

**PLAVA LAGUNA d.d., POREČ**

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

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

## STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES

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

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

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

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

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

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

The Company's financial statements from page 8 to 56 were approved by the Management Board on April 26, 2019, which was confirmed by the signature below.

The Management Board of Plava laguna d.d.:

---

Neven Staver  
President

---

Marco Antonio Buzolic Buzolic  
Member

---

Damir Mendica  
Member

---

Dragan Pujas  
Member

---

Danira Rančić  
Member

## INDEPENDENT AUDITOR'S REPORT

To the Owners of Plava laguna d.d.

### Report on the Audit of the Financial Statements

#### Opinion

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

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

#### Basis for Opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter

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

#### Key Audit Matters

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

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Marina Tonžetić, Juraj Moravek and Dražen Nimčević; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee („DTTL“), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as „Deloitte Global“) does not provide services to clients. Please see [www.deloitte.com/hr/about](http://www.deloitte.com/hr/about) to learn more about our global network of member firms.

## INDEPENDENT AUDITOR'S REPORT (continued)

### Report on the Audit of the Financial Statements (continued)

#### Key audit matter (continued)

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

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

Key audit matter	How our audit addressed the key audit matter
<p>The Company disclosed property, plant and equipment in the amount of 2.526.836 thousand kuna in its statement of financial position. The Company accounts for the property, plant and equipment at historical cost less accumulated depreciation and impairment, where required. Historical cost includes the cost that is directly attributable to the acquisition of assets.</p> <p>The Management Board reviews impairment of assets that have an indefinite useful life and are not depreciated. Assets subject to depreciation are reviewed by the Management Board for impairment when events or changed circumstances indicate that the carrying amount may not be recoverable.</p> <p>Since the estimated useful life and identification of impairment indicators requires a significant judgement of the Company's management, this may lead to bias in determining the useful life assessment process and / or impairment. This has led to the conclusion that estimated useful life of property, plant and equipment and impairment indicators is our key audit matter for the audit of the Company's financial statements for the year ended 31 December 2018.</p>	<p>In order to respond to risks related to estimating useful life of property, plant and equipment and impairment indicators identified as the key audit matter, we designed audit procedures that enabled us to obtain sufficient appropriate audit evidence for our conclusion on this matter.</p> <p>We conducted the following audit procedures considering the property, plant and equipment area:</p> <ul style="list-style-type: none"> <li>• Review and verification of accuracy of the accounting policy for impairment produced by the Management, including a review of defined indicators of impairment and the reasonableness and justification of key assumptions and input variables based on our knowledge of the business and the sector, and reliance on available evidence such as generated financial result, profitability per each profit unit, their earnings before tax, interest and depreciation and amortization, expense budgets and forecasts as well as market data referred to future prices and other basic assumptions;</li> <li>• Based on our experience within the industry a comparison of estimated useful life for property, plant and equipment with those applied to assets with similar characteristics;</li> <li>• Analysis of the property, plant and equipment in order to conclude on correctness of defined estimated useful life disclosed in the statement of financial position as at 31 December 2018.</li> </ul>

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

## **INDEPENDENT AUDITOR'S REPORT (continued)**

### **Report on the Audit of the Financial Statements (continued)**

#### **Other Matter**

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

#### **Other Information**

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

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

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

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

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

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

In preparing the financial statements, Management is responsible for assessing the 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.

## INDEPENDENT AUDITOR'S REPORT (continued)

### Report on the Audit of the Financial Statements (continued)

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

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

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

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT (continued)**

### **Report on Other Legal and Regulatory Requirements**

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

We confirm that:

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

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

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

**Branislav Vrtačnik**

Predsjednik Uprave

**Vanja Vlak**

Ovlašteni revizor

Deloitte d.o.o.

26 April 2019

Radnička cesta 80

10 000 Zagreb

Croatia

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

PLAVA LAGUNA d.d., POREČ

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(all amounts are expressed in thousands of HRK)</i>	Note	2018	2017
Sale of services	5	1,079,211	575,272
Other income	5a	70,685	1,736
Cost of materials and services	6	(286,089)	(163,548)
Staff costs	7	(271,344)	(130,789)
Depreciation and amortisation		(212,215)	(95,047)
Other operating expenses	8	(73,962)	(53,250)
Other gains – net		8,186	474
<b>Operating profit</b>		<b>314,472</b>	<b>134,848</b>
Finance income	9	4,999	5,932
Finance costs	9	(11,480)	(12,476)
Finance income/(costs) – net	9	(6,481)	(6,544)
<b>Profit before tax</b>		<b>307,991</b>	<b>128,304</b>
Income tax	10	403	(22,875)
<b>Profit for the year</b>		<b>308,394</b>	<b>105,429</b>
Other comprehensive income:			
Change in the value of financial assets measured at fair value through other comprehensive income	18	5	1.062
<b>Total comprehensive income for the year</b>		<b>308,399</b>	<b>106,491</b>
Basic and diluted earnings per share (in HRK):			
- ordinary shares	11	117.87	164.01
- preference shares		118.12	165.01

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



**PLAVA LAGUNA d.d., POREČ**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

<i>(all amounts are expressed in thousands of HRK)</i>	<b>Note</b>	<b>31/12/2018</b>	<b>31/12/2017</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13a	2,526,836	928,810
Real estate investment	13a	41,332	27,604
Intangible assets	13b	19,577	2,567
Investments in subsidiaries and associate	14	190,845	1,124,615
Financial assets	15	11,064	9,217
Deferred tax asset		345	-
Given loans		21	-
		<b>2,790,020</b>	<b>2,092,813</b>
<b>Current assets</b>			
Inventories		4,464	2,499
Trade and other receivables	16	15,941	6,011
Income tax prepayments receivable	10	28,248	-
Bank deposits		756	239,610
Cash and cash equivalents		180,042	27,514
		<b>229,451</b>	<b>275,634</b>
<b>Total assets</b>		<b>3,019,471</b>	<b>2,368,447</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	17	1,444,530	1,436,911
Capital reserves	17	693	10,803
Treasury shares	17	(1,430)	(22,288)
Reserves	18	125,122	83,975
Retained earnings		576,027	288,468
<b>Total equity</b>		<b>2,144,942</b>	<b>1,797,869</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	19	589,633	394,467
Provisions for other liabilities and expenses		4,571	192
Deferred tax liabilities		10,601	-
		<b>604,805</b>	<b>394,659</b>
<b>Current liabilities</b>			
Current portion of borrowings	19	89,396	58,193
Trade and other payables	20	180,328	114,397
Income tax payable		-	3,329
		269,724	175,919
<b>Total liabilities</b>		<b>874,529</b>	<b>570,578</b>
<b>Total equity and liabilities</b>		<b>3,019,471</b>	<b>2,368,447</b>

