PLAVA LAGUNA

FOR THE YEAR 2017

ANNUAL REPORT

Poreč, June 2018

PLAVA LAGUNA

FOR THE YEAR 2017

ANNUAL REPORT

CONTENTS

Based on article 300c of the Companies Act and article 34 of the Bylaws of PLAVA LAGUNA, Joint Stock Company for Hotels and Tourism, the Company's Supervisory Board at the session held on May 25th 2018, renders

THE SUPERVISORY BOARD REPORT

ON SUPERVISION OVER THE MANAGEMENT OF THE COMPANY'S AND GROUP'S OPERATIONS, ON THE RESULTS FOLLOWING THE REVIEW OF THE FINANCIAL REPORTS, THE REPORT ON THE SITUATION IN THE COMPANY AND THE PROPOSED DECISION ON THE USE OF PROFIT IF THE COMPANY AND GROUP FOR 2017

In the course of business year 2017, the Supervisory Board of the Company continuously supervised the conduct of business and held 13 meetings in two convolutions, pursuant to the powers conferred by the provisions of the Companies Act and the Bylaws.

Up to the end of August 2017, the Supervisory Board acted composed as follows:
Davor Luksic Lederer, Chairman of the Supervisory Board
Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board
Davor Domitrovic Grubisic, Member of the Supervisory Board
José Ignacio Bulnes León, Member of the Supervisory Board
Borislav Škegro, Member of the Supervisory Board
Boris Šavorić, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Board, representative of employees.

Based on the decision of the General Assembly held on August 11th 2017, at the Supervisory Board meeting held on September 1st 2017 the new Supervisory Board was constituted as follows:
Davor Luksic Lederer, Chairman of the Supervisory Board
Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board
Davor Domitrovic Grubisic, Member of the Supervisory Board
José Ignacio Bulnes León, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Board, representative of employees.

The Supervisory Board used its counsel and recommendations to influence the Company's activities that marked the business year 2017.

On the basis of Article 300b paragraphs 1 and 2 of the Companies Act, the Management of the joint stock company Plava laguna submitted to the Supervisory Board annual financial reports, the report on the situation in the Company as well as the proposed decision on the use of profit.

Pursuant to its authorities under Article 300c paragraph 2 of the Companies Act the Supervisory Board reviewed the submitted financial reports for 2017 for the Company and Group, the report on the situation in the Company as well as the proposed decision on the use of profit, and decided on them in a meeting held on April 27th 2018 in the presence of the Management Board and participation of representatives of the auditors PricewaterhouseCoopers d.o.o. Zagreb. Supervisory Board submits the results of this review to the Board and General Assembly for further procedure.

The reviews carried out undoubtedly show that in 2017 the Company's Management, according to its statutory obligations, informed the Supervisory Board in writing and orally of the operational policy and of the other principal issues related to future management of the business operations, of the profitability of operations and profitability of the use of shareholdings' equity, of the course of business operations, revenues and expenses and the situation in the Company, and in particular of the operations affecting the profitability and liquidity, as well as of other matters that the Supervisory Board considered important.

The results of our review as well as the opinion of the authorized auditor on the reality and objectivity of data shown in the financial reports for 2017 demonstrate that the Company acts in accordance with the law and regulations in force, the Company's general legal instruments and the decisions of the General Assembly.

After the review of financial reports for 2017, which the management is accountable for, the Supervisory Board established that they are drafted in accordance with the provisions of the Accountancy Act and other pertinent laws and regulations, and they realistically reflect the situation in the company books and fairly reveal the assets and operational state of the Company.

The Supervisory Board supports the management's proposal on the use of profit. The Supervisory Board is of the opinion that the proposal is aligned with the Company's business policy and adopted development guidelines and plans and the same is submitted to the General Assembly for adoption.

The Supervisory Board fully supports the auditing report, which confirms that the Company's financial reports for the year that ended on 31 December 2017, in all aspects realistically and objectively show the financial situation in the Company.

The Supervisory Board expresses its absolute approval of the submitted financial reports for 2017 and the report on the situation in the Company, as well as their affirming, and leaves their rendering to the Company' General Assembly.

While analyzing the audited financial reports on consolidated level the Supervisory Board analyzed all the documentation on which the Annual financial report for the related party Istraturist Umag, d.d. is based. The related party has been merged to the Company as of January 1st 2018 and therefore ceased to exist as a legal entity (hereinafter referred to as: Merged company). In addition, once the corporate actions of merge and stock split have been completed on January 12th 2018, the shareholders of the Merged company became the shareholders of the Company to whom this Report is being submitted.

The Supervisory Board of the Company determined that the Supervisory Board of the Merged company during the business year 2017 acted composed as follows:
Davor Luksic Lederer, Chairman of the Supervisory Board
Neven Staver, Deputy Chairman of the Supervisory Board
Patricio Tomas Balmaceda Tafra, Member of the Supervisory Board
José Ignacio Bulnes León, Member of the Supervisory Board
Tomislav Sokač, Member of the Supervisory Board, representative of employees.

During the business year 2017 the Supervisory Board of the Merged company held 13 meetings dedicated to the decisions and discussions in accordance with the Companies Act, Merged company Bylaws and Rules of procedure of the Supervisory Board of the Merged company. During the same period the Auditing Committee of the Merged company held 1 meeting where discussions had been run and resolutions had been adopted according to its prescribed authorities and responsibilities.

The Company's Supervisory Board reviewed the report of the of authorized auditing company PricewaterhouseCoopers d.o.o. Zagreb on on examination of Annual financial reports of the Merged company for the year ending December 31st 2017. The Company's Supervisory Board has no remarks on the report of respective auditor with regard to the business status of the Merged company, and it is hereby completely adopted.

After reviewing the audited Annual financial reports of the Merged company for the business year ending December 31st 2017, the Company's Supervisory Board concluded they are produced in accordance with the status indicated in business books and that they reflect accurately property rights and the business position of the Merged company, and thus they affirmed them. The Company's Supervisory Board grants its approval upon the Management Board´s proposal to leave to the General Assembly the confirmation (acceptance) of the audited Annual financial report of the Merged company for business year ending December 31st 2017.

The Supervisory Board of The Company grants its approval upon the Management Board´s proposal on allocation of the profit generated by Merged company in 2017 and leaves to the General Assembly the acceptance of that proposal.

PRESIDENT

Davor Luksic Lederer

BOARD OF MANAGERS' REPORT TO THE COMPANY´S SHAREHOLDERS

Dear shareholders,

It is with great pleasure that I am able to report that Plava laguna in year 2017 continues with the trend of achieving the growth of all key operating and financial business indicators, which quantifies the current year as the most successful business year in the company's recent history.

In their report for year 2017, the World Tourism Organization (UNWTO) emphasizes that every day more than 3 million tourists cross the international borders and that every year the realization of international tourist arrivals is close to 1.2 billion. For another consecutive year, tourism proved to be one of the most important and fastest growing global business sectors and with a share of almost 10% in world GDP and estimated global market value of EUR 800 billions represents a pillar of economy. In year 2017, more than 1.2 billion of international tourist arrivals were ralized which is 7% more than in the previous year and almost double than the average growth rate of 4% in the period from 2010 until 2016. Growth was recorded despite the pervasive fear from terrorism and geopolitical tensions in certain areas of the world. Europe, as the most visited region of the world, with a share of more than 50% of international arrivals, realized 671 million foreign arrivals in 2017 which is an increase of 8% compared to the previous year. A growth of 9% was realized in the region of Africa while Asia and the Pacific recorded a somewhat slower growth of 6%.

Global record-breaking results have also shifted to the Croatian tourism. In year 2017, Croatia realized more than 86.2 million overnight stays which was a growth of 10.6% compared to the previous year, maintaining the seasonality model by achieving 86% of all overnight stays in the period from June until September. In accordance with the estimates of the Croatian National Bank (HNB), revenues from tourism in year 2017 of almost 9.5 billion EUR were 10% or 860 million EUR higher than in year 2016, and with a share of almost 20% in total GDP, point to the important role of tourism in the development of Croatian economy. In year 2017, 63.5% of tourists decided for an individual and 36.5% for an organized arrival. In the structure of foreign tourists, who with an increase of 11.3% achieved 93% of total overnight stays, tourists from Germany achieved the highest result (24.3%) with average length of stay of 7.5 days, followed by guests from Slovenia (8.9%) with average length of stay of 5.5 days, Austria (8.7%) and Poland (7.5%) and Czech Republic (6.3%) with average length of stay of 5.5, 6.5 and 6.8 days. It should be noted that in addition to the traditional inbound markets, which year after year record stable figures in arrivals and overnight stays, a double-digit percentage of growth in overnight stays in year 2017 record the markets of U.S.A. (34.2%) and Great Britain (26%).

In year 2017, 47% of overnight stays was realized in private accommodation, 28% in hotels, tourist resorts and apartments and 22% in campsites while the average length of stay was 5 days.

Most tourist overnight stays in year 2017 were realized in the County of Istria, 25.4 million overnights which represents 29% of total overnight stays realized in Croatia. Tourist realized 6 overnight stays on average per arrival.

In business year 2017, the company Plava laguna recorded growth of physical volume of tourist traffic of 5.5% by realizing 2.6 million overnight stays which nominally represents an increase of 137 thousand overnight stays compared to the previous year.

When reviewing the built objects or capacities, the realization was 1.36 million overnight stays representing growth of 6.4% or nominally 82 thousand overnight stays generated mostly through the activities of groups outside the peak season which was the key factor in total increase of volume. Thus, the group channel with 19.1% in 2016 reached 23.4% share in total overnight stays in built objects in the observed year. It should also be pointed out to the steady growing trend of individuals which is in correlation with the changes of habits of modern guests on global scale, supported by greater availability through the technological advancement of sales.

Considering tourist traffic according to markets, it should be pointed out that the markets of Germany and Austria kept their stability with a share of 39%, Russian market, third in order of importance, was at the previous year's level while the market of Great Britain positioned itself on the fourth place with a share of 6.4% in total overnight stays in built objects.

