

PLAVA LAGUNA

YEAR 2020
ANNUAL REPORT



Poreč, June 2021



PLAVA LAGUNA

FOR THE YEAR 2020

ANNUAL REPORT

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PLAVA LAGUNA D.D., POREČ

MANAGEMENT REPORT

INTRODUCTION

PLAVA LAGUNA d.d. is a company backed by over 60 years of successful operation and development, based on principles of sustainable business operation. The long-standing tradition of achieving successful business results and an upward trend in growth is the result of a thoughtful and systematic improvement of products while leaning on core values, and taking care of maintaining financial stability as a fundamental long-term goal.

The core business of Plava laguna is hospitality and tourism and as a Company and a Group, which operate in three destinations - Poreč, Umag and Rijeka.

Based on the decisions of the General Assembly of both companies PLAVA LAGUNA d.d. and ISTRATURIST UMAG d.d. of 11 August 2017, the merger of the Company ISTRATURIST UMAG d.d. with the Company PLAVA LAGUNA d.d. 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 d.d., PLAVA LAGUNA d.d. is ranked among the largest companies 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 adding to the basic offer.

The Company has 100% ownership in the following subsidiaries – TRAVEL d.o.o., Istraturist, j.d.o.o. and ISTRA D.M.C. d.o.o. which together with the associated company JADRANSKI LUKSUZNI HOTELI d.d. make the Group.

The company ISTRA D.M.C. d.o.o. was founded in year 1990. Company's main activity is the organisation of the ATP tennis tournament in Umag, and the development and implementation of destination marketing projects. The ATP tournament is one of the most significant sports events continuously held for 30 years.

The company Laguna Invest d.o.o., founded in year 1993, changed its name into TRAVEL d.o.o. on 23 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 d.d.

Considering the interdependence of associated companies with parent company, following are explanations and comments on the movement of the Group's business result as a whole.

Financial performance indicators for year 2020

The Group's operations in 2020 were marked by the COVID-19 pandemic and therefore, all business activities in these very specific and challenging business conditions were primarily directed towards preserving the financial stability of the Group and jobs. Great attention was paid to taking measures and introducing new hygiene standards with the aim to ensure our guests and employees a safe stay in our facilities. The „Hygiene and Cleanliness Checked“ certificate of the certification company TÜV Croatia was introduced in all accommodation facilities, which is a confirmation of the high level of quality of work and hygienic conditions in all segments of accommodation facility's operation. In these challenging times, in addition to high standards of hygiene, special attention was given to product modification and digitalization of services, so new applications for guests were implemented related to faster check-in and check-out at receptions, mobile applications for support in operations in facilities, all aiming to increase the efficiency and safety of stay for guests and employees.

Despite the extraordinary circumstances caused by the coronavirus pandemic, the Group realized a part of planned investments in the amount of HRK 145 million, which were initiated at the end of the previous year with the aim to raise the quality level of services and products. The most significant investment was in the Park Umag campsite where a new swimming pool complex with an F&B facility was built, zones for new mobile homes and glamping tents were arranged and the existing WiFi system was completely reconstructed and expanded. Also, the reconstruction of a part of the existing pool complex was carried out as well as significant investments in landscaping. Furthermore, the program of arranging the beaches continued, as well as the renovation of staff accommodation facilities.

In year 2020, 1.57 million overnight stays were realized, which is 33% of the total overnight stays realized in the previous year. The decrease in business volume is primarily a consequence of the closure of all accommodation facilities from mid-March to early June due to the COVID-19 pandemic. Epidemiological measures that were in force during year 2020 had a negative impact on business volume in the main season when more than 70% of the total annual tourist turnover is achieved, as well as on the tourist turnover in the post-seasonal period, which was a direct consequence of worsening of the epidemiological situation from mid-August until the end of 2020. Hotels and apartments realized 25.5% of last year's tourist turnover, while camping recorded better results and realized overnight stays at the level of 42% of last year's result.

As a consequence of the decline in business volume due to the global crisis in the tourism sector caused by the pandemic, in year 2020, the total level of business revenues together with the effect of other profits/losses of the Group amounted to HRK 485 million, which is 41% of last year's business revenues. The decline in business revenues is primarily the result of a decrease in sales revenues from services which were 65% lower than in the previous year. Other business revenues amount to HRK 75.6 million, within which revenues generated on the basis of received government packages of support measures and assistance to the economy were recorded in order to mitigate the consequences of special circumstances caused by the COVID-19 pandemic. On that basis, HRK 67.4 million was recorded including subsidies within the government's program for the preservation of jobs and tax and contributions exemptions with regards to meeting the criteria of the required decline in revenues, and HRK 4 million based on the reduction of the variable part of the concession fee for the tourist land for year 2019.

PLAVA LAGUNA D.D., POREČ

MANAGEMENT REPORT (continued)

Financial performance indicators for year 2020 (continued)

Business expenditures of the Group amount to HRK 601 million and compared to the previous year, excluding depreciation, are lower by 48%, which is in addition to a significantly lower volume of business activity, the effect of extra measures undertaken to reduce the operating expenses, while taking into account the intensive character of business in terms of labour on the one hand and an extremely unstable economic situation caused by the epidemiological situation on the other hand. The above mentioned includes adjusting all cost categories, and especially the so called agreed costs for maintenance of facilities and the environment, procurement of small inventory, marketing costs, to a significantly lower level of activity with active monitoring and management of variable components in accordance with the expected occupancy. The material rights of employees have been redefined in cooperation with the representatives of Trade Unions for the periods when the employees are not working, considering Company's higher operating leverage immanent to the activity that is carried out.

The nominal level of the Group's operating earnings measured by EBITDA (excluding Adriatic Luxury Hotels consolidated by the equity method), corrected for the effect of one-time extraordinary positions is HRK 100 million. In addition to the operating cycle explained above, this was affected by the distribution of the discount granted to lessees on the period of validity of the contract in the amount of HRK 8.5 million, in accordance with the international accounting standards, although the event that caused the decrease in revenues from rent occurred in 2020. On the other hand, the concession / lease of „tourist land“ was recognized as an expense, based on parameters valid until the entry into force of the new Act on the unassessed building land in the amount of HRK 12.0 million, and in the absence of parameters necessary for the recognition of the use of the same in accordance with IFRS 16. The efficiency of the Group in the observed period expressed by the EBITDA margin is 21.9%, while it was 40.1% in the previous year.

DESCRIPTION / PERIOD	HRK m	
	2020.	2019
Operating income – after deduction for agency fees and one-time extraordinary positions	456	1,122
EBITDA	106.7	451
Effect of one-time extraordinary positions	7.0	0.70
EBITDA – w/o one-time positions	99.7	450
EBITDA margin (%)	21.9%	40.1%
Net debt	335	235
Net debt / EBITDA	3.36	0.52

Net Debt = Borrowings net of cash and cash equivalents

Influence of application of the IFRS 16 valid lease agreements and concessions on the beach is not included in the indicator according to the criterion of materiality

The result of financial activities is negative and amounted to HRK 17.9 million, which is by HRK 6.9 million worse compared to the previous year, primarily due to an increase in net negative exchange rate differences by HRK 3.8 million due to the depreciation of HRK against the EUR, increase in interest expenses by HRK 2.3 million due to an increase in credit indebtedness over the previous year, and unrealized dividend income of HRK 0.5 million.

PLAVA LAGUNA D.D., POREČ

MANAGEMENT REPORT *(continued)*

Financial performance indicators for year 2020 (continued)

In the consolidated profit and loss account, the share in the loss of the associated company Adriatic Luxury Hotels d.d. in the amount of HRK 28.6 million is reported for the observed period, while for the same period in the previous year a profit of HRK 27.9 million was reported.

In year 2020, the Group recorded a loss before tax in the amount of HRK 162.6 million, while the same without the influence of the associated company amounted to HRK 134 million.

For year 2020, the Company recorded revenues from deferred tax assets based on the realized operating loss in the amount of HRK 33.2 million, and tax incentives in the amount of HRK 7.5 million based on realized capital investments in year 2020. Namely, based on the Act on Investment Promotion, the Company applied investment projects for the period from 2017 until 2020 and thus, acquired the status of a holder of incentive measures. The remaining amount of incentives as of 31 Dec 2020 which is available for the next period is HRK 26.7 million.

The Group reported loss of HRK 119 million for year 2020.

Total assets of the Group on 31.12.2020 amount to HRK 3.294 billion and decreased by 3.3% compared to the previous year. Total capital and reserves amount to HRK 2.263 billion and decreased by 5% compared to 31.12.2019 due to the recorded loss in the business year. Total loan liabilities and accrued interests amount to HRK 832 million, while on the other hand the cash position amounts to HRK 496.5 million. The Company was granted a moratorium by the commercial banks on credit liabilities due in year 2020 for the period of one year and a re-programming of the existing credit lines for a year.

PLAVA LAGUNA D.D., POREČ

MANAGEMENT REPORT *(continued)*

RELATIONS WITH AFFILIATED COMPANIES

Transactions with the Group's affiliated companies have been conducted in accordance with market principles and by applying commercial terms and conditions that would be valid if established between the uncontrolled parties.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company and the Group are exposed to a variety of financial risks as a result of business activities carried out and their characteristics. Currency risk arises from changes in the exchange rate for EUR, as majority of income is based on this currency, given our activities on the international market while, on the other hand, cash outflows are contracted and realized in local currency HRK, as viewed from the perspective of short-term coverage. From the aspect of borrowings, currency risk has been neutralized as all of the Company's loans are contracted in EUR.

The Company and the Group as a whole are actively managing credit risk ie. the receivables and other financial assets risk, by applying adequate sales policies and cash management policies. The quality of receivables was assessed as of 31 Dec 2020, and in accordance with the conservative approach, the adjustment of value was recorded in business books.

The Company and the Group are exposed to other risks in line with global macroeconomic trends where the achieved high degree of financial stability and low indebtedness provides a significant advantage.

OTHER

The Company holds 2,346 own shares acquired in the period between years 1997 and 2002. There were no changes in the position of own shares during the reporting period. Furthermore, the Company does not have a program for the purchase of own shares nor is there an employee share ownership scheme.

The Group and the Company continuously monitor all circumstances related to the pandemic and its impact on future operations, and in a timely manner take adequate measures and activities to minimize the operational and financial risks to which they are exposed, all aiming to maintain financial stability.

Above mentioned flexibility and readiness were also proven during the reporting year when the Group developed several business scenarios at appropriate time, and operational decisions were made in the short-term in line with the epidemiological trends. Upon passing of the business year with previously explained characteristics, the financial position of the Company and the Group is still stable, which enables quality preparations for the next business year and greatly reduces risk factors, especially in terms of maintaining business as a going concern.