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

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Share capital	Capital reserves	Treasury shares	Reserves	Retained earnings	Total
<b>For the year ended 31 December 2017</b>							
At 1 January 2017		1,385,151	9,937	(21,422)	79,303	238,514	1,691,483
Profit for the year		-	-	-	-	105,429	105,429
Other comprehensive income		-	-	-	1,062	-	1,062
<b>Total comprehensive income for 2017</b>		-	-	-	1,062	105,429	106,491
Distribution of profit from 2016		51,760	866	(866)	3,610	(55,370)	-
Dividend relating to 2016	11	-	-	-	-	(105)	(105)
<b>Total transactions with owners of the Company, recognised in equity At 31 December 2017</b>		51,760	866	(866)	4,672	49,954	106,386
<b>At 31 December 2017</b>		1,436,911	10,803	(22,288)	83,975	288,468	1,797,869
<b>For the year ended 31 December 2018</b>							
At 1 January 2018		1,436,911	10,803	(22,288)	83,975	288,468	1,797,869
Profit for the year		-	-	-	-	308,394	308,394
Other comprehensive income		-	-	-	5	-	5
<b>Total comprehensive income for 2018</b>		-	-	-	5	308,394	308,399
Share capital increase		7,619	-	-	-	-	7,619
The release of treasury shares		-	(10,110)	20,858	-	-	10,748
The effect of merger		-	-	-	38,554	216,200	254,754
Dividend relating to 2017	11	-	-	-	-	(234,447)	(234,447)
Decision on using profit – legal reserves		-	-	-	2,588	(2,588)	-
<b>Total transactions with owners of the Company, recognised in equity At 31 December 2018</b>		7,619	(10,110)	20,858	41,147	287,559	347,073
<b>At 31 December 2018</b>		1,444,530	693	(1,430)	125,122	576,027	2,144,942

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

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

<i>(all amounts expressed in thousands of HRK)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Profit before tax</b>		<b>307,991</b>	<b>128,304</b>
<b>Adjustments for:</b>			
Depreciation and amortisation		212,215	95,047
Provision for impairment of receivables - net	8	1,437	739
Tangible assets written off		-	13,903
Provisions for legal disputes - net	8	1,253	192
Dividend income		(62,911)	(375)
Other gains – net		(8,187)	(473)
Interest income	9	(766)	(693)
Interest expense	9	11,345	12,476
Finance income and costs - other	9	(4,098)	(5,239)
Other adjustments		139	-
<b>Changes in working capital:</b>			
Trade and other receivables		698	2,106
Inventories		308	74
Trade and other payables		2,909	16,663
<b>Cash flow from operating activities</b>		<b>462,333</b>	<b>262,724</b>
Interest and fees paid	19	(12,390)	(17,395)
Income tax paid		(39,359)	(16,264)
<b>Net cash flow from operating activities</b>		<b>410,584</b>	<b>229,065</b>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		(2,097)	(2,343)
Purchase of tangible assets	13	(439,553)	(108,607)
Purchase of shares from minority shareholders	14	-	(834)
Acquisition of available-for-sale financial assets		52,667	-
Proceeds from sale of tangible assets		10,538	138
Deposits given		235,308	(85,480)
Dividend received		62,911	375
Interest received		766	693
<b>Net cash used in investing activities</b>		<b>(79,460)</b>	<b>(196,058)</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings	19	148,352	445,355
Repayment of borrowings	19	(90,090)	(454,634)
Dividends paid		(234,449)	(105)
Purchase from minority shareholders		(2,409)	-
<b>Net cash used in financing activities</b>		<b>(178,596)</b>	<b>(9,384)</b>
<b>Net increase in cash and cash equivalents</b>		<b>152,528</b>	<b>23,623</b>
Cash and cash equivalents at beginning of year		27,514	3,891
Cash and cash equivalents at end of year		<b>180,042</b>	<b>27,514</b>

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

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

---

**NOTE 1 – GENERAL INFORMATION**

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

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

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

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1 Basis of preparation**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

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

The Company also prepares consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group). In the consolidated financial statements, subsidiaries - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2018 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

---

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 Basis of preparation (continued)**

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

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

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

Adoption of these amendments to existing standards and interpretations did not result in material changes in the Company's financial statements. The application of IFRS 9 is explained in Note 2.9.

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

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

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

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

---

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 Basis of preparation (continued)**

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

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

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

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

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

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 Basis of preparation (continued)**

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

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Consolidation**

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

***Business Combinations***

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

Business combinations are reported using the acquisition method at the acquisition date, on the day the Group gained control.

The Group controls another subject when exposed or when it has the right to a variable return from participation in the subject, and its ability to influence the subject has the ability to affect the yield. The group re-evaluates whether it has control when one or more control elements are changed. This includes the circumstances in which the Group's protective rights (for example, those arising from credit activity) become significant and result in the Group having power over the entity.

The Group measures the goodwill at the acquisition date as:

- the fair value of the reimbursement fee; increased for
- recognize the amount of any non-controlling interest in the acquired subject, plus,
- if the acquisition is realized in parts, the fair value of the existing equity stake in the acquired company; reduced by
- the net recognized amount (at fair value) of identifiable assets and liabilities acquired.

If the sum represents a negative value, the gains resulting from a favorable purchase are immediately recognized in profit or loss.

The transferred fee does not include amounts relating to settling previous business relationships. Such amounts are generally recognized through profit or loss.

Acquisition costs other than those relating to the issue of debt or equity securities that the Group conducts in connection with a business combination are recognized as an expense at the time of the formation.

The potential contingent consideration is recognized at fair value at the acquisition date. If the potential benefit is classified as equity and reserves, it is not re-evaluated and settled in equity and reserves. In other cases, subsequent changes in the fair value of contingent consideration are recognized through profit and loss.