Autocamps that in total capacity of the Company make a share of 60%, generate 48% of the total physical volume measured by overnight stays. Thus, in the current year there were 1.26 million overnight stays realized which makes 4.5% increase compared to the previous year or nominally 54 thousand overnights. A more prominent positive trend during the season was reduced in September due to extremely bad weather conditions and when decrease was recorded of even 17 thousand overnight stays compared to the September of the previous year. Autocamps of the company continuously record the upwards trend which is a result of systematic investment in the accommodation segment, construction of additional water surfaces, arrangement of beaches and the infrastructure.

Based on the explained trend, days of occupancy in built objects increased by 9 days and in autocamps by 4 days.

Dependent on the explained volume trend with the shift of the total average net price by 5.7% expressed in EUR, and a negative foreign exchange rate effect of 1%, growth of business revenues of 8.3% was achieved or nominally 44.2 million HRK in relation to the level of 577.8 million HRK.

Business expenditures were realized in the amount of 443.6 million HRK and compared to the previous year, recorded an increase of 40.9 million HRK where 13.6 million HRK relate to the single adjustment of assets on a basis of impairment loss due to thorough reconstruction that began by the end of year 2017.

Remaining growth is interpreted by the changes in variable components of costs caused by the increase of the physical volume, employee costs on a basis of raising the basic salary and other pay-related benefits, marketing expenses generated by the new brand strategy and visual identity, and the increase of other costs aimed at the improvement of offer and quality of guest stay.

The company's position in the segment of financial activities significantly improved, given that the negative effect from the previous year in the amount of -17.2 million HRK came to -5.9 million HRK, primarily due to considerably lower interest rates (by 16.5 million HRK) based on more favorable terms of financing and an even lower credit indebtedness compared to the previous year. The effects that directed in the opposite direction were due to a lower level of foreign exchange rate differences and collection of late interest rates, realized by the end of the previous year upon the resolution of litigation, as a single payment category.

In accordance with the above mentioned, in the business year 2017, the Company has achieved profit before tax in the amount of 128.3 million HRK which represents an increase of 14.6 million HRK compared to the previous year 2016, taking into account the impact of the above mentioned single item of reduction of tangible assets in the amount of 13.6 million HRK. The realized increase was driven by a shift in operating result measured by EBITDA of 17.3 million HRK to the level of 240.1 million HRK and the aforementioned improvement of results of financial activities.

EBITDA margin for current business period is 41.8% which represents a standardized level of performance measure for the company in recent times.

The net profit of the Company after tax amounted to 105.4 million HRK while in the previous year 2016, net profit was 100.7 million HRK, due to the use of tax relief based on reinvestment of earnings of 51.7 million HRK. Mentioned relief was abolished by the amendment of the Profit Tax Act with effect from 1 January 2017.

Balance sheet value of the Company as at 31 December 2017 amounted to 2,368 million HRK which compared to the situation at the end of the previous year represented a nominal increase of 109.3 million HRK. The mentioned is the effect of generated profits in the period, given that the level of credit indebtedness, with nominal debt of EUR 60.0 million, has been slightly decreased compared to the situation at the end of the previous year.

Stability of the Company is manifested through the Debt/EBITDA ratio which in the current year is 1.88, and the amount of cash and highly liquid forms of financial assets – foreign currency deposits in the amount of 267.1 million HRK offer guarantees in financing an important investment cycle in year 2018.

In the observed year, the consolidated business level of operation includes also the subsidiary Istraturist Umag j.s.c. and associated company Jadranski luksuzni hoteli j.s.c./Adriatic Luxury Hotels, by applying the equity method. Excluding the associated company, the Group achieved, in hotels, apartments and campsites with basic capacity exceeding 42 thousand beds, at year level 4.8 million overnight stays which represents an increase of 7.2% compared to the previous year. This resulted in business revenues of 1,084 million HRK which represents an increase of 8.8%, compared to the previous year, net profit at the Group level in the amopunt of 225.2 million HRK, and EBITDA indicator higher by 8.3% compared to the previous year and positioned at the level of 426.7 million HRK. During year 2017, the Group refinanced the existing loans with new bank loans under more favorable conditions and with fixed interest rate. Successful business performance on a consolidated level creates basic prerequisites for further growth and development of the company.

This is an opportunity to thank our loyal employees for all their efforts invested in these results, as they are the most important link in achieving excellence in the quality of services provided and finally in achieving our ultimate goal which is a satisfied guest.

Mutual trust and consistency between the goals and the aspirations of shareholders, the Supervisory Board of the Company, employees, guests and business partners are of utmost importance for achieving successful business results. The Management Board of Plava laguna thanks all stakeholders for their support and cooperation, and with great pleasure, presents this Report on Company's achievements in year 2017.

Management Board of the Company

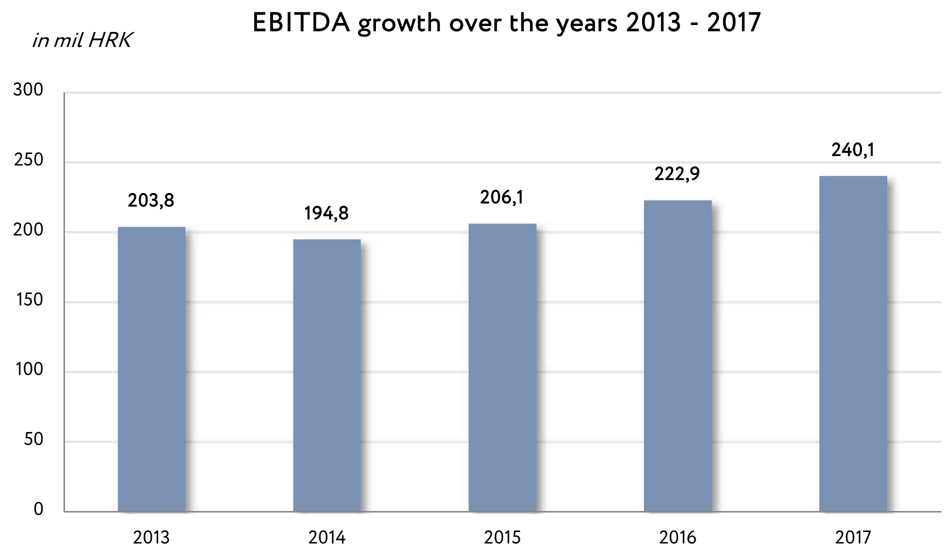
Neven Staver, President

REVIEW OF THE MOST SIGNIFICANT INDICATORS

	2017	2016
Realized overnight stays	2.617.919	2.481.312
Operating revenue per overnight stay in HRK*	219,4	213,1
Net income in 000 HRK	105.429	100.717
Total shareholders' equity in 000 HRK	1.797.869	1.691.483
Total assets in 000 HRK	2.368.447	2.259.153
Liquidity ratio (short-term assets / short-term liabilities)	1,6	1,3
Financial stability in % (long-term assets / equity and long-term liabilities)	95,5	98,2
Net profit and depreciation / total revenues in %	34,2	36,2
EBITDA (earnings from business activity and depreciation) in 000 HRK**	240.133	222.871
EBITDA margin in % (EBITDA / operating revenue)	41,8	42,1
Net debt (total loan borrowings - cash – investment in securities – loans, deposits and similar) in 000 HRK	176.319	305.815
Net debt / EBITDA ratio	0,7	1,4
Debt ratio (borrowings / equity) in %	25,2	27,8
Net working capital in 000 HRK	99.715	37.347
Market value of shares on 31 Dec 2017 in HRK	6.900	5.500

*adjusted (without category other revenues)

**adjusted (without category other revenues and other expenses)



INTRODUCTION OF THE COMPANY

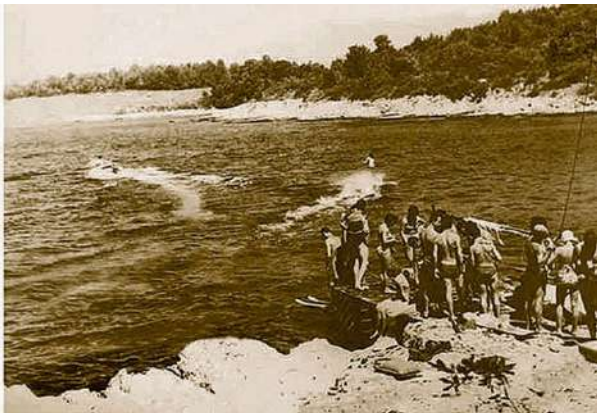
Historical development of the Company

Plava laguna is a company backed by nearly 60 years of successful operation and development, based on ecological principles and sustainable development, during which it continuously occupied leadership position in the Croatian tourism, and by permanent enrichment of its overall offer and adjustment to the needs of ever more demanding tourist market, achieves remarkable physical and especially financial results.

The core business of the company is hospitality and tourism and in addition to that, the Company is registered to carry out other activities as well.

Plava laguna is a company, which realizes more than half a billion HRK in revenues and has an average of thousand employees on an annual basis. In its accommodation capacities, refined and adapted to the guests through ongoing investments, it can daily accommodate over 21 thousand guests of whom more than 9 thousand in hotels and apartments and over 12 thousand in camps, with which it annually realizes about 2.5 million overnight stays. Also, it has 360 berths in two marinas and a number of restaurants and bars, sports and other facilities that are complementing the basic accommodation offer.

Joint stock company Plava laguna was founded in 1957 as a company for hospitality and tourism and it is one of the first tourist companies in Croatia. Plava laguna began its own development path on the camp established on the peninsula Molindrio by the French club for nature lovers "Polynesia", as "Plava laguna – Camp Hotel" with a capacity for 800 persons.



At the very beginning, due to lack of funding, building projects were modest and the first investment was building of bungalows on the site of today's hotel Laguna Galijot, and then the tourist resort Bellevue. A lot of attention was paid to the development of sports and such offer and therefore first sports centers and tennis courts were built.

From 1966 all the way until 1971, a very intense investment period lasted during which most of the Plava laguna's fixed accommodation facilities were built and the foundations laid for the Zelena laguna campsite. In the period that follows, from 1971 until 1976, upgrading of existing facilities continues and campsite Ulika was built. The main characteristics of this period is the beginning of the construction of the marina Červar Porat and the marina Parentium, construction of the campsite Bijela Uvala and many service facilities.

