PLAVA LAGUNA

ANNUAL REPORT

FOR THE YEAR 2018

Poreč, June 2019

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BOARD OF MANAGERS' REPORT TO THE COMPANY SHAREHOLDERS

Dear shareholders,

business year 2018 was, in many ways, specific and challenging for Plava Laguna. The first challenge was the fact that the previous year was the most successful year in Croatian tourism and also in Plava Laguna. Highly raised scale demanded careful planning and thoughtful decision-making.

The year behind us is significant in that for the first time, we acted as one „big"company consisting of Istraturist Umag and the «old Plava Laguna». With the formal finalisation of the merger of the Company Istraturist Umag j.s.c. with the Company Plava Laguna j.s.c. effective from the 1st of January, 2018, the implementation of all procedures and processes for the operational implementation of the merger has been initiated, which implies, first of all, the establishment of stability in recruiting and realisation of a single collective agreement, followed by the establishment of the new brand strategy and the new IT system. The merger led to the creation of one of the largest hotel companies in Croatia where opportunities for growth and development are measured both in the potential for employment and improvement of working conditions for the employees, as well as in the potential for investments.

Year 2018 is significant even in terms of realisation of the largest capital expenditures budget in the amount reaching EUR 60 million, within which the following major investments have been realised – a thourough reconstruction of the tourist resort Park Resort, total renovation of the campsite Stella Maris and the construction of Garden Suites & Rooms Sol Umag. Besides investments in guest facilities, significant funds have been directed into the construction of new and renovation of the existing accommodation facilities for employees who are the most important link in achieving excellence in the quality of provided services and ultimately, our final goal and that is to have a satisfied guest.

Considering the investments realised and despite the changes of the intensity of demand during summer months, Plava Laguna managed to achieve growth in financial performance compared to the record breaking year 2017.

The physical volume measured in realised overnight stays in all types of accommodation records a level of 4.77 million overnight stays which is 1.1% less compared to the previous year and 0.6% compared to the plan. In built objects, 2.51 million overnight stays is generated with the decrease of 2.5% compared to year 2017 and 1.2% compared to the planned level, partly interpreted by somewhat late opening of newly reconstructed facilities. Realisation in campsites is 2.26 million overnight stays which is nearly last year's level (+ 0.5%) and at planned level which is particularly successful, given the characteristics of the general trend of demands in the destination, beginning of the operation of completely new campsite AC Stella Maris, and generally very high level of campsite occupancy in destination Poreč until now.

The mentioned movement of physical volume with a positive impulse of average net rate which in built objects records growth of 4.1% and in campsites of 8.7%, resulted with the increase of the Group's business revenues (Plava Laguna j.s.c., ISTRA DMC Ltd. and Travel Ltd.) by HRK 38.6 million or 3.6% to the level of HRK 1,123 million. Mentioned increase is also interpreted with a difference in one-time items in the amount of HRK 8.1 million conditioned on the realised income from the sale of non-operating assets during year 2018.

Business expenditures of the Group amount to HRK 869 million and compared to the previous year, by eliminating depreciation, record a decrease of HRK 1.4 million where we need to point out the positive effect of the difference in one-time items, which amounts to HRK 11.7 million, due to the impairment loss of assets caused by the demolition at the end of the year 2017, following the reconstruction. Analysing movements on a comparable level and in the sphere of operating costs, one should note a growth of 1.6% or nominally HRK 10.3 million, first of all, in the positions of salary and the improvement of benefits for employees, and other cost categories that are basically related to labor services (security guards services, cleaning services) while savings are made in the field of maintenance.

The increase in depreciation of HRK 47.4 million is a result of changes in the accounting policy for depreciation in the merged Company with the additional effect of capital investments.

Nominal level of operating earnings for the Group, EBITDA amounts to HRK 446.9 million which represents an increase of 4.7% or nominally HRK 20.2 million compared to the previous year. The Group's efficiency (excluding the Associated company) in the observed period indicated by EBITDA margin is 40.7% which represents a highly competitive level in the tourism sector of global environment and on the other hand, reflects the financial strength of the Group.

The Group's position in the segment of financial activities improved when compared to the previous year, given that the negative effect from the level of HRK -12.0 million came to the level of HRK -5.4 million primarily due to lower interest cost.

In the consolidated profit and loss account, the Company reports the share of profit of the Associated company Jadranski luksuzni hoteli j.s.c./Adriatic Luxury Hotels in the amount of HRK 28.4 million which is by HRK 9.4 million better result than in the previous year due to a higher level of business performances in the Associated company.

The Group's profit before tax in year 2018 amounts to HRK 276.9 million and records an increase of HRK 8.6 million compared to the previous year which is the effect of the above mentioned movements or the increase in the amount of HRK 56.0 million, structured by the growth of operating results of HRK 20.2 million, the effect of one-item positions in the amount of HRK 19.8 million, financial activities in the amount of HRK 6.6 million and the increase in the share of the Associated company's profit of HRK 9.4 million. On the other hand, the increase of the depreciation in the amount of HRK 47.4 million is recorded based on the above explained changes.

On a basis of the Act on Investment Promotion, the Company Plava Laguna j.s.c. announced its investment project for the period of years 2018 – 2020, and after the balance sheet date acquired the status of a holder of investment incentives benefiting from tax incentives of up to a maximum EUR 18.75 million, by meeting the criteria prescribed by the said law and related subordinate acts. Based on realised investments after the investment project's application date, the Company used a tax incentive in the amount of HRK 43.7 million for the corresponding tax period ie. for year 2018.

Following the above mentioned, profit after tax amounts to HRK 276.6 million.

The consolidated balance sheet value of the Group as of the last day of the reporting period amounts to HRK 3,084 million which represents an increase of HRK 78 million compared to the previous reporting year. Given the above explained extensive capital budget, largely financed from own sources, the changes are seen in the structures of assets through strengthening of the material segment. At the end of the year, the Company Plava Laguna j.s.c. concluded a loan agreement to finance capital investments in the amount of EUR 50.0 million, with the first tranche of EUR 20.0 million realised at the end of the reporting year while the remaining amount will be used in the last quarter of 2019. Total credit indebtedness of the Group on 31st of December 2018 amounts to EUR 90.3 million, with Debt/EBITDA ratio of 1.5 which indicates the financial stability of the Group which can repay the total debt within 1.5 years.

Based on the Decision of the General Assembly of the Company Plava Laguna j.s.c., dividend payment was made in the last quarter.

In year 2018, Plava Laguna organised, participated in and sponsored various sports and entertainment events in local communities within which it operates, of which one especially needs to be pointed out in the destination of Umag, the Plava Laguna Croatia Open Umag – one of the biggest sports events in Croatia with a multiplicative effect in the promotion of the country as a tennis destination, destination of fine entertainment and gastronomy, and in the destination of Poreč, the Rise Up Music Festival – music event that was the premier host for some of the leading music stars.

By summing up the results in year 2018 – merger and establishment of one of the largest companies in Croatian tourism, the largest capital expenditures budget in recent history of Plava Laguna, revenues exceeding HRK 1.12 billion, earnings measured by EBITDA of HRK 446.9 million, with profit margin of 40.7% – it may be concluded that this year is one of the more successful business years for the Group Plava Laguna. Besides traditional values, stability and security, efficiency is ensured, and the fact that Plava Laguna is a financially stable company focused on long-term sustainability and systematic growth of added value for all stakeholders – shareholders, business partners, local community and especially, employees and finally guests who are the centre of all processes in the Company.

I am using this opportunity to thank all colleagues at Plava Laguna for their invested efforts and contribution in realisation of a successful business year 2018, with a wish that next year again, all together, representing the „six stars“ attitude, we create a perfect holiday for our guests.

The Management Board of Plava Laguna thanks all stakeholders, Supervisory Board, guests and business partners for their support and cooperation, and with great pleasure, presents this Report on the Plava Laguna Group's achievements in year 2018.

Management Board of the Company

Neven Staver, President

REPRESENTATION OF THE PLAVA LAGUNA GROUP

Plava Laguna j.s.c. is a company backed by almost 60 years of successful operation and development, based on ecological principles and sustainable development, during which time it continuously occupied leadership position in the Croatian tourism, and by permanent enrichment of its overall offer and adjustment to the needs of ever more demanding tourist market achieves enviable physical and especially financial results. Consequently, the Company's vision is directed towards continuous improvement and raising of the quality of service, and maintaining a stable position on the tourist market.

The core business of Plava Laguna is hospitality and tourism and as a Company it operates in three destinations - Poreč, Umag and Rijeka.

Based on the decisions of the General Assembly of both companies Plava Laguna j.s.c. and Istraturist Umag j.s.c. on 11th of August 2017, the merger agreement of the Company Istraturist Umag j.s.c. with the Company Plava Laguna j.s.c. was entered in the Court Registry of the Commercial Court of Pazin, effective from the 1st of January, 2018 and thus, Plava Laguna added to its portfolio a hotel company with more than 50 years of tradition, whose accommodation facilities, with long-term targeted investments, became an inevitable destination for guests who spend their vacations in Umag and the surrounding area.

Upon the merger of the Company Istraturist Umag j.s.c., Plava Laguna j.s.c. is ranked as one of the largest company in the tourism sector of Croatia with the capacity to accommodate more than 43 thousand guests daily in more than 16 thousand accommodation units and a structure of 20 hotels, 10 apartment resorts and 9 campsites. In addition, Plava Laguna manages two marinas / ports of nautical tourism in which it has 360 berths and a number of restaurants and bars, sports and other facilities that are complementing the basic offer. The Company has 100% ownership in the following subsidiaries – Travel d.o.o./Llc., Istraturist j.d.o.o./Simple llc. and ISTRA DMC d.o.o./Llc. which together with the associated Company Jadranski luksuzni hoteli j.s.c./Adriatic Luxury Hotels make the Group.

The Company ISTRA DMC d.o.o./Llc. was founded in year 1990. Company's main activity is the organisation of the ATP tournament in Umag, and the development and implementation of destination marketing projects. The ATP tennis tournament is one of the most significant sports events continuously held for 29 years.

The company Laguna Invest d.o.o./Llc., founded in year 1993, changed its name into Travel d.o.o./Llc. on 23rd of February 2018 and its main activity is travel agency.

The Associated company is consolidated by applying the equity method in a manner that determines the ownership interest in the profit of the Associated company which is recognised directly as profit at the Group level so that the movements in physical indicators, income and expenses do not include the Associated company Jadranski luksuzni hoteli j.s.c.

Plava Laguna Group is a company with total balance sheet value of assets of HRK 3 billion. On average, it employs yearly approximately more than 2 thousand employees, where more than a half have some sort of permanent engagement while at the peak season, this number reaches almost 3 thousand employees. Annual revenues are reaching the level of HRK 1,160 million and in its accommodation facilities it realises over 4.8 million overnight stays per year.

Plava Laguna Group is one of the leading companies in the tourism sector of Croatia with extraordinary investment and operating potential for further development based on long-term foundations and sustainable business operations while maintaining the core values.


OUR VALUE
TRADITION
Wisdom from our history is an advantage for new generations. Our strength is in the transfer of knowlegde and experience, we are a company whose success is based on the continuity and preservation of proven procedures.
STABILITY
Rational business decision-making gives us stability and a safe future, we are planning carefully and have a process approach to change management
RESPECT
Trust, honesty and fair play in human relations and business cooperation, respecting opinions and rights of all employees is the foundation of our successful cooperation
RESPONSIBILITY
Responsible to the company, guests, employees, business partners and our shareholders, we live in harmony with nature and local community
REALITY
We think rationally and give priority to functional and proven solutions and stable growth.

Historical development

1957

On the Molindrio peninsula French club for nature lovers "Polynesia" established Plava Laguna – Camp hotel with capacity of 800 persons.

1958 – 1966

First investment was building of bungalows on the site of today's hotel Galijot, and then the tourist resort Bellevue. A lot of attention was paid to the development of sport and such offer and therefore first sport centers and tennis courts were built.

1966 – 1971

Very intense investment period in which most of the Plava Laguna's built accommodation facilities were built and foundations laid for Zelena laguna campsite.

1971 – 1976

Upgrading of existing facilities continues, campsites Ulika and Bijela Uvala were built, beginning the construction of marina Červar Porat and marina Parentium, as well as many service facilities.

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

1987

Bigger economic systems in Poreč are being joint in the SOUR Plava Laguna.

1990

Pursuant to the Company Law there was disassociation of SOUR and founding of new independent companies, one of which was Laguna Poreč, company for hospitality and tourism.

1992

On 3rd of September 1992 pursuant to the Decision of the Agency for Restructuring and Development and the decision of the Constituent Assembly, Laguna Poreč was transformed into a joint stock company.

1993

On the 26th of January 1993 Laguna Poreč was officially registered with the Commercial Court in Rijeka.

1996

Plava Laguna finally rounds up its legal constitution in February 1996 by the adjustment of Company's fundamental documents with the Companies Act and with the act of registration in the register of the Commercial Court in Rijeka as Plava Laguna, joint stock company for hospitality and tourism, the company also returned to its historical name.

2001

Luksic Group became the majority shareholder by acquisition of 80.34% interest in ordinary shares. During the same year, several acquisitions of corporations were made.
Plava Laguna j.s.c. acquired 89.40% shares in the company Hoteli Croatia j.s.c. Cavtat.
The ownership share in the company Adriatic j.s.c. Poreč was increased to 90.48% by an acquisition.

2002 - 2003

Adriatic j.s.c. Poreč was merged with Plava Laguna j.s.c.
With the recapitalization of Hoteli Croatia j.s.c. Cavtat the Company increases its ownership share in Hoteli Cavtat to a 92.28%.

2006 Reconstruction of hotel Albatros from 2-star into 4-star category „all inclusive" type of offer.

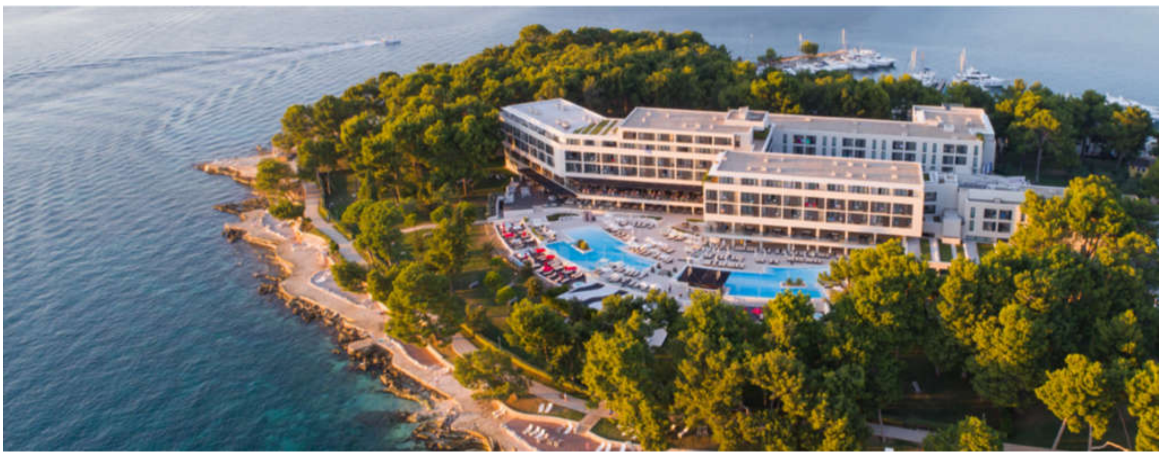
Hotel Albatros after reconstruction

2008 Reconstruction of hotel Molindrio (ex Galeb) from 2-star to a new level of 4-star quality category.

Hotel Molindrio after reconstruction

2012 Reconstruction of hotel Parentium into 4-star category hotel.

Hotel Parentium, 1969



Hotel Parentium after reconstruction

2013

Merger of Hotel Bonavia j.s.c. Rijeka on 1st of January 2013.

