finance costs		
Interest and commission expense	(21,562)	(37,359)
Other finance costs	(22)	(29)
	(21,584)	(37,388)
Finance costs - net	**(6,710)**	**(22,827)**

NOTE 11 – INCOME TAX

	2017	2016
	(in thousands of HRK)	
Current income tax charge	(32,099)	(14,212)
Deferred tax income (Note 18)	(10,892)	(19,877)
Income tax	**(42,991)**	**(34,089)**

The tax on the Group'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	**268,229**	**246,895**
Income tax at 18% (2016: 20%)	48,281	49,379
Effect of non-taxable income	(7,562)	(8,143)
Effect of reinvested profit /i/	-	(10,352)
Effect of non-deductible expenses	2,272	3,205
Income tax	**(42,991)**	**34,089**
Income tax prepayments receivable	-	2,748
Income tax payable	11,595	-
Effective tax rate	16.00%	13.81%

/i/ In accordance with article 6, paragraph 1, item 6 of the Income Tax Act, which is effective for the business year 2016, the Company decided to reinvest a portion of the 2016 profit in the amount of HRK 52 million and based on the General Assembly’s decision the Company increased its share capital in 2017.

The Group uses tax incentives in line with the Act on Investment Promotion and Enhancement of the Investment Environment in the total amount of HRK 65,119 thousand. In 2017, the used incentive amount was HRK 9,214 thousand (2016: HRK 20,386 thousand). As at 31 December 2017, the Company does not have any unused incentives nor deferred tax assets on this basis (Note 18).

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

To date, the Tax Administration carried out a full scope tax audit of the Company’s income tax and VAT returns for 2003, 2004, 2005, 2008, 2013 and 2014. In March 2015, the Company filed an appeal to the second instance body regarding the administrative procedure relating to the tax audit from 2014. In September 2017, the Company’s appeal was rejected by a second instance body decision and the Company filed an appeal with the Administrative Court.

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

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

	2017 *(in thousands of HRK)*		
	Preference shares	**Ordinary shares**	**Total**
Dividends declared and paid in the year	105	-	105
Undistributed earnings	35,941	183,870	219,811
Profit for the year attributable to equity holders of the Company	**36,046**	**183,870**	**219,916**
Weighted average number of shares in issue excluding treasury shares	105,000	537,176	642,176
Distributed earnings	1	-	
Undistributed earnings	342.29	342.29	
Basic earnings per share (in HRK)	**343.29**	**342.29**	

	2016 *(in thousands of HRK)*		
	Preference shares	**Ordinary shares**	**Total**
Dividends declared and paid in the year	105	-	105
Undistributed earnings	34,109	174,500	208,609
Profit for the year attributable to equity holders of the Company	**34,214**	**174,500**	**208,714**
Weighted average number of shares in issue excluding treasury shares	105,000	537,176	642,176
Distributed earnings	1.00	-	
Undistributed earnings	324.85	324.85	
Basic earnings per share (in HRK)	**325.85**	**324.85**	

Diluted earnings per share

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

NOTE 13 – DIVIDEND PER SHARE

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

Unpaid dividends in respect of 2005 through 2017 of HRK 5,362 thousand are disclosed as dividends payable in “trade and other payables” (Note 24).

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Plant and equipment**	**Assets under construction**	**Total**
At 1 January 2016				
Cost	4,358,491	589,544	6,820	4,954,855
Accumulated depreciation and impairment	(2,113,763)	(472,814)	-	(2,586,577)
Net book amount	**2,244,728**	**116,730**	**6,820**	**2,368,278**
Year ended 31 December 2016				
Opening net book amount	2,244,728	116,730	6,820	2,368,278
Additions	41,479	10,080	46,390	97,949
Transfer	22,767	7,717	(30,484)	-
Disposal and impairment	84	(4,653)	-	(4,569)
Depreciation	(134,889)	(27,905)	-	(162,794)
Closing net book amount	2,174,169	101,969	22,726	2,298,864
At 31 December 2016				
Cost	4,417,867	612,055	22,726	5,052,648
Accumulated depreciation and impairment	(2,243,698)	(510,086)	-	(2,753,784)
Net book amount	**2,174,169**	**101,969**	**22,726**	**2,298,864**
Year ended 31 December 2017				
Opening net book amount	2,174,169	101,969	22,726	2,298,864
Additions	166,741	35,435	18,710	220,886
Disposal and impairment	(13,929)	(1,261)	-	(15,190)
Depreciation	(135,774)	(27,804)	-	(163,578)
Closing net book amount	**2,191,207**	**108,339**	**41,436**	**2,340,982**
At 31 December 2017				
Cost	4,464,805	586,911	41,436	5,093,152
Accumulated depreciation and impairment	(2,273,598)	(478,572)	-	(2,752,170)
Net book amount	**2,191,207**	**108,339**	**41,436**	**2,340,982**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Additions under 'Land and buildings' relate to various construction works in hotels and campsites that were completed in 2017 and 2016 respectively.