In the same period, horizontal integration with smaller hotel and catering organizations in former municipality of Poreč was completed, as well as with the hotel and tourism company from Novigrad, and a significant step in the development was the business expansion beyond the regional framework, which was accomplished through the construction of hotel Laguna in Zagreb. Overall activity was consolidated in a work organization for hospitality and tourism Lagunaturist.

In 1987, bigger economic systems in Poreč are being joint in the SOUR Plava laguna (autonomous cooperative work organization) and already in 1990, pursuant to the Company Law, there was a disassociation of SOUR and founding of new independent companies, one of which was Laguna Poreč, company for hospitality and tourism.

New changes with the beginning of 1991 were provoked with the entry into force of the Transformation of Socially Owned Enterprises Act, which started the process of privatization in Croatia and thus in Laguna Poreč. On 3rd of September, 1992 pursuant to the Decision of the Agency for Restructuring and Development and the decision of the Constituent Assembly, Laguna Poreč was transformed into a joint stock company, and on the 26th of January, 1993 it was officially registered with the Commercial Court in Rijeka. Plava laguna finally rounds up its legal constitution in February 1996 by the adjustment of the fundamental documents of the Company with the Companies Act and with the act of registration in the register of the Commercial Court in Rijeka as Plava laguna, joint stock company for hospitality and tourism, the company also returned to its historical name.

Plava laguna, as a joint-stock company, all until year 2000 had quite a diversified ownership structure but already in year 2001, the Luksic Group in the acquisition of 80.34% interest in ordinary shares, became the majority shareholder.

During the same year, several acquisitions of corporations were made. Plava laguna j.s.c. acquired 89.40% shares in the company Hoteli Croatia j.s.c. Cavtat, and with the recapitalization of that company in 2003, the Company increases its ownership share in the same to a 92.28%. In year 2001, by an acquisition, the ownership share was increased in the company Adriatic j.s.c. Poreč to 90.48%, given the share in the equity capital, the same ultimately merged with Plava laguna j.s.c. on 1 October 2002. Pursuant to the Agreement on the merger with legal effect on 1 January 2014 company Hoteli Croatia j.s.c. Cavtat was merged to the company Jadranski luksuzni hoteli d.d./ Adriatic Luxury Hotels j.s.c., with what Plava laguna j.s.c. becomes the single largest shareholder in the said company with a share of 32.48%.

Significant investment activity that characterizes the period from 2003 until today is primarily directed towards restructuring of one part of portfolio of accommodation facilities in a 4-star category in part of built objects as well as in campsites.

Particularly significant investments represent the reconstruction of hotel Laguna Albatros (2006) from 2-star into 4-star category „all inclusive“ type of offer, with which the tourist product of the Company is enriched with the new quality and content while the most significant investment from 2008 is the reconstruction of the hotel Laguna Molindrio (ex Galeb) from 2-star to a new level of 4-star quality category. The investment activity in 2012 is marked with an especially demanding project of a complete reconstruction of hotel Laguna Parentium to a 4-star category with very highly set criteria for the creation of an excellent product, given the importance and a traditional role of the hotel. With the mentioned investment, the offer of the Company is enriched by an exclusive hotel that thanks to its unique location offers an atmosphere of relaxation and rest, enriched by the experience of water and gastronomic delights.

With merger of Hotel Bonavia j.s.c. Rijeka from 1 January 2013 Plava laguna j.s.c. expanded its portfolio with a 4-star hotel outside the destination and of different type of business operation.

The business year 2014 was marked by the acquisition of a majority stake in the company Istraturist Umag j.s.c., business event which is among the largest transactions in the history of Croatian tourism. By concluding the purchase of Istraturist Plava laguna expanded its portfolio with a hotel company with more than 50 years of tradition whose accommodation with long-term oriented investments became an unavoidable destination for guests who spend their holidays in Umag and surroundings.

Capacity of the Group Plava laguna		
DESCRIPTION	NUMBER OF UNITS	NUMBER OF BEDS
HOTELS	5.564	10.595
APARTMENTS	2.007	6.290
BUILT OBJECTS	**7.571**	**16.885**
CAMPS	8.498	26.190
TOTAL	**16.069**	**43.075**

The efforts of the two companies in the years that follow, besides regular operational and strategic and developmental activities, were focused on the alignment of business policies and corporate cultures, with Istraturist Umag and Plava laguna continuing to record growth in all business segments. During the reporting year 2017, all preparatory actions of formal-legal and operative character were carried out for the purpose of merging the company Istraturist Umag j.s.c. with the company Plava laguna j.s.c., registered in the court register of the Commercial court of Pazin effective from 1 January 2018.

Plava laguna j.s.c. is one of the leading companies in the Croatian tourism sector with outstanding investment and labor potential for further growth and development based on long-term foundations and sustainable business operation.

Ownership structure and organizational chart

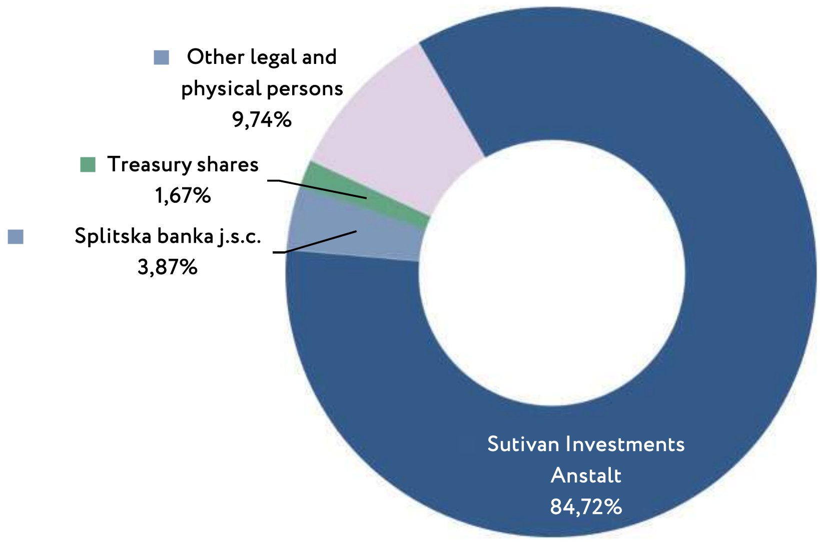
Follows the company's ownership structure as of 31.12.2017.

Ordinary shares owned

Owner	NUMBER OF SHARES	%
Sutivan Investments Anstalt*	462.838	84,72
Splitska banka j.s.c.	21.144	3,87
Treasury shares	9.142	1,67
Other legal and physical persons	53.194	9,74
TOTAL	546.318	100,0

* In 2018 majority owner of the Company become Adriatic Investment Group Luxembourg.

The ownership structure of the Company as of 31.12.2017.



Preferred shares owned

Owner	NUMBER OF SHARES	%
Sutivan Investments Anstalt*	105.000	100,0
TOTAL	105.000	100,0

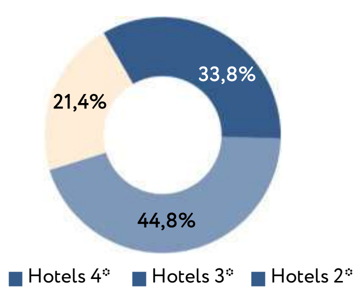
COMPANY'S BUSINESS ACTIVITY IN 2017

Tourist turnover

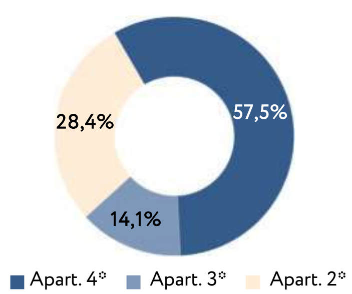
Review of Accommodation Capacities and Realized Overnight stays

DESCRIPTION	CAPACITY 2017	CAPACITY 2016	OVERNIGHT STAYS 2017	OVERNIGHT STAYS 2016	INDEX '17/'16	DAYS OF OCCUPANCY 2017	DAYS OF OCCUPANCY 2016
LAGUNA ALBATROS	608	608	107.994	96.138	112,3	177,6	158,1
LAGUNA MOLINDRIO	482	482	104.344	103.830	100,5	216,5	215,4
LAGUNA PARENTIUM	538	538	95.786	99.997	95,8	178,0	185,9
VILA LAGUNA GALIJOT	174	174	29.864	29.040	102,8	171,6	166,9
VILLAGE LAGUNA GALIJOT	94	94	14.984	14.931	100,4	159,4	158,8
HOTEL LAGUNA PARK	200	202	39.260	41.182	95,3	196,3	203,9
GRAND HOTEL BONAVIA	231	231	31.594	29.382	107,5	136,8	127,2
HOTELS 4*	**2.327**	**2.329**	**423.826**	**414.500**	**102,2**	**182,1**	**178,0**
LAGUNA MEDITERAN	645	645	97.626	95.480	102,2	151,4	148,0
PLAVI	392	392	73.313	61.250	119,7	187,0	156,3
ZORNA	412	412	67.166	56.397	119,1	163,0	136,9
LAGUNA GRAN VISTA	336	336	47.240	40.871	115,6	140,6	121,6
LAGUNA ISTRA	376	376	60.586	53.639	113,0	161,1	142,7
LAGUNA MATERADA	774	774	138.026	120.887	114,2	178,3	156,2
VILLAGE LAGUNA PARK	152	152	20.419	20.287	100,7	134,3	133,5
HOTELS 3*	**3.087**	**3.087**	**504.376**	**448.811**	**112,4**	**163,4**	**145,4**
DELFIN	1.478	1.478	233.927	226.439	103,3	158,3	153,2
HOTELS 2*	**1.478**	**1.478**	**233.927**	**226.439**	**103,3**	**158,3**	**153,2**
TOTAL: HOTELS	**6.892**	**6.894**	**1.162.129**	**1.089.750**	**106,6**	**168,6**	**158,1**
APP LAGUNA GALIJOT	332	332	36.387	35.267	103,2	109,6	106,2
VILLE LAGUNA BELLEVUE	76	76	8.920	8.610	103,6	117,4	113,3
APP LAGUNA BELLEVUE	365	365	41.355	37.849	109,3	113,3	103,7
STUDIO APP LAGUNA BELLEVUE	246	246	37.161	34.160	108,8	151,1	138,9
APARTMENTS 4*	**1.019**	**1.019**	**123.823**	**115.886**	**106,8**	**121,5**	**113,7**
VILLE LAGUNA PARK	84	80	8.992	8.027	112,0	107,0	100,3
APP LAGUNA PARK	166	168	18.752	18.990	98,7	113,0	113,0
APARTMENTS 3*	**250**	**248**	**27.744**	**27.017**	**102,7**	**111,0**	**108,9**
APP ASTRA	504	504	48.551	47.285	102,7	96,3	93,8
APARTMENTS 2*	**504**	**504**	**48.551**	**47.285**	**102,7**	**96,3**	**93,8**
TOTAL: APARTMENTS	**1.773**	**1.771**	**200.118**	**190.188**	**105,2**	**112,9**	**107,4**
TOTAL: BUILT OBJECTS	**8.665**	**8.665**	**1.362.247**	**1.279.938**	**106,4**	**157,2**	**147,7**
AC ZELENA LAGUNA	2.700	2.700	261.745	253.686	103,2	96,9	94,0
AC BIJELA UVALA	6.390	6.390	620.953	580.995	106,9	97,2	90,9
AC ULIKA	3.000	3.000	298.695	294.564	101,4	99,6	98,2
CAMPS 4*	**12.090**	**12.090**	**1.181.393**	**1.129.245**	**104,6**	**97,7**	**93,4**
AC PUNTICA	700	700	74.279	72.129	103,0	106,1	103,0
CAMPS 3*	**700**	**700**	**74.279**	**72.129**	**103,0**	**106,1**	**103,0**
TOTAL: CAMPS	**12.790**	**12.790**	**1.255.672**	**1.201.374**	**104,5**	**98,2**	**93,9**
TOTAL	**21.455**	**21.455**	**2.617.919**	**2.481.312**	**105,5**	**122,0**	**115,7**