***(a) Subsidiaries***

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

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



**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Consolidation (continued)**

***Business Combinations (continued)***

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Associates*

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

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

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

*(d) Acquisition of entities under common control*

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

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

*(e) Non-controlling interest*

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

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

---

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Consolidation (continued)**

***Business Combinations (continued)***

*(f) Transactions eliminated during consolidation*

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

**2.3 Goodwill**

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

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

**2.4 Foreign currencies**

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

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

**2.5 Segment reporting**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.6 Property, plant and equipment**

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8). Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income within 'other gains – net'.

**2.7 Intangible assets**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.8 Impairment of non-financial assets**

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

**2.9 Financial assets**

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

*(a) Financial assets in the business model held to collect*

Financial assets in the business held to collect is non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. It refers to short-term assets, except for assets with maturities of more than 12 months after the reporting date. Such assets are classified as non-current financial assets. Receivables are stated at amortized cost using the effective interest rate method. The allocation of financial asset within business models is disclosed further in this Note. The impairment of these financial assets is performed on the basis of days of delay. Based on the age structure of receivables, the Management Board makes a decision on impairment on the basis of historical losses and the expected loan losses that may arise due to non-payment.

*(b) Financial assets in the business model held to collect and sell*

Financial assets in the business model held to collect and sell, and that is measured using the option fair value through other comprehensive income are non-derivative assets classified in this category or are not classified in another category and refer to shares listed on an active market. Initially, this financial asset is measured at fair value plus transaction costs. At each subsequent financial statement date it is fair valued, whereas investments in securities that are not quoted in an active market and whose fair value can not be reliably determined are measured at cost of acquisition. This financial asset is not subject to impairment according to IFRS 9 as it is not in the scope of impairment. The Company has decided to measure the stated financial asset at fair value through other comprehensive income because it is an investment in equity instruments that are not planned to be held for trading.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.9 Financial assets (continued)**

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

	IAS 39		IFRS 9		Impact
	Portfolio	Measurement	Business model	Measurement	
Trade and other receivables	Loans and Receivables	Amortized cost	To receive contractual cash flow	Amortized cost	No significant effect on financial statements

*(c) Financial liabilities*

Financial liabilities includes all financial liabilities that are not classified at fair value through profit or loss. Financial liabilities include liabilities to suppliers, borrowings and other liabilities. Initially, they are recognized at fair value less any directly attributable transaction costs. After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest rate method (for accounting policy on lending, see note 2.16). The fair value of interest-free liabilities is its discounted repayment amount. If the maturity date is less than one year, discounting is left out.

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

**2.10 Derivative financial instruments**

Derivative financial instruments include forward contracts and swap contracts (variable rate fixed rate exchange) in foreign currencies. Derivative financial instruments are recognized in the balance sheet at their fair value. Fair values are determined by stock market prices or price models, if applicable. All derivatives are stated in the balance sheet as assets when their fair value is positive and as a liability when their fair value is negative. These derivatives do not meet the terms of the hedge accounting and are therefore treated as derivatives traded for trading. Gains and losses on a forecast transaction are recognized in profit or loss in the same period in which the forecast transaction affects profit or loss.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.11 Leases**

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

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

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

**2.12 Inventories**

Inventories of raw materials and spare parts are stated at cost or net realizable value, whichever is the lower. The cost is determined by the method of weighted average prices. Net realizable value represents the estimate of the sales price in the ordinary course of business less the variable cost of the sale. The small inventory and tools are completely written off when put into use.

**2.13 Trade, deposit and loan receivables**

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

Trade, deposit and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment which are calculated according to IFRS 9 requirements.

**2.14 Cash and cash equivalents**

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

**2.15 Share capital**

Ordinary and preference shares are classified as equity. Preference shares bear a fixed dividend of HRK 0,25 per share per annum (2017.:1.00 kuna), in addition to ordinary dividends in the amount equal to the dividend paid on each ordinary share. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.15 Share capital (continued)**

are subsequently reissued, any consideration received, net of any directly attributable transaction costs, is included in equity attributable to the Company's equity holders.

**2.16 Borrowings**

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

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

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

**2.17 Trade payables**

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

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

**2.19 Current and deferred income tax**

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

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.19 Current and deferred income tax (continued)**

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

**2.20 Employee benefits**

*(a) Pension obligations and post-employment benefits*

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

*(b) Termination benefits*

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

*(c) Short-term employee benefits*

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

**2.21 Provisions**

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

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



**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.22 Revenue recognition**

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

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

*(a) Sales of services*

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

Revenue from services provided to individual guests paying credit cards - credit card commissions is recognized as a reduction in revenue.

*(b) Rental services*

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

*(c) Interest income*

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

*(d) Dividend income*

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

**2.23 Dividend distribution**

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

**2.24 Earnings per share**

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

**2.25 Value added tax**

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



## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

## 3.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (i) Foreign exchange risk (continued)

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

2018	EUR	HRK	Other	Total
<b>Financial assets</b>				
Trade and other receivables	5,557	3,477	-	9,034
Loans and deposits given	777	-	-	777
Available-for-sale financial assets	-	11,064	-	11,064
Cash and cash equivalents	176,797	2,307	937	180,041
	<b>183,131</b>	<b>16,848</b>	<b>937</b>	<b>200,916</b>
<b>Financial liabilities – at amortised cost</b>				
Borrowings	670,442	8,587	-	679,029
Trade and other payables	3,207	97,343	69	100,619
	<b>673,649</b>	<b>105,930</b>	<b>69</b>	<b>779,648</b>
<b>2017</b>				
<b>Financial assets</b>				
Trade and other receivables	918	956	-	1,874
Loans and deposits given	239,610	-	-	239,610
Available-for-sale financial assets	-	9,217	-	9,217
Cash and cash equivalents	23,750	3,448	316	27,514
	<b>264,278</b>	<b>13,621</b>	<b>316</b>	<b>278,215</b>
<b>Financial liabilities – at amortised cost</b>				
Borrowings	452,660	-	-	452,660
Trade and other payables	260	64,832	423	65,515
	<b>452,920</b>	<b>64,832</b>	<b>423</b>	<b>518,175</b>

As at 31 December 2018, if the EUR had weakened/strengthened by 1% (2017: 1%) against the HRK, with all other variables held constant, the net profit for the reporting period would have been HRK 4,022 thousand higher/lower (2017: HRK 1,547 thousand higher/lower), mainly as a result of foreign exchange losses/gains on translation of EUR-denominated borrowings and bank deposits.