EXPECTED FUTURE DEVELOPMENT OF THE COMPANY

The Company and the Group approach the development planning, in line with the principles of sustainable business operation, and thus, in the context of newly arisen circumstances, they will strive to develop their offer and products tailored to the needs of a modern guest, balanced with financial potential.

An important component of the Company's development throughout the entire cycle so far has been the care and responsibility for the environment and use of renewable energy sources. As a natural consequence of the above, in the forthcoming period, the Company will especially intensify activities on the development and implementation of energy efficient projects, which is also in the context of general guidelines for economic development on global scale that encourage the green transition. The next component of development that has proven to be particularly important in the actual circumstances of the pandemic is digitalization in both the sales segment and guest relations as well as in internal processes.

The determining factor of future development will to a large extent be the completion of the process of management and disposal of tourist land, which began through the adoption of the Act on the unassessed building land in which the Company actively participates.

THE NON-FINANCIAL REPORT

Pursuant to the amendments to the relevant Croatian legislation in the area of reporting adopted on the basis of mandatory EU Directives, Plava Laguna as a large company and the Group publishes the non-financial report for business year 2020. 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 relations towards the environment, employees and the local community in which the Company operates.

Environmental liability and sustainable development

Environmental liability and sustainable development propose the framework for shaping a strategy according to which the Company can develop itself without damaging consequences on the environment and natural resources that are essential for further human activity. The sustainability of a destination is an increasingly important factor in its competitiveness, and accordingly, the Company continually educates the employees and communicates a message of the importance of ecology to partners and guests. Through its business activities, the Company continuously takes care of environmental preservation and protection, and places an emphasis on ecology as one of its strategic goals in business. The Company gives special attention to the preservation of water by using mechanisms of control and optimization of consumption, as well as natural sources where possible. An important component also consists of energy saving and use of renewable energy sources.

An effective selection of 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 authorized companies acting 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.

Responsibility towards the environment is part of our business strategy while guest satisfaction is the foundation of our business policy. We strive to be the best at what we do, we focus on what is important to the local community, building and improving our system and managing the environment.

Employment and workers' rights

As a Group operating in tourism industry, companies achieve their highest employment rate at the peak of the tourist season. Although the year 2020 under the influence of COVID-19 significantly reduced the average employment, on 20 August 2020 the Group employed 2,075 workers in its three destinations Poreč, Umag and Rijeka, of whom 62% with indefinite employment contracts and permanent seasonal staff with multi-year contracts, considering that a smaller number of seasonal workers was employed.

Companies within the Group, as employers, ensure all categories of employees have the same working conditions regardless of the duration of their contract. 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. As an exception, in year 2020, the scope of new indefinite employment contracts was somewhat smaller but the policy has not changed. Moreover, one of the basic goals set by the Management Board at the beginning of the pandemic is the preservation of jobs, and this goal has been successfully met.

Employment and workers' rights (continued)

The goals that the Group nurtures 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 employee satisfaction with benefits and work conditions, accommodation and stay, as well as achieving a collective sense of pride and commitment to companies within the Group. The already mentioned goal of preserving jobs and forms of permanent cooperation with employees has led to significant changes in work processes and adjustments to new conditions. Good quality and long lasting relations with the trade unions whose members are employed in the Company ensured workers' rights to be regulated during extraordinary circumstances, and revised every three months in order to be better adapted to the situation and related changes. In the period from April to the end of June, employees who did not work received a salary compensation in the amount of 80% of their salary, while in the following period the same amounted to 60%. During the tourist season, all employees were provided with the opportunity to work. The right to vacation was corrected too, and employees were also paid the non-taxable amount up to HRK 3,000.00 and Christmas bonus of HRK 1.300,00, while other benefits, except vacation bonus, were paid in accordance with the valid Collective Agreement.

Formal legal relations with employees are regulated by sources of different hierarchy that regulate labour relations, and by respecting the provisions of the Labour Act, the Collective Agreement for catering industry, the Collective Agreement of PLAVA LAGUNA d.d. Poreč and the employment contract of each individual employee, always respecting the principle of applying the most favourable right for the employee.

The Workers' Council is established in PLAVA LAGUNA d.d. in line with the provisions of the Labour Act. Communication with the Workers' Council takes place directly and undisturbedly not only in all situations prescribed by labour laws but also by consultations taking place whenever deemed necessary by either party. The employer's reporting obligation is carried out monthly as a rule, during 2020 somewhat less frequently due to epidemiological situation, with high degree of mutual respect and cooperation achieved. Besides the obligation to inform, the Company also respects the obligations to consult and co-decide with the Workers' Council when prescribed and to consult in all situations deemed necessary and purposeful.

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 employees of companies within the Group, as well as adaptation to new conditions.

Companies within the Group guarantee their employees gender equality and 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.

Respecting human rights

Pursuant to the provisions of applicable regulations governing employment relations, companies within the Group as employers fulfil their obligations to protect the dignity, life, health and privacy of employees as well as to protect personal data.

Joining the union is at free will. Companies within the Group provide equal opportunities and procedures to female and male candidates during recruiting and advancing. As companies that are mainly involved in tourism activities, special attention is given to guest relations and thus, through training on communication with guests, the emphasis is on equal approach to all guests regardless of nation, religion, colour of skin and gender.

In accordance with applicable 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 colour 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, disability, genetic heritage, gender identity, expression or sexual orientation.

The employer PLAVA LAGUNA d.d., upon consultations with the Workers' Council, appointed a person authorized to receive and address complaints to protect the dignity of employees. The actions taken upon receiving the complaint to protect the dignity of employees as well as the information thus obtained are secret. Following the same procedure, internal reporting of irregularities was regulated and a trusted person was appointed in accordance with the prescribed procedure. Related decision and information are published on the intranet.

Anti-corruption efforts

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 such basis.

Personal data protection

The Company and the Group especially value the privacy of their employees, guests and partners. Personal data is handled in a way that keeps it confidential and special attention was paid to the same during year 2017 when the Company began 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.

The organizational structure for personal data protection was set up with the appointed officer for personal data protection. Special attention is given to the protection of personal data of employees and guests. Personal data is systematized 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 are updated on all 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 carry out implemented policies and procedures, and continue their ongoing work on improving the personal data protection system.

PLAVA LAGUNA D.D., POREČ

MANAGEMENT REPORT *(continued)*

Socially responsible business operation and cooperation with local community

PLAVA LAGUNA d.d. 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. As an exception, in year 2020, due to significantly reduced revenues, the Company backed down from the established practices in the segment of donations and directed part of the planned funds to donations to the healthcare system, by purchasing two thermal medical cameras for the General Hospital in Pula, necessary to more effectively prevent the spread of coronavirus infection in the hospital system.

The newly arisen situation with the coronavirus pandemic has brought the Company to face unprecedented challenges, in which it was extremely important to show togetherness and social awareness. Something similar also happened at the very end of the year, after a devastating earthquake in Sisak-Moslavina County. The Company promptly got involved in helping the earthquake-affected areas, and special attention was paid to the Company's employees from the mentioned areas.

As part of the action initiated by the Ministry of Tourism and Sport, the Croatian Camping Union and the Croatian Tourism Association, 15 mobile homes were prepared for the endangered areas and participated in their delivery so that they are given to the neediest people as soon as possible. Also, financial funds were donated to the Fund for relief efforts after the earthquakes, intended for repairing the damage.

In 2020, although to a lesser extent, the Company continued to foster relations with former employees in the Umag area through the Croatian Pensioners' Union, branch office Umag, Istraturist pensioners, and in the Poreč area through the Association of pensioners of Plava Laguna - Club Galija Poreč.

The activities to bring service industry and tourism closer to the preschoolers and school children, as well as the organization of events were not carried out in 2020 due to the unfavourable epidemiological situation, so there were no donations in this segment in year 2020.

PLAVA LAGUNA D.D., POREČ

MANAGEMENT REPORT (continued)

STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE

In accordance with the provisions of Article 272p of the Companies Act, and Article 22 of the Accounting Act, the Management of the Company declares that they voluntarily apply the Corporate Governance Code (hereinafter: the Code) which was jointly made by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange in year 2019, and is in the process of aligning its acts and procedures with the new Corporate Governance Code to the extent applicable. Pursuant to the applicable regulations, the compliance questionnaire for the period covered by the annual financial reports was submitted with the approval by the Supervisory Board and published in the manner prescribed by the Zagreb Stock Exchange Rules, while the questionnaire on practices of corporate governance for the same period, also approved by the Company's Supervisory Board was submitted to the Croatian Financial Services Supervisory Agency (HANFA). This questionnaires reflect the situation and practice of corporate governance in the Company accompanied by explanations of a certain divergence from the recommendations contained in the Code, and it is available on both the ZSE web site and Company's corporate web site. The Management Board 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.

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 of the Company in basic financial statements. The description of main characteristics of risk management and information on shareholders on 31 December 2020 are included in this Annual Report.

The share capital of the Company is HRK 1,444,530,057.18 divided into 2,197,772 ordinary shares with nominal value and 420,000 preference shares with nominal value of HRK 250.00. In the period from 1.1.2020 to 31.12.2020, the Company did not acquire or dispose of its own shares. On 31.12.2020, the Company holds 2,346 treasury shares, which makes 0.099% of the share capital.

PLAVA LAGUNA D.D./ORDINARY SHARE PLAG-R-A

The first ten shareholders of the Company as of 31 December 2020 are, as follows:

Owner/account holder/security co-holder/holder	Account type	Number of shares	Percentage
ADRIATIC INVESTMENT GROUP	basic account	1,851,352	84.24%
	custodial acc.		
OTP BANKA D.D./ AZ OMF KATEGORIJE B	per name	92,680	4.22%
	custodial acc.		
ADDIKO BANK D.D./ PBZ CO OMF - KATEGORIJA B	per name	20,024	0.91%
BOGDANOVIĆ ZORAN	basic account	16,047	0.73%
ZAGREBAČKA BANKA D.D./ AZ PROFIT OTV. DOBR. MIR. FOND	custodial acc.	9,829	0.45%
	collective		
RAIFFEISENBANK AUSTRIA D.D.	custodial acc.	9,140	0.42%
OTP BANKA D.D./ ERSTE PLAVI OMF KATEGORIJE B	custodial acc.	8,341	0.38%
	Representative		
CERP / REPUBLIKA HRVATSKA	acc.	6,234	0.28%
CERP	basic account	6,080	0.28%
	custodial acc.		
OTP BANKA D.D./ ERSTE PLAVI EXPERT – DOB. MIR. FOND	per name	5,333	0.24%

PLAVA LAGUNA D.D., POREČ

MANAGEMENT REPORT *(continued)*

STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE *(continued)*

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 ordinary share entitles to one vote at the General Assembly.