As at 31 December 2017 the net carrying value of land and buildings pledged by the Group as collateral for repayment of long-term borrowings amounted to HRK 554,612 thousand (2016: HRK 780,680 thousand.

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

	2017	**2016**
	(in thousands of HRK)	
Cost	152,435	149,298
Accumulated depreciation at 1 January	(107,305)	(102,158)
Depreciation charge for the year	(3,765)	(4,672)
Net book amount	**41,365**	**42,468**

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

During 2016, the Group realised rental income in the amount of HRK 38,611 thousand (2016: HRK 38,297 thousand). During the year, there were no direct operating expenses arising from the utilisation of these assets except for the depreciation charge.

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

	2017	**2016**
	(in thousands of HRK)	
Up to 1 year	30,927	30,090
From 2 to 5 years	89,344	99,404
	120,271	**129,494**

As at 31 December 2017, the Group does not have any assets acquired under a finance lease. As at 31 December 2016, the net carrying amount of assets acquired under a finance lease was HRK 11,467 thousand.

NOTE 15 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software**	**Goodwill**	**Total**
At 31 December 2015			
Cost	24,818	13,754	38,572
Accumulated amortisation	(17,473)	-	(17,473)
Net book amount	**7,345**	**13,754**	**21,099**
Year ended 31 December 2016			
Opening net book amount	7,345	13,754	21,099
Additions	918	-	918
Amortisation	(1,711)	-	(1,711)
Effect of change in income tax rate (Note 18)	-	(1,274)	(1,274)
Disposals	(10)	-	(10)
Closing net book amount	6,542	12,480	19,022
At 31 December 2016			
Cost	25,725	12,480	38205
Accumulated amortisation	(19,183)	-	(19,183)
Net book amount	**6,542**	**12,480**	**19,022**
Year ended 31 December 2017			
Opening net book amount	6,542	12,480	19,022
Additions	3,319	-	3,319
Amortisation	(1,604)	-	(1,604)
Closing net book amount	8,257	12,480	20,737
At 31 December 2017			
Cost	29,042	12,480	41,522
Accumulated amortisation	(20,785)	-	(20,785)
Net book amount	**8,257**	**12,480**	**20,737**

NOTE 16 – INVESTMENTS IN ASSOCIATE

	2017	2016
	(in thousands of HRK)	
At the beginning of the year	261,435	225,126
Net gains in associate	19,032	36,309
At the end of the year	**280,467**	**261,435**

The unlisted associate is as follows:

(in thousands of HRK)

2017

Name	Assets	Liabilities	Income	Profit	% share in ownership
Jadranski luksuzni hoteli d.d., Dubrovnik	1,452,973	625,218	464,739	58,597	32.48

2016

Name	Assets	Liabilities	Income	Profit	% share in ownership
Jadranski luksuzni hoteli d.d., Dubrovnik	1,364,890	595,732	443,372	111,790	32.48

NOTE 17 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Ownership	2017	2016
		(in thousands of HRK)	
Investments in credit institutions	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)	
At the beginning of the year	8,041	6,977
Effect of sale	-	38
Write-off of investments	(120)	-
Revaluation gains	1,296	1,026
At the end of the year	**9,217**	**8,041**

Available-for-sale investments are as follows:

	2017	2016
	(in thousands of HRK)	
Equity securities		
- listed	9,217	7,921
Equity securities		
- unlisted	-	120
At the end of the year	**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 18 – DEFERRED TAX ASSETS AND LIABILITIES