2014

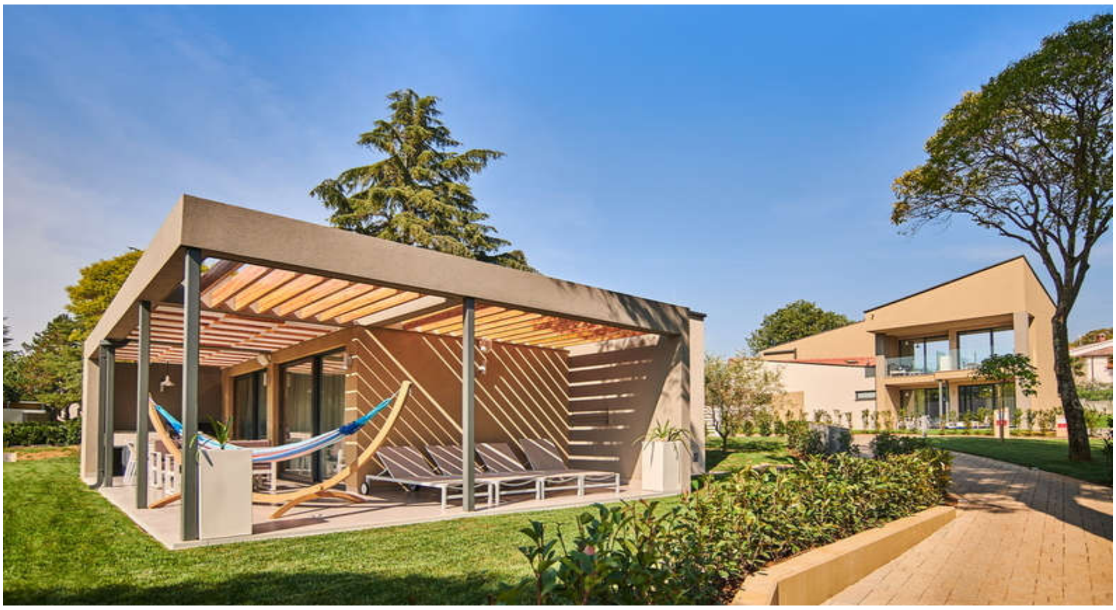
On 1st of January 2014 company Hoteli Croatia j.s.c. Cavtat was merged to the company Jadranski luksuzni hoteli j.s.c. which resulted in Plava Laguna j.s.c. becoming the largest single shareholder in the said company with a share of 32.48%.
Acquisition of a majority stake in the company Istraturist Umag j.s.c.

2018

Istraturist Umag j.s.c. was merged to the company Plava Laguna j.s.c. on 1st of January 2018.
Thorough reconstruction of Park Resort was completed.
Reconstruction of campsite Stella Maris in Umag destination was completed.
New accommodation units Garden Suites & Rooms Sol Umag were built.

Tourist resort Špadići, 1969

Villas Park Plava Laguna in Park Resort, 2018



Ownership structure and PLAG shares

For the purpose of merger implementation of the company Istraturist j.s.c. Umag to the company Plava Laguna j.s.c. Poreč with the effect from the 1st of January 2018, 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 regular shares that were denominated without nominal amount, and 34,222 of its own shares were released, so that after the corporate action of merger and share capital increase, the Company is left with 2,346 own shares.

The merger of the company Istraturist j.s.c. Umag was implemented in a manner that a shareholder in the company Istraturist j.s.c. Umag, in exchange for 1 regular share marked as ISTT-R-A, of single nominal value HRK 100.00, acquired 0.1994686 regular shares in the Company marked as PLAG-R-A without nominal amount.

After the corporate action in question, the number of regular shares of the Company was 2,197,772 shares and 420,000 preference shares. Preference shares carry a right to a fixed annual preferred dividend of HRK 0.25 per share and are non-voting.

In 2018, Adriatic Investment Group, registered in Luxembourg, became the majority shareholder of the Company, the Company owned by the ultimate control Company.

The first ten shareholders of the Company on 31st of December 2018 are:

Owner	Number of shares	%
Regular share		
1. Adriatic Investment Group	1,851,352	84.24
2. OTP Banka j.s.c. / AZ OMF category B	86,576	3.94
3. ADDIKO BANKA j.s.c./ PBZ CO OMF - category B	20,024	0.91
4. Bogdanović Zoran	12,711	0.58
5. Raiffeisenbank Austria j.s.c.	9,140	0.42
6. Zagrebačka banka j.s.c./ AZ PROFIT open DMF	6,372	0.29
7. CERP/ Republic of Croatia	6,234	0.28
8. OTP Banka j.s.c./ ERSTE PLAVI EXPERT- DMF	4,104	0.19
9. OTP Banka j.s.c./ AZ OMF category A	4,048	0.18
10. Novak Mirko	3,900	0.18
Treasury shares	2,346	0.11
Other legal and physical persons	190,965	8.69
Total	**2,197,772**	**100.00**
Preferred shares owner		
Adriatic Investment Group	420,000	100.00

In its information system, the Central Depository and Clearing Company executed the corporate action of Company's stock split on the 9th of January 2018, and so that is also the first trading day on the Zagreb Stock Exchange after the stock split.

The movement of the average share price and trading volume of regular share PLAG-R-A in 2018

In year 2018, the highest price per share in regular trading on a regulated market was HRK 1,870 while the lowest was HRK 1,600 per share. Plava Laguna share concluded the year 2018 with the price of HRK 1,670.

In year 2018, after the corporate action of stock split was carried out, the Zagreb Stock Exchange recorded trading with 11,493 shares through 848 transactions with total turnover of HRK 19.7 million, which is 6.7% more than HRK 18.5 million realised in year 2017. Market capitalisation amounted to HRK 4.5 billion which is a growth of 9.4% compared to the previous year.

Key trading data and share price

in HRK

	2018	2017
Market price of regular share on 31st of Dec.[1] (last price)	1,670.00	6,900.00
Market capitalization[2]	4,490,285,697	4,102,703,531
EV[3]	4,963,078,697	4,385,813,531
Dividend PLAG-R-A	89.60	-
Dividend PLAG-P-A	89.85	-
Lowest share price PLAG-R-A[1]	1,550.00	5,500.00
Highest share price PLAG-R-A[1]	1,870.00	7,299.97
Average share price PLAG-R-A[1]	1,716.85	6,388.75
Total annual trading volume with regular shares	19,731,720	18,489,050

[1] The data shown in 2017 are not adjusted for split share in 2018.

[2] The market capitalization is calculated based on average market share price multiplied with the sum od regular and preferred without treasury shares.

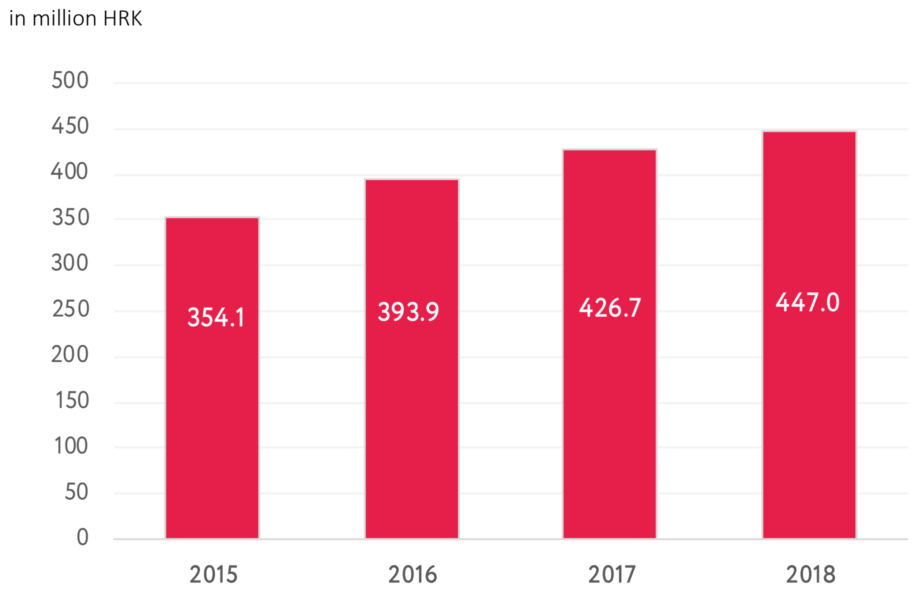
[3]EV enterprise value = market capitalization + net debt (total loan borrowings-cash-investment in securities-loans, deposits and similar)

Based on the decision of the General Assembly of the Company of 30th of August 2018, dividend was voted in the amount of HRK 89.60 per regular share and HRK 89.85 per preferred share, in total HRK 234 million, paid in part from the net profit realised during business year 2017, and retained earnings from past years. On 29th of April 2019, the Supervisory Board submitted to the General Assembly a proposal on the use of profit realised in year 2018 where a portion of the profit would be allocated for the payment of dividends, in a manner that the payment of dividend per regular share is HRK 34.30 and per preferred share HRK 34.55 gross.

Important events

- Istraturist Umag j.s.c. was merged to the company Plava Laguna j.s.c. on 1st of January 2018
- Thorough reconstruction of Park Resort was completed
- Reconstruction of campsite Stella Maris in Umag destination was completed
- New accommodation units Garden Suites & Rooms Sol Umag were built which increased a Company's accommodation capacity for 54 units
- After many years dividend was paid
- Implementation of new brand and web plavalaguna.com and istracamping.com

EBITDA growth over the year
2015 – 2018



Review of the most significant Group indicators

Key operating indicators	2018	2017	Index
Capacity – number of permanent beds	43,261	42,742	101.2
Capacity – number of accommodation units	16,376	16,190	101.1
Realized overnight stays	4,770,640	4,823,882	98.9
Number of sold accommodation units	1,809,985	1,904,663	95.0
Days of occupancy (beds)	110	113	97.7
Average net price per overnight stay (in HRK)	196.0	189.9	103.2
RevPar (in HRK)[1]	57,020	56,319	101.2

Key financial indicators	2018	2017	Index
Operating revenue in 000 HRK[2]	1,099,112	1,068,606	102.9
Operating revenue per overnight stay in HRK	230.4	221.5	104.0
EBITDA in 000 HRK[3]	446,951	426,742	104.7
EBITDA margin in % [4]	40.7	39.9	101.8
Net earnings in 000 HRK	276,631	225,238	122.8
Net profit and depreciation/total rev. in %	42.1	34.7	121.5
Total shareholders´equity in 000 HRK	2,217,488	2,177,588	101.8
Total assets in 000 HRK	3,083,539	3,005,375	102.6
Financial stability in % [6]	101.2	97.5	103.7
Total financial debt in 000 HRK	670,442	619,522	108.2
Total financial debt / EBITDA ratio	1.5	1.5	100.0
Net debt [7] in 000 HRK	472,793	279,984	168.9
Net debt / EBITDA ratio	1.1	0.7	157.1
ROE in % [8]	10.9	9.5	114.5
Debt ratio in %[9]	14.9	15.1	98.9
Market price of share on 31st of Dec. in HRK	1,670	6,900	-

[1] Board revenue per accommodation unit

[2] Without other revenues

[3] Profit from operating activity and depreciation, without other revenues and other expenses

[4] EBITDA / operating revenue

[5] Short- term assets / short – term liabilities

[6] Long-term assets / equity and long-term liabilities

[7] Total loan borrowings – cash – investment in securities – given loans, deposits and similar

[8] Return on equity=net profit+depreciation / market capitalization

[9] Total borrowings / market capitalization

Products of PLAVA LAGUNA
DESTINATION POREČ

MATERADA

1 | Hotel Materada Plava Laguna ***

PARK RESORT

2 | Hotel Park Plava Laguna ****
3 | Apartments Park Plava Laguna ****
4 | Garden Suites Park Plava Laguna ****
5 | Villas Park Plava Laguna ****

PLAVA RESORT

6 | Apartments Bellevue Plava Laguna ****
7 | Villas Bellevue Plava Laguna ****
8 | Apartments Galijot Plava Laguna ****
9 | Village Galijot Plava Laguna ****
10 | Villa Galijot Plava Laguna ****
11 | Hotel Mediteran Plava Laguna ***

ZELENA RESORT

12 | Hotel Parentium Plava Laguna ****
13 | Hotel Albatros Plava Laguna ****
14 | Hotel Molindrio Plava Laguna ****
15 | Hotel Zorna Plava Laguna ***
16 | Hotel Gran Vista Plava Laguna ***
17 | Hotel Istra Plava Laguna ***
18 | Hotel Plavi Plava Laguna ***
19 | Hotel Delfin Plava Laguna **
20 | Apartments Astra Plava Laguna **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Tourist turnover

Accommodation capacity

The Company in its portfolio has 20 hotels, 10 apartment resorts, 9 campsites and 2 marinas in three destinations, that are Umag, Poreč and Rijeka. Accommodation facilities of Plava Laguna j.s.c. may accommodate more than 43 thousand guests daily.

Total accommodation capacity consists of 43,261 basic beds or 16,376 accommodation units of which 35% hotels, apartments 12%, while campsites have the biggest share of 53%.

Company's accommodation capacity is high category so that 75% of accommodation capacity is categorised as 4 and 5 star.

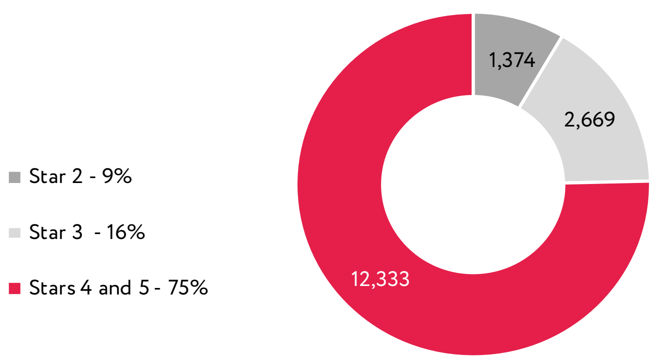
Qualitative structure of accommodation capacities by destination on the basis of accommodation units

Description	Destination Poreč	%	Destination Umag	%	Total	%
Hotels 5*	-	-	250	12.7	250	4.4
Hotels 4*	1,379	37.4	1,390	70.4	2,769	48.9
Hotels 3*	1,519	41.1	107	5.4	1,626	28.7
Hotels 2*	793	21.5	226	11.5	1,019	18.0
Total hotels	**3,691**	100.0	**1,973**	100.0	**5,664**	100.0
Apartments 4*	380	75.7	512	34.1	892	44.5
Apartments 3*	-	-	757	50.4	757	37.8
Apartments 2*	122	24.3	233	15.5	355	17.7
Total apartments	**502**	100.0	**1,502**	100.0	**2,004**	100.0
Campsite 4*	4,096	93.5	4,326	100.0	8,422	96.7
Campsite 3*	286	6.5	-	-	286	3.3
Total campsite	**4,382**	100.0	**4,326**	100.0	**8,708**	100.0
Total	8,575		7,801		16,376	

Destination Rijeka-Hotel Bonavia 4*(121 accommodation units) shown in destination Poreč

Guest house Adriatic shown in hotels 2*

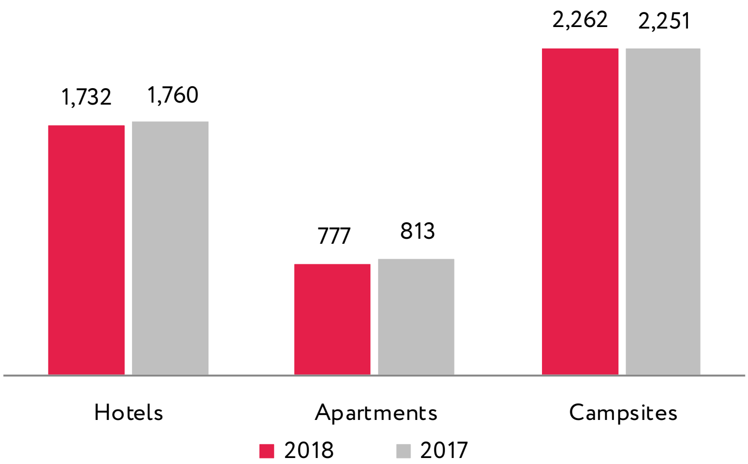
Qualitative structure of accommodation capacities



Overnight stays

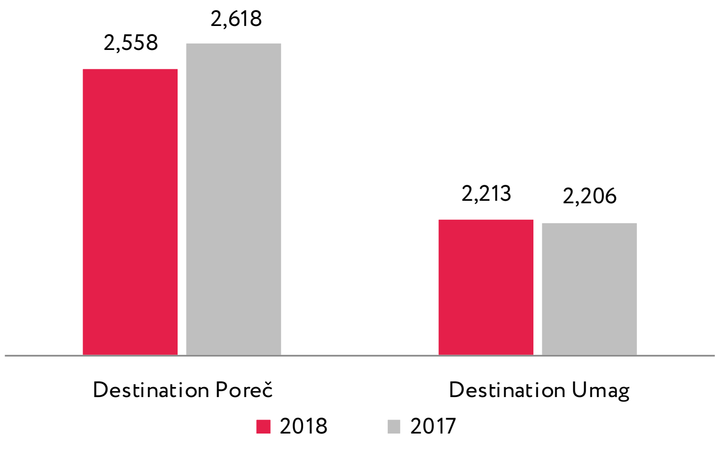
In year 2018, 4,771 thousand overnight stays were realised which is 1% or 53 thousand overnight stays less than in the previous year due to lower realisation of overnight stays in hotels and apartments, while realised overnight stays in campsites were at the same level as in the previous year. Lower number of overnight stays in hotels and apartments is partly due to a different holiday schedule and the reconstruction of the Park Resort in destination Poreč opened in the middle of July.