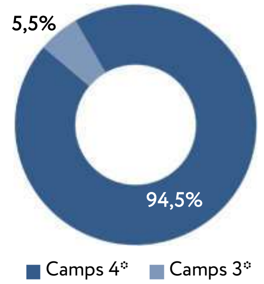
The structure capacity in hotels 2017



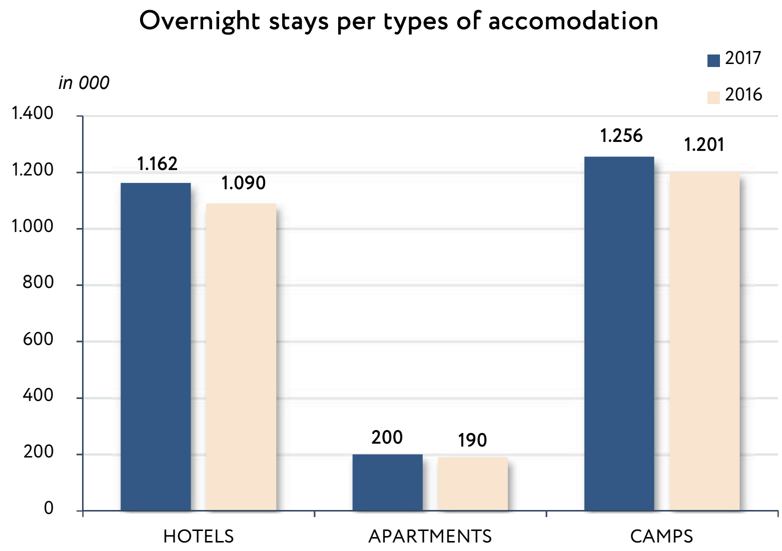
The structure capacity in apartments 2017



The structure capacity in camps 2017



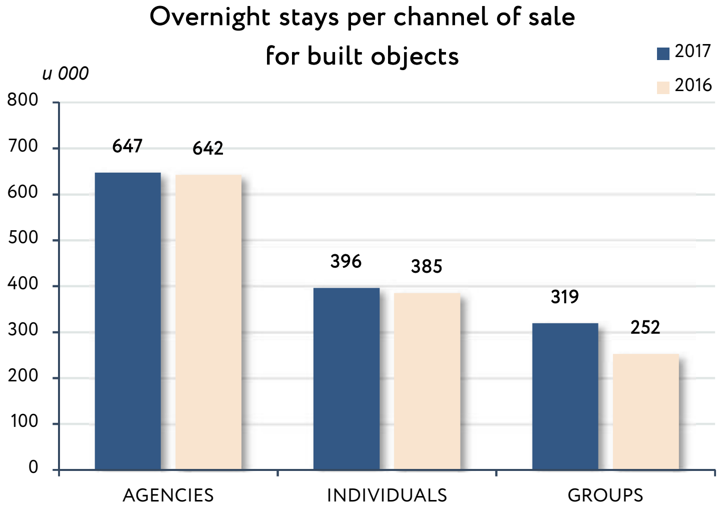
Considering the year 2017 from the aspect of realized physical indicators, the Company realized a total of 2.6 million overnight stays which represents growth of 5.5% compared to year 2016 or nominal growth of 136.6 thousand overnight stays.



Overnight stays in built objects record growth of 6.4% and with available accommodation capacities, this leads to the increase of occupancy by 9 days, from 148 days in 2016 to 157 days in the observed year.

As usual, the leading place according to the number of realized overnight stays in built objects is taken by the markets of Germany and Austria with a share of 39.1% with a slight growth of overnight stays of 4.2%. It is important to point out further growth of realized overnight stays on the market of Great Britain of 62.1% compared to the previous year with which their share in overnight stays in built objects increased from 4.2% in 2016 to 6.4% in the current year.

Review of overnight stays in BUILT OBJECTS per emissive markets					
COUNTRY	2017	%	2016	%	INDEX
Germany	329.608	24,2	310.362	24,2	106,2
Austria	202.613	14,9	200.520	15,7	101,0
Russia	115.562	8,5	116.687	9,1	99,0
Italy	87.454	6,4	95.848	7,5	91,2
Slovenia	87.338	6,4	87.927	6,9	99,3
Great Britain	86.688	6,4	53.480	4,2	162,1
Czech Republic	81.253	6,0	78.221	6,1	103,9
The Netherlands	43.082	3,1	42.456	3,3	101,5
Other countries	279.055	20,5	247.652	19,3	112,7
Croatia	49.594	3,6	46.785	3,7	106,0
TOTAL	1.362.247	100,0	1.279.938	100,0	106,4



From the aspect of realized number of overnight stays per sales channels, the increase of group arrangements contributed to the significant of occupancy of Company's accommodation capacities in built objects in the pre and post seasons which at year level record a growth of 26.3% or nominally 66.4 thousand overnight stays. Modern trends in travel organization lead to further growth of the individual sales channel, although, according to the volume of realized overnight stays the most prominent is still the allotment segment with a share of 47.5% of overnight stays in built objects.

Review of overnight stays in CAMPS per emissive markets					
COUNTRY	2017	%	2016	%	INDEX
Germany	475.373	37,9	450.478	37,5	105,5
The Netherlands	285.005	22,7	278.487	23,2	102,3
Slovenia	126.755	10,1	128.693	10,7	98,5
Austria	100.545	8,0	98.890	8,2	101,7
Italy	76.872	6,1	77.903	6,5	98,7
Czech Republic	43.637	3,5	36.626	3,1	119,1
Other countries	138.650	11,0	122.962	10,2	112,8
Croatia	8.835	0,7	7.335	0,6	120,4
TOTAL	**1.255.672**	**100,0**	**1.201.374**	**100,0**	**104,5**

In 2017, campsites, as an important accommodation segment of the Company, record an increase of the number of overnight stays by 4.5% or nominally 54.3 thousand overnights, despite a significant fall of 17 thousand overnights in the month of September due to unfavorable weather conditions in the current year. According to inbound tourism markets, mentioned growth is generated by the increase on the leading German and Dutch markets of 4.3% or nominally 31.4 thousand overnight stays.

Profit and Loss Account

in 000 HRK

	DESCRIPTION	2017	2016	INDEX '17 / '16	STRUCTURE IN % 2017	STRUCTURE IN % 2016
I	SALES REVENUES	550.443	504.912	109,0	95,2	94,6
1.	Accommodation	466.485	447.723	104,2	80,7	83,9
2.	Food	71.359	67.539	105,7	12,3	12,7
3.	Bars	22.888	21.883	104,6	4,0	4,1
4.	Merchandise	211	160	131,9	-	-
5.	Sports	1.455	1.288	113,0	0,3	0,2
6.	Mooring	7.384	7.464	98,9	1,3	1,4
7.	Granted discount and commissions	-28.061	-48.439	57,9	-4,9	-9,1
8.	Other revenues	8.722	7.294	119,6	1,5	1,4
II	REVENUES FROM SALE OF COMP. GOODS, MERCH. AND SERVICES	-	-	-	-	-
III	OTHER REVENUES FROM OPERATIONS	24.043	23.811	101,0	4,2	4,5
	Revenues from the lease of business space	23.448	23.216	101,0	4,1	4,4
	Revenues from elimination of long-term reserves	-	387	-	-	0,1
	Other business revenues	595	208	-	0,1	-
IV	OTHER REVENUES	3.271	4.788	68,3	0,6	0,9
A)	**TOTAL OPERATING REVENUES (I to IV)**	**577.757**	**533.511**	**108,3**	**100,0**	**100,0**
V	CHANGES IN THE STOCK VALUE OF INTER. AND FINISHED GOODS	-	-	-	-	-
VI	MATERIAL EXPENSES	157.128	140.784	111,6	27,2	26,4
VII	EMPLOYEES EXPENSES	122.109	115.681	105,6	21,1	21,7
VIII	DEPRECIATION	95.047	96.464	98,5	16,5	18,1
IX	VALUE ADJUSTMENT OF LONG-TERM ASSETS	-	-	-	-	-
X	VALUE ADJUSTMENT OF SHORT-TERM ASSETS	1.149	401	286,5	0,2	0,1
XI	PROVISIONS FOR EXPENSES AND AGAINST RISK	192	704	27,3	-	0,1
XII	OTHER BUSINESS EXPENSES	53.775	48.282	111,4	9,3	9,0
XIII	OTHER EXPENSES	14.163	365	-	2,5	0,1
B)	**TOTAL OPERATING EXPENSES (V to XIII)**	**443.563**	**402.681**	**110,2**	**76,8**	**75,5**
	PROFIT FROM OPERATING ACTIVITY (A-B)	134.194	130.830	102,6	23,2	24,5
C)	**TOTAL FINANCIAL REVENUES**	**7.945**	**11.076**	**71,7**	**1,4**	**2,1**
D)	**TOTAL FINANCIAL EXPENSES**	**13.835**	**28.249**	**49,0**	**2,4**	**5,3**
	PROFIT FROM FINANCIAL ACTIVITIES (C-D)	-5.890	-17.173	34,3	-1,0	-3,2
	TOTAL REVENUES	**585.702**	**544.587**	**107,6**	**101,4**	**102,1**
	TOTAL EXPENSES	**457.398**	**430.930**	**106,1**	**79,2**	**80,8**
G)	**EARNINGS BEFORE TAXES**	**128.304**	**113.657**	**112,9**	**-**	**-**
H)	**CORPORATE INCOME TAX AND OTHER TAXES**	**22.875**	**12.940**	**176,8**	**-**	**-**
I)	**NET INCOME**	**105.429**	**100.717**	**104,7**	**-**	**-**