## (ii) Cash flow and fair value interest rate risk

Loans received by the bank are contracted at a fixed interest rate and expose the company to the risk of fair value of the interest rate. The Company does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure. The carrying amount of borrowings approximates their fair values due to the amount of their contractual interest rates and maturities.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

## 3.1 Financial risk factors (continued)

## (iii) Price risk

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

## (b) Credit risk

The Company does not have a significant concentration of credit risk. Sales policies of the Company ensure that sales are made to customers who have a corresponding credit history. Receivables are mostly secured through received advances and mortgages on real estate. Provisions for impairment of trade receivables, loans and other receivables were made on the basis of credit risk assessment. The Management Board monitors the credibility of receivables through weekly reports on individual claims balances. The value of all receivables from customers and other receivables has been reduced to the amount of the recoverable amount. Credit risk related to credit claims is reduced to a minimum. The Company applies policies that restrict the level of exposure to credit risk to any financial institution. Cash transactions are carried out through high-quality Croatian banks. The Company has only short-term highly liquid instruments with billing deadlines up to 3 months.

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

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK):</i>	
Trade and other receivables	9,034	1,874
Deposits and loans given	777	239,610
Cash and cash equivalents	180,041	27,514
<b>Total</b>	<b>189,852</b>	<b>268,998</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

## 3.1 Financial risk factors (continued)

*(b) Credit risk (continued)*

The credit quality of financial assets:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK):</i>	
Neither past due nor impaired	185,320	267,650
Past due but not impaired	4,532	1,348
Impaired	5,005	953
Impairment	<u>(5,005)</u>	<u>(953)</u>
	<b>189,852</b>	<b>268,998</b>

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK):</i>	
Trade and other receivables	4,502	526
Deposits given		
- Financial institutions	749	239,610
- Other	35	-
	<u>777</u>	<u>239,610</u>
Cash and cash equivalents	180,041	27,514
	<b>185,320</b>	<b>267,650</b>

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

As at 31 December 2018, trade receivables were past due but not impaired. The ageing analysis of these receivables is as follows:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK):</i>	
Up to 1 month	629	342
1 to 2 months	733	114
2 to 3 months	544	84
Over 3 months up to 1 year	<u>2,626</u>	<u>808</u>
	<b>4,532</b>	<b>1,348</b>

Receivables are mainly secured by advances received.

Impaired receivables relate to trade receivables in the amount of HRK 5,005 thousand (2017: HRK 953 thousand). Most of the receivables from customers for which there is a write-off, and where justified costs of legal proceedings are debited, or have begun the billing process or the settlement agreement (after the balance sheet date). Both the outcome of the proceedings related to receivables under litigation or the extent to which they will be collected cannot be anticipated with certainty.

**NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)**

**3.1 Financial risk factors (continued)**

As at December 31, 2017 and December 31, 2018, the Company evaluated the adoption of IFRS 9. As impairment of receivables from customers for expected loan losses is not material for the financial statements as a whole, it is not recorded.

The carrying amount of receivables from customers and other receivables corresponds to their fair value.

*(c) Liquidity risk*

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

The table below shows the Company's financial liabilities at the balance sheet date by contractual maturities. The amounts shown in the table represent contracted undiscounted cash flows. Amounts within 12 months are not different from book value since discounting has no significant impact, except for lending.

	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
	<i>(in thousands of HRK)</i>			
<b>At 31 December 2018</b>				
Borrowings	103,160	456,375	164,593	724,128
Trade payables	100,619	-	-	100,619
<b>Total liabilities</b>	<b>203,779</b>	<b>456,375</b>	<b>164,593</b>	<b>824,747</b>
<b>At 31 December 2017</b>				
Borrowings	65,143	249,585	175,006	489,734
Trade payables	65,515	-	-	65,515
<b>Total liabilities</b>	<b>130,658</b>	<b>249,585</b>	<b>175,006</b>	<b>555,249</b>

**3.2 Capital risk management**

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

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

**NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Fair value estimation**

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

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

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

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

*Fair value hierarchy*

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

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

As at 31 December 2018, assets carried at fair value in the amount of HRK 11,064 thousand (2017: HRK 9,217 thousand) were allocated into level 1. There were no transfers between levels during the year.

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

**NOTE 4 – CRITICAL ACCOUNTING ESTIMATES**

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

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

Based on historical information, and in line with the technical department, the useful life of buildings was assessed by Management Board to be 10-25 years. The useful lives of equipment and other assets have also been reassessed as disclosed in Note 2.6.

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

If the useful lives of property, plant and equipment had been 10% longer, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 15,589 thousand higher (2017: HRK 7,062 thousand higher).

If the useful lives of property, plant and equipment had been 10% shorter, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 19,054 thousand lower (2017: HRK 8,631 thousand lower).

*(b) Impairment of financial assets*

An impairment of financial assets allocated to the business model of holding is charged on the basis of a delay. Based on the age structure of receivables, the Management Board makes a decision on impairment on the basis of historical losses and the expected loan losses that may arise due to non-payment. Impairment of financial assets is disclosed in Note 2.9.

*(c) Goodwill*

Separate goodwill is tested annually for impairment or whenever there are any impairment provisions and are recognized at cost less accumulated impairment losses. Goodwill impairment losses are not eliminated. Goodwill is allocated to cash-generating units for impairment testing purposes. Allocation is carried out on those cash-generating units that are expected to benefit from the business combination in which goodwill is generated.

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



**NOTE 5 – SEGMENT INFORMATION**

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

The Company monitors its operations according to the types of services rendered by distinguishing three main operating segments: hotels and apartments, campsites and other segments. Other segments include marine services, rental services, sport services and sporting events organization (ATP tournaments), auxiliary activities, and other similar services.

The Group uses internal management reports by activities / products where EBITDA (earnings before taxes, interest and depreciation).

Information on individual segments for the year ended 31 December 2018 was presented at Group level in the consolidated audit report.

The total assets of the Company and the capital investments in the assets are in the Republic of Croatia. The company carries out its services and sales activities in Croatia.