Overnight stays per types of accommodation (in 000)



In year 2018, in destination Poreč, including Hotel Bonavia, a total of 2.5 million overnight stays were realised which is 2% less than in year 2017. In destination Umag a total of 2.2 million overnight stays were realised which is at the level of the previous year due to the increase in overnight stays in campsites.

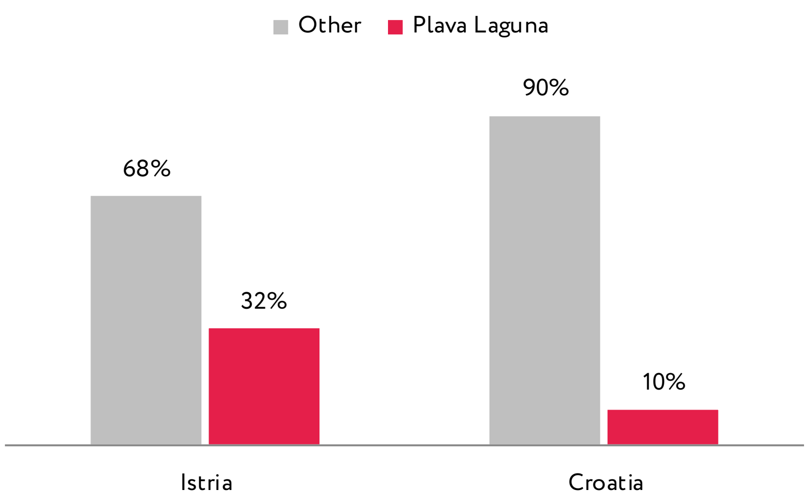
Overnight stays per destination (in 000)



Plava Laguna j.s.c. at the level of Istria has a market share of 18% while at the level of Croatia, the share is 5%.

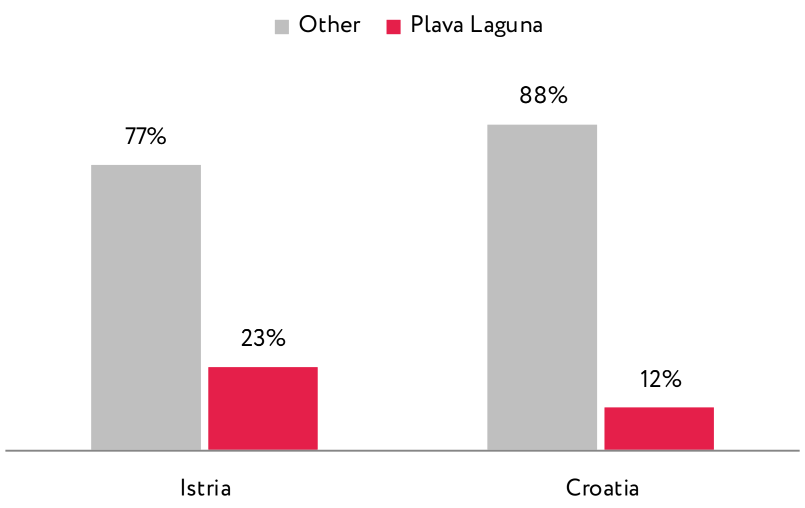
When reviewed per products, Company's built objects (hotels and apartments) in Istria have a market share of 32%, and at the level of Croatia of 10%.

Market share in 2018 – built objects



Plava Laguna campsites have a share of 23% in total overnight stays in Istria, while at the level of Croatia 12% in total overnight stays.

Market share in 2018 - campsites



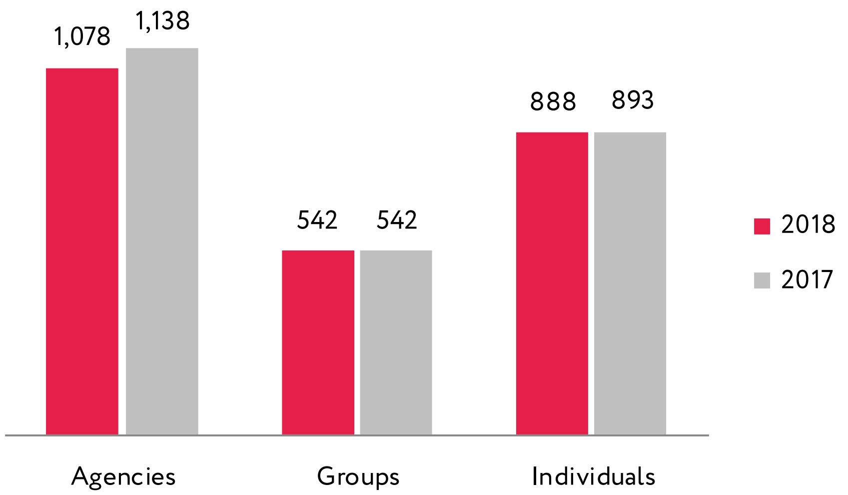
Overnight stays per sales segments

In built objects – hotels and apartments, the most represented segment is agency, which in year 2018 reached 1,078 thousand overnight stays which is 5% less than in the previous year which reduce the share of total overnight stays from 44.2% to 43%.

In the segments of groups and individuals, realisation of overnight stays is at the level of the previous year. The groups make 21.6% in total overnight stays in built objects, while the individuals make 35.4% (year 2017, 34.7%).

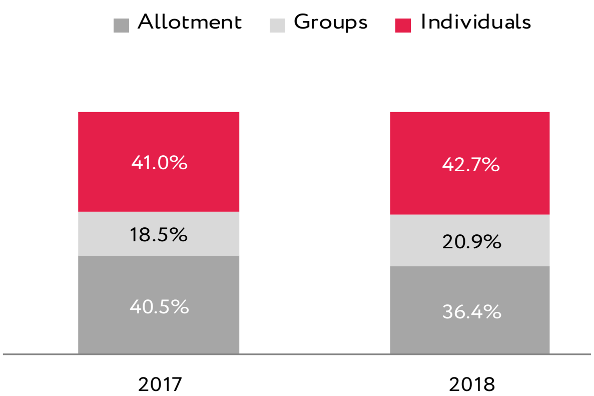
In total overnight stays in campsites, the individuals make 65% of total overnight stays so that in year 2018, the realisation was 1.47 million individual overnight stays which is at the level of the previous year.

Overnight stays per channel of sale for built objects (in 000)

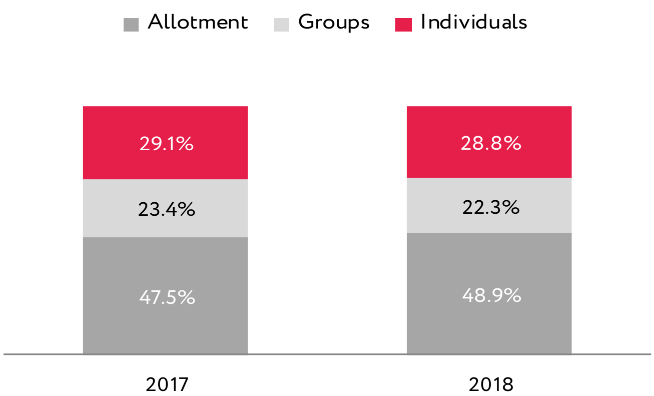


Structure of overnight stays per channel of sale per destination in built objects (in %)

Destination Umag



Destination Poreč



Products of PLAVA LAGUNA
DESTINATION UMAG

1 | Apartments Kanegra Plava Laguna **

2 | Apartments Savudrija Plava Laguna ***

3 | Rooms Savudrija Plava Laguna ***

4 | Apartments Polynesia Plava Laguna ***

5 | Apartments Sol Katoro for Plava Laguna ****

6 | Hotel Meliá Coral for Plava Laguna *****

7 | Hotel & Residence Sol Garden Istra for Plava Laguna ****

8 | Hotel Sol Aurora for Plava Laguna ****

STELLA MARIS RESORT

9 | Meliá Istrian Villas for Plava Laguna ****

10 | Apartments Sol Amfora for Plava Laguna ****

11 | Apartments Sol Stella for Plava Laguna ***

12 | Hotel & Residence Sol Umag for Plava Laguna ****

13 | Garden Suites & Rooms Sol Umag for Plava Laguna ****

14 | Hotel Sol Sipar for Plava Laguna ****

15 | Guest House Adriatic Plava Laguna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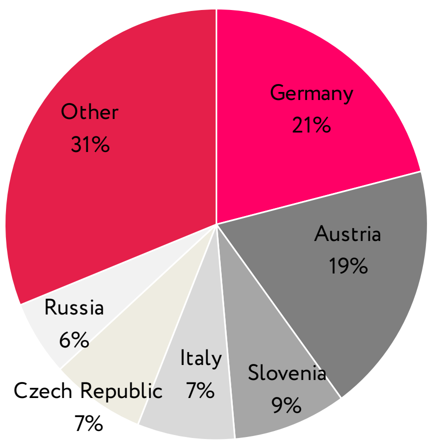
Emissive markets

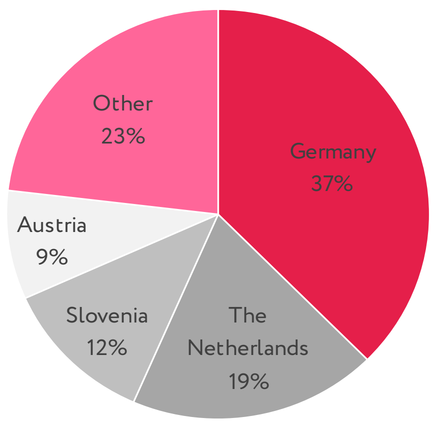
In built objects, the leading position according to the number of realised overnight stays was taken by the markets of Germany and Austria with a share of 40%, followed by Slovenia and Italy. In year 2018, there was a decrease in realised overnight stays of all key markets, except Austria, which was partly compensated with an increase of overnight stays by the markets of Eastern Europe, the Netherlands and Switzerland.

Emissive markets – built objects



In campsites, the most significant share in overnight stays have Germany, the Netherlands and Slovenia realising 68% of total overnight stays. Growth of overnight stays was achieved on all key emissive markets, except the German market with a drop of 2%.

Emissive markets – campsites



Financial results

Profit and loss account

Below is the structure of the profit and loss account presented according to the internal management reporting.

in 000 HRK

Description	2018	%	2017	%	Index
Sales revenue	1,099,112	97.9	1,068,606	98.6	102.9
Board revenue	933,763	83.2	911,797	84.1	102.4
F&B revenue	54,783	4.9	56,001	5.2	97.8
Mooring revenue	7,082	0.6	7,384	0.7	95.9
Revenue from the leases	40,677	3.6	39,619	3.6	102.7
Other operating revenue	62,807	5.6	53,805	5.0	116.7
Other revenue[1]	23,709	2.1	15,581	1.4	152.2
Total operating revenue	1,122,821	100.0	1,084,187	100.0	103.6
Material exp. and other business exp.	400,449	35.7	395,981	36.5	101.1
Employees expenses	246,423	21.9	241,978	22.3	101.8
Depreciation	212,544	18.9	165,181	15.2	128.7
Value adjustment	3,969	0.4	3,713	0.3	106.9
Provisions for exp. and against risk	1,320	0.1	192	0.0	687.5
Other expenses [1]	4,288	0.4	15,994	1.5	26.8
Total operating expenses	868,993	77.4	823,039	75.8	105.6
Profit from operating activities	253,828	22.6	261,148	24.1	97.2
EBITDA adjusted[1]/ EBITDA margin[2]	446,951	40.7	426,742	39.9	104.7
Financial revenues	9,440	0.8	22,463	2.1	42.0
Financial expenses	14,811	1.3	34,414	3.2	43.0
Profit from financial activities	-5,371	-0.5	-11,951	-1.1	44.9
Share in the profit of the Assoc. company	28,413	2.5	19,032	1.8	149.3
Earnings before taxes	276,870	24.7	268,229	24.7	103.2
Corporate tax income	239	0.0	42,991	4.0	0.6
Net income	276,631	24.6	225,238	20.8	122.8

[1] EBITDA adjusted- w/o influence of extraordinary revenues and expenses shown in items Other revenues and Other expenses
[2] EBITDA margin in relation to Sales revenue

Business results of the Group are presented in a manner that the result of the Associated company (Jadranski luksuzni hoteli j.s.c.) is consolidated by using the equity method and directly recognised as profit at the Group level. Accordingly, movements in income and expenditure account do not include the mentioned Company.

The Group concluded the business year 2018 by achieving HRK 1,123 million in operating revenues which in relation to the comparable period represents growth of 3.6% or nominally HRK 38.6 million. This is mainly determined by the growth in board revenues due to positioning of the achieved net rate in built objects at 4.1%, or in campsites at 8.7% higher level, as a result of raising the quality of provided services upon capital budget execution.

The increase in other revenues of HRK 8.1 million relates to one-time positions of revenues from the sale of non-operating assets during year 2018.

Total operating expenses of the Group amount to HRK 869 million and record a growth of 5.6%. In the structure of operating expenses, there is a significant growth in the depreciation expense determined by the changes of the accounting policy related to depreciation in the Associated company, with the additional effect of completed capital investment. On the other hand, other expenses are lower by HRK 11.7 million in relation to the comparable period due to the one-time recognition of the impairment loss in relation to the property of the Company Plava Laguna j.s.c. at the end of 2017, caused by a thourough reconstruction of the complex Laguna Park. When reviewing the data on a comparable level, the Group's operating expenses in year 2018 record growth of 1.6% or nominally HRK 10.3 million, mainly due to the increase in salaries and benefits for employees by 4.7% which nominally amount to HRK 12 million, and savings realised in the maintenance area.

As a result of these developments, the operating result of the Group measured by EBITDA is growing by 4.7% or nominally HRK 20.2 million, and is reaching a level of HRK 447 million, with a very competitive EBITDA margin in the regional tourism sector of 40.7%.

The negative effect of financial activities in the observed year is smaller by HRK 6.6 million, mainly due to lower interest expense and other financial expenses.

Share in the profit of the Associated company in 2018 amounts to HRK 28.4 million which is HRK 9.4 million more than in the previous year, resulting from increased business performances in the Associated company.

As a result of interpreted movements, the Group's profit before tax records growth of HRK 8.6 million or 3.2% and amounts to HRK 276.9 million.

In the reporting period, Company Plava Laguna j.s.c., on a basis of the Act on Investment Promotion announced investment projects for the period from 2017 until 2020 for the purpose of acquiring the status of a holder of investment incentives and therefore, used tax incentives in the amount of HRK 43.7 million.

Following the above mentioned, the Group's net profit amounts to HRK 276.6 million and records growth of HRK 51.4 million.