	EBITDA (adjusted)	**240.133**	**222.871**	**107,7**	**41,8**	**42,1**

The Company concluded the business year by achieving 577.8 million HRK in operating income which is, in addition to physical figures, essentially determined by the positioning of the average net price to 5.3% higher level in built objects, with stable price level in campsites and a negative foreign exchange effect of 1%, the result is increased by 8.3% or nominally 44.2 million HRK compared to the previous year.

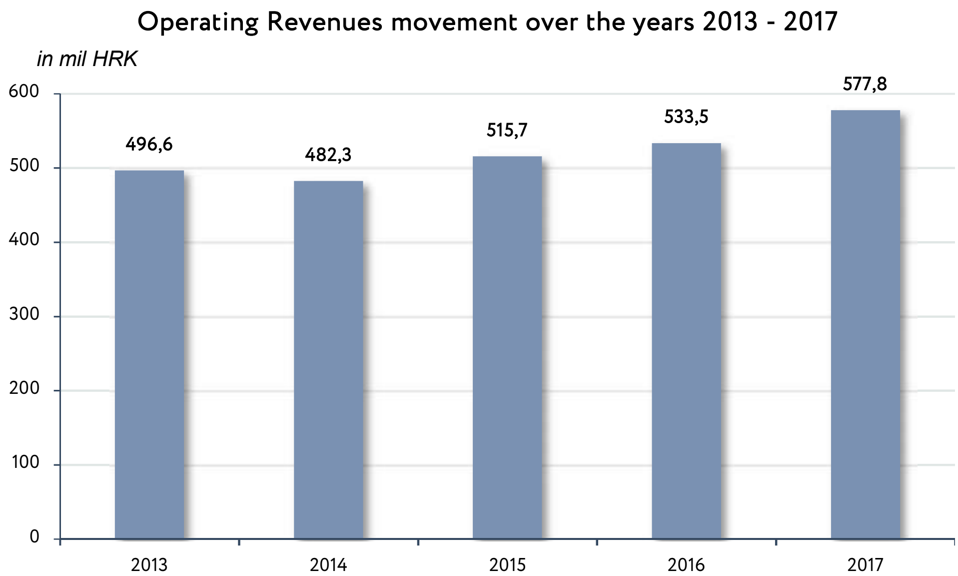
Total operating expenses are positioned at 443.6 million HRK and record an increase of 40.9 million HRK or 10.2% compared to the previous year. This is determined by a single adjustment of the value of assets from the recognition of impairment loss due to thorough reconstruction of the complex Laguna Park that began at the end of year 2017. At the same time, material expenses are increasing due to the increase of the variable cost component related to physical volume, labor costs are increasing based on the increase of basic salary while growth of other operating expenses is related to the development of the new brand strategy.

As a result of these developments, the level of the Company's business success measured by EBITDA is growing by 7.7% or nominally 17.3 million HRK compared to the previous year and is reaching a level of 240.1 million HRK with EBITDA margin of 41.8%.

Financial activity has a negative effect of 5.9 million HRK which is by 11.3 million HRK smaller loss than in year 2016, mostly a reflection of lower interest rates by 16.5 million HRK on the basis of more favorable terms of financing and somewhat lower credit indebtedness than in the previous year, with simultaneous growth of other financial expenses and a lower level of positive foreign exchange rate differences and default interest rates.

Ultimately, in the year under review, the Company realized 585.7 million HRK in total revenues, total expenditures of 457.4 million HRK, and realized profit before tax of 128.3 million HRK which is 12.9% or nominally 14.6 million HRK more than in year 2016.

Net profit after tax amounted to 105.4 million HRK, while in year 2016 it was 100.7 million HRK due to use of the tax relief for reinvested earnings, which was abolished on 1 January 2017.

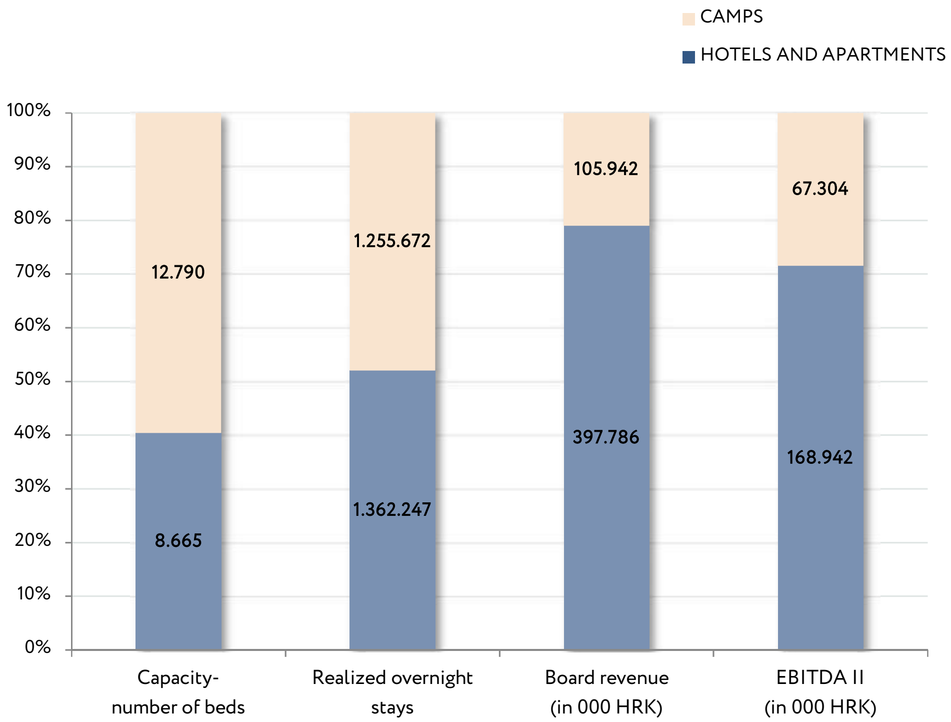


Essential operational indicators by segments

In the context of physical and financial achievements of the Company in the year concerned, the following are the reported effects obtained at the level of basic business segments.

	HOTELS AND APARTMENTS			CAMPS		
DESCRIPTION	2017	2016	INDEX	2017	2016	INDEX
Capacity - number of beds	8.665	8.665	100,0	12.790	12.790	100,0
Realized overnight stays	1.362.247	1.279.938	106,4	1.255.672	1.201.374	104,5
Days of occupancy	157	148	106,1	98	94	104,3
Annual occupancy in % (beds)	43,1	40,5	106,4	26,9	25,7	104,7
Board revenue in 000 HRK	397.786	358.952	110,8	105.942	101.432	104,4
Average net price per overnight stay in EUR	39,4	37,4	105,3	11,2	11,1	100,8
Average net price per unit (ADR) in EUR	85,3	81,9	104,1	32,5	32,0	101,4
Board revenue per accommodation unit in HRK	95.852	86.474	110,8	24.851	23.794	104,4
EBITDA I (direct) in 000 HRK	211.654	187.053	113,2	79.425	76.129	104,3
EBITDA II (after overhead) in 000 HRK	168.942	151.895	111,2	67.304	66.018	101,9
EBITDA II margins in %	38,3	37,9	101,1	57,4	59,0	97,3

Indicators by segments for 2017



Balance sheet

Assets structure in the Balance sheet

in 000 HRK

ITEM	31.12.2017.	%	31.12.2016.	%	INDEX
RECEIVABLES FOR SUBSCRIBED BUT UNPAID CAPITAL	-	-	-	-	
LONG-TERM ASSETS	2.092.813	88,4	2.088.707	92,4	100,2
Intangible assets	2.568	0,1	540	-	475,6
Tangible assets	956.413	40,4	956.345	42,3	100,0
Financial assets	1.133.832	47,9	1.131.822	50,1	100,2
Receivables	-	-	-	-	-
SHORT-TERM ASSETS	272.850	11,5	166.262	7,4	164,1
Inventory	2.499	0,1	2.574	0,1	97,1
Accounts receivables	3.226	0,1	7.734	0,4	41,7
Financial assets	239.610	10,1	152.063	6,7	157,6
Cash in register and upon account	27.515	1,2	3.891	0,2	707,1
ADVANCED PAYMENTS OF THE FUTURE EXPENSES AND UNDUE COLL. OF REV.	2.784	0,1	4.184	0,2	66,5
TOTAL ASSETS	2.368.447	100,0	2.259.153	100,0	104,8

Liabilities structure in the Balance sheet

in 000 HRK

ITEM	31.12.2017.	%	31.12.2016.	%	INDEX
CAPITAL AND RESERVES	1.797.869	75,9	1.691.483	74,9	106,3
LONG-TERM P. FOR RISKS AND EXP.	192	-	-	-	-
LONG-TERM LIABILITIES	394.467	16,7	434.573	19,2	90,8
SHORT-TERM LIABILITIES	139.180	5,9	100.893	4,5	137,9
DEF. PAY. OF EXPEN. AND FUT. REV.	36.739	1,5	32.204	1,4	114,1
TOTAL LIABILITIES	2.368.447	100,0	2.259.153	100,0	104,8

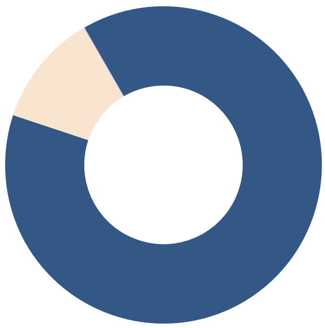
Total balance sheet value of the Company on 31 December 2017 amounts to 2,368.4 million HRK which compared to the comparative day of the previous year represents an increase of value by 4.8% or nominally of 109.3 million HRK.