PLAVA LAGUNA D.D./PREFERENCE SHARE PLAG-P-A

In 2002, the Company issued preference shares which do not give the right to vote at the General Assembly. All preference shares are owned by a sole shareholder:

Owner/account holder/security co-holder/holder	Account type	Number of shares	Percentage
ADRIATIC INVESTMENT GROUP	basic account	420,000	100.00%

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 acquiring own shares.

Amendment to the Company's Statute is regulated in a manner prescribed by the law, and is contained in Article 40 of the Statute as well.

BODIES OF THE COMPANY

MANAGEMENT BOARD

The rules governing the appointment and replacement of board members are contained in the Company's Statute, while the powers of the Management Board are determined by the Statute and the Companies Act. 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 Statute (such as founding of companies in the country and abroad, sale and purchase of shares, sale of real estate above 1% of the value of share capital, purchase and mortgage on real estate above 1% value of share capital, guarantee for the amount above 2% value of share capital, taking loan and issuance of securities worth over 2% value of the share capital and other decisions as made by the Supervisory Board), it is authorized to conduct only with prior consent of the Supervisory Board.

During 2020, the Management Board consisted of three members, of whom Mr. Dragan Pujas appointed as president, while Mr. Damir Mendica and Ms. Danira Rančić were appointed as members. The mandate of the Management Board in the same composition was extended by the decision of the Supervisory Board of 18 December 2020 for the next three years, ie. until 31 December 2023. Each member of the Management Board is authorized to conduct the affairs and represent the Company jointly with the President of the Management Board while the President of the Management Board is authorized to conduct the affairs and represent the Company with another member of the Management Board. The Management Board holds sessions according to business needs, several times a week as a rule.

PLAVA LAGUNA D.D., POREČ

STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES

SUPERVISORY 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 Statute 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, Statute, 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 in sessions that take place generally once a month, discusses and decides on all matters within its competence prescribed by the Companies Act and Company's Statute.

In 2020, the Supervisory Board acted in the following composition:

Mr. Davor Luksic Lederer, Chairman of the Supervisory Board
Mr. Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board
Mr. Davor Domitrovic Grubisic, Member of the Supervisory Board
Mr. Joseph Ignace Bulnes, Member of the Supervisory Board
Mr. Neven Staver, Member of the Supervisory Board
Mr. Duncan Graham Bramwell, Member of the Supervisory Board
Ms. Marica Kurtেক, Member of the Supervisory Board, workers' representative.

During 2020, the Supervisory Board of the Company performed the tasks within the competence of the appointment committee on its own. In accordance with the Audit Act, the Company also has an Audit Committee composed of Mr. Davor Luksic Lederer, Ms. Danira Rančić and Ms. Suzana Kocijančić. On 20 July 2020, the Remuneration Committee was founded composed of Mr. Davor Luksic Lederer, Mr. Patricio Tomas Balmaceda Tafra and Mr. Davor Domitrovic Grubisic.

GENERAL ASSEMBLY

The General Assembly is convoked, acts and has powers as set out by the provisions of the Companies Act and the Statute of the Company. The call to the General Assembly and the proposed decisions as well as the decisions made are made public in accordance with the provisions of the Companies Act, Capital Market Act and the Rules of the Zagreb Stock Exchange j.s.c..

The rules on the appointment of members of the Management Board and members of the Supervisory Board do not contain any restrictions on diversity with regard to gender, age, education, profession and similar restrictions.

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 2020.



Dragan Pujas
President of the Management Board



Damir Mendica
Member of the Management Board



Danira Rančić
Member of the Management Board



PLAVA LAGUNA D.D., POREČ

STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES *(continued)*

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS") which give a true and fair view of the state of affairs and results of Group (Company) for that period.


Based upon performed enquiries, the Management Board has a reasonable expectation that the Group ("Company") has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are applied, with material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group ("Company") and must also; ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Group ("Company") and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management is also responsible for the preparation and content of the Management Report and the Statement on the implementation of corporate governance code, as required by the Croatian Accounting Act. The Management Report and the Statement of implementation of the corporate governance code, as well as the accompanying financial statements comprise the Annual Report of the Group ("Company") and were authorised and signed by the Management Board on 29 April 2021 for issue to the Supervisory Board.



Dragan Pujas
President of Management Board



Damir Mendica
Member of Management Board



Danira Rančić
Member of Management Board





Independent Auditors' Report to the shareholders of Plava Laguna d.d. on financial statements

Report on the Audit of the Separate and Consolidated Financial Statements

Opinion

We have audited the separate financial statements of Plava Laguna d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group respectively as at 31 December 2020, and their respective separate and consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2020 and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.



Independent Auditors' Report to the shareholders of Plava Laguna d.d. on financial statements (*continued*)

Report on the Audit of the Separate and Consolidated Financial Statements (*continued*)

Key Audit Matters (*continued*)

Carrying amounts of tourism properties

The carrying amount of *property, plant and equipment* of the Group as at 31 December 2020: HRK 2,383,327 thousand (*31 December 2019: HRK 2,464,330 thousand*) and of the Company: HRK 2,383,140 thousand (*31 December 2019: HRK 2,464,023 thousand*). Refer to Notes 3.5 of *Accounting policies*, Note 5(a) of *Critical accounting estimates*, and Note 15 on *Property, plant and equipment*.

Key audit matter

As at 31 December 2020, the carrying amount of property, plant and equipment represented approximately 72% of the Group's total assets (Company: 73%). These assets, carried at cost less accumulated depreciation and any accumulated impairment losses, consist primarily of tourism properties and related assets.

Tourism properties are subject to annual review to assess whether or not they may be impaired. Management considers each hotel and camp to be a separate cash generating unit ("CGU"). As part of the impairment review, the Group and the Company analyse actual results of their individual CGUs to determine whether or not there are any impairment indicators in respect of the properties. If and when such indicators are identified, an estimate is made of the recoverable amount of the CGU and an impairment loss recognized, if necessary.

The management's assessment relies on significant judgments and assumptions about the tourism sector outlook including those pertaining to: discount rates, growth rates, occupancy rates, asset useful lives, terminal value and revenue per available room.

Due to the above factors and complexities, as well as to the magnitude of the amounts involved, accounting for the tourism properties was determined by us to be associated with a significant risk of material misstatement. As such it required our increased attention in the audit and was considered by us to be a key audit matter.

How our audit addressed the matter

Our audit procedures in this area, included, among others:

- Evaluating design and implementation of the Group's and the Company's selected key controls within the process of accounting for tourism properties, including the controls over the identification of impairment indications and validation of impairment test outcomes;
- Inspecting the financial information used by the Management Board in its assessment of impairment indications for tourism properties. As part of the procedure, we challenged the key assumptions applied, such as the allocation of the corporate assets and costs to CGUs, and also tested the reliability of the financial information;
- Inspecting minutes of the Management Board's and Supervisory Board's meetings for any indications of financial difficulties / changes in operational plans, with potential adverse effects on the recoverable amounts of tourism properties. We also made corroborating inquiries of the Management Board, where relevant;
- Evaluating the Company's and the Group's judgments regarding identification of indications of impairment. This included, but was not limited to, comparing the CGU's actual performance to expected industry KPI's;
- Evaluating the appropriateness of the Company's and Group's impairment model against the requirements of the relevant financial reporting standards. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of the said requirements;



Independent Auditors' Report to the shareholders of Plava Laguna d.d. on financial statements *(continued)*

Report on the Audit of the Separate and Consolidated Financial Statements *(continued)*

Key Audit Matters *(continued)*

Carrying amounts of tourism properties *(continued)*

- Evaluating the quality of the Company's and the Group's forecasting by comparing historical projections with actual outcomes, and also tracing the forecasted cash flows in the impairment model to Management Board-approved forecasts;
- Challenging the key assumptions and judgements applied in the valuation models. This included:
 - Challenging occupancy rates, revenue per available room and market growth assumptions by reference to external hotel industry reports, and publicly available data for the peer entities in surrounding areas operating similar hotels;
 - Challenging the capitalisation and discount rates used by reference to rates prevailing in the hotel industry in Croatia;
 - Where applicable, independently assessing the prices realised from the observable market transaction for similar assets by reference to comparable hotel transactions in Croatia;
- Performing a sensitivity analysis of the impairment model to changes in the key assumptions, such as the forecast growth, discount and occupancy rates, to assess range of possible alternative outcomes and identify impairment bias in the impairment conclusions;
- Testing the accuracy and completeness of the annual depreciation expense, by performing analytical procedures at the Group and the Company level, and also through an independent assessment for a sample of individual assets;
- Assessing the adequacy of the Group's and the Company's disclosures in respect of the accounting for tourism properties against the relevant requirements of the financial reporting standard.



Independent Auditors' Report to the shareholders of Plava Laguna d.d. on financial statements (*continued*)

Report on the Audit of the Separate and Consolidated Financial Statements (*continued*)

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Company and the Group, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do 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.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion, in all material respects:

- the information given in the Management Report and Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent with the financial statements;
- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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



Independent Auditors' Report to the shareholders of Plava Laguna d.d. on financial statements *(continued)*

Report on the Audit of the Separate and Consolidated Financial Statements *(continued)*

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the 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 and 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 Company and/or the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 International Standards on Auditing 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 International Standards on Auditing, 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 controls.
- 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 and the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Independent Auditors' Report to the shareholders of Plava Laguna d.d. on financial statements *(continued)*

Report on the Audit of the Separate and Consolidated Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 and/or 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company and/or 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 financial statements of the Group. 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 controls 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, actions taken to eliminate threats or safeguards applied.

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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Independent Auditors' Report to the shareholders of Plava Laguna d.d. on financial statements *(continued)*

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 28 August 2020 to audit the financial statements of the Company and the Group for the year ended 31 December 2020. Our total uninterrupted period of engagement is two years, covering the period ending 31 December 2019 and 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 29 April 2021;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit;

The engagement partner on the audit resulting in this independent auditors' report is Joško Džida.


KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

29 April 2021

d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

Joško Džida
Director, Croatian Certified Auditor

PLAVA LAGUNA D.D.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Group		Company	
		2020	2019	2020	2019
		HRK'000	HRK'000	HRK'000	HRK'000
Sale of services	6	409,417	1,172,019	408,322	1,154,193
Other income	6a	75,652	4,667	75,408	4,573
Cost of materials and services	7	(159,797)	(355,489)	(158,299)	(342,032)
Staff costs	8	(157,516)	(285,934)	(156,834)	(284,199)
Depreciation and amortisation		(222,774)	(226,999)	(222,609)	(226,778)
Other operating expenses	9	(60,977)	(84,163)	(61,670)	(82,755)
Other gains((losses) - net	10	(64)	(537)	(63)	(534)
Operating profit/(loss)		(116,059)	223,564	(115,745)	222,468
Finance income	11	224	1,596	223	27,851
Finance costs	11	(18,181)	(12,676)	(18,168)	(12,979)
Finance income/(costs) - net		(17,957)	(11,080)	(17,945)	14,872
Share in associate	18	(28,561)	27,951	-	-
Profit/(loss) before tax		(162,577)	240,435	(133,690)	237,340
Income tax	12	43,594	(32,060)	43,594	(31,795)
Profit/(loss) for the year		(118,983)	208,375	(90,096)	205,545
Other comprehensive income/(loss):					
Change in the value of financial assets measured at fair value through other comprehensive income, net of tax		(882)	1,679	(882)	1,679
Actuarial gain/(loss), net of tax		(332)	(42)	(332)	(42)
Total comprehensive income/(loss) for the year		(120,197)	210,012	(91,310)	207,182
Basic and diluted earnings/(loss) per share (in HRK):					
- ordinary shares	13	(45.53)	79.63		
- preference shares	13	(45.28)	79.88		

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

PLAVA LAGUNA D.D.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	Group		Company	
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
		HRK'000	HRK'000	HRK'000	HRK'000
ASSETS					
Property, plant and equipment	15	2,383,327	2,464,330	2,383,140	2,464,023
Investment property	15a	28,565	21,517	28,565	21,517
Intangible assets	16	16,419	17,698	16,355	17,622
Right-of-use assets	17	26,360	24,438	26,360	24,438
Investments in subsidiaries and associate	18	221,607	250,168	190,845	190,845
Financial assets	19	12,035	13,111	12,035	13,111
Deferred tax assets	20	64,010	20,746	64,010	20,746
Loans receivable	21	6,784	9	6,784	9
Non-current assets		2,759,107	2,812,017	2,728,094	2,752,311
Inventories		3,714	4,525	3,662	4,470
Trade and other receivables	22	30,924	9,155	30,181	8,618
Income tax receivable		341	8,175	-	7,667
Loans receivable	21	3,730	12	3,730	12
Cash and cash equivalents	23	496,495	572,312	488,259	563,310
Current assets		535,204	594,179	525,832	584,077
Total assets		3,294,311	3,406,196	3,253,926	3,336,388
EQUITY					
Share capital	24	1,444,530	1,444,530	1,444,530	1,444,530
Capital reserves	25	693	693	693	693
Treasury shares	25	(1,430)	(1,430)	(1,430)	(1,430)
Reserves	25	125,521	126,735	125,521	126,735
Retained earnings		693,621	812,709	647,131	737,332
Total equity		2,262,935	2,383,237	2,216,445	2,307,860
LIABILITIES					
Borrowings	26	701,353	692,577	707,465	699,191
Provisions	28	11,132	11,998	11,132	11,998
Deferred tax liabilities	20	9,970	10,566	9,970	10,566
Lease liabilities		24,289	22,907	24,289	22,907
Non-current liabilities		746,744	738,048	752,856	744,662
Borrowings	26	130,634	115,118	130,634	115,118
Trade and other payables	27	150,820	167,218	150,813	166,173
Lease liabilities	17	2,357	1,733	2,357	1,733
Provisions	28	821	842	821	842
Current liabilities		284,632	284,911	284,625	283,866
Total liabilities		1,031,376	1,022,959	1,037,481	1,028,528
Total equity and liabilities		3,294,311	3,406,196	3,253,926	3,336,388

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

PLAVA LAGUNA D.D.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

Group

(in thousands of HRK)

	Share capital	Capital reserves	Treasury shares	Reserves	Retained earnings	Total
At 1 January 2019	1,444,530	693	(1,430)	125,098	694,148	2,263,039
Profit for the year	-	-	-	-	208,375	208,375
Other comprehensive income	-	-	-	1,637	-	1,637
Total comprehensive income for 2019	-	-	-	1,637	208,375	210,012
Dividends	-	-	-	-	(89,814)	(89,814)
Total transactions with owners of the Company	-	-	-	-	(89,814)	(89,814)
At 31 December 2019	1,444,530	693	(1,430)	126,735	812,709	2,383,237
At 1 January 2020	1,444,530	693	(1,430)	126,735	812,709	2,383,237
Loss for the year	-	-	-	-	(118,983)	(118,983)
Other comprehensive loss	-	-	-	(1,214)	-	(1,214)
Total comprehensive loss for 2020	-	-	-	(1,214)	(118,983)	(120,197)
Dividends	-	-	-	-	(105)	(105)
Total transactions with owners of the Company	-	-	-	-	(105)	(105)
At 31 December 2020	1,444,530	693	(1,430)	125,521	693,621	2,262,935

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

PLAVA LAGUNA D.D.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

Company <i>(in thousands of HRK)</i>	Share capital	Capital reserves	Treasury shares	Reserves	Retained earnings	Total
At 1 January 2019	1,444,530	693	(1,430)	125,098	621,601	2,190,492
Profit for the year	-	-	-	-	205,545	205,545
Other comprehensive income	-	-	-	1,637	-	1,637
Total comprehensive income for 2019	-	-	-	1,637	205,545	207,182
Dividends	-	-	-	-	(89,814)	(89,814)
Total transactions with owners of the Company	-	-	-	-	(89,814)	(89,814)
At 31 December 2019	1,444,530	693	(1,430)	126,735	737,332	2,307,860
Loss for the year	-	-	-	-	(90,096)	(90,096)
Other comprehensive loss	-	-	-	(1,214)	-	(1,214)
Total comprehensive loss for 2020	-	-	-	(1,214)	(90,096)	(91,310)
Dividends	-	-	-	-	(105)	(105)
Total transactions with owners of the Company	-	-	-	-	(105)	(105)
At 31 December 2020	1,444,530	693	(1,430)	125,521	647,131	2,216,445

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

PLAVA LAGUNA D.D.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Group		Company	
		2020. HRK'000	2019. HRK'000	2020. HRK'000	2019. HRK'000
Profit/(loss) before tax		(162,577)	240,435	(133,690)	237,340
Adjustments for:					
Depreciation and amortisation	15,16,17	222,774	226,999	222,609	226,778
Provision for impairments of loans given	21	2,366	-	2,366	-
Provision for impairments of receivables - net	22	3,422	579	3,414	506
Property, plant and equipment write off	15,16	171	563	169	559
Dividend income	11	-	(528)	-	(26,769)
Gain on disposal of property, plant and equipment		(64)	(22)	(64)	(22)
Finance income and costs		17,957	11,608	17,945	11,897
Share of (profit)/loss of associate	18	28,561	(27,951)	-	-
		112,610	451,683	112,749	450,289
Changes in working capital:					
Trade and other receivables		(37,890)	6,919	(37,676)	6,373
Inventories		811	31	808	(11)
Trade and other payables		(8,649)	4,437	(8,159)	3,511
Provisions		(1,291)	1,178	(1,291)	1,178
Cash flows from operating activities		65,591	464,248	66,431	461,340
Interest paid		(908)	(11,559)	(1,126)	(11,862)
Income tax received		7,834	20,623	7,667	20,581
Net cash from operating activities		72,517	473,312	72,972	470,059
Cash flows from investing activities					
Acquisition of property, plant and equipment, and intangible assets		(152,015)	(155,740)	(151,703)	(155,696)
Proceeds from sale of tangible assets		64	22	64	22
Dividend received	18	-	24,802	-	26,769
Increase in deposits		-	94,627	-	94,627
Decrease in deposits		-	(93,883)	-	(93,883)
Interest received		22	445	21	444
Net cash from investing activities		(151,929)	(129,727)	(151,618)	(127,717)
Cash flows from financing activities					
Proceeds from loans and borrowings		13	223,291	13	223,291
Repayment of borrowings		-	(88,417)	-	(90,389)
Dividends paid		-	(89,814)	-	(89,814)
Payment of lease liabilities		(2,085)	(2,163)	(2,085)	(2,163)
Net cash from financing activities		(2,072)	42,897	(2,072)	40,925
Net (decrease)/increase in cash and cash equivalents		(81,484)	386,482	(80,718)	383,267
Cash and cash equivalents at the beginning of the year		572,312	185,830	563,310	180,043
Effects of movement in exchange rates on cash held		5,667	-	5,667	-
Cash and cash equivalents at the end of the year	23	496,495	572,312	488,259	563,310

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

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – GENERAL INFORMATION

Plava Laguna Group, Poreč comprises the company Plava Laguna d.d., Poreč, a joint stock company for hospitality and tourism (parent company) and its subsidiaries (the Group):

- Travel d.o.o. with an ownership interest of 100% (31 December 2019: 100%)
- Istraturist j.d.o.o. with an ownership interest of 100% (31 December 2019: 100%)
- ISTRRA DMC d.o.o. with an ownership interest of 100% (31 December 2019: 100%).

The parent and its subsidiaries are registered at the Pazin Commercial Court.

The Group's associate is Jadranski luksuzni hoteli d.o.o. with a shareholding of 32.48% (2019: 32.48%).

The majority owner of the Company on 31 December 2019 and 2020 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 2019 and 2020, the shares of the parent company were listed on the regular joint stock company listing on the Zagreb Stock Exchange.

Management Board and Supervisory Board

Management Board

Dragan Pujas	President, from October 2019 (previously member from January 2018 to October 2019)
Damir Mendica	Member, from January 2018
Danira Rančić	Member, from January 2018

The Company is represented independently and entirely by the President and members of the Management Board.

Supervisory Board

Davor Lukšić Lederer	President, from June 2012
Patricio Tomas Balmaceda Tafra	Vice President, from October 2006
Davor Domitrović Grubišić	Member, from April 2000
Joseph Ignace Bulnes	Member, from December 2014
Neven Staver	Member, from October 2019
Duncan Graham Bramwell	Member, from October 2019
Marica Kurtek	Member, from November 2019

NOTE 2 – BASIS OF PREPARATION

2.1 Statement of compliance

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

These financial statements were approved by the Management Board on 29 April 2021.

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI). These financial statements have been prepared for the purposes of the Group and Company.

2.3 Functional and presentation currency

The Company's and Group's financial statements are prepared in the Croatian kuna ("HRK"), which is also the functional and reporting currency, rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 5.

NOTE 2 – BASIS OF PREPARATION (continued)

2.5 Going concern

The Group (Company) operates in the tourism industry which, in 2020, was significantly impacted by COVID-19 disease which resulted in partial or complete closure of tourist and hospitality facilities leading to a decrease in overall sales.