**NOTE 5a – OTHER REVENUES**

	<u>2018.</u>	<u>2017.</u>
	<i>(in thousands of HRK)</i>	
Dividend income of affiliated companies	62,389	-
Dividend income – not affiliated companies	522	375
Charges damage from the insurance fund	2,963	727
Other income	4,811	634
	<u>70,685</u>	<u>1,736</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## NOTE 6 – COST OF MATERIALS AND SERVICES

	2018	2017
	<i>(in thousands of HRK)</i>	
<b>Raw materials and supplies</b>		
Raw materials and supplies used	92,116	49,606
Energy and water used	74,004	36,544
Small inventories	9,097	3,554
	<u>175,217</u>	<u>89,704</u>
<b>External services</b>		
Franchise cost /i/	8,764	-
Maintenance services	25,539	22,785
Laundry and cleaning services	15,197	19,194
Entertainment and animation	11,339	6,925
Transportation and telecommunication	3,921	1,611
Advertising and promotion	9,043	4,008
Utility services	12,100	5,532
Rentals	2,544	1,411
Student employment agency services	5,464	2,035
Security services for assets and individuals	10,642	5,955
Other services	6,319	4,388
	<u>110,872</u>	<u>73,844</u>
<b>Total</b>	<u><b>286,089</b></u>	<u><b>163,548</b></u>

/ i / The Company realizes business cooperation through a franchise agreement with Melia Hotels International for accommodation facilities-hotels and apartments in Umag.

## NOTE 7 – STAFF COSTS

	2018	2017
	<i>(in thousands of HRK)</i>	
Salaries	146,580	72,694
Pension insurance contributions	41,466	20,412
Health insurance contributions	30,007	15,059
Other contributions and taxes on salaries	27,541	13,944
Other staff costs /i/	25,750	8,680
	<u>271,344</u>	<u>130,789</u>
Number of employees as at 31 December	<u>1,614</u>	<u>822</u>

/i/ Other staff costs include reimbursement and transportation costs, non-taxable reimbursement for accommodation and meal, non-taxable income (Christmas bonus, jubilee awards) and similar.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

**NOTE 8 – OTHER OPERATING EXPENSES**

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Utility and similar charges, taxes and contributions	42,669	20,792
Write-off of non-current tangible assets	-	13,903
Professional services	7,574	5,026
Insurance premiums	4,116	1,876
Travel and entertainment	1,105	586
Bank charges and membership fees	2,309	1,508
Increase in provisions for legal disputes	1,320	192
Provision for impairment of trade and other receivables (Note 16)	1,437	1,149
Other	13,432	8,218
<b>Total</b>	<b><u>73,962</u></b>	<b><u>53,250</u></b>

**NOTE 9 – FINANCE INCOME AND COSTS**

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
<b>Finance income</b>		
Interest income on cash deposits and loans	326	693
Net foreign exchange gains from financing activities	4,234	5,019
Other finance income	439	220
	<u>4,999</u>	<u>5,932</u>
<b>Finance costs</b>		
Interest expense	(11,480)	(12,476)
	<u>(11,480)</u>	<u>(12,476)</u>
<b>Finance costs - net</b>	<b><u>(6,481)</u></b>	<b><u>(6,544)</u></b>

## NOTE 10 – INCOME TAX

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
<b>Profit before tax</b>	<b>307,991</b>	<b>128,304</b>
Income tax at 18%	55,438	23,095
Effect of non-taxable income	(12,905)	(1,595)
Effect of non-deductible expenses	1,197	1,375
Effect of tax incentive /i/	(43,730)	-
Deferred tax liability recognized in the income statement	(403)	-
<b>Income tax expense / (tax income)</b>	<b>(403)</b>	<b>22,875</b>
Income tax prepayments	-	(19,546)
Current income tax payable	-	3,329
Income tax receivable	28,248	-
Effective tax rate	-	17.83%

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

In accordance with local regulations, the Tax Administration may at any time inspect the Group's books and records within 3 years following the year in which the tax liability is reported and may impose additional tax liabilities and penalties.

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

**NOTE 11 – EARNINGS PER SHARE****Basic earnings per share**

Basic earnings per share is calculated as follows:

	<b>2018</b>			<b>2017</b>		
	<i>(in thousands of HRK)</i>			<i>(in thousands of HRK)</i>		
	<b>Preference shares</b>	<b>Ordinary shares</b>	<b>Total</b>	<b>Preference shares</b>	<b>Ordinary shares</b>	<b>Total</b>
Dividends declared and paid in the year	37,737	196,710	234,477	105	-	105
Undistributed earnings	11,875	62,072	73,946	17,221	88,103	105,324
<b>Profit for the year</b>	<b>49,612</b>	<b>258,782</b>	<b>308,394</b>	<b>17,326</b>	<b>88,103</b>	<b>105,429</b>
Weighted average number of shares in issue excluding treasury shares	420,000	2,195,426		105,000	537,176	
Distributed earnings	89.85	89.60		1	-	
Undistributed earnings	28.27	28.27		164.01	164.01	
<b>Basic earnings per share (in HRK)</b>	<b>118.12</b>	<b>117.87</b>		<b>165.01</b>	<b>164.01</b>	

For the purpose of merger implementation, corporate actions have been made to increase the share capital by issuing new shares and dividing the shares. Each regular share and each preferred share is divided into four shares that are denominated without a nominal amount. In the share exchange process, the Company's share capital was increased by issuing 12,500 new ordinary shares that were denominated without a nominal amount, and 34,222 of its own shares were released, so that after the corporate action in question the number of ordinary shares of the Company in circulation was 2,615,426 shares and 420,000 preference shares.

**Diluted earnings per share**

Diluted earnings per share for 2018 and 2017 are equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either years.