The mentioned is mostly an effect of generated profits in the observed period, reflected in the value of current assets and cash within active assets positions and in passive balance sheet positions in the capital value and reserves.

Total liabilities of the Company in the amount of 570.6 million HRK are at the level of the previous year with a slight reduction of credit indebtedness with a nominal debt of EUR 60 million.

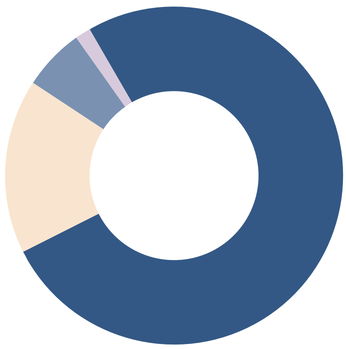
Stability of the Company is manifested through the size of capital and reserves in the amount of 1,797.9 million HRK and the amount of highly liquid assets in the form of foreign currency deposits in the amount of 239.6 million HRK that exceed the short-term liabilities on the last day of the reporting period.

Structure of Assets in the Balance Sheet for 2017



- Long-term assets - 88,4%
- Short-term assets - 11,5%
- Advanced payments of the future expenses - 0,1%

Structure of Liabilities in the Balance Sheet for 2017

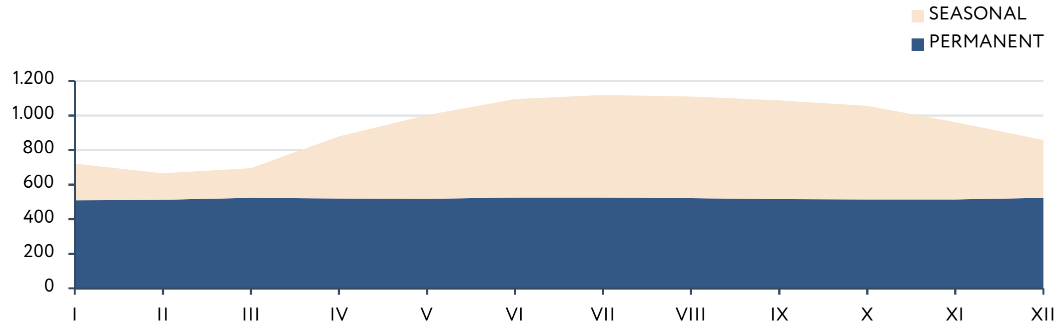


- Capital and reserves - 75,9%
- Long-term p. for risks and exp. - 0%
- Long-term liabilities - 16,7%
- Short-term liabilities - 5,9%
- Def.pay. of expen. and fut.rev. - 1,5%

Employment

DESCRIPTION	2017	%	2016	%	INDEX
PERMANENT	518	55,2	533	56,6	97,2
SEASONAL	420	44,8	409	43,4	102,7
TOTAL	**938**	**100,0**	**942**	**100,0**	**99,6**

Average number of employees in 2017 (based on the hours paid)



Significant changes in the labor market continue during year 2017. Higher demand for workers and at the same time, lower number of interested workers require an even more intensive preparation and planning of employment, for the purposes of the tourist season 2017 as well as the forthcoming tourist season. Reduced labor offer is present in the domain of skilled jobs and jobs that do not require special training and education.

For these reasons, the activities of the Human Resources Sector were directed primarily to the following:

- promotion and recruitment of seasonal workers,
- timely contracts of employment for the tourist season,
- internship.

During the season, the focus was on recognizing and monitoring the best employees with the goal of defining and proposing the employment contracts for year 2018 by the end of the calendar year.

As a result of all the activities carried out, by the end of the year, 147 new permanent employment contracts were offered, 164 permanent seasonal contracts for the duration of three years were offered and 236 letters of intent for employment in the tourist season 2018 were given.

Investments

The strategic orientation of the Company towards continuous raising of service quality and improvement of work processes resulted in increased value of the long-term property, in function for season 2017, in amount 81 million HRK.

Among significant investments, it is worth noting the following:

- construction of the new swimming pool complex in AC Bijela uvala
- renovation of two zones of villas in TR Bellevue
- interior decoration of common areas in hotel Zorna
- arrangement of the commercial street and points of sale at the TR Zelena laguna
- horticultural arrangements, beach renovation and other investments in order to achieve more favourable business conditions and to improve business processes of the Company.

The ongoing efforts of the Company towards raising the quality and high standards of services provided have been recognized by reputable awards for our hotels, apartments and specially campsites, and among the most recent in 2017 are: Tourist Flower- Quality for Croatia 2017 (AC Bijela uvala), HolidayCheck 2017 (L. Parentium), Tripadvisor Certificate of Excellence 2017 (L. Albatros, APP and Villas L. Bellevue, L. Parentium, L. Molindrio, L. Materada, L. Mediteran, AC Bijela uvala and Ulika), ANWB Erkende Camping 2017 (AC Bijela uvala, Ulika, Zelena laguna), ADAC 2017 (AC Bijela uvala, Zelena laguna, Ulika and Puntica), TripAdvisor 2017 Travellers' Choice (TR L. Galijot, L. Gran Vista) and other.

EXPECTED FUTURE DEVELOPMENT OF THE COMPANY

We are trying to plan our development in Plava laguna on long-term foundations that go hand in hand with sustainable business operation. We strive to think strategically and decide on the development guidelines in accordance with the area in which we work and then, as until now, to successfully implement that based on economic principles.

After the transaction in year 2014 with which Plava laguna j.s.c. acquired 93.04% of the share capital in Istraturist Umag j.s.c., the efforts of the companies in the years that follow, besides regular operational and strategic and developmental activities, were focused on the alignment of business policies and corporate cultures, with Istraturist Umag and Plava laguna continuing to record growth in all business segments. Thus, on the consolidated level in the period 2014 – 2017, overnight stays growth of 20% was realized, revenue growth of 17% and growth of EBITDA by 33%, as well as the growth of the number of permanent employees, salaries and other labour rights of the employees.

During the reporting year 2017, all preparatory actions of formal-legal and operative character were carried out for the purpose of merging the company Istraturist Umag j.s.c. with the company Plava laguna j.s.c., registered in the court register of the Commercial court of Pazin effective from 1 January 2018. This merger created the biggest hotel company with the capacities in Istria, with the potential to also become the most successful Istrian and Croatian tourist company whose opportunities for growth and development will be measured in both its investment potential as well as the employment potential and the improvement of conditions for the existing employees.

Total capital investments of Plava laguna in year 2018 are planned in the amount of nearly half a billion of HRK. One of the largest and most significant investments is the renovation of the Tourist resort Park Plava laguna with the hotel, suites, apartments and villas, a tourist product which communicates with its target segment, families with children, under the name Park Resort. In addition to spacious accommodation units, in line with the demands of the future market positioning, additional facilities are envisaged, dominated by a swimming pool complex with a variety of water surfaces and other accompanying amenities (food and beverage offer, children's animation program areas for different ages and similar), as well as amenities for children (toys, slides, separate pools for children). The largest investment in campsites in year 2018 relates to the thorough reconstruction of the AC Stella Maris where besides the arrangement of plots, it is invested in new accommodation capacities, mobile homes, new reception and a swimming pool. It is continuation of the Company's commitment to raising the quality of the camping accommodation segment, first of all in Umag but also in the destination of Poreč with an investment in the water playground and children's pool at the AC Zelena laguna, given the recognized permanent needs for additional water surfaces. The product designed to fully satisfy guest requirements in the leisure accommodation segment is presented in the form of suites and rooms in 54 accommodation units in the surroundings of hotel Sol Umag, under the name Sol Umag Garden Suites & Rooms, located right by the sea. The Company, furthermore, recognized the importance of employee satisfaction which over the past years manifested itself in benefits above the industry average, and in year 2018 included a new dimension through investments in accommodation, so that around 10% of capital budget is directed towards renovation and construction of capacities for employee accommodation.

In the next period, business development is focused on finding a concept for repositioning of the Tourist resort and campsite Savudrija and on the conceptual design, as well as a more detailed elaboration of the concept and the conceptual design for the Tourist resort Galijot Plava laguna where factors of the location and natural environment of the resort are very important and make a starting point for defining and positioning of the whole product towards a luxury segment of demand. In the future, there is also work to be done on the development of the new concept and repositioning of the Hotel Aurora in Umag which, with its location and spatial planning opportunities represents a potential in terms of raising the quality of offer and product development in a higher price category.

Also, planned for year 2019 is the construction of the joint administrative building in the business area of Facinka in Poreč.

In the sphere of future projects, work is underway on the development and repositioning of the whole zone of Punta in destination Umag as the resort zone („Resort Punta"), where after the finalization of the master plan and new business model, we sought to elaborate in detail conceptual designs for all objects and accompanying amenities. The current proposal of the master plan includes two existing hotels (Sol Sipar and Sol Umag), with reconstruction plan for hotel Adriatik and the construction of the hotel on the location of the administrative building and facilities necessary for the development of the resort.