The effects of the Company Plava Laguna j.s.c. on the operating result of the Group in year 2018 is measured by the achieved level of total business revenues in the amount of HRK 1,100 million and the EBITDA of HRK 445.8 million. The Company concluded the year 2018 by achieving net profit in the amount of HRK 308.4 million.

The company ISTRA DMC d.o.o./Llc., in business year 2018, achieved total business revenues in the amount of HRK 24.6 million and net profit at the level of HRK 247 thousand while the company Travel d.o.o./Llc. achieved net profit at the level of HRK 2 million.

Transactions with affiliated Companies within the Group have been conducted in accordance with market principles and by applying commercial terms and conditions that would be valid if established between uncontrolled parties. In the last quarter of year 2018, based on the decision of the General Assembly of the Associated company Jadranski luksuzni hoteli j.s.c. dividend has been received in the amount of HRK 62.4 million.

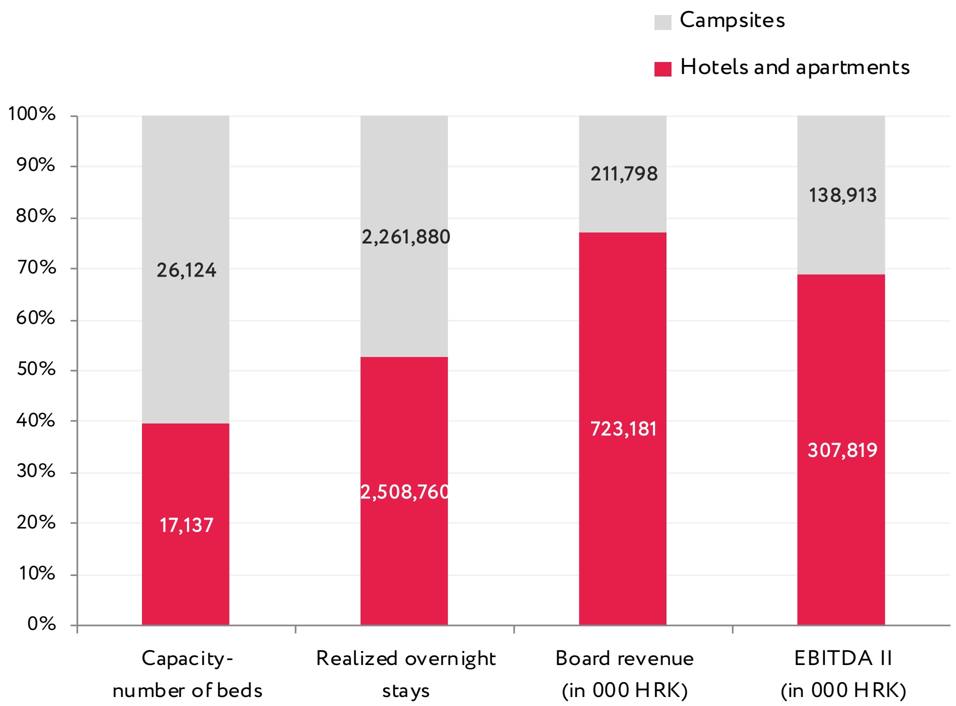
Key operating indicators by segments

In the context of physical and financial achievements in the current year, the results on the level of basic business segments are presented below.

Description	Hotels and apartments			Campsites		
	2018	2017	Index	2018	2017	Index
Capacity – numb. of permanent beds	17,137	16,885	101.5	26,124	25,857	101.0
Realized overnight stays	2,508,760	2,572,649	97.5	2,261,880	2,251,233	100.5
Days of occupancy (beds)	146	152	96.1	87	87	100.0
Annual occupancy in %[1]	40.1	41.7	96.2	23.7	23.9	99.2
Board revenue in 000 HRK	723,181	712,647	101.5	211,798	197,612	107.2
Av. net price per overn. stay in EUR	38.9	37.3	104.3	12.6	11.7	107.7
RevPar in HRK[2]	94,312	94,128	100.2	24,322	22,928	106.1
EBITDA II in 000 HRK[3]	307,819	298,384	103.2	138,913	124,887	111.2
EBITDA II margin in %	37.8	37.1	101.8	57.6	55.5	103.8

[1] Annual occupancy of permanent beds
[2] Board revenue per accommodation unit in HRK
[3] After the allocation of EBITDA from The Head office

Indicators by segments for 2018



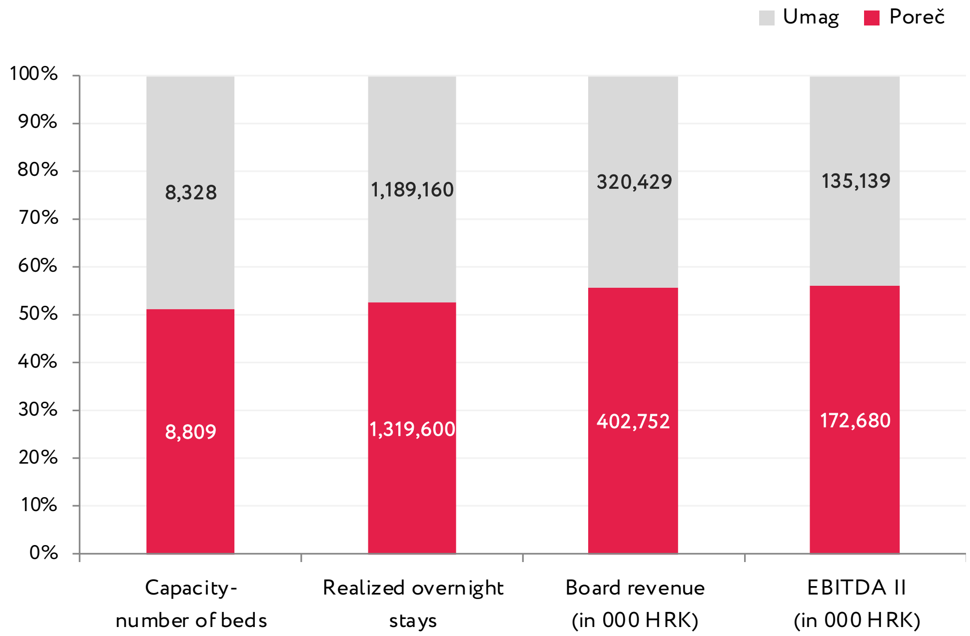
Key operating indicators by destinations

In the context of physical and financial achievements in the current year, the results on the level of basic business segments by destinations are presented below.

Hotels and apartments	Destination Poreč			Destination Umag		
	2018	2017	Index	2018	2017	Index
Capacity – numb. of permanent beds	8,809	8,665	101.7	8,328	8,220	101.3
Realized overnight stays	1,319,600	1,362,247	96.9	1,189,160	1,210,402	98.2
Days of occupancy (beds)	150	157	95.5	143	147	97.3
Annual occupancy in %[1]	41.0	43.1	95.1	39.1	40.3	97.0
Board revenue in 000 HRK	402,752	397,786	101.2	320,429	314,861	101.8
Av. net price per overn. stay in EUR	41.2	39.3	104.8	36.4	35.1	103.7
RevPar in HRK[2]	96,053	95,852	100.2	92,210	92,038	100.2
EBITDA II in 000 HRK[3]	172,680	168,942	102.2	135,139	129,442	104.4
EBITDA II margin in %	38.3	38.3	100.1	37.1	35.7	104.1

[1] Annual occupancy of permanent beds
[2] Board revenue per accommodation unit in HRK
[3] After the allocation of EBITDA from The Head office

Indicators by destinations for 2018 – hotels and apartments



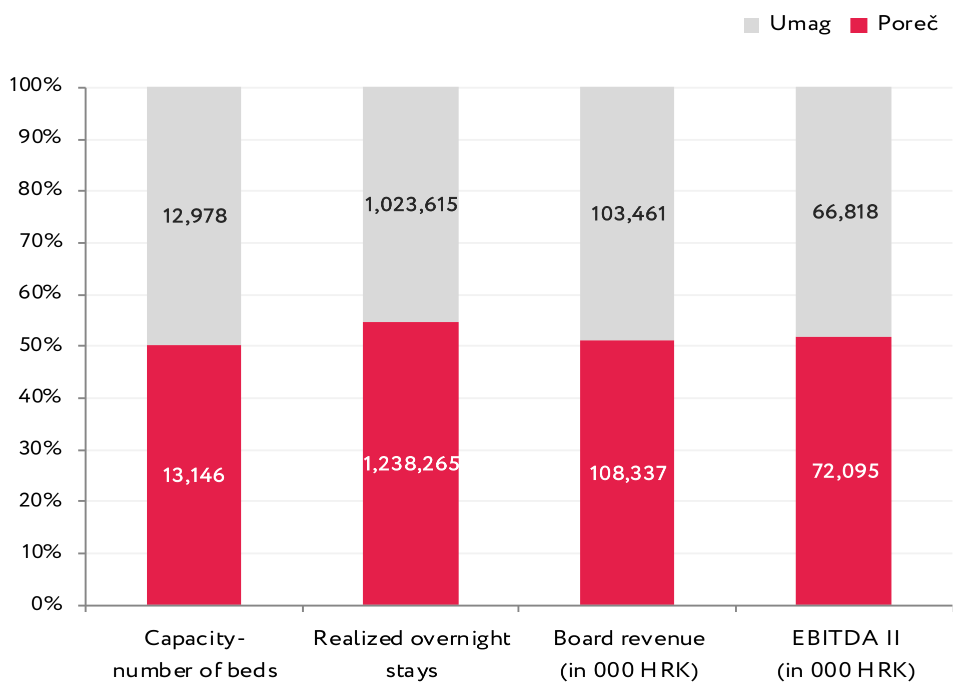
Campsites	Destination Poreč			Destination Umag		
	2018	2017	Index	2018	2017	Index
Capacity – numb. of permanent beds	13,146	13,071	100.6	12,978	12,786	101.5
Realized overnight stays	1,238,265	1,255,672	98.6	1,023,615	995,561	102.8
Days of occupancy (beds)	94	96	97.9	79	78	101.3
Annual occupancy in %[1]	25.8	26.3	98.1	21.6	21.3	101.4
Board revenue in 000 HRK	108,337	105,941	102.3	103,461	91,671	112.9
Av. net price per overn. stay in EUR	11.8	11.2	105.5	13.6	12.4	109.8
RevPar in HRK[2]	24,723	24,315	101.7	23,916	21,509	111.2
EBITDA II in 000 HRK[3]	72,095	67,304	107.1	66,818	57,583	116.0
EBITDA II margin in %	59.5	57.4	103.7	55.8	53.6	104.1

[1] Annual occupancy of permanent beds

[2] Board revenue per accommodation unit in HRK

[3] After the allocation of EBITDA from The Head office

Indicators by destinations for 2018 – campsites



Balance sheet

Assets structure in the Balance sheet

in 000 HRK

Item	31st of Dec. 2018	%	31st of Dec. 2017	%	Index
Receivables for subscribed but unpaid capital	-	-	-	-	-
Long – term assets	2,846,230	92.4	2,651,467	88.2	107.3
Intangible assets	19,692	0.6	20,738	0.7	95.0
Tangible assets	2,568,616	83.4	2,340,984	77.9	109.7
Financial assets	257,577	8.4	289,745	9.6	88.9
Receivables	-	-	-	-	-
Deferred tax assets	345	-	-	-	-
Short – term assets	232,686	7.5	351,024	11.7	66.3
Inventory	4,563	0.1	4,885	0.2	93.4
Accounts receivable	41,538	1.3	15,817	0.5	262.6
Financial assets	755	-	241,477	8.0	0.3
Cash in register and upon account	185,830	6.1	88,845	3.0	209.2
Adv. payments of future expenses and undue collection of revenues	4,623	0.1	2,884	0.1	160.3
Total assets	**3,083,539**	**100.0**	**3,005,375**	**100.0**	**102.6**

Liabilities structure in the Balance sheet

in 000 HRK

Item	31st of Dec. 2018	%	31st of Dec. 2017	%	Index
Capital and reserves	2,217,488	71.9	2,177,588	72.5	101.8
Long- term provis. for risks and exp.	4,571	0.1	3,318	0.1	137.8
Long – term liabilities	591,648	19.3	538,513	17.9	109.9
Short – term liabilities	216,357	7.0	251,844	8.4	85.9
Deferred payment of expenses and future revenue	53,475	1.7	34,112	1.1	156.8
Total liabilities	**3,083,539**	**100.0**	**3,005,375**	**100.0**	**102.6**

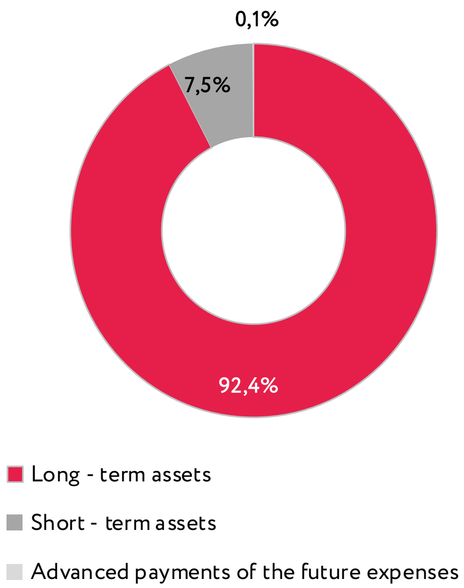
Balance sheet value of the Group on 31st of December 2018 amounts to HRK 3,083.5 million which compared to the comparative day of the previous year represents an increase of value by 2.6% or nominally of HRK 78.2 million.

The most relevant changes in assets relate to the strengthening of the material segment of long-term assets, which increased by HRK 227.6 million, as the effect of the realisation of an extensive capital expenditures budget. Due to unfavorable conditions of contracting bank deposits, in year 2018 there was reduction in the value of short-term financial assets ie significant increase of free cash assets.

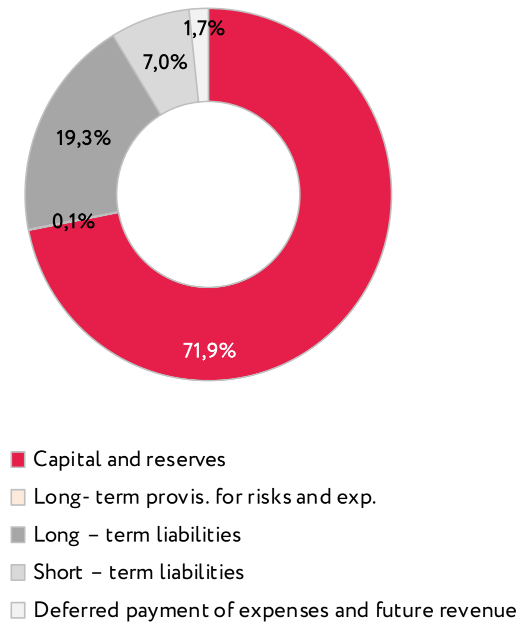
Total share capital and reserves recorded an increase of 1.8%, and total liabilities an increase of 4.6% due to the conclusion of a loan agreement for financing capital investments of EUR 50.0 million, with the first tranche of EUR 20.0 million realised at the end of the reporting year while the remaining amount will be used in the last quarter of 2019. Total credit indebtedness of the Group on 31st of December 2018 amounts to EUR 90.3 million, with Debt/EBITDA ratio of 1.5 which indicates the financial stability of the Group which can repay the total debt within 1.5 years.

Stability of the Group is also manifested through the size of capital and reserves in the amount of HRK 2,217.5 million and the amount of highly liquid assets in the form of cash and cash equivalents of HRK 185.8 million.

Structure of Assets in the Balance sheet on 31st of Dec 2018



Structure of Liabilities in the Balance sheet on 31st of Dec 2018



Products of PLAVA LAGUNA

DESTINATION RIJEKA

Hotel Bonavia Plava Laguna ****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Human resources

Relations with employees, given the activity that Plava Laguna carries out, are ranking among the most important while the long-standing trend of having a relatively high number of permanent employees and permanent forms of engagement is maintained as well compared to the environment, which has so far been proven as the right choice.

In year 2018, the Group employed approximately 2,021 employees, of whom 1,240 in one of the forms of permanent cooperation. At the peak season, the Plava Laguna Group employed more than 2,600 employees.