	2017	2016
	(in thousands of HRK)	
Deferred tax assets		
Differences by financial instrument	537	2,725
Tax incentives (Note 11)	-	9,164
	537	11,889
Deferred tax liability:		
Difference in fair value of assets of acquired subsidiary	(11,004)	(11,462)
	(11,004)	(11,462)
Deferred tax assets/(liability), net	**(10,467)**	**427**

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

Movements in deferred tax assets and liabilities:

	2017	2016
	(in thousands of HRK)	
At 1 January	**427**	**19,030**
Effect of tax incentives, recognised in statement of comprehensive income	(9,214)	(20,386)
Effect of change in income tax rate - effect on goodwill	-	1,274
Effect of temporary tax differences	(2,138)	-
Change in deferred tax liability, recognised in statement of comprehensive income	458	509
Deferred tax (liability)/assets, net	**(10,467)**	**427**

NOTE 19 – TRADE AND OTHER RECEIVABLES

	2017	2016
	(in thousands of HRK)	
Domestic trade receivables	9,197	4,776
Foreign trade receivables	4,073	2,054
Due from brokers – agencies	13	18
Provision for impairment of trade receivables	(4,224)	(2,137)
Trade receivables – net	9,059	4,711
Loans given	-	-
Interest receivable	12	15
Accrued income not yet invoiced	19	2,949
Total financial assets	9,090	7,675
Due from state institutions	570	429
VAT prepayments	7,649	4,538
Advances to suppliers	231	9,250
Other receivables	1,167	1,496
Provisions for impairment of other receivables	-	(30)
	18,707	**23,358**

Movements in provisions for impairment of trade and other receivables.

	2017	2016
	(in thousands of HRK)	
At 1 January	2,167	4,334
New provisions	3,713	968
Collection	(534)	(2,186)
Write-off	(1,122)	(949)
At 31 December	**4,224**	**2,167**

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

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

	2017	2016
	(in thousands of HRK)	
Financial assets		
Shares and interests	1,840	1,783
Investment funds	-	31,584
Derivative financial instruments	-	5,957
	1,840	**39,324**

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

NOTE 21 – SHAREHOLDERS' EQUITY

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 /ii/	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 Investments Anstalt, Liechtenstein	105,000	105,000,000	100.00
Total	**105,000**	**105,000,000**	**100.00**
		1,436,911,375	

The equity ownership 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 /ii/	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 its profit in the amount of HRK 51,760 thousand (2016: HRK 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. Preference shares carry a right to a fixed annual preferred dividend of HRK 1 per share, in addition to ordinary dividends, declared and paid on ordinary shares and are non-voting. Preference shares have priority right of settlement in the liquidation process of the Company. Following the decision of the General Assembly of 11 August 2017, a preference fixed dividend was paid to holders of eligible capital in the amount of HRK 105 thousand.

/i/ In 2018, the company Adriatic Investment Group, registered in Luxembourg, became the majority shareholder of the Company (Note 28).

/ii/ 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 22 – RESERVES AND RETAINED EARNINGS

	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/		
At the beginning of the year	46,823	43,430
Transfer from retained earnings	3,610	3,393
At the end of the year	**50,433**	**46,823**
Other reserves /ii/		
At the beginning of the year	32,480	31,659
Revaluation of available-for-sale financial assets	1,062	821
At the end of the year	**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 23 – BORROWINGS

	2017	2016
	(in thousands of HRK)	
Long-term borrowings:		
Bank borrowings	527,934	403,977
Borrowings from majority shareholder of the Company	-	198,392
Finance lease	-	2,571
	527,934	**604.940**
Current portion of long-term bank borrowings	89,747	96,670
Current portion of long-term borrowings from majority shareholder of the Company	-	28,342
Accrued interest and fees	1,841	7,926
Current portion of non-current finance lease liabilities	-	3,684
	91,588	**136.622**
Total borrowings	**619,522**	**741,562**

Bank borrowings are secured by properties (Note 14). Borrowings from the majority shareholder of the Company were contracted without mortgage on properties. During 2017, the Group repaid the total borrowings to the majority shareholder using the newly approved bank borrowing and to a lesser extent using own funds (EUR 1.25 million).