**NOTE 12 – DIVIDEND PER SHARE**

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

Unpaid dividends in respect of 2005 through 2018 of HRK 5,360 thousand (2017: HRK 5,362 thousand) are disclosed as dividends payable in 'trade and other payables' (Note 20).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## NOTE 13a – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Other assets</b>	<b>Assets under construction</b>	<b>Total</b>
<b>At 31 December 2016</b>					
Purchase value	2,491,551	300,475	37,090	6,973	2,836,089
Accumulated depreciation and impairment	(1,579,018)	(267,316)	(33,410)	-	(1,879,744)
<b>Net book amount</b>	<b>912,533</b>	<b>33,159</b>	<b>3,680</b>	<b>6,973</b>	<b>956,345</b>
<b>Year ended 31 December 2017</b>					
Opening net book amount	912,533	33,159	3,680	6,973	956,345
Additions	59,551	15,931	2,617	30,508	108,607
Sale and impairment	(13,684)	(125)	-	-	(13,809)
Depreciation	(81,575)	(12,057)	(1,097)	-	(94,729)
<b>Closing net book amount</b>	<b>876,825</b>	<b>36,908</b>	<b>5,200</b>	<b>37,481</b>	<b>956,414</b>
<b>At 31 December 2017</b>					
Purchase value	2,445,134	297,004	39,707	37,481	2.819.326
Accumulated depreciation and impairment	(1,568,309)	(260,096)	(34,507)	-	(1,862,912)
<b>Net book amount</b>	<b>876,825</b>	<b>36,908</b>	<b>5,200</b>	<b>37,481</b>	<b>956,414</b>
<b>Year ended 31 December 2018</b>					
Opening net book amount	876,825	36,908	5,200	37,481	956,414
Merger of company	1,154,447	64,804	99,654	3,955	1,322,860
Transfer – asset allocation	61,496	5,980	(67,476)	-	-
Additions	401,787	45,654	10,613	(18,490)	439,564
Cost of acquisition above fair value	61,136	-	-	-	61,136
Sale and impairment	(2,232)	(448)	-	-	(2,680)
Other movements between accounts	(6,223)	(461)	6,684	-	-
Depreciation	(163,953)	(37,675)	(7,498)	-	(209,126)
<b>Closing net book amount</b>	<b>2,383,283</b>	<b>114,726</b>	<b>47,177</b>	<b>22,946</b>	<b>2,568,168</b>
<b>At 31 December 2018</b>					
Cost	4,784,331	567,246	111,742	22,946	5,486,265
Accumulated depreciation and impairment	(2,401,048)	(452,484)	(64,565)	-	(2,918,097)
<b>Net book amount</b>	<b>2,383,283</b>	<b>114,762</b>	<b>47,177</b>	<b>22,946</b>	<b>2,568,168</b>

**NOTE 13a – PROPERTY, PLANT AND EQUIPMENT (continued)**

Additions under ‘Land and buildings’ relate to various construction works in hotels and campsites which were completed in 2018 and 2017, respectively, and to the purchase of land.

As at 31 December 2018, the net carrying amount of assets pledged as security for the repayment of borrowings is HRK 1,242,516 thousand (2017: HRK 172,469 thousand).

The carrying amount of the Company's property, plant and equipment, classified under IAS 40 *Investment property* as an investment property, and is stated in land and buildings, as follows:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Cost	151,718	121,352
Accumulated depreciation	(106,491)	(90,798)
Depreciation charge for the year	(3,895)	(2,950)
<b>Net book amount</b>	<b><u>41,332</u></b>	<b><u>27,604</u></b>

Operating leases relate to leases of business premises and hospitality facilities. During 2018, the Company realised rental income in the amount of HRK 39.824 thousand (2017: HRK 23.448 thousand). During the year, there were no direct operating expenses arising from the utilisation of these assets except for the depreciation charge.

Minimum lease payments in accordance with the contracts as at 31 December are as follows:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	40,265	20,375
From 2 to 5 years	161,060	81,500
<b>Total</b>	<b><u>201,325</u></b>	<b><u>101,875</u></b>

## NOTE 13b – INTANGIBLE ASSET

<i>(in thousands of HRK)</i>	Software	Goodwill	Asset under constructi on	Total
<b>At 31 December 2016</b>				
Purchase value	7,019	-	96	7,115
Accumulated depreciation	(6,575)	-	-	(6,575)
<b>Net book amount</b>	<b>444</b>	<b>-</b>	<b>96</b>	<b>540</b>
<b>For year ended 31 December 2017</b>				
Opening net book amount	444	-	96	540
Additions	2,417	-	(72)	2,345
Depreciation	(318)	-	-	(318)
Decrease	-	-	-	-
<b>Closing net book amount</b>	<b>2,543</b>	<b>-</b>	<b>24</b>	<b>2,567</b>
<b>At 31 December 2017</b>				
Purchase value	9,435	-	24	9,459
Accumulated depreciation	(6,892)	-	-	(6,892)
<b>Net book amount</b>	<b>2,543</b>	<b>-</b>	<b>24</b>	<b>2,567</b>
<b>For year ended 31 December 2018</b>				
Opening net book amount	2,543	-	24	2,567
Merge of company	5,521	12,480	-	18,001
Additions	2,121	-	(24)	2,097
Depreciation	(3,088)	-	-	(3,088)
<b>Closing net book amount</b>	<b>7,097</b>	<b>12,480</b>	<b>-</b>	<b>19,577</b>
<b>At 31 December 2018</b>				
Opening net book amount	30,864	12,480	-	43,344
Accumulated depreciation	(23,767)	-	-	(23,767)
<b>Net book value</b>	<b>7,097</b>	<b>12,480</b>	<b>-</b>	<b>19,577</b>



## NOTE 14 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Subsidiaries	113	933.883
Associates	190.732	190.732
	<b>190.845</b>	<b>1.124.615</b>

Changes in investments in subsidiaries are as follows:

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Opening balance	933,883	933,049
Purchase of shares from minority shareholders	-	834
Merger (Note 23)	(933,807)	-
Acquisition of subsidiaries by merger	37	-
<b>Closing balance</b>	<b>113</b>	<b>933,883</b>

	<u>Country</u>	<u>Ownership %</u>	
		2018	2017
<i>Subsidiaries</i>			
Travel d.o.o., Poreč	Croatia	100.00	100.00
Istraturist Umag d.d., Umag	Croatia	-	94.83
Istra DMC d.o.o. Umag	Croatia	100.00	-
Istraturist j.d.o.o.	Croatia	100.00	-
<i>Associates</i>			
Jadranski luksuzni hoteli d.d.	Croatia	32.48	32.48

The subsidiary Laguna invest d.o.o., Poreč did not have any business activities in 2017. On February 23, 2018, the company's name was changed to Travel d.o.o., and business subject with realization of business activity during 2018.