In the year ended 31 December 2020 the Group and Company realised a loss in the amount of HRK 118,983 thousand and HRK 90,096 thousand respectively (31 December 2019 profit in the amount of: HRK 208,375 thousand and HRK 205,545 thousand respectively). At the balance sheet date, the net assets of the Group and Company were in the amount of HRK 2,262,935 thousand and 2,216,445 thousand respectively (31 December 2019: HRK 2,383,237 thousand and HRK 2,307,860 thousand).

In such extraordinary circumstances, especially during the imposed strict measures introduced from March to May 2020, the Group (Company) applied for and received employee incentives and the work processes within the Group (Company) were adjusted to the new situation as soon as possible to ensure liquidity of the Group and the Company. Despite a significant decrease in income and cash inflows in 2020, the balance of cash equivalents as at 31 December 2020 amounted to HRK 496,495 thousand for the Group and HRK 488,259 thousand for the Company.

Management has considered the potential development of the outbreak of COVID 19 and its expected impact on the Company and the Group, including the measures already taken by the government and Company (Group). As part of assessment, various scenarios were considered, including those severe but plausible, such as the prolonged inability to open facilities and generate any revenues (until the end of 2021). Given the measures described above, the Company and the Group expect that the cash available on 31 December 2020 will ensure operations until the season 2022, even under the most difficult but possible scenario.

Based on the above indications the Management believes that it remains appropriate to prepare the financial statements on a going concern basis.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 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.

a) 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.

Goodwill

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Consolidation *(continued)*

a) Business Combinations (continued)

Goodwill (continued)

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.

b) 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.

c) 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.

d) 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Consolidation *(continued)*

e) 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 recognised 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.

f) 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.

g) Transactions eliminated during consolidation

Intragroup balances and transactions, and unrealised 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.

3.2 Investments in subsidiaries (Company)

Subsidiaries are all entities (including special purpose entities) over which the Company has control over the financial and operating policies, generally involving more than half of the voting rights. The existence and effect of potential voting rights that are exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are initially recognized at cost and subsequently at cost less impairment losses. Testing of investments in subsidiaries for impairment is performed on an annual basis.

3.3 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, in charge of managing hotel and tourist facilities and contents.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***3.4 Foreign currencies***Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income within “Finance income/costs”-net.

The exchange rate of kuna against the EUR as at 31 December 2020 was HRK 7.536898 HRK (31 December 2019: HRK 7.442580).

3.5 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 (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 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.

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. 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’.

3.6 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Financial instruments

Non-derivative financial instruments

a) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group (Company) becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

b) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investments; fair value through other comprehensive income (FVOCI) – equity instrument; or fair value through profit or loss. Financial assets are not reclassified subsequent to their initial recognition unless the Group (Company) changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit and loss. Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit and loss. Any gain or loss on derecognition is recognised in profit and loss.

Financial liabilities – Classification, subsequent measurement and profit or loss

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Financial instruments (continued)

Non-derivative financial instruments (continued)

c) Derecognition (continued)

Financial assets

The Group (Company) derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group (Company) neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group (Company) enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group (Company) derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group (Company) also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

d) Netting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group (Company) currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts, including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

Impairment

Non-derivative financial assets

Financial instruments and contract assets

The Group (Company) recognises loss allowances for expected credit loss (“ECL”) on financial assets measured at amortised cost.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial instruments *(continued)*

Impairment (continued)

Non-derivative financial assets (continued)

Financial instruments and contract assets

Loss allowances are measured on either of the following:

- 12-month ECLs: these are ECLs that result from possible default events within 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instruments

Loss allowance for the Group (Company's) financial assets measured at amortised cost are always measured at an amount equal to lifetime ECL

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group (Company) considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group (Company's) historical experience and informed credit assessment and including forward-looking information.

The Group (Company) assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group (Company) considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group (Company) in full, without recourse by the Group (Company) to actions such as realising security (if any is held). The maximum period considered when estimating ECLs is the maximum contractual period over which the Group (Company) is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group (Company) expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group (Company) assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Events that indicate that financial assets are credit-impaired includes the following:

- It is probable that the borrower will enter bankruptcy or any other type of reorganisation or restructuring;
- specific financial difficulty of the borrower.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial instruments *(continued)*

Impairment (continued)

Non - financial assets

At each reporting date, the Group (Company) reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group (Company) estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Group's (Company's) assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.8 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.

3.9 Cash and cash equivalents

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

3.10 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 allowance for impairment.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Leases

At inception of a contract, the Group (Company) assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group (Company) uses the definition of a lease in IFRS 16.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Group (Company) allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group (Company) recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group (Company) by the end of the lease term or the cost of the right-of-use asset reflects that the Group (Company) will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group (Company's) incremental borrowing rate. Generally, the Group (Company) uses its incremental borrowing rate as the discount rate.

The Group (Company) determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group (Company) is reasonably certain to exercise, lease payments in an optional renewal period if the Group (Company) is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group (Company) is reasonably certain not to terminate early.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Leases *(continued)*

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group (Company's) estimate of the amount expected to be payable under a residual value guarantee, if the Group (Company) changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group (Company) presents right-of-use assets that do not meet the definition of investment property in separate line items in the statement of financial position.

Short-term leases and leases of low-value assets

The Group (Company) has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group (Company) recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. As a lessor

At inception or on modification of a contract that contains a lease component, the Group (Company) allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group (Company) acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group (Company) makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group (Company) considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group (Company) is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group (Company) applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group (Company) applies IFRS 15 to allocate the consideration in the contract.

The Group (Company) applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group (Company) further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group (Company) recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group (Company) as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.12 Share capital

Ordinary and preference shares are classified as equity. Preference shares bear a fixed dividend of HRK 0.25 per share per annum (2019: HRK 0.25), in addition to ordinary dividends in the amount equal to the dividend paid on each ordinary share. Where the Group (Company) purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Group (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 Group (Company's) equity holders. In 2020 no preferred dividend was paid out due to the shareholder's waiver (Note 30).

3.13 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 and amortised over the period of the facility to which it relates.

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

3.14 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 payables 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 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.15 Provisions

Provisions are recognised when the Group (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. Provisions for future operating losses are not recognised.

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 rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.16 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences associated with investments in subsidiaries and jointly controlled entities when the situation is unlikely to change in the near future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets represents the amount of income tax recoverable through future deductions from taxable profits and is expressed in the statement of financial position. Deferred tax assets are recognized to the extent of tax benefit that is probable to be achieved. While determining future taxable profits and the amount of tax benefits that are likely to be generated in the future, Management of the Group (Company) makes judgments and applies estimations based on taxable profits from previous years and expectations of future income that are believed to be reasonable under the existing circumstances.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.17 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group (Company) before the normal retirement date. The Group (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 Group (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 Group (Company) recognises a liability for accumulated compensated absences based on unused vacation days and hours for redistribution at the balance sheet date.

(d) Long-term employee benefits

The Group (Company) recognises a provision for jubilee awards and termination benefits where contractually obliged or where there is a past practice that has created a constructive obligation.

3.18 Revenue recognition

(a) Tourist services

Tourist services include overnight stays, consumption of food and beverages, use of wellness and other services during guest accommodation. The Group (Company) provides tourist services based on fixed-term contracts prices at which the agreed price lists are an integral part of each contract. Price lists include the quantities and types of accommodation units and other services and are defined by the period to which service relates. All discounts calculated on the price list represent a decrease in the selling price. Revenues from fixed-price contracts for tourism services are recognized in the period in which the services are provided in proportion to the total contracted service, given that customers receive the service and the benefits of using the service evenly over the period of use of the service, that is, the duration of the contract (over the time).

The average period of service is a few days and the total revenue recognition is limited to the period when the accommodation units are open to receive guests during the tourist season, and all within one calendar year. The amount of revenue to be recognized is determined on a real basis occupancy of accommodation units and consumption of other services used by guests and agreed prices at the time of use. The Group (Company) provides food and beverages in hotel rooms as well as in hotel restaurants which are recognised as revenues when provided, at the point of time.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Revenue recognition (continued)

(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 lessees.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group (Company) 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.

3.19 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.

3.20 Earnings per share

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

3.21 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.

3.22 Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs.

3.23 Investment property

Investment property 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.

Depreciation of buildings is calculated using the straight-line method to allocate their cost over their estimate useful lives over period of 10 to 25 years.

3.24 Standards issued but not yet effective

Several new accounting standards and interpretations have been issued that are not required to be applied for the period ending 31 December 2020 and have not been previously adopted by the Company and are not expected to have a material impact on the Company's financial statements.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 – FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's (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. Overall risk management in respect of these risks is carried out by the Group's (Company's) Management Board.

The accounting policies are applied to financial instruments as follows:

Group - Assets

	Loans and receivables HRK'000	Financial assets at fair value through other comprehensive income HRK'000	Total HRK'000
31 December 2020			
Investments in shares of domestic companies	-	12,035	12,035
Trade and other receivables	30,924	-	30,924
Deposits with banks and loans given	10,514	-	10,514
Cash and cash equivalents	496,495	-	496,495
Total	537,933	12,035	549,968

	Loans and receivables HRK'000	Financial assets at fair value through profit and loss HRK'000	Total 000'kn
31 December 2019			
Investments in shares of domestic companies	-	13,111	13,111
Trade and other receivables	9,155	-	9,155
Deposits with banks and loans given	21	-	21
Cash and cash equivalents	572,312	-	572,312
Total	581,488	13,111	594,599

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

Company

- Assets

	Financial assets at amortised cost HRK'000	Financial assets at fair value through other comprehensive income HRK'000	Total HRK'000
31 December 2020			
Investments in shares of domestic companies	-	12,035	12,035
Trade and other receivables	30,181	-	30,181
Deposits with banks and loans given	10,514	-	10,514
Cash and cash equivalents	488,259	-	488,259
Total	528,954	12,035	540,989

	Financial assets at amortised cost HRK'000	Financial assets at fair value through other comprehensive income HRK'000	Total HRK'000
31 December 2019			
Investments in shares of domestic companies	-	13,111	13,111
Trade and other receivables	8,618	-	8,618
Deposits with banks and loans given	21	-	21
Cash and cash equivalents	563,310	-	563,310
Total	571,949	13,111	585,060

- Liabilities-at amortised cost

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Borrowings	831,987	807,695	838,099	814,309
Trade and other payables	150,820	167,218	150,813	166,173
Total	982,807	974,913	988,912	980,482

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Most of the sales proceeds, long-term debt and term deposits are denominated in EUR. Therefore, movements in exchange rates between the Euro and Croatian kuna may have an impact on the results of future operations and future cash flow.