Average number of employees in 2018 and 2017

Description	2018	%	2017	%	Index
Permanent	934	46.2	1,121	50.5	83.3
Permanent seasonal[1]	306	15.1	67	3.0	456.7
Seasonal	781	38.6	1,030	46.4	75.8
Total	2,021	100.0	2,218	100.0	91.1

[1] Permanent seasonal – permanent cooperation and 3 year contract

Taking into account the current trend on the labor market with the additional momentum resulting from the merger and related activities, the Group's primary goals are to maintain a stable working environment and quality relations with employees. In line with the aforementioned, during year 2018, a unified tariff scale has been prepared for centralised business functions while for job positions in operations, an agreement with the unions has been reached by the end of the year, effective from 01st of February 2019. Also, at the end of the reporting year, in cooperation with the unions, a system of material rights or benefits has been created that will result with an average increase of 8.8% per employee in year 2019.

Apart from the increase of material right, Plava Laguna Group continuously improves the conditions of employee accommodation and stay, and allocates significant funds for the construction of new and upgrade of the existing capacity for staff accommodation. During 2018 and 2019, it is planned to invest a total of more than EUR 9 million into the staff accommodation.

During year 2018, the labor market environment remains to be challenging, driven by increased demand for employees while at the same time having reduced offer of interested candidates. Thus, the activities of the Human Resources Sector were primarily directed towards the promotion and recruiting seasonal staff, timely contracting of employment for the tourist season and internal training and education.

Throughout the very season, the focus was on recognising and monitoring the best employees, with the aim to define and offer them the employment contracts for year 2019 by the end of the calendar year.

As every year, in year 2018, the best employees of the season, who proved to be the most successful in terms of their attitude towards work and colleagues, were given special rewards and those who distinguished themselves through their efforts and dedication are able to attend educations so that they can improve even more on their jobs.

Investments in 2018

Strategic orientation of Plava Laguna towards permanent increase of service quality and improvement of business process, with the aim to preserve financial stability as the Group's basic premise, has been reflected through the realisation of the largest capital expenditures budget in the recent history of the Company of EUR 60 million. From the aspect of the investment level, the most significant investments include: a thourough reconstruction of the tourist resort Park Resort, overall renovation of Stella Maris campsite, construction of 54 accommodation units - Garden Suites & Rooms Sol Umag, and significant funds have been invested into the expansion and refurbishment of the existing facilities for staff accommodation in Poreč and Umag.

The reconstruction of the tourist resort Park Resort is the largest investment in year 2018, and also one of the most comprehensive in the recent history of Plava Laguna. With the investment of approximately EUR 36 million, the old Laguna Park was demolished completely and the new Park Resort created as a modern and an attractive tourist resort with a lot of amenities for children, but also for adults in the form of a rich food and beverage offer, sports activities as well as amenities intended for relaxation. In place of the old Laguna Park, new hotel has been constructed with 154 rooms ie. hotel suites, 91 garden suites of 32 m^2, 43 apartments of 41 m^2 and 21 villa of 73 m^2, a total of 309 accommodation units that can receive around a thousand guests.

Dominant position in the Resort has been taken by the swimming pool complex, offering a completely new experience for the whole destination and product, due to which the structure of guests is also changing. Total pool area is almost 1,500 square meters which represents around 1.5 m^2 of water surface per expected number of guests at full occupancy, and consist of; the central swimming pool complex within which the main (activity) pool has been constructed, pool for the children and pool for babies of total 1,070 m^2, the relax pool of around 185m^2 and the pool of 230m^2 intended for the guests in villas. Next to the central swimming pool complex, a la carte restaurant Park and Lounge bar have been opened to enrich the gastronomic offer, and children can entertain themselves in one of the two animation clubs. First guests have been accommodated at the Resort within the planned time limit.

Park Resort

In destination Umag, as more significant investments that have to be pointed out are the renovation of the Stella Maris campsite and the construction of 54 accommodation units – Garden Suites & Rooms within hotel Sol Umag.

With the investment of EUR 10.9 million in the complete reconstruction of Stella Maris campsite, categorised as 4 star, the level of quality has been raised for the campsite accommodation type in destination Umag. Together with the expansion of capacity, the aim was to reposition the campsite to new markets and achieve higher profile guest arrivals, as well as to prolong the season by introducing additional amenities and new type of accommodation – mobile homes.

Guests have more than 450 newly built plots and 149 mobile homes at their disposal, 900 m^2 of water surface, children's playgrounds, sports and recreation zone, new restaurant and the reception area. Guests have accepted the changes in the campsite very well and during August 2018, the occupancy of available capacity was 11% higher than in August 2017.

Campsite Stella Maris

With the investment of EUR 3.9 million in the accommodation facilities Garden Suites & Rooms Sol Umag within the hotel Sol Umag at the location „Punta“, destination Umag has got a high-quality 4-star accommodation primarily intended for guests arriving in the period from April until October. The biggest part of the investment is related to the construction of 11 accommodation facilities with 54 accommodation units under the common name Garden Suites & Rooms Sol Umag, in the place of the former old bungalows, one of the first ones built in former Istraturist in the early 60s of the last century. Due to the increase in the number of accommodation units, there was the need to renovate and expand the outdoor terrace of the hotel's restaurant. In addition to investing in objects, the investment included roads and horticulture, and in the next period, the investment is planned to be completed with the swimming pool complex and sunbathing area, as well as with the reconstruction of the hotel's meeting centre into a new F&B point and 6 additional accommodation units.

Garden Suites & Rooms Sol Umag

During year 2018, Plava Laguna has invested over EUR 3.6 million in the construction of new and upgrade of the existing facilities for staff accommodation in destinations Poreč and Umag, with the aim to improve the conditions of accommodation for employees. Out of the more important investments in staff accommodation, it is worth highlighting the initiated reconstruction and re-purpose of the service facility in the Plava Laguna Resort to staff accommodation facility with capacity of 96 double-bed accommodation units with own bathroom, furniture, kitchenette and renovated common areas, and the construction of the new building with 60 fully-equipped double rooms in the Katoro Resort in destination Umag. The tendency is to continually invest to ensure that employees have high quality working conditions as well as living conditions, especially during their free time.

Investments in 2019

Year 2019 will also be intensive for the Plava Laguna Group, in terms of capital investments and so in destinations Poreč, Umag and Rijeka, investments have been foreseen with the aim to increase the quality of service and products, as well as to improve business process and rationalisation of costs.

Key investments include the construction of the new administrative building in business zone of Facinka in Poreč, the reconstruction of the remaining 6 out of a total of 19 family villas Bellevue, the replacement of the tunnel line in the central laundry to achieve savings in the consumption of energy sources and to improve employees' working conditions, and in the centre of a significant part of the capital budget, adopted for year 2019, is the camping segment. Out of the most capital intensive projects related to camping, it is important to point out the renovation of the campsite Savudrija and the construction of the new swimming pool complex in the campsite Park Umag whose start of construction is planned after the end of the tourist season. Renovation of campsite Savudrija is a continuation of the process of complete reconstruction of campsites in destination Umag, started with campsite Stella Maris. The aim of this investment is to make the campsite more attractive through improving and diversifying the offer of accommodation with new facilities such as a swimming pool complex, children's playground, beach renovation etc. Given the importance of water surfaces, further investment in pool areas is planned, first of all in the pool complex of over 1,500 m^2 of water surface at the campsite Park Umag, which will additionally increase the attractiveness and enrich the offer of the mentioned campsite.

A more intensive investment in expansion and renovation of the existing staff accommodation facilities in Poreč and Umag continues, in order to ensure high-quality accommodation for employees.

SPONSORSHIPS AND EVENTS

- Plava Laguna
  Croatia Open Umag
- Sea Star Festival
- Rise UP Festival
- Plava Laguna Polumaraton
- Poreč Triathlon
  powered by Plava Laguna
- Istarska Zimska Liga
  powered by Plava Laguna
- Plava Laguna Grand Prix

PLAVA LAGUNA AWARDS AND ACCOLADES

Plava Laguna's ongoing efforts aimed at improving the quality of services and setting up high business standards have proved to be well-invested given the numerous awards received by our hotels, apartments, and particularly campsites. The awards include:

- *Zlatna koza Capra d'Oro* - Award in the visual communications category, for the new Plava Laguna brand

- *Naj Kamp Adria 2018.* - Best Adria Campsite in 2018 – an award given by the avtokampi.si portal:
    - The best large campsite: Camping Zelena Laguna – 3rd place
    - The best small campsite: Camping Puntica – 2nd place
    - The best campsite with mobile homes: Camping Park Umag – 3rd place

- ANWB Top Camping Award – Camping Park Umag

- Croatia's Best Campsites (Croatian Camping Union, KUH): Camping Bijela Uvala, Camping Zelena Laguna, Camping Ulika, Camping Park Umag, Camping Stella Maris, Camping Savudrija

- Camping2Be Award – Camping Park Umag

- TripAdvisor Travellers' Choice Awards 2018 – Hotel Gran Vista Plava Laguna, Hotel Sol Garden Istra for Plava Laguna

NEW BRAND STRATEGY AND VISUAL IDENTITY

In 2018, Plava Laguna was repositioned in the market with a new brand strategy and a matching visual identity marking the beginning of a new business era.

A rebranding strategy was developed in cooperation with tourism consultants THR Barcelona. The new company strategy is in line with Group's future growth and development objectives, and it includes products in three destinations, Umag, Poreč and Rijeka. The newly defined brand architecture consists of the corporate brand, Plava Laguna, and the three master brands: 'Plava Laguna Resorts', 'Plava Laguna Hotels and Apartments' and 'Istra Camping by Plava Laguna'.

Along with creating a strong set of brands that are recognizable in the marketplace, the brand strategy objectives include: increasing the competitiveness of Plava Laguna, defining future development and the vision for the company, and ultimately long-term increase in brand equity.

The rebranding process included a creation of the new visual identity for the corporate and other brands in the portfolio. The creation was led by the London-based The Partners (now Superunion), a world-renowned WPP agency boasting decades of experience working with clients such as Coca Cola, Vodafone and eBay.

Plava Laguna's new brand concept is founded on the Company '6-star Attitude'.

At Plava Laguna, we have been creating unique experiences since 1957 and nurturing our vision of a perfect holiday. To create an unforgettable holiday, we are guided by our 6-star attitude.

1. WE CREATE PLACES, NOT JUST DESTINATIONS
2. WE MAKE GREAT SERVICE OUR STANDARD
3. WE TAKE FUN SERIOUSLY
4. WE DELIVER ONCE IN A LIFETIME MOMENTS, EVERY DAY
5. WE MAKE OUR HOSPITALITY WARMER THAN OUR CLIMATE
6. WE TAKE PRIDE IN OUR GUESTS' JOY

The new visual brand direction is based on the original values, finding inspiration in the traditional elements of Istria and Croatia. Half goat, half mermaid, the logo perfectly embodies this new brand that is built on unforgettable memories made on land and by the sea. It also has a strong link to the country origins featuring a goat, a symbol of Istria, and the colours of the Croatian national flag. The original "Plava Laguna" typeface was created making the brand truly unique. The typeface is based on the Glagolitic script, introduced in the mid-9th century it was the official script in Croatia for 1000 years.

During 2018., the new visual identity was implemented in Plava Laguna resorts, hotels and apartments. A new promotional and sales website, plavalaguna.com, was also introduced mid-year.

In the final quarter of the year, the camping product brand was launched, introducing Istra Camping by Plava Laguna. The launch was followed by the publication of the new camping website, istracamping.com. Istra Camping visual identity matches that of Plava Laguna with the key colour range inspired by Istria's nature. It is simple, yet impressive, with light green, white and blue dominating the new identity.

In addition to the corporate and the master brands, in 2018. the Company developed and launched additional brands including Plava Laguna Club (loyalty programme for hotel and apartment guests), Istra Camping Club (loyalty programme for campsite guests) and Plava Laguna Partners (for business partners).

EXPECTED FUTURE DEVELOPMENT OF THE COMPANY

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

After the transaction in year 2014 with which Plava Laguna j.s.c. acquired 93.04% of the share capital in Istraturist Umag j.s.c., the efforts of the companies in the years that follow, besides regular operational and strategic, and developmental activities, were focused on the alignment of business policies and corporate cultures, with both Istraturist Umag and Plava Laguna continuing to record growth in all business segments. Thus, on the consolidated level in the period 2015 – 2018, growth in overnight stays of 9% was realised, growth in revenues of 11%, and growth of EBITDA of 26%, as well as the increase of salaries and other material rights for employees.

During year 2017, all preparatory actions of formal-legal and operative character were carried out for the purpose of merging the company Istraturist Umag j.s.c. to the company Plava Laguna j.s.c., which was registered in the Court Registry of the Commercial Court of Pazin, effective from 1st of January 2018. This merger created hotel company with the biggest capacities in Istria, but also potentially most successful Istrian and Croatian tourist company, with opportunities for growth and development measured by the investment potential, as well as by the employment potential, and by the improvements of terms and conditions for the existing employees.

A strong step in the positioning of Plava Laguna, after the merger, was made through significant capital investments in year 2018 and planned investments in year 2019 that cumulatively amount to over EUR 100 million. Thus, the new investment cycle began including accommodation and other facilities, as well as investments aimed at the renovation and construction of new facilities for staff accommodation.

In the next period, business development is focused on finding a concept for repositioning of the tourist resort Savudrija, as well as on a more detailed elaboration of the concept and the conceptual design for the tourist resort Galijot where factors of location and natural environment of the resort are very important and provide a starting point for defining and positioning of the whole product towards a luxury segment of demand. In the future, there is also work to be done on the development of the new concept and repositioning of the Hotel Sol Aurora in Umag, which with its location and spatial planning opportunities represents a potential in terms of raising the quality of offer and development of product of higher price category. In the next period, in destination Umag, the investments will focus on the campsite segment with the aim to improve the quality of accommodation and accompanying facilities, and to expand accommodation capacity, all that for the purpose of meeting the needs of a modern camping guest.

In the sphere of future projects, work is underway on the development and repositioning of the whole zone of Punta in destination Umag as the resort zone Punta Resort. After the finalisation of the master plan and determination of the new business model, the following stage implies a detailed elaboration of design solutions for all facilities and accompanying amenities.

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

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

Financial risks

The Company, as well as the Group as a whole, is within own activities exposed to a variety of financial risks that may cause difficulties in settling of financial liabilities; currency risk, price risk, credit risk and liquidity risk. The position of the Company in relation to mentioned risks is permanently analysed in order to define timely measures, to reduce the risks to acceptable levels.

Currency risk arises from the core business of the Company, given that the sale of capacity takes place on foreign markets, sales policy is defined in EURO currency (prices, inflows) while, on the other hand, cash outflows are contracted and realised in local currency, as viewed from the perspective of short-term coverage. Therefore, movements in exchange rates between the foreign and local currency may have an important impact on the results of future operations and future cash flow. From the aspect of borrowings, considering that all loans of the Company and Subsidiary as at 31st of December 2018 are denominated in Euro, currency balance has been established and a hedge of foreign currency risk.

The Company owns equity securities listed on the Zagreb Stock Exchange and classified as financial assets measured at fair value through other comprehensive income. Consequently, the Company is exposed to price risk, although possible changes in price of securities would not significantly affect the financial statements of the Company.

The Company and the Group as a whole is actively managing credit risk ie. the receivables and other financial assets risk, by applying adequate sales policies and cash management policies. The Group with its business policy, rooted in the tourism sector as a whole, reduces the concentration of credit risk regarding receivables, given that the majority of sales is secured through received advances. Credibility of receivables is monitored through weekly reports on individual claims balances. In the segment of property management and lease of the same, the contracted amount is secured by collateral payments. Cash transactions are carried out through high-quality Croatian banks that restricts the level of exposure to credit risk to any financial institution.

Liquidity risk management implies cash flow projections with the ability to meet all obligations that includes regular business cycle, repayment of credit obligations and capital investments. The aforementioned implies timely availability of external sources of funding that, with terms and conditions, would be adapted to their purpose, guided by principles of the responsible businessman and care about preservation of financial stability.