In 2017, the Group refinanced the existing borrowings with new bank borrowings in the amount of EUR 82.3 million at a fixed interest rate of 1.60% and 1.95%, finally maturing in 2022 and 2025.

The maturity of long-term borrowings is as follows:

	2017	2016
	(in thousands of HRK)	
From 1 to 2 years	89,747	58,900
From 2 to 5 years	269,129	307,011
After 5 years	169,058	239,029
	527,934	**604,940**

For the purpose of hedging its exposure to cash flow interest rate risk, arising from financial liabilities (debt) subject to a variable interest rate (3m Libor CHF + 1.5% k.m.), during 2009 the company Istraturist Umag d.d. entered into an interest rate swap contract until the borrowing expires in order exchange cash flows at variable interest rates with cash flows at fixed interest rates. In 2014, an EURCHF currency interest rate swap was contracted whereby the cash flows as per the remaining unpaid bank borrowing principal contracted at an interest rate of CHF 3m LIBOR + 1.5% k.m. and interest rate swap with 3m LIBOR fixed at 1.78% are changed to cash flows in EUR at a fixed interest rate of 4.7% until the borrowing expires.
Both contracts expired in 2017.

NOTE 23 – BORROWINGS (continued)

As at 31 December 2017, the Group does not have any derivative financial instruments. As at 31 December 2016, the fair value of derivative financial instruments amounted to HRK 5,957 thousand and was recognised within assets.

Finance leases relate to mobile homes that the subsidiary obtained by way of finance leases during 2013 and 2014 for a period of five years at the interest rate of 5.4% to 5.7%. The Company may purchase the equipment at its nominal amount upon expiry of the lease agreements. During 2017, the lease was repaid.

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	88,844	18,339
Bank deposits	239,610	177,850
Listed shares	11,057	9,704
Investments in investment fund	-	31,584
Borrowings - maturing within 1 year	(91,588)	(136,622)
Borrowings - maturing after 1 year	(527,934)	(604,940)
Net debt	**(280,011)**	**(504,085)**
Cash and liquid assets	339,511	237,477
Borrowings - at fixed interest rate	(619,522)	(240,162)
Borrowings - at variable interest rate	-	(501,400)
Net debt	**(280,011)**	**(504,085)**

The movements in debt during 2017 are presented in the table below:

(in thousands of HRK)	**Borrowings**
At 1 January 2017	**741,562**
Proceeds from borrowings	612,203
Repayments of borrowings	(719,356)
Interest paid	(28,065)
Accrued interest	21,562
Net foreign exchange differences	(8,384)
At 31 December 2017	**619,522**

NOTE 24 – TRADE AND OTHER PAYABLES

	2017	2016
	(in thousands of HRK)	
Trade payables	39,604	35,095
Dividends payable (Note 13)	5,362	5,362
Accrued costs not yet invoiced	20,023	14,373
Concession payable /ii/	43,341	36,856
Total financial liabilities	108,330	91,686
Net salaries payable	28,411	25,548
Taxes and contributions payable	19,020	17,536
Advances payable	18,265	18,821
Other current liabilities	8,858	4,667
	182,884	**158,258**

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

NOTE 25 – 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 Group settled all liabilities arising from the invoices received, issued by governing authorities on the basis of the provisions of the Regulations.

NOTE 25 – CONTINGENCIES AND COMMITMENTS (continued)

Legal disputes of subsidiary Istraturist Umag d.d., Umag.

In the early 1990s the Istraturist Umag d.d. (the Company) entered into loan agreements and other financial arrangements with Ljubljanska banka d.d. in the amount of approximately DEM 31 million (approximately EUR 16 million), which it did not manage to repay due to problems in operations caused by the war.

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. The Company offset the (purchased) receivable from Ljubljanska banka d.d. in the amount of DEM 31 million with its financial liabilities to Ljubljanska banka d.d. in the same amount.

In a special Constitutional Act adopted after the above offsetting, the Republic of Slovenia established Nova Ljubljanska banka d.d., 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.