PLAVA LAGUNA d.d., POREČ

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 15 – FINANCIAL ASSET MEASURED AT FAIR VALUE THROUGH  
COMPREHENSIVE INCOME

	<u>Ownership</u>	<u>31/12/2018</u>	<u>31/12/2017</u>
		<i>(in thousands of HRK)</i>	
Investments in banks	4,46 %	8,505	6,346
Investments in companies	/i/	2,559	2,871
		<u>11,064</u>	<u>9,217</u>

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

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

Available-for-sale investments are as follows:

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

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

## NOTE 16 – TRADE AND OTHER RECEIVABLES

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	9,258	1,870
Foreign trade receivables	3,024	918
Due from brokers – agencies	176	13
Impairment of trade receivables	<u>(5,005)</u>	<u>(953)</u>
Trade receivables – net	7,453	1,848
Interest receivable	-	7
Accrued income not yet invoiced	<u>1,581</u>	<u>19</u>
<i>Total financial assets</i>	<u>9,034</u>	<u>1,874</u>
Due from state institutions	745	394
VAT prepayments	5,437	2,750
Advances to suppliers	151	183
Other current receivables	582	810
Impairment of other receivables	<u>(8)</u>	<u>-</u>
<b>Total</b>	<u><b>15,941</b></u>	<u><b>6,011</b></u>

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

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
At 1 January	953	1,324
Acquisition	3,207	
Increase (Note 8)	1,416	1,149
Collection	(52)	(410)
Write-off	(519)	(1,110)
<b>At 31 December</b>	<u><b>5,005</b></u>	<u><b>953</b></u>

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## NOTE 17 – SHARE CAPITAL

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

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

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

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

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

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

Based on Merger Agreement of 29 June 2017 and the Decision of the General Assembly of the companies held on August 11, 2017, the company ISTRATURIST UMAG d.d. Umag was merged to the company PLAVA LAGUNA d.d. Poreč on January 1, 2018. Following the merger, according to the decisions brought on the respective Shareholders' Meeting, corporate actions were taken to increase the share capital by issuing new shares and distributing shares. Each regular share and each preferred share was divided to four shares in a name, and denominated without a nominal amount. Also, the Company's share capital was increased from HRK 1,436,911,375.30 by HRK 7,618,681.88 to HRK 1,444,530,057.18, by issuing 12,500 new ordinary shares that are denominated without a nominal amount, so that after issuing the share of ordinary shares of the Company amounts to 2,197,772 shares and 420,000 preference shares.

**NOTE 17 – SHARE CAPITAL (continued)**

In the share exchange process, the Company, in addition to the newly issued 12,500 shares and 34,222 shares by disposing their own shares. After carrying out the corporate action of merger and share capital increase, the Company is left with 2,346 own shares.

All shares are fully paid. In addition to the regular dividend, preference shares carry a right to a fixed annual preferred dividend of HRK 0,25 per share and are non-voting.

Based on the decision of the General Assembly from 30 August 2018, dividend payment was paid in the amount of HRK 89.60 per ordinary share and HRK 89.85 per preferred share, totaling HRK 234,447 thousand.

**NOTE 18 – RESERVES**

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

/i/ Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until total reserves together with the capital reserves reach 5% of the Company's share capital. This reserve is not distributable. Based on the Decision of the General Assembly of 30 August 2018, the Company transferred an amount of HRK 2,588 thousand from current profit to legal reserves. As at 31 December 2018, legal reserves amounted to HRK 53,021 thousand (2017: HRK 50,433 thousand) or 3,67% of the share capital (2017: 3.51%), while the share of legal reserves together with capital reserves which are not distributable HRK 29,572 thousand, (2017: HRK 18,824) and which were formed by denominating the share value in 2001 (from HRK 1,860 to HRK 1,800 per share), form a share of 5,72% (2017: 4.82%) in the Company's share capital.

**NOTE 18 – RESERVES (continued)**

/ii/ As at 31 December 2018, the other reserves amount to HRK 72,101 thousand and consist of a capital reserve in the amount of HRK 18,824 thousand (2017: HRK 18,824 thousand), which are increased by HRK 10,748 thousand due to the decrease in the reserves for own shares as a consequence of releasing shares due to merger. Total capital reserves amount to HRK 29,572 thousand. Also, as a result of the merger, other reserves were generated in the amount of HRK 38,554 thousand primarily due to the use of own shares at the time of exchange, and they were redeemed at an average price of HRK 1,256.27 (prior to the share issue). The remainder of the total amount of other reserves constitutes reserves for treasury shares in the amount of HRK 737 thousand and the fair value of financial assets in the amount of HRK 3,238 thousand (2017: 3,233)

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

## NOTE 19 – BORROWINGS

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
<b>Long-term:</b>		
Bank borrowings	581,046	394,467
Borrowings from subsidiaries	8,587	-
	<u>589,633</u>	<u>394,467</u>
<b>Short-term:</b>		
Current portion of bank borrowings	88,600	56,352
Accrued interest and fees	796	1,841
	<u>89,396</u>	<u>58,193</u>
<b>Total</b>	<b>679,029</b>	<b>452,660</b>

Bank borrowings are secured by properties (Note 13). During 2018, During 2018, the Company repaid the first loan loan contracted in 2017 in the amount of HRK 88,678 thousand according to contracts with:

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

II. Raiffeisenbank Austria d.d. Zagreb at a contracted amount of EUR 22,2 million with a fixed interest rate of 30 September 2022.

III. Loan with affiliated company Istra D.M.C. Umag, amounting to HRK 10.0 million at variable rate, in accordance with the Decision on interest rates between related persons, with final maturity on 30 September 2022.

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

The maturity of long-term borrowings is as follows:

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
From 1 to 2 years	117,913	56,352
From 2 to 5 years	311,007	169,057
Over 5 years	160,713	169,058
	<u>589,633</u>	<u>394,467</u>

**NOTE 19 – BORROWINGS (continued)***Net debt*

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

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Cash and cash equivalents	180,041	27,514
Bank deposits	777	239,610
Listed shares	11,064	9,217
Borrowings maturing within a period of 1 year.	(89,396)	(58,193)
Borrowings maturing after a period of 1 year	(589,633)	(394,467)
<b>Net debt</b>	<b>(487,147)</b>	<b>(176,319)</b>
Cash and liquid assets	191,882	276,341
Liabilities at fixed interest rate	(679,029)	(452,660)
<b>Net debt</b>	<b>(487,147)</b>	<b>(176,319)</b>



**NOTE 19 – BORROWINGS (continued)**

The table below presents the movement in debt of the Company in 2018:

*(in thousands of HRK)*

	<b>Borrowings</b>
<b>As at 1 January 2018</b>	<b>452,660</b>
<b>Acquired from merged company</b>	<b>176,863</b>
Cash inflow	148,352
Cash outflow	(90,090)
Interest paid	(12,390)
Interest expense	11,480
Net foreign exchange difference	(7,846)
<b>As at 31 December 2018</b>	<b>679,029</b>
<b>As at 1 January 2017</b>	<b>469,810</b>
Cash inflow	445,355
Cash outflow	(454,634)
Interest paid	(17,395)
Interest expense	12,476
Net foreign exchange difference	(2,952)
<b>As at 31 December 2017</b>	<b>452,660</b>