An important component of the company's products makes carefully preserved and nurtured environment. The said commitment is translated into a development policy through which for many years, an aliquot part of funds have been directed to landscaping and beach development. In future, the Company is going to intensify the activities of development and implementation of energy efficiency projects and projects of renewable energy. Thus, we will focus on renovation of beaches, walkways and horticulture and necessary reconstructions of a part of power stations.

In addition to the above mentioned, the opportunities for growth and qualitative changes in the structure of capacity through external growth or acquisition will still be reviewed and evaluated.

BUSINESS RISKS

The Company, as well as a Group, is within own activities exposed to various financial risks: currency risk, credit risk and liquidity risk. The position of the Company in relation to mentioned risks is permanently analysed in order to define timely measures, to reduce the risks to acceptable levels.

Currency risk arises from the implementation of the core business of the Company, considering the sale of capacity takes place on foreign markets, sales policy is defined in EUR currency (prices, inflows), while, on the other hand, the inputs and other obligatory payments are defined in local currency, as viewed from the perspective of short-term coverage. Therefore, the ratio between foreign and local currency can significantly affect future operations and cash flows i.e. cause significant deviations from the planned figures and goals.

All loans of the Company and Subsidiary on 31 December 2017 are denominated in EUR and, considering the inflows are defined in EUR by the sales policy, currency balance has been established and a hedge of foreign currency risk.

In relation to the minimization of interest rate risk in the segment of impact on company's cash flow, the procedure of refinancing the existing loans of the Company and Subsidiary during business year 2017, in total amount of EUR 82.3 million with fixed interest and under more favorable conditions should be emphasized.

The Company owns equity securities listed on the Zagreb Stock Exchange and classified as financial assets available for sale. At the same time, the Company is exposed to price risk although possible change in the price of securities would not significantly affect the financial statements of the Company.

Plava laguna with its business policy, rooted in the tourism sector as a whole, reduces the concentration of credit risk regarding receivables given that the predominant part of the sale is ensured by received advances. In the segment of property management and lease of the same, the contracted amount is secured by collateral payments. Collection of accounts receivables is monitored through weekly reports on individual balances of receivables. Available funds are placed in time deposits in high quality banks in Croatia which limits exposure to credit risk with respect to individual financial institution.

Liquidity risk management implies projecting cash flow with the possibility to meet all of our obligations which includes regular business cycle, the repayment of loan liabilities and capital investments. The above assumes ensuring timely availability of external sources of funding that would be adapted to the purpose, with their conditions, guided by the principles of responsible businessman and care about preservation of financial stability.

STATEMENT ON APPLICATION OF THE CORPORATE MANAGEMENT CODEX

In accordance with the provisions of Article 272p of the Companies Act, the Management of the Company declares that they voluntarily apply the Corporate Management Codex (hereinafter: the Codex) which was jointly made by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange.

Once a year, the Company fills-in the Annual Questionnaire which makes an integral part of the Codex for the period the annual financial reports relates to and submits it to the Zagreb Stock Exchange for the purpose of its publication. This questionnaire reflects the situation and practice of corporate governance accompanied by explanations of a certain divergence from the recommendations contained in the Codex. The Management and the Supervisory Board make permanent efforts aimed at establishing an adequate and transparent corporate governance system and pay due care to efficient system of responsibilities and risk management.

During 2017, the Company did not fully apply the recommendations established by the Codex and divergences relate to the publication of detailed information on the remuneration of the Management Board i.e. the remuneration policy statement. Furthermore, given that the Supervisory Board of the Company was composed of seven and of five members during 2017, for this reason it did not set up remuneration and appointment commissions, and performs these duties on its own. Pursuant to the Audit Act, the Company has an Auditing Committee.

The Company publishes quarterly, semi-annual and annual financial statements on its own web site, and all documentation regarding the convocation of the General Assembly is also available to the public on the said media.

The Company applies the Rules on the application of accounting policies which regulates the application of procedures and techniques in disclosure of the Company's assets, liabilities, principal, income, expense and financial results in financial statements. The description of main characteristics of risk management and information on shareholders on 31 December 2017 are included in this Annual Report.

The first ten shareholders of the Company on 31 December 2017 are:

PLAVA LAGUNA J.S.C./ORDINARY SHARE PLAG-R-A

1. SUTIVAN INVESTMENTS ANSTALT
2. SPLITSKA BANKA J.S.C../AZ OMF CATEGORY B
3. CDCC Inc. (0/1)/COMMITTEE FOR THE MERGER ISTT-I/PLAVA LAGUNA J.S.C. POREČ
4. ADDIKO BANK J.S.C./PBZ CO OMF - CATEGORY B
5. BOGDANOVIĆ ZORAN
6. RAIFFEISENBANK AUSTRIA J.S.C.
7. ZAGREBAČKA BANKA J.S.C./AZ PROFIT DMF
8. SPLITSKA BANKA J.S.C./AZ OMF CATEGORY A
9. SPLITSKA BANKA J.S.C./ ERSTE PLAVI EXPERT – DMF
10. NOVAK MIRKO

The voting right of the Company's shareholder is not limited to a certain percentage or number of votes nor are there time constraints for the exercise of voting rights, except in accordance with the Companies Act in the sense of applying for participation at the General Assembly. Each regular share entitles to one vote at the General Assembly. In 2002, the Company issued preferred shares which do not give the right to vote at the General Assembly. The sole shareholder of preferred PLAG-P-A shares is SUTIVAN INVESTMENTS ANSTALT.

Rules on appointing and recalling Management Board members are contained in the Company's Articles of Association.

The powers of the Management Board are determined by the Articles of Association and the Companies Act so that the Company can acquire its own shares pursuant to Article 233 of the Companies Act, based on the authorization by the General Assembly. Currently, the Management Board has no authorization for share buybacks.

Amendment to the Company's Articles of Association is regulated in a manner prescribed by the law which is contained in Article 40 of the Articles of Association.

The Company is organized according to the dualistic model. The Management Board of the Company conducts the affairs independently and for certain tasks specified in Article 26 of the Articles of Association (such as founding of the company, purchase and sale of shares in other companies, purchase and sale of real estate above 1% of the value of equity capital, borrowing more than 2% of the value of the equity capital and other), it is authorized to conduct only with prior consent of the Supervisory Board. The Management Board consists of one member, Mr. Neven Staver, who conducts the affairs and represents the Company independently and individually.

The Supervisory Board oversees the conduct of business affairs in the Company. Members of the Supervisory Board are regularly informed by the Management Board on the Company's management and operations in order to be able to effectively fulfil their supervisory roles. The report of the Supervisory Board on completed supervision of business conduct in the Company is part of the Annual Report of the Company submitted to the General Assembly. In accordance with the Articles of Association and the decision of the General Assembly, the Supervisory Board can have between three and seven members who among them elect the chairman and his deputy. The election of members is carried out in accordance with the Companies Act, Articles of Association, Rules of Procedure of the general Assembly and unless specifically provided by a special regulation, employees through the Workers' Council have a right to appoint one member. The mandate of the members of the Supervisory Board is four years. The Supervisory Board acts on sessions that take place generally once a month and discusses and decides on all matters within its competence prescribed by the Companies Act and Company's Articles of Association.

In 2017, the Supervisory Board acted in two convocations:

Up to the end of August 2017, the Supervisory Board acted composed as follows:
Davor Luksic Lederer, Chairman of the Supervisory Board
Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board
Davor Domitrovic Grubisic, Member of the Supervisory Board
José Ignacio Bulnes León, Member of the Supervisory Board
Borislav Škegro, Member of the Supervisory Board
Boris Šavorić, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Board, representative of employees.

Based on the decision of the General Assembly held on August 11th 2017, at the Supervisory Board meeting held on September 1st 2017 the new Supervisory Board was constituted as follows:
Davor Luksic Lederer, Chairman of the Supervisory Board
Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board
Davor Domitrovic Grubisic, Member of the Supervisory Board
José Ignacio Bulnes León, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Board, representative of employees.

The General Assembly decides in accordance with the Companies Act and Articles of Association of the Company.

The Company does not implement the diversity policy of the members of the Management Board, given that it consists of one member. The rules on appointing members of the Management Board and members of the Supervisory Board do not contain any limitations on diversity in terms of gender, age, education, profession and similar limitations.

Pursuant to the provisions of Article 250.a paragraph 4 and Article 272.p paragraph 1 of the Companies Act, this Statement is a separate section and integral part of the Annual Report on the Company's status for year 2017.

MANAGEMENT BOARD

REPORT OF THE AUDITING COMMITTEE

The Auditing Committee of the Company representing Mr. Davor Luksic Lederer, Ms. Danira Rančić and Ms. Suzana Kocijančić drafted this report in line with the provisions set forth below:

- Plava laguna j.s.c. Poreč in accordance with the positive legislation of the Republic of Croatia has the obligation at the end of the business year to make an unconsolidated and consolidated financial reports,
- The Company's General Assembly appointed the company PricewaterhouseCoopers d.o.o. Zagreb as the auditor of its annual financial statements,
- The Supervisory Board of the Company appointed the Auditing Committee pursuant to the Audit Act.

In accordance with the Companies Act, auditor of the Company was appointed on the General Assembly's meeting held on 11 August 2017, and on 15 December 2017 an agreement was concluded concerning performance of audit and issuance of unconsolidated and consolidated financial statements.

Audit of the Company was completed in two parts, as follows:

- preliminary proceedings (examination of the internal control system and work on temporary balance sheets),
- final audit (control of data reported in ledgers and financial statements).

Members of the Auditing Committee met on several occasions, during the year 2017 and until the issuance of the report in the first half of 2018, with the representatives of the authorized auditor and the responsible executors with the aim to discuss the applied accounting policies, the recording of important business events and other observations of the auditor.

In accordance with auditing standards requirements, the auditors submitted a report to the Supervisory Board and the Auditing Committee on 26 April 2018 which, in line with the regulations includes the Report on auditor independence, key audit issues and the conclusion on issuing unmodified opinion.