As at 31 December 2020 and 2019, the currency structure of the Group's (Company's) financial instruments within the scope of IFRS 9 is as follows:

31 Dec 2020	EUR	HRK	CHF	Other	Total
Financial assets					
Trade and other receivables	260	30,664	-	-	30,924
Deposits with banks and loans given	1,575	8,939	-	-	10,514
Available-for-sale financial assets	-	12,035	-	-	12,035
Cash and cash equivalents	453,096	39,741	742	2,916	496,495
Total	454,931	91,379	742	2,916	549,968
				-	-
Financial liabilities-at amortised cost					
Borrowings	831,987	-	-	-	831,987
Trade and other payables	3,620	147,223	-	(23)	150,820
Total	835,607	147,223	-	(23)	982,807
Net exposure	(380,676)	(55,844)	742	2,939	(432,839)
31 Dec 2019	EUR	HRK	CHF	Other	Total
Financial assets					
Trade and other receivables	3,322	5,784	-	49	9,155
Deposits with banks and loans given	21	-	-	-	21
Available-for-sale financial assets	-	13,111	-	-	13,111
Cash and cash equivalents	557,142	12,443	390	2,337	572,312
Total	560,485	31,338	390	2,386	594,599
Financial liabilities-at amortised cost					
Borrowings	807,695	-	-	-	807,695
Trade and other payables	1,842	165,398	-	(22)	167,218
Total	809,537	165,398	-	(22)	974,913
Net exposure	(249,052)	(134,060)	390	2,408	(380,314)

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Company

31 Dec 2020	EUR	HRK	Other	Total
Financial assets				
Trade and other receivables	267	29,914	-	30,181
Deposits with banks and loans given	1,575	8,939	-	10,514
Available-for-sale financial assets	-	12,035	-	12,035
Cash and cash equivalents	452,881	32,912	2,466	488,259
Total	454,723	83,800	2,466	540,989
Financial liabilities-at amortised cost				
Borrowings	831,987	6,112	-	838,099
Trade and other payables	3,582	147,254	(23)	150,813
Total	835,569	153,366	(23)	988,912
Net exposure	(380,846)	(69,566)	2,489	(447,923)
31 Dec 2019				
	EUR	HRK	Other	Total
Financial assets				
Trade and other receivables	3,614	4,955	49	8,618
Deposits with banks and loans given	21	-	-	21
Available-for-sale financial assets	-	13,111	-	13,111
Cash and cash equivalents	555,500	5,870	1,940	563,310
Total	559,135	23,936	1,989	585,060
Financial liabilities-at amortised cost				
Borrowings	807,695	6,614	-	814,309
Trade and other payables	1,764	164,431	(22)	166,173
Total	809,459	171,045	(22)	980,482
Net exposure	(250,324)	(147,109)	2,011	(395,422)

As at 31 December 2020, if HRK had strengthened/weakened by 10% (2019: 10%) against the EUR, with all other variables held constant, the profit for the year before tax would have been higher/lower for HRK 38,068 thousand for the Group and HRK 38,085 thousand for the Company (2019: HRK 24,905 thousand and HRK 25,032 thousand respectively), mainly as a result of foreign exchange gains/losses on translation of EUR-denominated borrowings and bank cash deposits

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Price risk

The Group's (Company's) trading equity securities portfolio, which is presented in the balance sheet at fair value, exposes the Group (Company) to price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, regardless of whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded on the market. The Group (Company) is not significantly exposed to price risk, since it only has a limited number of listed equity investments.

(iii) Cash flow and fair value interest rate risk

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

The Group's (Company's) debts are contracted at a fixed interest rate, therefore it reduces Group's (Company's) exposure to interest rate risks.

b) Credit risk

The Group (Company) has no significant concentrations of credit risk. The Group (Company) has policies in place to ensure that sales are made mostly to customers paying in advance (leases), in cash or using major credit cards (individual customers, i.e. natural persons), and to customers with an appropriate credit history (mostly travel agencies).

Allowances for impairment of trade and other receivables have been made on the basis of credit risk assessment. The Management Board monitors the collectability 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 (Company) has policies that limit the amount of credit risk exposure to any financial institution.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

b) Credit risk (continued)

Cash transactions are carried out through high quality Croatian banks. The Group (Company) 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:

	Group		Company	
	2020. HRK'000	2019 HRK'000	2020. HRK'000	2019 HRK'000
Trade and other receivables	30,924	9,155	30,181	8,618
Deposits and loans given	10,514	21	10,514	21
Cash and cash equivalents	496,495	572,312	488,259	563,310
Total	537,933	581,488	528,954	571,949

The credit quality of financial assets:

	Group		Company	
	2020. HRK'000	2019 HRK'000	2020. HRK'000	2019 HRK'000
Neither past due nor impaired	39,702	6,116	39,103	5,920
Past due but not impaired	1,736	3,060	1,592	2,719
Impaired	13,957	8,171	11,291	5,511
Impairment	(13,957)	(8,171)	(11,291)	(5,511)
Total	41,438	9,176	40,695	8,639

Credit quality of financial assets that are past due and not impaired:

	Group		Company	
	2020. HRK'000	2019 HRK'000	2020. HRK'000	2019 HRK'000
Trade and other receivables	29,188	6,095	28,589	5,899
Deposits and loans given	10,514	21	10,514	21
Total	39,702	6,116	39,103	5,920

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

b) Credit risk (continued)

Financial institutions comprise domestic banks without a credit rating. However, their foreign parent banks have the following ratings: A, A-, BBB, BBB+ (2019: A, A-, BBB, BBB-) (Standard & Poor`s).

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

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Up to 1 month	441	987	441	823
1 to 2 month	266	393	118	300
2 to 3 month	140	528	135	492
Over 3 months up to 1 year	889	1,152	898	1,104
Total	1,736	3,060	1,592	2,719

Within the maturity of over three months and up to 1 year, 86% of the balance is overdue less than 6 months.

(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 Management Board regularly monitors available cash resources.

The Management Board monitors inflow and outflow daily on the basis of monthly cash flow projections. The Group (Company) settles all of their liabilities at maturity. In order to improve the liquidity the Group and the Company applied for and received funds from the state aid programs in 2020 and 2021 (in the form of payment of salaries to employees and exemption from paying contributions). Furthermore, the Group and the Company have agreed on a moratorium on credit commitments until 30 September 2021.

The table below analyses the Group's (Company's) financial liabilities into at the balance sheet by the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Since the maturity of most borrowings is agreed to no later than 2026, actual future payments may vary from those presented.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

Group	Up to 1 year	1-2 years	2-5 years	Over 5 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 Dec 2020					
Borrowings	130,634	160,370	414,112	126,871	831,987
Trade and other payables	150,820	-	-	-	150,820
Total liabilities	281,454	160,370	414,112	126,871	982,807
31 Dec 2019					
Borrowings	115,118	158,363	408,929	125,285	807,695
Trade and other payables	167,218	-	-	-	167,218
Total liabilities	282,336	158,363	408,929	125,285	974,913
Company					
	Up to 1 year	1-2 years	2-5 years	Over 5 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 Dec 2020					
Borrowings	130,634	166,482	414,112	126,873	838,099
Trade and other payables	150,813	-	-	-	150,813
Total liabilities	281,447	166,482	414,112	126,873	988,913
31 Dec 2019					
Borrowings	115,118	164,977	408,929	125,285	814,309
Trade and other payables	166,173	-	-	-	166,173
Total liabilities	281,291	164,977	408,929	125,285	980,482

4.2 Capital risk management

The Group's (Company's) objectives when managing capital are to safeguard the Group's (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.

The Group (Company) consider the optimal capital structure in the context of required debt/EBITDA covenant, to ensure the ability of the Company to continue as a going concern. The Company and the Group are not subject to the external requirements of other covenants (debt / equity).

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.3 Fair value estimation

A number of the Group's (Company's) accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group (Company) has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and finance department in relation to the monitoring of all significant fair value measurements, consultation with external experts and the responsibility to report, with respect the above, to those charged with corporate governance.

Fair values are measured using information collected from third parties in which case the Board and the finance department assess whether the evidence collected from third parties support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified.

Fair values are categorised into different level in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more significant inputs are not based on observable market data, the fair value estimate is included in level 3.

As at 31 December 2020, assets carried at fair value in the amount of HRK 12,035 thousand (2019: HRK 13,111 thousand) were allocated into level 1.

During 2020 there were no transfers within levels.

NOTE 5 – CRITICAL ACCOUNTING ESTIMATES

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

By using a certain asset, the Group (Company) use 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.

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.

(b) 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 ("CGU") that are expected to benefit from the business combination in which goodwill is generated.

CGU relates to the properties that were previously operated by company Istraturist d.d. Properties are located in Istria, Umag. There are no goodwill impairment indicators identified, taking into account the previous valuation of the 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 results that related properties generated in 2018 and 2019. In 2020, operating result was lower due to the COVID 19 pandemic, but business normalization is expected in the forthcoming periods therefore no impairment was identified.

Key assumptions used in the estimation of the recoverable amount were the discount rate of 9% and the growth rate of 1%. Capital expenditure used has been calculated as three years average.

(c) Actuarial estimates used in determining obligations for employee benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty. Key assumptions were discount rate of 1.4% and fluctuation rate of 3% for males and 2.5% for females.

NOTE 5 – CRITICAL ACCOUNTING ESTIMATES *(continued)*

(d) Deferred tax assets recognition

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances.

For investments in the Group's (Company's) properties up to 31 December 2020 the Company has achieved total investment tax credit incentives of HRK 108,731 thousand.

The Group (Company) for the year ended 31 December 2020 has not utilized tax incentives (2018 and 2019: HRK 82,080 thousand). However the Group (Company) recognized additional tax incentives in 2020 and the remaining tax incentives as at 31 December 2020 amounted to HRK 26,651 thousand and is recognized as deferred tax asset which can be carried forward up to year 2027.

(e) Concession fees for tourist land

The concession on tourist land used by the Company was regulated until 2020 by the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process (hereinafter: ZTZ) enacted back in 2010 and the payment of concession fees were regulated by two statutes adopted on the basis of the same Act:

- Statute on the manner, procedure and conditions for evaluating the value and sale of tourist land owned by a local authorities and the manner, procedure and conditions for obtaining a concession on the remaining tourist land owned by the local government, and
- Statute on the procedure, manner and conditions for obtaining a concession on tourist land in camps co-owned by the Republic of Croatia.

The Statutes stipulated that until the end of the concession award procedure, the company is obliged to pay the concession fee from the day of submitting the request, for which obligation is calculated in the manner prescribed by the Statue, and 1/2 is paid, while at the end of the concession award procedure, the difference will be determined and paid or the payment will be reduced if there is an overpayment. Due to extraordinary circumstances caused by the COVID-19 pandemic, the Statutes were amended in March and April 2020 by stipulating that the variable part of the concession fee for 2019 amounts to HRK 1.00, and the payment of the fixed part for 2020 and of the variable part for 2019 is postponed until 30 November 2020.