As at 31st of December 2018, all the Group's loans received by the bank are contracted at a fixed interest and therefore, there is no exposure to the interest rate risk. The Company and the Group have assets (cash) which generate interest income, and income and cash flow from business activities are dependent on changes of market interest rates – particularly during the season, when the Company and the Group have significant surpluses of cash.

Market risks

In addition to financial risks, the Company is exposed to market risks, global and regulatory risks.

Considering the tourism industry risk, tourism in the Republic of Croatia was one of the few growing economic sectors in the past years. However, the strengthening of Croatian tourism competitors in the east and south of the Mediterranean, such as Turkey and Greece, as well as Egypt and North African countries, the Croatian tourism, and consequently Plava Laguna are exposed to the market risk of loss of competitiveness in the global market, due to redirection of demand from the developed Mediterranean markets to growing destinations in the east and south of the Mediterranean that, over the past few years, have witnessed a reduced demand, due to political and other instabilities.

Global risks arise from events over which the Company and the Group have no control or influence such as natural catastrophies – pollution of the sea and air, but also worsening of the quality of air and sea due to inadequate waste and waste water disposal, civil unrest and war, economic slowdown and global financial crisis that are lowering the purchasing power. Although it is expected that the economy of Europe will achieve growth rates in year 2019, they could still be lower than the growth rates in recent years which confirms that the world economy, after a multi-annual period of stronger economic growth, is re-entering the slowdown phase, that is most likely going to affect the decisions of the investors and travellers.

Regulatory risk relates to the risk that changes in tax laws and regulations will unfavorably impact the business operation of the Company and the Group and it is one of the more demanding risk management segments where the possibilities of the Company and the Group are limited.

Pursuant to the amendments to the relevant Croatian legislation in the area of reporting adopted on the basis of mandatory EU Directives, Plava Laguna as a large company and the Group publishes the non-financial report for business year 2018. Following the characteristics of the Company's activity where one of the important resources is the environment, together with the social and human resources aspect, the Company and the Group pay special attention to the principles of socially responsible business operations. All activities and interactions with key stakeholders are shaped by and focused on the principle of sustainable business operations which includes quality relation towards the environment, employees and the local community in which the Company operates.

Ecology and sustainable development

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

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

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

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

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

The preservation of seawater quality is achieved by regular maintenance of beaches managed by the Company and the quality of seawater is monitored through regular seawater analyses conducted from May until October. Quality of the seawater and maintenance of the beaches is recognized by obtaining the international Blue flag label for the ecological program of the protection of environment, sea and coastline whose primary goal is sustainable management of the sea and coastal zone. The Group Plava Laguna is a concessionaire for a total of 17 beaches and one marine with Blue flag (Poreč and Umag).

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

Employment and workers' rights

As a Group operating in tourism industry, Companies achieve their highest employment rate at the peak of the tourist season. On the 20th of August 2018 in destinations of Poreč, Umag and Rijeka, the Group employed 2,645 persons of whom 1,357 with indefinite employment contracts and permanent seasonal staff with multi-year contracts and 1,288 seasonal workers ie. persons with temporary employment contracts. Companies within the Group, as employers, ensure all categories of workers have the same working conditions regardless of their contract duration. Given the Group's orientation towards the human resources where forms of lasting cooperation affect the stability of the working environment and the quality of service, the share of contracts for permanent or longer-term cooperation ie. indefinite employment contracts and temporary employment contracts for continuous seasonal activity is significantly increasing each year. The goals of the Group in terms of employment are ensuring quality service to guests which will be reflected in improved rating and positive reviews, ensuring an optimal number of employees quality and quantity wise, ensuring maximum employee satisfaction – with benefits and work conditions, accommodation and stay, as well as achieving a collective sense of pride and commitment to the Companies within the Group.

Formal legal relations with employees are regulated by sources of different hierarchy that regulate labor relations, and by respecting the provisions of the Labor Act, the Collective Agreement for food and beverage industry, the Collective Agreement of PLAVA LAGUNA j.s.c. Poreč and the employment contract of each individual worker, always respecting the principle of applying the most favorable right for the worker. The Collective Agreement of PLAVA LAGUNA j.s.c. Poreč is considered to be a special source of workers' rights in the Group, concluded between the Company and trade unions that are active in the company PLAVA LAGUNA j.s.c., which are the Union of Istria, Kvarner and Dalmatia (Sindikat Istre, Kvarnera i Dalmacije) and the Tourism and Services trade union of Croatia (Sindikat turizma i usluga Hrvatske), and which defines employer and employee rights and obligations. The application has been extended to other Companies within the Group. Negotiations are renewed every year and are led in good faith, positive and constructive atmosphere and thus, the employer and the unions continue to reach mutual agreements when it comes to workers' rights and employer's obligations, as well as employee's obligations towards the employer.

PLAVA LAGUNA j.s.c. established the Workers' Council in line with the provisions of the Labor Act. Communication with the Workers' Council and union representatives takes place directly and undisturbed in all situations prescribed by labor law. The employer's reporting obligation is normally carried out monthly and serves to inform the representatives of employees and unions about the situation in the Company, the course of selling, business results and other matters of importance for the employees, with a high degree of mutual respect and cooperation. Besides the reporting obligation, the Company also respects the obligations to consult and co-decide with the Workers' Council when prescribed.

The stability and growth of employee benefits in the future will depend on the achievement of set business goals which is always a result of joint efforts of the management structures and the employees of Companies in the Group. We believe that the improvements of benefit schemes for our employees will greatly contribute to both business results and stability of the Group.

Companies within the Group guarantee their employees the gender equality, the implementation of fundamental conventions of the International Labour Organization. Working conditions and social dialogue are ensured in accordance with the positive regulation of the Republic of Croatia and above all, by the corporate culture that traditionally promotes respect and credibility as core values. The Companies respect and promote employees' rights to information and consultation, and make the information easily accessible and available via the Workers' Council, publications on the intranet site and bulletin boards and in a periodical magazine dedicated especially to employees.

Respecting human rights

Pursuant to the provisions of the Labor Act, Companies within the Group as employers fulfill their obligations to protect the dignity, life, health and privacy of employees as well as to protect personal data.

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

Companies within the Group provide equal opportunities and procedures for candidates during recruiting and advancing. Considering that the Companies are mainly involved in tourism business, special attention is given to guest relations and thus, through training on communication with guests, the emphasis is on the equal approach to all guests regardless of nation, religion, color of skin and gender.

In accordance with valid regulations, it is prohibited to discriminate, directly or indirectly, the persons seeking employment and persons employed, on a basis of race or ethnic origin or color of skin, gender, language, religion, political or other beliefs, nationality or social provenance, economic situation, political party membership or non-membership, union membership or non-membership, education, social status, marital or family status, age, health condition, disabilities, genetic heritage, gender identity, expression or sexual orientation.

Companies within the Group, as employers, protect the dignity of employees at work by ensuring such working conditions where the employees are not exposed to harassment or sexual harassment. This protection also includes taking preventive measures and education of everybody involved. The dignity of an employee is protected from the harassment or sexual harassment by superiors, co-workers and persons with whom the employee comes into regular contact at work. In order to protect the dignity of employees, the employer takes special care when deciding on the arrangement of work and sanitary facilities, the choice of mandatory work clothes, the manner of employee and property control, and when deciding on all the working conditions that may directly or indirectly cause employee's exposure to various forms of harassment.

Harassment and sexual harassment represent violations of obligations under the labour law and are subject to penalties prescribed by valid regulations.

The employer PLAVA LAGUNA j.s.c., upon consultations with the Workers' Council, appointed a person authorised to receive and address complaints to protect the dignity of employees. The appointed person is obliged, within eight days from the delivery of the complaint, to examine the situation with the complaint and take all necessary measures appropriate for each case, to stop further harassment or sexual harassment, if determined existing. The actions and measures taken depend on the circumstances of the case (applying different work schedule to certain employees if the nature of the job allows moving of employees to different business premises, verbal warning, written warning with announcement of termination of employment contract, termination, termination of employment contract and other). The actions taken upon receiving the complaint to protect the dignity of employee as well as the information thus obtained are secret.

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

Companies within the Group organise work in a manner to ensure the protection of health and life of employees, and provide work and protective clothes and footwear in line with the occupational health and safety regulations.

Specially vulnerable groups of employees such as pregnant women, parents, adoptive parents, minors, employees who are permanently or temporarily uncapable for work are particularly protected.

The fight against corruption

The Group applies high ethical standards in business, implements a zero tolerance policy against corruption and promotes the same principles in relations with partners. The extensive anti-corruption practice encompasses maintaining business integrity in the form of high standards in business and the ban on bribes and corruption, and expressly prohibits receiving or giving bribe with a view to obtaining an advantage for himself/herself personally or for the Companies within the Group, as well as making business decisions on that basis.

Any corruptive behaviour represents a serious violation of the rights and obligations arising from the employment contract. All relevant business processes where corruption is possible are under special supervision.

Personal data protection

The Company and the Group especially value the privacy of their employees, guests and partners. Their personal data has been protected for many years and special attention has been paid to the same during year 2017 when the Company began with the preparations for the implementation of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27th of April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation or GDPR). The same entered into force on 25th of May 2018 and the Group, as a whole, implemented the adjustments to personal data protection in order to comply with the provisions of the General Regulation and the Law on Implementation of General Data Protection Regulation.

When processing personal data, the Group respects and applies all the principles laid down in the General Regulation.

Until the entry into force of the General Regulation, the Group analyzed the existing situation, estimated critical security sites, highlighted necessary activities for more comprehensive protection of personal data and harmonized legal documentation, respectively, issued rules and procedures that the Group considered necessary in view of the segment of industry within which it operates. As most risky personal data processing is found the collection of personal data of website visitors and guests at reception desks, video surveillance and information security. Mentioned areas are given more attention in the implementation of solutions under the provisions of the General Regulation. In addition, the organisational structure for personal data protection was set up with the appointed officer for personal dana protection. Employees have been informed by a special document and through education on the effects of the General Regulation and rights and obligations arising from it. Technical measures have been taken to ensure the effective protection of personal data, whereby the possibility of deleting data is provided whenever possible. Special attention is paid to the protection of personal data of employees and guests. Personal data is systematised in accordance with the General Regulation and procedures for the exercise of the rights of the respondents have been envisaged (access to personal data, their correction or deletion and the exercise of the right to object). Privacy policies have been updated on all the websites hosted by the Companies of the Group, and Companies have entered into contracts with the providers of data processing to regulate personal data processing.

Companies within the Group are governed by the implemented policies and are following necessary procedures, and continue their ongoing work on improving the personal data protection system that is being processed.

Socially responsible business operation and cooperation with local community

PLAVA LAGUNA j.s.c. is a socially responsible Company that invests in the community in which it operates through donations or other forms of participation in the life of the community. Donations encourage excellence (education), humanitarian projects, development of sport activities in the community, culture and ecology. Among other, in year 2018, the Company donated HRK 300 thousand for the project and the construction of Veli Maj kindergarten in Poreč, as well as significant funds to provide higher standards of the emergency medical aid and the organisation of activities to prolong the tourist season.

The Company fosters the relationship with former employees in the areas of Umag and Poreč. Thus, continues the long-term cooperation with former employees of Istraturist Umag j.s.c., cooperating with the Croatian Pensioners' Union, branch office Umag, Istraturist pensioners. Also, the cooperation that began in 2017 when the Association of pensioners of Plava Laguna - Club Galija Poreč was founded still continues.

Furthermore, besides encouraging excellence and given the locality in which it operates, the Company recognised the importance of bringing service industry and tourism closer to the youngest of children, and therefore, for many years cooperates with kindergartens as well, whereby preschoolers visit the facilities of the Company and are introduced to the tourism and hospitality vocations, but the familiarisation is also conducted through activities organised in kindergarten premises by visits of Company's employees and workshops in their field of activity.

ISTRA D.M.C. Ltd. independently organises or actively participates in the organisation of significant manifestations in the community in which local population also gladly participates.

STATEMENT ON APPLICATION OF THE CORPORATE MANAGEMENT CODEX

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

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

During 2018, the Company did not fully apply the recommendations established by the Codex and divergences relate to the publication of detailed information on the remuneration of the Management Board i.e. the remuneration policy statement. Furthermore, during the year 2018, the Supervisory Board of the Company o its own performed the tasks of the remuneration and appointment commission. Pursuant to the Audit Act, the Company has an active Auditing Committee.

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

The Company applies the Rules on the application of accounting policies which regulates the application of procedures and techniques in disclosure of the Company's assets, liabilities, principal, income, expense and financial results in financial statements. The description of main characteristics of risk management and information on shareholders on 31st of December 2018 are included in this Annual Report.

The share capital of the Company amounts to HRK 1,444,530,057.18 and is divided into 2,197,772 regular shares with no-par value and 420,000 preference shares at the value of HRK 250.00.

PLAVA LAGUNA j.s.c./Regular share PLAG-R-A

The first ten shareholders of the Company on 31st of December 2018 are:

Owner/ account holder/ securities holder	Type of account	Number of shares	Share
ADRIATIC INVESTMENT GROUP	basic account	1,851,352	84.24%
OTP BANKA j.s.c./ AZ OMF category B	custodial acc. for the name	86,576	3.94%
ADDIKO BANK j.s.c./ PBZ CO OMF category B	custodial acc. for the name	20,024	0.91%
BOGDANOVIĆ ZORAN	basic account	12,711	0,58%
RAIFFEISENBANK AUSTRIA j.s.c.	collective custodial acc.	9,140	0.42%
ZAGREBAČKA BANKA j.s.c./ AZ PROFIT open DMF	custodial acc. for the name	6,372	0.29%
CERP / Republic of Croatia	representative account	6,234	0.28%
OTP BANKA j.s.c./ ERSTE PLAVI EXPERT DMF	custodial acc. for the name	4,104	0.19%
OTP BANKA j.s.c./AZ OMF category A	custodial acc. for the name	4,048	0.18%
NOVAK MIRKO	basic account	3,900	0.18%

The voting right of the Company's shareholder is not limited to a certain percentage or number of votes nor are there time constraints for the exercise of voting rights, except in accordance with the Companies Act in the sense of applying for participation at the General Assembly. Each regular share entitles to one vote at the General Assembly.

PLAVA LAGUNA j.s.c./Preferred share PLAG-P-A

In 2002, the Company issued preferred shares which do not give the right to vote at the General Assembly. There is one sole shareholder of preferred shares:

Owner/ account holder/ securities holder	Type of account	Number of shares	Share
ADRIATIC INVESTMENT GROUP	basic account	420,000	100.00%

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

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

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

The Company is organized according to the dualistic model. The Management Board of the Company conducts the affairs independently and for certain tasks specified in Article 26 of the Articles of Association (such as founding of the Company, purchase and sale of shares in other Companies, purchase and sale of real estate above 1% of the value of equity capital, borrowing more than 2% of the value of the equity capital and other), it is authorized to conduct only with prior consent of the Supervisory Board. In year 2018, the Management Board consisted of five members of whom Mr. Neven Staver appointed as President while Mr. Ronald Korotaj, Mr. Damir Mendica, Mr. Dragan Pujas and Ms. Danira Rančić appointed as members. Every member of the Management Board is authorised to conduct the affairs and represent the Company together with the President of the Management Board, and the President of the Management Board is authorised to conduct the affairs and represent the Company together with another member of the Management Board.

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

In 2018, the Supervisory Board acted in the following composition:

Davor Luksic Lederer, Chairman of the Supervisory Board
Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board
Davor Domitrovic Grubisic, Member of the Supervisory Board
José Ignacio Bulnes León, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Board, representative of employees.

The General Assembly is convened, acts and has the authority established by the provisions of the Companies Act and Company's Articles of Association. Invitation for the convocation of the General Assembly and decision proposals as well as final decisions are publicly disclosed in accordance with the provisions of the Companies Act, Capital Market Act and Rules and Regulations of the Zagreb Stock Exchange.

Rules on the appointment of the members of the Management Board and members of the Supervisory Board do not contain any limitations on diversity in terms of gender, age, education, profession and similar.