In accordance with the discussions with the auditing company and with the employees in charge of preparation of the financial statement, the Auditing Committee determined the following:

- the preparation of financial statements passed without any difficulty,
- the Company and the auditors were consistent in the interpretation of international accounting standards as well as local regulations and requirements governing the preparation of financial statements,
- in terms of the effectiveness of internal control system and risk management, there were no irregularities with material consequences observed,
- there were no circumstances that would lead to questioning the independence of the auditor,
- regarding the key auditing issues related to estimates of useful life of real estate, machinery and equipment and impairment indicators, auditors' estimates are in line with the estimates of the Management Board, and that is that there are no circumstances indicating impairment of assets value.

Accordingly, the Auditing Committee assumes that the financial statements are eligible for the adoption of appropriate decisions based on the same.

THE AUDITING COMMITTEE

THE NON – FINANCIAL REPORT

Pursuant to the amendments to the relevant Croatian legislation in the area of reporting adopted on the basis of mandatory EU Directives, Plava laguna as a large company and the Group publishes the non-financial report for business year 2017. Following the characteristics of the company's activity where one of the important resources is the environment, together with the social and human resources aspect, the Company and the Group pay special attention to the principles of socially responsible business operations. All activities and interactions with key stakeholders are shaped by and focused on the principle of sustainable business operations which includes quality relation towards the environment, employees and the local community in which the company operates.

Ecology and sustainable development

Environmental issues and environmental responsibility are among the most current challenges for the future. As an activity that is based on the quality of the environment and which affects it greatly, tourism will be much more intensive in applying the use of environmentally responsible, „green" concepts at the level of individual service providers and entire destinations. Activity in relation to environmental protection brings benefits in the form of economic growth, employment and competitiveness.

For further development of tourism, we must respect the basic resource within which we act and that is space and we must not endanger future generations. According to surveys in Germany, 28% of tourists want to travel environmentally sustainable and socially responsible and 86% of tourist destinations expect that the sustainability of destination is going to be a more significant factor in their competitiveness. Ecology and sustainable development are the framework for designing a strategy according to which the Company can develop without damaging consequences on the environment and natural resources that are essential for further human activity.

On one hand, healthy and attractive environment is among basic resources for most types of tourism and its preservation is one of the essential prerequisites for their competitiveness and sustainability. Moreover, tourism, if properly managed, may represent an activity which in the existing economy is one of the most sustainable ways of using a natural resource. Namely, it has the potential to use the preserved nature and environment as economic value and in that way has a direct interest in preserving and enhancing that value.

Preservation of water, as one of the most important natural resources, and rational use of water is achieved by the remote control system, control and optimization of water consumption, installation of perlators, installation of push valves on the beach showers, use of practical systems for watering green areas and by informing the guests about the importance of rational use and preservation of water. Energy saving is achieved by using various energy saving devices, highly energy efficient equipment and heat pump systems. Solar panels, heat pump systems and natural gas are used for water heating.

With the selection of non-hazardous from hazardous waste, at the place of its generation, increases the amount of secondary raw material that can be recycled and therefore reduces the amount of waste to be permanently disposed of in a landfill. Disposal of waste is carried out by companies authorized for the disposal of certain types of waste and act in accordance with the principles of environmental protection.

The preservation of sea water quality is achieved by regular maintenance of beaches managed by the Company and the quality of sea water is monitored through regular sea water analyses conducted from May until October. Quality of the sea water and maintenance of the beaches is recognized by obtaining the international Blue flag label for the ecological program of the protection of environment, sea and coastline whose primary goal is sustainable management of the sea and coastal zone.

Integral coastal zone management in which tourism is an important economic sector represents the framework for balanced development of the coastal area and an incentive for the development of sustainable tourism that aims to preserve coastal ecosystems and landscapes as well as natural and cultural resources.

Employment and ensuring the benefits

On the 20th of August, 2017, the Group Plava laguna, in destinations Poreč, Umag and Rijeka employed 2,946 workers of whom 1,055 permanent employees and permanent seasonal employees and 1,891 seasonal employees. Given the company's orientation towards the human resources where forms of lasting cooperation affect the stability of the working environment and the quality of service, the goal is to significantly increase the share of permanent employees and permanent seasonal employees by August 2018. The goals of Plava laguna in terms of employment are ensuring quality service to guests which will be reflected in improved rating and positive reviews, ensuring an optimal number of employees in quantity and quality, ensuring maximum employee satisfaction – with benefits and work conditions, accommodation and stay, as well as achieving a collective sense of pride and commitment to Plava laguna.

Formal legal relations with employees are regulated by the Collective Agreement that Plava laguna concluded with trade unions active in the company, and they are the Union of Istria, Kvarner and Dalmatia (Sindikat Istre, Kvarnera i Dalmacije) and the Tourism and services trade union of Croatia (Sindikat turizma i usluga Hrvatske). The provisions of the Collective Agreement define all employer and employee rights and obligations.

Plava laguna j.s.c. established the Workers' Council in line with the provisions of the Labour Act. Communication with the Workers' Council and union representatives takes place on a monthly basis and serves to inform the representatives of employees and unions about the situation in the company, business results and other matters of importance for the employees, with a high degree of mutual respect and cooperation.

The stability and growth of benefits in the future will depend on the achievement of set business goals which is always a result of joint efforts of the management structures and the emploiyees of the Company. We believe that the increase of benefits for our employees will greatly contribute to both business results and stability of the company.

Plava laguna guarantees its employees the gender equality, the implementation of fundamental conventions of the International Labour Organization. Working conditions and social dialogue are ensured in accordance with the positive regulation of the Republic of Croatia and above all by the corporate culture that traditionally promotes respect and credibility as core values. We respect employees' rights to information and consultation, and publish all important news for the employees on the intranet site, bulletin board and in a monthly magazine dedicated to employees.

Respecting human rights

Pursuant to the provisions of the Labour Act, Plava laguna j.s.c. as an employer fulfills its obligations to protect the dignity and privacy of employees as well as to protect personal data.

Joining the union is free will and employer does not obstruct it in any way.

Plava laguna j.s.c. does not discriminate candidates in any way when recruiting and advancing. Considering that Plava laguna j.s.c. is in hotel business, special attention is given to guest relations. In the training including the communication with guests, the emphasis is given to equal approach to all of the guests regardless of nation, religion or race.

In accordance with the Collective Agreement, it is prohibited to discriminate, directly or indirectly, the persons seeking employment and persons employed, on a basis of race, color of skin, gender, sexual orientation, marital status, family obligations, age, language, religion, political or other beliefs, ethnic or social origin, economic situation, birth, social status, political party membership or non-membership, union membership or non-membership, and physical or mental disabilities.

The employer is obliged to protect the dignity of the employee at work by ensuring such working conditions where the employee will not be exposed to harassment or sexual harassment. This protection also includes taking preventive measures. The dignity of the employee is protected from harassment or sexual harassment by superiors, co-workers and persons with whom the employee comes into regular contact in the workplace.

Harassment and sexual harassment represent a violation of employment rights and obligations.

The employer is obliged to protect the dignity of the employee in accordance with provisions of the Labour Act. In order to protect the dignity of the employee, the employer takes special care when deciding on the arrangement of work and sanitary facilities, the choice of mandatory work clothes, the manners of employee and property control, and when deciding on all the working conditions that could directly or indirectly cause employee's exposure to various forms of harassment.

The employer, upon consultations with the Workers' Council, appointed a person authorized to receive and address complaints to protect the dignity of the employee.

The appointed person is obliged to take immediate action to stop further harassment of the employee. The actions and measures taken depend on the circumstances of the case (applying different work schedule to certain employees if the nature of the job allows moving of employees to different business premises, verbal warning, written warning with announcement of termination of employment contract, termination of employment contract and other).

Sexual harassment of employees by persons who are hierarchically superior to them represents a serious breach of employment contract.

Plava laguna organizes the work in a manner to ensure the protection of health and life of employees, and provides working and protective clothes and footwear in line with the safety at work regulations.

The fight against corruption

Plava laguna j.s.c. promotes zero tolerance towards corruption.

Possible corruptive behaviors represent a serious violation of the employment rights and obligations. All relevant business processes where corruption is possible are under special supervision.

Personal data protection

At the beginning of the application of the General Data Protection Regulation (EU regulation 2016/679) which enters into force on the 25th of May 2018, Plava laguna j.s.c. started during year 2017, extensive preparations for the implementation of the Regulation or the adjustments to personal data protection as required by the Regulation.

For that purpose, Plava laguna j.s.c. analyzed the existing situation, estimated critical security sites and highlighted necessary activities for more comprehensive protection of personal data. Harmonization with the Regulations requires the implementation of certain organizational and technical measures as well as the education of employees.

Socially responsible business operation and cooperation with local community

Plava laguna is a socially responsible company that invests in the community in which it operates. Donations can be divided into several categories – encouraging excellence (education), humanitarian projects, encouraging development of sport activities in the community, culture and ecology. Among other, Plava laguna donated equipment worth 300 thousand HRK for the future IT cabinet in the Elementary school Poreč opening in Finida in 2018, as well as significant funds to provide higher standards of the Emergency Medical Aid in Poreč and Umag.

Plava laguna continuous to cooperate with former employees of Istraturist j.s.c., working with the Croatian Pensioners' Union, branch office Umag, where formal bodies have been established (the presidency and the Assembly) and they are operating in accordance with the annual program. In year 2017, the Section of pensioners of Plava laguna was also founded with the Association of pensioners Club Galija Poreč, starting with planned program in 2018. Also, Plava Laguna cooperates with kindergartens where preschoolers visit Plava laguna's facilities and get acquainted with tourism and catering services professions.

INDEPENDENT AUDITOR'S REPORT

STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES

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

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

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

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

The Management Board of Plava laguna d.d.:

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

Independent Auditor's Report

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

Report on the audit of the separate financial statements

Our opinion

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

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

What we have audited

The Company's separate financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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

Emphasis of matter

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

Our audit approach

Overview

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

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

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

Materiality

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

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

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

Key audit matters

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

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

Reporting on other information including the Management Report of the Company

Management is responsible for the other information. The other information comprises the Separate Annual Report of the Company, which includes the Management Report and Corporate Governance Statement, but does not include the separate financial statements and our independent auditor's report thereon.

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

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

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

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

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

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

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
27 April 2018
except for the ' Reporting on other information including the Management Report of the Company' paragraph for which the date of our opinion is 27 June 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.