The new Act on the un-appraised construction land (hereinafter: ZNGZ) was passed in April 2020, which by its Article 50, puts the ZTZ and all Statutes that were adopted on the basis of the same Act, out of force, including their latest amendments. ZNGZ entered into force on May 2, 2020, and as of that date, there is no regulation in force that regulates the obligation to pay a concession for tourist land. As of the same date, the Company no longer has the status of a concessionaire but of a lessee and the new regulations should have been adopted within 2 months (until July 2, 2020) to regulate rent payments, however, no regulations have been adopted by the date of this note.

Due to the lack of regulations, for the part of 2020 from the entry into force of the ZGNZ, the fee was calculated in accordance with the previously determined fee. Due to the fact that the new legal resolutions have not yet produced adequate legal effects in practice and, on the other hand, the fact that there were expectations of changes in legislation which will regulate further obligations, the Company did not recognize these leases in accordance with IFRS 16 *Leases*.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 6 – SEGMENT INFORMATION

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

The Group (Company) 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, marina services, rental services, organisation of sports and recreation services (ATP tournament) and other similar services.

The segment information provided to the Company's Management Board for the year ended 31 December 2020 is as follows:

	Hotels & apartments	Campsites	Total business segments	Other business segments	Total
HRK'000					
Total sales	327,577	166,039	493,616	13,827	507,443
Profit/(loss) before tax	(143,984)	14,689	(129,295)	(4,721)	(134,004)
Depreciation and amortisation (Note 15 and 16)	(166,497)	(48,093)	(214,590)	(8,184)	(222,774)
Income tax	-	-	-	-	43,594
Share in loss in the associate	-	-	-	-	(28,561)
Total assets	1,680,887	515,895	2,196,782	193,519	2,390,301
Investment in associate	-	-	-	-	221,607
Total liabilities	3,697	1,354	5,051	1,316	6,367

The segment information for the year ended 31 December 2019 is as follows:

	Hotels & apartments	Campsites	Total business segments	Other business segments	Total
HRK'000					
Total sales	929,165	263,003	1,192,168	38,034	1,230,202
Profit before tax	121,525	93,579	215,104	(2,620)	212,484
Depreciation and amortisation (Note 15 and 16)	(176,992)	(42,724)	(219,716)	(7,283)	(226,999)
Income tax	-	-	-	-	(32,060)
Share in profit in the associate	-	-	-	-	27,951
Total assets	1,796,811	462,962	2,259,773	199,439	2,459,212
Investment in associate	-	-	-	-	250,168
Total liabilities	12,867	3,663	16,530	5,948	22,478

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 – SEGMENT INFORMATION (continued)

Reconciliation of profit/(loss) before tax is as follows:

	2020 HRK'000	2019 HRK'000
Total sales of business segment	493,616	1,192,168
Total sales of other segment	13,827	38,034
Inter-segment revenue	(22,374)	(53,516)
Revenue from external customers	485,069	1,176,686
Profit/(loss) before tax for business segment	(129,295)	215,104
Profit(loss) before tax for other segment	(4,721)	(2,620)
Share in profit/(loss) in the associate	(28,561)	27,951
Profit/(loss) before tax	(162,577)	240,435

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

	2020		2019	
	Assets HRK'000	Liabilities HRK'000	Assets HRK'000	Liabilities HRK'000
Business segment assets/liabilities	2,196,782	5,051	2,259,773	16,530
Other segment assets/liabilities	193,519	1,316	199,439	5,948
Unallocated:	904,010	1,025,009	946,984	1,000,481
Available-for-sale financial assets	12,034	-	13,111	-
Loans and deposits given	10,514	-	21	-
Financial assets at fair value through profit or loss	-	-	-	-
Cash and cash equivalents	496,495	-	572,312	-
Share in associate	221,607	-	250,168	-
Deferred tax assets	64,010	-	20,746	-
Other assets	-	-	-	-
Provisions	-	11,953	-	12,840
Borrowings	-	858,633	-	832,335
Deferred tax liability	-	9,970	-	10,566
Income tax payable	-	-	-	-
Other liabilities	99,350	144,453	90,626	144,740
Total	3,294,311	1,031,376	3,406,196	1,022,959

Other unallocated assets relate to assets under construction, right of use of assets, trade receivables and advances to suppliers. Other unallocated liabilities relate advances from customers, liabilities to employees and unallocated trade payables.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 6 – SEGMENT INFORMATION *(continued)*

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Revenue from tourism services	338,380	1,084,418	336,989	1,068,086
Rental income	34,765	42,981	34,913	42,234
Other revenue	36,272	44,620	36,420	43,873
Total	409,417	1,172,019	408,322	1,154,193

NOTE 6a – OTHER OPERATING INCOME

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Collection of insurance claims	2,928	1,990	2,928	1,979
Government subsidy - COVID 19	67,415	-	67,223	-
Other income	5,309	2,677	5,257	2,594
Total	75.652	4,667	75,408	4,573

The Group (Company) have received government subsidy for preservation of jobs

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 7 – COST OF MATERIALS AND SERVICES

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Raw materials and supplies				
Energy and water used	36,838	72,722	36,838	72,650
Raw materials and supplies used	26,489	94,680	26,488	94,544
Small inventories	6,546	9,465	6,546	9,464
Total	69,873	176,867	69,872	176,658
Services				
Maintenance services	26,642	29,622	26,642	28,880
Commission agency	17,824	44,953	16,691	42,911
Laundry and cleaning services	7,365	16,993	7,365	16,863
Security services for assets and individuals	7,053	12,549	7,053	12,037
Utility services	6,485	12,787	6,485	12,783
Advertising and promotion	6,343	13,501	6,313	11,352
Franchise cost	4,515	8,965	4,515	8,965
Entertainment and animation	4,238	14,969	4,238	14,814
Transportation and telecommunication	2,510	4,364	2,499	4,219
Student employment agency services	1,147	3,456	1,147	3,123
Rentals	608	3,797	605	1,657
ATP tennis tournament services	273	4,401	-	-
Other services	4,921	8,265	4,874	7,770
Total	89,924	178,622	88,427	165,374
Total	159,797	355,489	158,299	342,032

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 8 – STAFF COSTS

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Wages and salaries – net	88,295	150,797	87,909	150,301
Contributions to pension funds	24,796	42,305	24,682	42,154
Health insurance contribution	19,019	33,887	18,925	33,762
Other contributions and taxes on salaries	11,080	23,704	11,012	23,595
Other employee costs	14,326	35,241	14,306	34,387
Total	157,516	285,934	156,834	284,199
Number of employees as at 31 December	1,203	1,502	1,199	1,498

In 2020, a total of HRK 14,704 thousand was paid into the pension insurance system – Group (Company: HRK 14,623 thousand).

NOTE 9 – OTHER OPERATING EXPENSES

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Utility and similar charges, taxes and contributions	34,981	42,001	34,875	41,516
Impairment of trade and other receivables	6,277	1,679	6,251	1,607
Professional services	6,043	11,935	5,776	7,077
Insurance premiums	4,360	4,511	4,341	4,446
Bank charges and membership fees	2,591	5,970	2,555	5,672
Travel and entertainment	309	1,318	308	1,075
Increase in provisions for legal disputes	454	2,748	454	2,748
Other	5,962	14,001	7,110	18,614
Total	60,977	84,163	61,670	82,755

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 10 – OTHER GAINS/LOSSES – NET

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Net gains/(losses) from sale of property, plant and equipment	(64)	(537)	(63)	(534)
Other gains/losses – net	(64)	(537)	(63)	(534)

NOTE 11 – FINANCE INCOME AND COSTS

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Financial income				
Dividend income - affiliated companies	-	-	-	26,241
Dividend income - not affiliated companies	-	528	-	528
Interest income from cash deposits	22	45	21	44
Net foreign exchange gains	-	623	-	638
Other financial income	202	400	202	400
Total financial income	224	1,596	223	27,851
Financial expense				
Interest expense	14,983	12,676	15,201	12,979
Net foreign exchange gains	3,198	-	2,967	-
Total financial expense	18,181	12,676	18,168	12,979
Net financial (costs)/income	(17,957)	(11,080)	(17,945)	14,872

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 12 – INCOME TAX

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Current income tax	-	265	-	-
Deferred tax expense/ (income)	(43,594)	31,795	(43,594)	31,795
Income tax	(43,594)	32,060	(43,594)	31,795

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

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Profit/(loss) before tax	(162,577)	240,435	(133,690)	237,340
Income tax at rate of 18%	(29,264)	43,278	(24,064)	42,722
Effect of non-taxable income	(13,531)	(6,403)	(13,497)	(6,090)
Effect of non-deductible expenses	6,615	1,341	1,468	1,319
Tax incentive	(7,501)	(6,156)	(7,501)	(6,156)
Tax loss not recognised	87	-	-	-
Income tax expense	(43,594)	32,060	(43,594)	31,795
<i>Effective tax rate</i>	-	13.33%	-	13.40%

The Company on the basis of the Investment Incentive Act, applied investment projects for the period from 2017 to 2020 in order to acquire the status of holder of incentive measures.

Based on realised qualifying investment up to 31 December 2020, the Company became entitled to tax incentives of HRK 108,731 thousand, out of which HRK 43,740 thousand was utilised in 2018, and HRK 38,340 thousand was utilised in 2019. Outstanding income tax credit as of 31 December 2020 amounted to HRK 26,651 thousand.

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.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13 – 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 24). Total number of ordinary shares both during 2020 and 2019 was 2,197,772 and number of treasury shares for both years was 2,346 therefore weighted average number of ordinary shares though both periods was 2,195,426 shares. Number of preference shares issued and weighted average number of ordinary shares though both periods was 420,000 shares.

Diluted earnings per share

Diluted earnings per share for 2020 and 2019 are equal to basic earnings per share, since the Group did not have any convertible instruments or share options outstanding during either years.