Pursuant to the provisions of Article 250.a paragraph 4 and Article 272.p paragraph 1 of the Companies Act, this Statement is a separate section and integral part of the Annual Report on the Company's status for year 2018.

MANAGEMENT BOARD


PLAVA
LAGUNA
WOW
Plava Laguna creates unforgettable
family holidays in Istria, Croatia
WE TAKE FUN SERIOUSLY
plavalaguna.com

REPORT OF THE AUDITING COMMITTEE

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

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

In accordance with the Companies Act, auditor of the Company was appointed on the General Assembly's meeting held on 30th of August 2018, and on 14th of September 2018 an agreement was concluded concerning performance of audit and issuance of unconsolidated and consolidated financial statements.

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

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

Members of the Auditing Committee met on several occasions, during the year 2018 and until the issuance of the report in the first half of 2019, with the representatives of the authorized auditor and the responsible executors with the aim to discuss the applied accounting policies, the recording of important business events, the effects of applying new accounting standards and other observations of the auditor.

In accordance with legal regulations, the auditors presented financial statements together with the Independent Auditor's Report to the Supervisory Board on 12th of April 2019, and the decision on the adoption of relevant reports was made on 27th of April 2019.

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

- the Company and the auditors were consistent in the interpretation of international accounting standards as well as local regulations and requirements governing the preparation of financial statements,
- in terms of the effectiveness of internal control system and risk management, there were no irregularities with material consequences observed,
- there were no circumstances that would lead to questioning the independence of the auditor,
- regarding the key auditing issues related to estimates of useful life of real estate, machinery and equipment and impairment indicators, auditors' estimates are in line with the estimates of the Manag. Board, and that is that there are no circumstances indicating impairment of assets value.

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

THE AUDITING COMMITTEE

Based on article 300c of the Companies Act and article 34 of the Bylaws of PLAVA LAGUNA, Joint Stock Company for Hotels and Tourism, the Company's Supervisory Board at the session held on May 10th 2019, renders

THE SUPERVISORY BOARD REPORT

ON SUPERVISION OVER THE MANAGEMENT OF THE COMPANY'S AND GROUP'S OPERATIONS, ON THE RESULTS FOLLOWING THE REVIEW OF THE FINANCIAL REPORTS, THE REPORT ON THE SITUATION IN THE COMPANY AND THE PROPOSED DECISION ON THE USE OF PROFIT IF THE COMPANY AND GROUP FOR 2018

In the course of business year 2018, the Supervisory Board of the Company continuously supervised the conduct of business and held 12 meetings, pursuant to the powers conferred by the provisions of the Companies Act and the Bylaws.

The Supervisory Board acted composed as follows:
Davor Luksic Lederer, Chairman of the Supervisory Board
Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board
Davor Domitrovic Grubisic, Member of the Supervisory Board
Joseph Ignace Bulnes, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Board, representative of employees.

The Supervisory Board used its counsel and recommendations to influence the Company's activities that marked the business year 2018.

On the basis of Article 300b paragraphs 1 and 2 of the Companies Act, at the session held on April 12th 2019 and with the participation of representatives of the auditors Deloitte d.o.o. Zagreb, the Management of the joint stock company Plava Laguna submitted to the Supervisory Board annual financial reports, the report on the situation in the Company as well as the proposed decision on the use of profit.

Pursuant to its authorities under Article 300c paragraph 2 of the Companies Act the Supervisory Board reviewed the submitted financial reports for 2018 for the Company and Group, the report on the situation in the Company as well as the proposed decision on the use of profit, and decided on them out of session on April 26th 2019 by means of electronic correspondence. Supervisory Board submits the results of this review to the Board and General Assembly for further procedure.

The reviews carried out undoubtedly show that in 2018 the Company's Management, according to its statutory obligations, informed the Supervisory Board in writing and orally of the operational policy and of the other principal issues related to future management of the business operations, of the profitability of operations and profitability of the use of shareholdings' equity, of the course of business operations, revenues and expenses and the situation in the Company, and in particular of the operations affecting the profitability and liquidity, as well as of other matters that the Supervisory Board considered important.

The Supervisory Board determines the operations of the Company and the work of the Company's Management Board in cooperation with the Supervisory Board as successful, and considers that the cooperation between the Supervisory Board and the Management Board is continuously very fair and efficient.

The results of our review as well as the opinion of the authorized auditor on the reality and objectivity of data shown in the financial reports for 2018 demonstrate that the Company acts in accordance with the law and regulations in force, the Company's general legal instruments and the decisions of the General Assembly.

After the review of financial reports for 2018, which the management is accountable for, the Supervisory Board established that they are drafted in accordance with the provisions of the Accountancy Act and other pertinent laws and regulations, and they realistically reflect the situation in the company books and fairly reveal the assets and operational state of the Company.

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

The Supervisory Board fully supports the auditor's report which confirms that the Company's financial reports for the year that ended on 31 December 2018, present fairly, in all material respects, the financial position, financial performance and cash flows of the Company and Group in accordance with IFRS.

The Supervisory Board expresses its absolute approval of the submitted financial reports for 2018 and the report on the situation in the Company, as well as their affirming, and leaves their rendering to the Company's General Assembly.

PRESIDENT
Davor Luksic Lederer


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LAGUNA
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INDEPENDENT AUDITOR´S REPORT

PLAVA LAGUNA d.d., POREČ

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

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

STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES

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

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

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

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

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

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

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

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

Neven Staver President	Marco Antonio Buzolic Buzolic Member	Damir Mendica Member
Dragan Pujas Member	Danira Rančić Member	PLAVA LAGUNA d.d. Poreč 1

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Owners of Plava laguna d.d.

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Emphasis of matter

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

Key Audit Matters

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

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

Deloitte.

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
The Group disclosed property, plant and equipment in the amount of 2.527.285 thousand kuna in its statement of financial position. The Group accounts for the property, plant and equipment at historical cost less accumulated depreciation and impairment, where required. Historical cost includes the cost that is directly attributable to the acquisition of assets. 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. Since the estimated useful life and identification of impairment indicators requires a significant judgement of the Company's management, this may lead to bias in determining the useful life assessment process and / or impairment. This has led to the conclusion that estimated useful life of property, plant and equipment and impairment indicators is our key audit matter for the audit of the Group's financial statements for the year ended 31 December 2018.	In order to respond to risks related to estimating useful life od 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. We conducted the following audit procedures considering the property, plant and equipment area: • Review and verification of accuracy of the accounting policy for impairment produced by the Management, including a review of defined indicators of impairment and the reasonableness and justification of key assumptions and input variables based on our knowledge of the business and the sector, and reliance on available evidence such as generated financial result, profitability per each profit unit, their earnings before tax, interest and depreciation and amortization, expense budgets and forecasts as well as market data referred to future prices and other basic assumptions; • Based on our experience within the industry a comparison of estimated useful life for property, plant and equipment with those applied to assets with similar characteristics; • Analysis of the property, plant and equipment in order to conclude on correctness of defined estimated useful life disclosed in the statement of financial position as at 31 December 2018.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Matter

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

Other Information

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

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

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Group on 26 April 2019 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

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

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

Branislav Vrtačnik
President of the Board

Vanja Vlak
Certified auditor

Deloitte d.o.o.

26 April 2019

Radnička cesta 80

10 000 Zagreb

Croatia

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

NOTE 1 – GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

The Group has chosen not to apply new standards, amendments to existing standards and interpretations before the date of their entry into force.
At the time of writing, the Group does not have any information as to whether the application of these standards and the amendment to existing standards will lead to material changes to the financial statements in the first adoption period of the standard, but will certainly not call into question the financial stability of the Group.

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

- IFRS 14 "Delegated Transaction Regulatory Regulation" (effective for annual periods beginning on or after 1 January 2016) - The European Commission has decided to postpone the transitional arrangements for this transitional standard until the publication of its final version,

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),

- Amendments to IAS 3 "Business Combinations" - Business definition (effective for business combinations for which the acquisition date is on or after the commencement of the first annual reporting period commencing on or after 1 January 2020 and on the acquisition of or after the beginning of that period).

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Shares in Associates and Joint Ventures" - Sales or investments of assets between investors and associates or joint ventures and subsequent amendments (the initial date of entry into force was postponed to the completion of the research project on the theme of applying the share)

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates of Misconduct" - Significance definition (effective for annual periods beginning on or after January 1, 2020)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

- Amendments to IAS 19 Employee Benefits - Amendments to, suppression of rights, or disbursements from income plans (effective for annual periods beginning on or after 1 January 2019),

- Amendments to IAS 28 "Shares in Associates and Joint Ventures" - Long-term investments in associates and joint ventures (effective for annual periods beginning on or after 1 January 2019),

- Amendments to various Standards due to the "Review of IFRS from the 2015-2017 Cycle" arising from the IFRS Annual Compensation Project (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily to eliminate discrepancies and clarification (effective for annual periods beginning on or after 1 January 2019),

- Amendments to the Guidelines for the Conceptual Framework in IFRSs (effective for annual periods beginning on or after 1 January 2020).

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

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

Business Combinations

The Group applies IFRS 3 "Business Combinations" for accounting for business combinations, and the accounting policies applied to these acquisitions are described below.
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.
The Group controls an investee when it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes in one or more of the elements of control. This includes circumstances in which protective rights held by the Group (for example, those resulting from lending activity) become substantive and lead to the Group having power over an investee.

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

When this total is negative, a bargain purchase gain is recognised immediately in profit or loss.
The consideration transferred does not include amounts related to the settlement of pre-existing relationships. These amounts are regularly recognised in profit or loss.
Acquisition-related costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.
Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

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

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

(b) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with owners in their capacity as owners.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

Business Combinations (continued)

(b) Changes in ownership interests in subsidiaries without change of control (continued)
For purchases from non- controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Company's separate financial statements investments in associates are accounted at cost less impairment.
The Group's share of associates' post-acquisition gains or losses is recognised in the statement of profit or loss and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate. Dividends received from associates are treated as a decrease of investment in associate in the Group's consolidated statement of financial position and as a dividend income in the Company's separate statement of profit or loss.
Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

(e) Non-controlling interest
For each business combination, the Group elects to measure any non-controlling interests in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets.
Changes in the Group's interest in a subsidiary that do not result in a change of control are accounted for as transactions with equity holders in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. The adjustments to non-controlling interests are based on the proportionate amount of the net assets of the subsidiary.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

Business Combinations (continued)

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

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

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

2.3 Segment reporting

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

2.4 Foreign currencies

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

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

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

2.6 Intangible assets

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

2.7 Impairment of non-financial assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

(c) Financial liabilities

Financial liabilities includes all financial liabilities that are not classified at fair value through profit or loss. Financial liabilities include liabilities to suppliers, borrowings and other liabilities. Initially, they are recognized at fair value less any directly attributable transaction costs. After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest rate method (for accounting policy on lending, see note 2.15).
The fair value of interest-free liabilities is its discounted repayment amount. If the maturity date is less than one year, discounting is left out.

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

2.9 Derivative financial instruments

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

2.10 Leases

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

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

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

2.11 Inventories

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Trade, deposit and loan receivables

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

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

2.13 Cash and cash equivalents

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

2.14 Share capital

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

2.15 Borrowings

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

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

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

2.16 Trade payables

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Current and deferred income tax

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

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

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

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

2.18 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

(c) Short-term employee benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Provisions

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

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

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

2.20 Revenue recognition

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

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

(a) Sales of services

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

(b) Rental services

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

(c) Interest income

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

(d) Dividend income

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Dividend distribution

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

2.22 Earnings per share

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

2.23 Value added tax

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

The accounting policies are applied to financial instruments as follows:

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

(ii) Cash flow and fair value interest rate risk

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

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

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

(iii) Equity securities risk

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

b) Credit risk

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

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

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

The credit quality of financial assets:

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

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

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

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

(c) Liquidity risk

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

3.3 Fair value estimation

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

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

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

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

Fair value hierarchy

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

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

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

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

(b) Impairment of financial assets

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

(c) Goodwill

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

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

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

NOTE 5 – SEGMENT INFORMATION

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

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

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

Reconciliation of EBITDA with profit before tax is as follows:

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

NOTE 6 – COST OF MATERIALS AND SERVICES

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

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

NOTE 7 – STAFF COSTS

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

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

NOTE 8 – OTHER OPERATING EXPENSES

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

NOTE 9 – OTHER GAINS/LOSSES - NET

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

NOTE 10 – FINANCE INCOME AND COSTS

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

NOTE 11 – INCOME TAX

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

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

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

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

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

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

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

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

	2018 *(in thousands of HRK)*		
	Preference shares	**Ordinary shares**	**Total**
Dividends declared and paid in the year	37,737	196,710	234,447
Undistributed earnings	6,774	35,409	42,184
Profit for the year attributable to equity holders of the Company	**44,511**	**232,119**	**276,631**
Weighted average number of shares in issue excluding treasury shares	420,000	2,195,426	2,615,426
Distributed earnings	89.85	89.60	
Undistributed earnings	16.13	16.13	
Basic earnings per share (in HRK)	**105.98**	**105.73**	

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

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

Diluted earnings per share

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

NOTE 13 – DIVIDEND PER SHARE

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

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

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

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

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

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

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

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

NOTE 15 – INTANGIBLE ASSETS

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

NOTE 16 – INVESTMENTS IN ASSOCIATE

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

The unlisted associate is as follows:

(in thousands of HRK)

2018

Name	Assets	Liabilities	Income	Profit	% share in ownership
Jadranski luksuzni hoteli d.d., Dubrovnik	1,272,924	550,067	522,313	87,479	32.48

2017

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

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

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

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

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

Available-for-sale investments are as follows:

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

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

NOTE 18 – DEFERRED TAX ASSETS AND LIABILITIES

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

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

Movements in deferred tax assets and liabilities:

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

NOTE 19 – TRADE AND OTHER RECEIVABLES

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

Movements in provisions for impairment of trade and other receivables.

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

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

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

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

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

NOTE 21 –EQUITY

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

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

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

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

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

NOTE 21 – EQUITY (continued)

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

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

In the process of replacing the shares, the Company, in addition to newly issued shares in the amount of 12.500, also granted 34.222 shares by disposing of their own shares, so that the Company had 2.346 treasury shares outstanding following the implementation of the corporate acquisition and increase of the share capital.
All shares are fully paid. In addition to regular dividends issued and paid on ordinary shares, preference shares are entitled to a fixed annual dividend of HRK 0.25 per share and are not entitled to vote.

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

NOTE 22 – RESERVES AND RETAINED EARNINGS

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

NOTE 22 – RESERVES AND RETAINED EARNINGS (continued)

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

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

Other reserves

	31/12/2018	**31/12/2017**
	(in thousands of HRK)	
Capital reserves	29,572	18,824
Other reserves	38,554	-
Reserves for treasury shares	737	11,485
Reserves-fair value of finacial asset	3.238	3,233
	72,101	**33,542**

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

NOTE 23 – BORROWINGS

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

Bank borrowings are secured by real estate (note 14). During 2018, the repayment of the first installment loan contracted in 2017 in the amount of HRK 88.678 thousand was made in accordance with the contracts with:
I.Private Bank Zagreb d.d Zagreb to a contracted amount of EUR 60 million with fixed maturity on 28 February 2025.
II. Raiffeisenbank Austria d.d. Zagreb at a contracted amount of EUR 22.2 million with a fixed interest rate of 30 September 2022.