**NOTE 20 – TRADE AND OTHER PAYABLES**

	<b>31/12/2018</b>	<b>31/12/2017</b>
	<i>(in thousands of HRK)</i>	
Trade payables	41,498	27,574
Due to related parties (Note 22)	204	206
Dividends payable (Note 12)	5,360	5,362
Accrued costs not yet invoiced	3,295	10,472
Concession payable /i/	50,262	21,901
<i>Total financial liabilities</i>	<b>100,619</b>	<b>65,515</b>
Net salaries payable	28,384	17,523
Taxes and contributions payable	21,139	13,213
Advances payable	21,830	13,141
Other current liabilities	8,356	5,005
	<b>180,328</b>	<b>114,397</b>

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

**NOTE 21 – CONTINGENT LIABILITIES**

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

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

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

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

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

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

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

Nova Ljubljanska banka d.d. in the period between 1994 and 1998, filed two lawsuits against the Company before a Court in the Republic of Slovenia, requesting the payment of an amount of DEM 31 million in interest (Pg 16/2005 and Pg 117/05). Both disputes were finalized in favor of the Nova Ljubljanska Banka and the Nova Ljubljanska Banka initiated proceedings before the Commercial Court in Pazin for recognition of the effects of the aforementioned verdicts in the Republic of Croatia with the aim to conduct enforcement against the Company.

**NOTE 21 – CONTINGENT LIABILITIES (continued)**

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

In both proceedings, the Company filed objections rejecting completely the statements of Nova Ljubljanska Banka, note that in one of the proceedings (and the Company expects similar decisions and other recognition procedures) recognition was paused until the completion of proceedings before the Commercial Court in Zagreb (below). The key reasons for the Company's complaint are:

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

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

On the other hand, the Company protects its rights, arguing that the abovementioned set off was completely lawful and valid and that the mutual claims were completely terminated and that the transfer of the right to a universal legal successor without the simultaneous transfer of obligations is contrary to Croatian legal system, i.e. before the following Croatian courts: the Municipal Court in Buje, aiming to declare that the above-mentioned enforcement order Ovr 436/00 is inadmissible and to declare the termination of the related pledges (P-585/06 and P-246/03), and before the Commercial Court in Zagreb aiming to declare that no claim by Nova Ljubljanska Banka and its predecessor Ljubljanska Banka towards the Company exists on any legal basis - financial contracts concluded between the Company and LJB in period from 1989 to 1991 (P – 3502/13).

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

Although in February 2016 the Company received the Findings and Opinion of the expert from which it is apparent that the Company completely settled all its obligations to the Ljubljanska Banka or Nova Ljubljanska Banka by set off, the Commercial Court in Zagreb in the proceeding registered under court file No P-3502/13 in March 2017, by a non – final verdict, partially rejected the Company's claim directed to determine that there were no obligations of the Company towards Ljubljanska banka or Nova Ljubljanska banka. Against this judgment, the Company filed an appeal for serious procedural breaches and violations in applying the material law that were, as per the Company's understanding, committed by the first instance court. In December 2017, the High Commercial Court, by adjudicating in the appeal, rendered the verdict by which the case was returned to trial, ordering to perform the evidence by hearing the expert as a witness,

**NOTE 21 – CONTINGENT LIABILITIES (continued)****Court Disputes (NLB Disputes of the Joined Company Istraturist Umag d.d., Umag) (continued)**

and by taking a clear and binding legal position for the first instance court that the set off of the receivables was valid, thus eliminating the doubts whether the Company could have obtained claims from Zagrebačka banka d.d. and then to set them off with the debt towards Ljubljanska banka d.d.. Nova Ljubljanska banka filed a revision to the Supreme Court of the Republic of Croatia against the decision of the High Commercial Court, whereupon until the date of the compilation of this Note the Company did not receive a court decision.

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

**Provisions for other contingent liabilities.** In the financial statements for the year ended 31 December 2018, the Company has provisions for other contingent liabilities in the amount of HRK 4.571 thousand (2017: HRK 192 thousand)

**Capital commitments** Future commitments contracted for investments in tourist facilities, for which provisions were not made, as at 31 December 2018 amounted to HRK 54 million (2017: HRK 238 million).

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

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	550	622
From 2 to 5 years	911	680
	<u>1,461</u>	<u>1,302</u>

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

**NOTE 22 – RELATED PARTY TRANSACTIONS**

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

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

In the ordinary course of business, the Company enters into transactions with related parties. These transactions were carried out under commercial terms and conditions and at market rates,

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

	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Trade and other receivables	3,717	170
Sales revenue	232,115	-
Other income	1	877
Financial income	11	-
Trade and other payables	3,814	206
Borrowings	8,587	-
Other expenses	2,645	9,367
Financial expenses	429	-
Non-current intangible assets	-	170

- 2) Transactions with the majority owner:

During 2018, based on the Decision of the General Assembly of the Company, a dividend was paid to the majority shareholder in the amount of HRK 203,618 thousand.

In 2018, the transaction with the majority shareholder was realized in the amount of HRK 2 thousand, based on the provision of accommodation.

At the balance sheet date there are no claims and liabilities to the majority owner.

**NOTE 22 – RELATED PARTY TRANSACTIONS (continued)**

3) Key Management and Supervisory Board compensation	<u>31/12/2018</u>	<u>31/12/2017</u>
	<i>(in thousands of HRK)</i>	
Net salaries	10,788	6,478
Pension insurance contributions	2,677	1,615
Health insurance contributions	2,674	1,584
Other costs (contribution and taxes)	4,751	2,701
	<u>20,890</u>	<u>12,378</u>
Supervisory Board compensation	627	597
<b>Total</b>	<u>21,517</u>	<u>12,975</u>

Key management comprises 24 persons (2017: 15 persons). The Supervisory Board comprised 5 members (2017: 5 members).

**NOTE 23 – MERGER***/i/ Merger*

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

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

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

**NOTE 24 – EVENTS AFTER BALANCE SHEET DATE**

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

**NOTE 25 - APPROVAL OF FINANCIAL STATEMENTS**

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

For and in the name of Management Board:

---

Neven Staver  
President

---

Marco Antonio Buzolic Buzolic  
Member

---

Damir Mendica  
Member

---

Dragan Pujas  
Member

---

Danira Rančić  
Member