In the period between 1994 and 1998, Nova Ljubljanska banka d.d. brought two legal disputes against the Company before Slovenian courts demanding the repayment of the liability of DEM 31 million plus interest (cases Pg 16/2005 and Pg 117/05). Both disputes were finally decided in favour of Nova Ljubljanska Banka, which then initiated, before the Commercial Court in Pazin, a process for implementing the legal effects of those judgements in the Republic of Croatia in order to enforce the collection of the amount claimed from the Company. The Company appealed against both cases in full, disputing the allegations of Nova Ljubljanska Banka, noting that in one of the cases (where the Company expected the second acknowledgement process to be ruled in the same way) the acknowledgement was discontinued until the proceedings pending before the Commercial Court in Zagreb - Permanent Office Karlovac become final (see below). The key grounds for the Company's appeal are that:

i) enforcing the Slovenian judgements in the Republic of Croatia would be contrary to the legal system of the Republic of Croatia, not only because of the (illegal) accrual of interest, but also because of the disputed validity of the offsetting arrangement;
ii) there is a case in progress in the Republic of Croatia, in which the Company disputes the existence of the claims of Nova Ljubljanska Banka.

Nova Ljubljanska Banka initiated enforcement through courts not only in the Republic of Slovenia, but also in the Republic of Croatia: for the purpose of enforcing the collection of the claims under mortgage before the Municipal Court in Buje (Ovr 436/00); proceedings before the Commercial Court in Rijeka for the purpose of recovering the loan debt (P-89/10).

On the other hand, the Company, in protecting its rights claiming that the offsetting arrangement was fully legal and valid and therefore extinguished entirely all mutual claims and that transferring rights to a universal legal successor without any obligations being transferred simultaneously is not compliant with the Croatian legal system, requested from the Municipal Court in Buje to render the enforcement no. Ovr 436/00 illicit and declare the related rights arising from the lien (P-585/06 and P-246/03) null and void; and from the Commercial Court in Zagreb (earlier Karlovac Permanent Office) to determine that there are no rightful claims of Nova Ljubljanska Banka and Ljubljanska banka, its predecessor, from the Company on any legal grounds in connection with the financial contracts concluded between the Company's predecessor and Ljubljanska banka in the period 1989 - 1991 (P-3502/13).

NOTE 25 – CONTINGENCIES AND COMMITMENTS (continued)

In October 2014, the Supreme Court of the Republic of Croatia rejected the review on points of law of Nova Ljubljanska Banka in the process initiated upon the bank’s motion to initiate enforcement before the Commercial Court in Rijeka (P - 89/10; see above) and confirmed all rulings of the lower-instance courts, having thus confirmed, as the highest appellate court of the Republic of Croatia, that the offsetting arrangement which the Company officially stated was fully valid and legal in the part of the loans covered by the judgement. This judgement has the effect of a legal precedent in relation to disputes initiated in the Republic of Croatia, which, according to the Company and it legal advisors, will play a significant role in the further developments, i.e. on the final decision in favour of the Company.

Although in February 2016 the Company received the findings and opinion of a court expert witness from which it is apparent that the Company failed to set off its liabilities to Ljubljanska Banka, i.e. Nova Ljubljanska Banka through the offsetting arrangement, in March 2017 based on its unenforceable verdict in case no P-3502/13, the Commercial Court in Zagreb partially rejected the Company's claim that aimed to establish that the Company did not have any liabilities towards Ljubljanska Banka, i.e. Nova Ljubljanska Banka. The Company filed an appeal against this verdict both due to serious procedural violations and violations of the material law by the first instance court, according to the Company assessment.

In December 2017, following the unenforceable verdict in case P-3502/13 and the appeal filed by the Company, the High Commercial Court rendered a judgment by which the case was remitted for retrial and ordered that the evidence was to be presented by hearing an expert witness, and by taking a clear and binding legal position towards the first-instance court, that the set-off of claims had been valid, thereby eliminating the doubt whether the Company could have obtained claims from Zagrebačka banka d.d. and then set them off with the debt towards the then Ljubljanska banka d.d.

Although the Company considered that the practice of the European Court of Human Rights in Strasbourg (in particular the final verdict in the case ALIŠIĆ et al. vs. Serbia, Slovenia and Others - case no. 60642/2008), which undoubtedly determined the responsibility of Nova Ljubljanska Banka for not having transferred ‘frozen foreign currency savings’, would also affect the proceedings initiated by the Company before that court (cases Pg 16/2005 and P 585/06), that court ruled that the Company's claims were not permissible and thereby these proceedings before the European Court of Human Rights in Strasbourg were terminated.