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

The maturity of long-term borrowings is as follows:

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

NOTE 23 – BORROWINGS (continued)

Net debt

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

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

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

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

NOTE 24 – TRADE AND OTHER PAYABLES

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

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

NOTE 25 – CONTINGENT LIABILITIES

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

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

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

NOTE 25 – CONTINGENT LIABILITIES (continued)

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

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

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

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

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

(i) the Slovenian rulings in the Republic of Croatia would be contrary to the legal order of the Republic of Croatia not only because of the (unlawful) calculation of interest rates but also because of the dispute over the validity of the set off;

(ii) in the Republic of Croatia there is an ongoing process in which the Company disputes the existence of the claim of Nova Ljubljanska Banka

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

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

NOTE 25 – CONTINGENT LIABILITIES (continued)

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

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

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

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

NOTE 25 – CONTINGENT LIABILITIES (continued)

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

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

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

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

NOTE 26 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

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

NOTE 27 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if a party has the ability to control another party or is under joint control or has a significant influence on the other party when making a financial or business decision. The Company considers that it is directly related to its owner and their subsidiaries, their affiliated and associated companies and other companies under the control of the Vallum Foundation, Vaduz, Liechtenstein, then members of the Supervisory Board, Management Board members, close family members of the Management Board, jointly controlled companies, companies under significant influence of key management and their immediate families, according to the definition stated in International Accounting Standard 24 "Disclosure of Related Parties" (IAS 24).
On January 10, 2018, a change of majority shareholder of the Company was made to the CDCC, in the manner that the company Adriatic Investment Group registered in Luxembourg registered as a holder of 84.24% of ordinary shares and 100% of preferential shares of the Company instead of the former Sutivan Investments Anstalt. The ultimate control company remained unchanged.
The ultimate control company is the Vallum Foundation, registered in Vaduz, Liechtenstein
In the ordinary course of business, the Company enters into transactions with related parties. Related parties are subsidiaries, the majority owner, ultimate owner and companies under the common control of the ultimate owner. These transactions were carried out under commercial terms and conditions and at market rates.

Transactions with the majority shareholder of the parent company:
During 2018, pursuant to the Decision of the General Assembly of the Company, a dividend was paid to the majority shareholding company in the gross amount of HRK 203,618 thousand.
Also, the transaction with the majority shareholder was realized in the amount of HRK 2 thousand, based on the provided accommodation service.
During 2018, the Company Plava Laguna d.d. received a dividend from the Associated Company in the amount of HRK 62,390 thousand.
At the balance sheet date there are no claims and liabilities to the parent company.

Group key management and Supervisory Board compensation

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

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

NOTE 28 – MERGER

/i/ Merger

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

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

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

NOTE 29 – EVENTS AFTER THE BALANCE SHEET DATE

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

NOTE 30- APPROVAL OF FINACIAL STATEMENTS

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

For and in the name of Management Board:

Neven Staver
President

Marco Antonio Buzolic Buzolic
Member

Damir Mendica
Member

Dragan Pujas
Member

Danira Rančić
Member

PLAVA LAGUNA d.d.
Poreč
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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	PLAVA LAGUNA d.d. Poreč 1

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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.

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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
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. 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. 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.	In order to respond to risks related to estimating useful life od 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. We conducted the following audit procedures considering the property, plant and equipment area: • Review and verification of accuracy of the accounting policy for impairment produced by the Management, including a review of defined indicators of impairment and the reasonableness and justification of key assumptions and input variables based on our knowledge of the business and the sector, and reliance on available evidence such as generated financial result, profitability per each profit unit, their earnings before tax, interest and depreciation and amortization, expense budgets and forecasts as well as market data referred to future prices and other basic assumptions; • Based on our experience within the industry a comparison of estimated useful life for property, plant and equipment with those applied to assets with similar characteristics; • Analysis of the property, plant and equipment in order to conclude on correctness of defined estimated useful life disclosed in the statement of financial position as at 31 December 2018.

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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.

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.

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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.

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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 26 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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts are expressed in thousands of HRK)	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
Operating profit		**314,472**	**134,848**
Finance income	9	4,999	5,932
Finance costs	9	(11,480)	(12,476)
Finance income/(costs) – net	9	(6,481)	(6,544)
Profit before tax		**307,991**	**128,304**
Income tax	10	403	(22,875)
Profit for the year		**308,394**	**105,429**
Other comprehensive income:			
Change in the value of financial assets measured at fair value through other comprehensive income	18	5	1.062
Total comprehensive income for the year		**308,399**	**106,491**
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.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

(all amounts are expressed in thousands of HRK)	Note	31/12/2018	31/12/2017
ASSETS			
Non-current assets			
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	-
		2,790,020	**2,092,813**
Current assets			
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
		229,451	**275,634**
Total assets		**3,019,471**	**2,368,447**
EQUITY			
Capital and reserves			
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
Total equity		**2,144,942**	**1,797,869**
LIABILITIES			
Non-current liabilities			
Borrowings	19	589,633	394,467
Provisions for other liabilities and expenses		4,571	192
Deferred tax liabilities		10,601	-
		604,805	**394,659**
Current liabilities			
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
Total liabilities		**874,529**	**570,578**
Total equity and liabilities		**3,019,471**	**2,368,447**

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

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

(all amounts are expressed in thousands of HRK)	Note	Share capital	Capital reserves	Treasury shares	Reserves	Retained earnings	Total
For the year ended 31 December 2017							
At 1 January 2017		**1,385,151**	**9,937**	**(21,422)**	**79,303**	**238,514**	**1,691,483**
Profit for the year		-	-	-	-	105,429	105,429
Other comprehensive income		-	-	-	1,062	-	1,062
Total comprehensive income for 2017		**-**	**-**	**-**	**1,062**	**105,429**	**106,491**
Distribution of profit from 2016		51,760	866	(866)	3,610	(55,370)	-
Dividend relating to 2016	11	-	-	-	-	(105)	(105)
Total transactions with owners of the Company, recognised in equity		**51,760**	**866**	**(866)**	**4,672**	**49,954**	**106,386**
At 31 December 2017		**1,436,911**	**10,803**	**(22,288)**	**83,975**	**288,468**	**1,797,869**
For the year ended 31 December 2018							
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
Total comprehensive income for 2018		**-**	**-**	**-**	**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)	-
Total transactions with owners of the Company, recognised in equity		**7,619**	**(10,110)**	**20,858**	**41,147**	**287,559**	**347,073**
At 31 December 2018		**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

(all amounts expressed in thousands of HRK)	Note	2018	2017
Profit before tax		**307,991**	**128,304**
Adjustments for:			
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	-
Changes in working capital:			
Trade and other receivables		698	2,106
Inventories		308	74
Trade and other payables		2,909	16,663
Cash flow from operating activities		**462,333**	**262,724**
Interest and fees paid	19	(12,390)	(17,395)
Income tax paid		(39,359)	(16,264)
Net cash flow from operating activities		**410,584**	**229,065**
Cash flows from investing activities			
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
Net cash used in investing activities		**(79,460)**	**(196,058)**
Cash flows from financing activities			
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)	-
Net cash used in financing activities		**(178,596)**	**(9,384)**
Net increase in cash and cash equivalents		**152,528**	**23,623**
Cash and cash equivalents at beginning of year		27,514	3,891
Cash and cash equivalents at end of year		**180,042**	**27,514**

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

NOTE 1 – GENERAL INFORMATION

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

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

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 "Effectived 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)

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 futher in this Note. The impairment of these financial assets is perfomed 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		
	Portfolio	Measurement	Business model	Measurement	Impact
Trade and other receivables	Loans and Receivables	Amortized cost	To receive constractual cash flow	Amortized cost	No significant effect on finacial 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

3.1 Financial risk factors

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

The accounting policies are applied to financial instruments as follows:

- *Assets*

(in thousands of HRK):	**Loans and receivables**	**Financial asset through comprehensive income**	**Total**
31 December 2018			
Investments in shares of domestic companies	-	11,064	11,064
Trade and other receivables	9,034	-	9,034
Deposits and loans given	777	-	777
Cash and cash equivalents	180,041	-	180,041
Total	189,852	11,064	200,916
31 December 2017			
Investments in shares of domestic companies	-	9,217	9,217
Trade and other receivables	1,874	-	1,874
Deposits and loans given	239,610	-	239,610
Cash and cash equivalents	27,514	-	27,514
Total	**268,998**	**9,217**	**278,215**

- *Liabilities - at amortised cost*

	2018	**2017**
	(in thousands of HRK):	
Borrowings	679,029	452,660
Trade and other payables	100,619	65,515
Total	**779,648**	**518,175**

(a) Market risk

(i) Foreign exchange risk

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(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
Financial assets				
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
	183,131	**16,848**	**937**	**200,916**
Financial liabilities – at amortised cost				
Borrowings	670,442	8,587	-	679,029
Trade and other payables	3,207	97,343	69	100,619
	673,649	**105,930**	**69**	**779,648**
2017				
Financial assets				
Trade and other receivables	918	956	-	1,874
Loans and deposits given	239,610	-	-	239,610
Available-for-sale financial assets	-	9,217	-	9,217
Cash and cash equivalents	23,750	3,448	316	27,514
	264,278	**13,621**	**316**	**278,215**
Financial liabilities – at amortised cost				
Borrowings	452,660	-	-	452,660
Trade and other payables	260	64,832	423	65,515
	452,920	**64,832**	**423**	**518,175**

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.

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:

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The credit quality of financial assets:

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

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

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

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:

	2018	2017
	(in thousands of HRK):	
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	2,626	808
	4,532	**1,348**

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
		(in thousands of HRK)		
At 31 December 2018				
Borrowings	103,160	456,375	164,593	724,128
Trade payables	100,619	-	-	100,619
Total liabilities	**203,779**	**456,375**	**164,593**	**824,747**
At 31 December 2017				
Borrowings	65,143	249,585	175,006	489,734
Trade payables	65,515	-	-	65,515
Total liabilities	**130,658**	**249,585**	**175,006**	**555,249**

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

	2018.	2017.
	(in thousands of HRK)	
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
	70,685	1,736

NOTE 6 – COST OF MATERIALS AND SERVICES

	2018	2017
	(in thousands of HRK)	
Raw materials and supplies		
Raw materials and supplies used	92,116	49,606
Energy and water used	74,004	36,544
Small inventories	9,097	3,554
	175,217	89,704
External services		
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
	110,872	73,844
Total	**286,089**	**163,548**

/ 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
	(in thousands of HRK)	
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
	271,344	**130,789**
Number of employees as at 31 December	1,614	822

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

NOTE 8 – OTHER OPERATING EXPENSES

	2018	2017
	(in thousands of HRK)	
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
Total	**73,962**	**53,250**

NOTE 9 – FINANCE INCOME AND COSTS

	2018	2017
	(in thousands of HRK)	
Finance income		
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
	4,999	5,932
Finance costs		
Interest expense	(11,480)	(12,476)
	(11,480)	(12,476)
Finance costs - net	**(6,481)**	**(6,544)**

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:

	2018	2017
	(in thousands of HRK)	
Profit before tax	**307,991**	**128,304**
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)	-
Income tax expense / (tax income)	**(403)**	**22,875**
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:

	2018 (in thousands of HRK)			2017 (in thousands of HRK)		
	Preference shares	**Ordinary shares**	**Total**	**Preference shares**	**Ordinary shares**	**Total**
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
Profit for the year	**49,612**	**258,782**	**308,394**	**17,326**	**88,103**	**105,429**
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	
Basic earnings per share (in HRK)	**118.12**	**117.87**		**165.01**	**164.01**	

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).

NOTE 13a – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
At 31 December 2016					
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)
Net book amount	**912,533**	**33,159**	**3,680**	**6,973**	**956,345**
Year ended 31 December 2017					
Opening net book amount	912,533	33,159	3,680	6,973	956,345
Additions	59,551	15,931	2,617	30,508	108,607
Sale and impairment	(13,684)	(125)	-	-	(13,809)
Depreciation	(81,575)	(12,057)	(1,097)	-	(94,729)
Closing net book amount	**876,825**	**36,908**	**5,200**	**37,481**	**956,414**
At 31 December 2017					
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)
Net book amount	**876,825**	**36,908**	**5,200**	**37,481**	**956,414**
Year ended 31 December 2018					
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)
Closing net book amount	**2,383,283**	**114,726**	**47,177**	**22,946**	**2,568,168**
At 31 December 2018					
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)
Net book amount	**2,383,283**	**114,762**	**47,177**	**22,946**	**2,568,168**

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:

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

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:

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

NOTE 13b – INTANGIBLE ASSET

(in thousands of HRK)	**Software**	**Goodwill**	**Asset under constructi on**	**Total**
At 31 December 2016				
Purchase value	7,019	-	96	7,115
Accumulated depreciation	(6,575)	-	-	(6,575)
Net book amount	**444**	**-**	**96**	**540**
For year ended 31 December 2017				
Opening net book amount	444	-	96	540
Additons	2,417	-	(72)	2,345
Depreciation	(318)	-	-	(318)
Decrease	-	-	-	-
Closing net book amount	**2,543**	**-**	**24**	**2,567**
At 31 December 2017				
Purchase value	9,435	-	24	9,459
Accumulated depreciation	(6,892)	-	-	(6,892)
Net book amount	**2.543**	**-**	**24**	**2,567**
For year ended 31 December 2018				
Opening net book amount	2,543	-	24	2,567
Merge of company	5,521	12,480	-	18,001
Additons	2,121	-	(24)	2,097
Depreciation	(3,088)	-	-	(3,088)
Closing net book amount	**7,097**	**12,480**	**-**	**19,577**
At 31 December 2018	30,864	12,480	-	43,344
Accumulated depreciation	(23,767)	-	-	(23,767)
Net book value	**7,097**	**12,480**	**-**	**19,577**

NOTE 14 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	31/12/2018	31/12/2017
	(in thousands of HRK)	
Subsidiaries	113	933.883
Associates	190.732	190.732
	190.845	**1.124.615**

Changes in investments in subsidiaries are as follows:

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

	Country	Ownership %	
		2018	2017
Subsidiaries			
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	-
Associates			
Jadranski luksuzni hoteli d.d.	Croatia	32.48	32.48

The subsidiary Laguna invest d.o.o., Poreč did not have any business activities in 2017. 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.

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

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

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

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

Available-for-sale investments are as follows:

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

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

	31/12/2018	31/12/2017
	(in thousands of HRK)	
Domestic trade receivables	9,258	1,870
Foreign trade receivables	3,024	918
Due from brokers – agencies	176	13
Impairment of trade receivables	(5,005)	(953)
Trade receivables – net	7,453	1,848
Interest receivable	-	7
Accrued income not yet invoiced	1,581	19
Total financial assets	*9,034*	*1,874*
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	(8)	-
Total	**15,941**	**6,011**

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

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

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.

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 %
Ownership of ordinary shares:			
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
	2,197,772	**1,339,530,057**	**100.00**
Ownership of preference shares:			
Adriatic Investment Group, Luxembourg /i/	420,000	105,000,000	**100.00**
Total	**420,000**	**105,000,000**	**100.00**
		1,444,530,057	

/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 %
Ownership of ordinary shares:			
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
	546,318	**1,331,911,375**	**100.00**
Ownership of preference shares:			
Sutivan Investments Anstalt, Liechtenstein /i/	105,000	105,000,000	100.00
Total	**105,000**	**105,000,000**	**100,00**
		1,436,911,375	

/i/ In 2018, 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

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

/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)

	31/12/2018	**31/12/2017**
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
	72,101	**33,542**

NOTE 19 – BORROWINGS

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

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:

	31/12/2018	31/12/2017
	(in thousands of HRK)	
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
	589,633	**394,467**

NOTE 19 – BORROWINGS (continued)

Net debt

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

	31/12/2018	31/12/2017
	(in thousands of HRK)	
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)
Net debt	**(487,147)**	**(176,319)**
Cash and liquid assets	191,882	276,341
Liabilities at fixed interest rate	(679,029)	(452,660)
Net debt	**(487,147)**	**(176,319)**

NOTE 19 – BORROWINGS (continued)

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

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

NOTE 20 – TRADE AND OTHER PAYABLES

	31/12/2018	**31/12/2017**
	(in thousands of HRK)	
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
Total financial liabilities	100,619	65,515
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
	180,328	**114,397**

/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:

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

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:

	31/12/2018	31/12/2017
	(in thousands of HRK)	
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

	31/12/2018	31/12/2017
	(in thousands of HRK)	
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
	20,890	**12,378**
Supervisory Board compensation	627	597
Total	**21,517**	**12,975**

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:

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

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 Managment Board:

Neven Staver
President

Marco Antonio Buzolic Buzolic
Member

Damir Mendica
Member

Dragan Pujas
Member

Danira Rančić
Member

PLAVA LAGUNA d.d.
Poreč
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