Following the final verdicts in Slovenia, during 2017 and early 2018 the Company received documents proving that in 2017 Nova Ljubljanska banka initiated procedures for the recognition and enforcement of Slovenian judgments in the Republic of Slovenia, the Republic of Austria, the Czech Republic and the Kingdom of the Netherlands and this to the debtor's debtors or tourist agencies. In respect of the above mentioned procedures, the legal successor of the Company has hired attorneys and has been exploiting all legal remedies available with the aim of suspending such proceedings, none of which has been finalised by the time this report is being issued. At the same time, according to the opinion of its attorneys, the Company has changed its corporate governance model in its relations with foreign travel agencies, and now it manages and wholly controls the business segment of sales, and the Management estimates that the procedures initiated by Nova Ljubljanska banka, also taking into account the guarantees by Zagrebačka banka d.d. Zagreb in respect of the parent company Plava laguna d.d. Poreč, will not have a negative impact on the business operations and realisation of the Company's defined business objectives.

Provisions for other contingent liabilities. In the financial statements for the period ended 31 December 2017, the Group anticipates payment of other contingent liabilities in the amount of HRK 3,318 thousand. HRK 2,131 thousand).

NOTE 25 – CONTINGENCIES AND COMMITMENTS (continued)

Capital commitments. Future commitments contracted for investments in tourist facilities, for which provisions were not made, as at 31 December 2017 amounted to HRK 340 million (2016: HRK 37.1 million).

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

	2017	2016
	(in thousands of HRK)	
Up to 1 year	1,018	966
From 2 to 5 years	702	987
	1,720	**1,953**

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. Operating lease commitments of the subsidiary relate to the operating lease of a vehicle fleet.

NOTE 26 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

	2017	2016
	(in thousands of HRK)	
Profit before tax	268,229	246,895
Adjustments for:		
Depreciation and amortisation (Notes 14, 15)	165,182	164,505
Impairment of property, plant and equipment	14,526	3,468
Provision for impairment of trade and other receivables and loans, net	3,304	(646)
Provisions for legal disputes, net	995	512
Dividend income	(375)	(157)
Other gains – net	4,351	2,659
Net finance costs (Note 10)	6,710	22,827
Profit of associate	(19,032)	(36,309)
Other non-cash items	(5)	850
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade and other receivables	1,637	(10,066)
- inventories	138	57
- trade and other payables	24,975	8,941
Cash generated from operations	**470,635**	**403,536**

NOTE 27 – 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 majority owner, ultimate owner and companies under the common control of the ultimate owner. These transactions were carried out under commercial terms and conditions and at market rates,

Transactions with the majority shareholder of the parent company:
As at 31 December 2017, the Group did not have any transactions with the majority shareholder of the parent company. As at 31 December 2016, liabilities arising from a borrowing from the majority shareholder of the parent company and interest payable amounted to HRK 229,648 thousand. In 2016, interest and fee expense amounted to HRK 12,071 thousand. In 2017, the borrowing from the majority shareholder was repaid.

During 2017 and 2016, the Company and the Group did not have transactions with associates.

Group key management and Supervisory Board compensation

(in thousands of HRK)	**2017**	**2016**
Net salaries	13,256	12,805
Pension insurance contributions	3,576	3,807
Health insurance contributions	3,238	3,328
Other costs (contribution and taxes)	5,231	6,068
	25,301	**26,008**
Supervisory Board compensation	1,056	1,125
	26,357	**27,133**

Key management comprises 39 persons (2016: 41 persons). The Supervisory Board of both companies (the parent company and the subsidiary Istraturist Umag d.d.) comprises 5 members.

NOTE 28 – EVENTS AFTER THE BALANCE SHEET DATE

As at 10 January 2018, the Company registered a change in the majority shareholder at the CDCC, with the company Adriatic Investment Group, incorporated in Luxembourg, being registered as a holder of 85.83% of the Company’s ordinary and 100% preference shares, thereby replacing the former Sutivan Investment Anstalt. The ultimate controlling entity remained unchanged.