2020		Preference shares	Ordinary shares
Total number of shares issued		420,000	2,197,772
In HRK'000			
Profit/(loss) for the year attributable to the owners of the Company	(118,983)	-	-
Fixed annual dividend - preference shares	(105)	105	-
Profit/(loss) for the year attributable to equity holders	(119,088)	(19,124)	(99,964)
Total earnings/(loss) for the year attributable to equity holders	-	(19,019)	(99,964)
Weighted average number of shares in issue excluding treasury shares		420,000	2,195,426
Basic and diluted earnings/(loss) per share (in HRK)		(45.28)	(45.53)
2019			
Total number of shares issued		420,000	2,197,772
In HRK'000			
Profit for the year attributable to the owners of the Company, restated	208,375	-	-
Fixed annual dividend - preference shares	(105)	105	-
Profit for the year attributable to equity holders	208,270	33,445	174,825
Total earnings for the year attributable to equity holders, restated	-	33,550	174,825
Weighted average number of shares in issue excluding treasury shares		420,000	2,195,426
Basic and diluted earnings per share (in HRK), restated		79.88	79.63

NOTE 14 – DIVIDEND PER SHARE

Up to the date of this report, the Management Board and Supervisory Board of the Company have not proposed an ordinary dividend. Dividends will be accounted for after being approved by the Annual General Assembly. Unpaid dividends in respect of 2005 through 2020 of HRK 6,899 thousand are disclosed as dividends payable in "trade and other payables". If a company decides to pay dividend in the period from 29 May 2020 to 31 December 2021, the Group and the Company would have to repay received government subsidy (COVID 19).

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

Group					
<i>(in thousands of HRK)</i>	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
Year ended 31 December 2019					
Opening net book amount	2,359,192	115,137	47,177	22,947	2,544,453
Additions	-	29	-	139,544	139,573
Transfer	110,116	32,959	8,101	(151,176)	-
Sale	(221)	(337)	(5)	-	(563)
Depreciation	(171,181)	(39,879)	(8,073)	-	(219,133)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net book amount	2,297,906	107,909	47,200	11,315	2,464,330
At 31 December 2019					
Cost	4,781,964	586,782	119,837	11,315	5,499,898
Accumulated depreciation and impairment	(2,484,058)	(478,873)	(72,637)	-	(3,035,568)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book amount	2,297,906	107,909	47,200	11,315	2,464,330
Year ended 31 December 2020					
Opening net book amount	2,297,906	107,909	47,200	11,315	2,464,330
Additions	-	-	-	144,215	144,215
Transfer	117,838	17,768	11,428	(147,034)	-
Write off	-	(171)	-	-	(171)
Transfers from other classes of PPE	(12,142)	1,770	113	-	(10,259)
Depreciation	(168,422)	(37,240)	(9,126)	-	(214,788)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net book amount	2,235,180	90,036	49,615	8,496	2,383,327
At 31 December 2020					
Cost	4,883,702	595,773	131,437	8,496	5,619,408
Accumulated depreciation and impairment	(2,648,522)	(505,737)	(81,822)	-	(3,236,081)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book amount	2,235,180	90,036	49,615	8,496	2,383,327

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company <i>(in thousands of HRK)</i>	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
Year ended 31 December 2019					
Opening net book amount	2,359,118	114,762	47,177	22,947	2,544,004
Additions	-	1	-	139,544	139,545
Transfers	110,116	32,959	8,101	(151,176)	-
Write off	(220)	(334)	(5)	-	(559)
Depreciation	(171,170)	(39,724)	(8,073)	-	(218,967)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net book amount	2,297,844	107,664	47,200	11,315	2,464,023
At 31 December 2019					
Cost	4,781,857	584,746	119,837	11,315	5,497,755
Accumulated depreciation and impairment	(2,484,013)	(477,082)	(72,637)	-	(3,033,732)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book amount	2,297,844	107,664	47,200	11,315	2,464,023
Year ended 31 December 2020					
Opening net book amount	2,297,844	107,664	47,200	11,315	2,464,023
Additions	-	-	-	144,215	144,215
Transfer	117,838	17,768	11,428	(147,034)	-
Write off	-	(169)	-	-	(169)
Transfers from other classes of PPE	(12,143)	1,770	113	-	(10,260)
Depreciation	(168,412)	(37,131)	(9,126)	-	(214,669)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net book amount	2,235,127	89,902	49,615	8,496	2,383,140
At 31 December 2020					
Cost	4,883,594	593,739	131,437	8,496	5,617,266
Accumulated depreciation and impairment	(2,648,467)	(503,837)	(81,822)	-	(3,234,126)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book amount	2,235,127	89,902	49,615	8,496	2,383,140

Additions under 'Land and buildings' relate to various construction works in hotels and campsites. As at 31 December 2020 the net carrying value of land and buildings pledged by the Group as collateral for repayment of long-term borrowings amounted to HRK 1,008,494 thousand (2019: HRK 1,075,873 thousand).

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 15a – INVESTMENT PROPERTY

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:

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Cost	103,298	103,298	103,298	103,298
Transfer from property, plant and equipment	10,138	-	10,138	-
Accumulated depreciation, 1 January	(81,782)	(78,842)	(81,782)	(78,842)
Depreciation expense	(3,089)	(2,939)	(3,089)	(2,939)
Net book amount	28,565	21,517	28,565	21,517

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

As 31 December, according to Managements best estimate, the estimated fair value of the investment property was HRK 185,668 thousand.

During 2020, the Group realised rental income from the stated property in the amount of HRK 13,951 thousand (2019: HRK 16,278 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:

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Up to 1 year	15,214	16,278	15,214	16,278
From 2 to 5 years	63,601	65,112	63,601	65,112
Total	78,815	81,390	78,815	81,390

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 16 – INTANGIBLE ASSETS

Group

(in thousands of HRK)

	Software	Goodwill	Asset being prepared	Total
At 1 January 2019				
Purchase value	31,087	12,480	-	43,567
Accumulated amortisation	(23,874)	-	-	(23,874)
Net book value	7,213	12,480	-	19,693
For year ended 31 December 2019				
Opening net book amount	7,213	12,480	-	19,693
Additions	-	-	1,031	1,031
Transfers	1,014	-	(1,014)	-
Amortisation	(3,026)	-	-	(3,026)
Closing net book amount	5,201	12,480	17	17,698
At 31 December 2019				
Purchase value	30,285	12,480	17	42,782
Accumulated amortisation	(25,084)	-	-	(25,084)
Net book amount	5,201	12,480	17	17,698
For year ended 31 December 2020				
Opening net book amount	5,201	12,480	17	17,698
Additions	-	-	997	997
Transfers	1,137	-	(1,014)	123
Amortisation	(2,399)	-	-	(2,399)
Closing net book amount	3,939	12,480	-	16,419
At 31 December 2020				
Purchase value	28,481	12,480	-	40,961
Accumulated amortisation	(24,542)	-	-	(24,542)
Net book value	3,939	12,480	-	16,419

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 16 – INTANGIBLE ASSETS *(continued)*

Company

(in thousands of HRK)

	Software	Goodwill	Asset being prepared	Total
At 1 January 2019				
Purchase value	30,865	12,480	-	43,345
Accumulated amortisation	(23,767)	-	-	(23,767)
Net book value	7,098	12,480	-	19,578
For year ended 31 December 2019				
Opening net book amount	7,098	12,480	-	19,578
Additions	-	-	1,015	1,015
Transfers	1,015	-	(1,015)	-
Amortisation	(2,971)	-	-	(2,971)
Closing net book amount	5,142	12,480	-	17,622
At 31 December 2019				
Purchase value	30,065	12,480	-	42,545
Accumulated amortisation	(24,923)	-	-	(24,923)
Net book amount	5,142	12,480	-	17,622
For year ended 31 December 2020				
Opening net book amount	5,142	12,480	-	17,622
Additions	-	-	964	964
Transfers	1,086	-	(964)	122
Amortisation	(2,353)	-	-	(2,353)
Closing net book amount	3,875	12,480	-	16,355
At 31 December 2020				
Purchase value	28,210	12,480	-	40,690
Accumulated amortisation	(24,335)	-	-	(24,335)
Net book value	3,875	12,480	-	16,355

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

CGU relates to the properties that were previously operated by company Istraturist d.d. Properties are located in Istria, Umag. There are no goodwill impairment indicators identified, taking into account the previous valuation of the 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 results that related properties generated in 2018 and 2019. In 2020, operating result was lower due to the COVID 19 pandemic, but business normalization is expected in the forthcoming periods.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 16 – INTANGIBLE ASSETS *(continued)*

Key assumptions used in the estimation of the recoverable amount were the discount rate of 9% and the growth rate of 1%. Capital expenditure used has been calculated as three years average.

NOTE 17 – RIGHT-OF-USE ASSETS

The Company and Group have applied IFRS 16 *Leases* using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company leases business premises and associated land, and maritime domain in front of the hotels and in campsites.

The variable part of the concession on the maritime domain that is not recognised as the Assets with the right of use is calculated as a percentage of the income generated on the maritime domain.

Below is an overview of lease-related information where the Company is a lessee.

The statement of financial position shows the amounts for leases as follows:

<i>(in thousands of HRK)</i>	Maritime domain	Business premises	Other	Total
Year ended 31 December 2020				
Opening net carrying amount	22,948	1,490	-	24,438
Additions	-	4,091	329	4,420
Depreciation	(1,687)	(811)	-	(2,498)
Closing net carrying amount	21,261	4,770	329	26,360

<i>(in thousands of HRK)</i>	31 December 2020
Lease liabilities	
Current portion	2,357
Non-current portion	24,289
	<hr/>
	26,646
	<hr/>

The maturity of long-term borrowings is as follows:

	Group and Company 2020 HRK'000
From 1 to 2 years	2,389
From 2 to 5 years	7,173
Over 5 years	14,727
Total	<hr/> 24,289

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 17 – RIGHT-OF-USE ASSETS (continued)

Statement of comprehensive income shows the amounts for leases as follows:

(in thousands of HRK)

Depreciation of asset with right of use	
Maritime domain	1,687
Business premises	811
	<hr/>
	2,498
	<hr/>
Interest expense (included in financial expenses)	503
	<hr/>

In 2020, a total of HRK 2,600 thousand of interest and principal for leases was repaid (2019: HRK 2,163 thousand).

NOTE 18 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATE

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Subsidiaries	-	-	113	113
Associates	221,607	250,168	190,732	190,732
Total	221,607	250,168	190,845	190,845

	Country	Ownership %	
		31. December 2020	31. December 2019
Subsidiaries			
Travel d.o.o., Poreč	Croatia	100.00	100.00
Istra DMC d.o.o., Umag	Croatia	100.00	100.00
Istraturist j.d.o.o., Umag	Croatia	100.00	100.00
Associates			
Jadranski luksuzni hoteli d.d.	Croatia	32.48	32.48

Jadranski luksuzni hoteli d.d. is tourism company operating hotels in Dubrovnik, Croatia.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 18 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATE *(continued)*

Changes in investments in associate is as follows:

	HRK '000	
	31 Dec 2020	31 Dec 2019
At the beginning of the year	250,168	246,491
Share of profit/(loss) in associate	(28,561)	27,951
Dividend received	-	(24,274)
At the end of the year	221,607	250,168

The non-listed associated is as follows:

	2020	2019
	HRK'000	HRK'000
Percentage of ownership interest	32.48%	32.48%
Non-current assets	1,053,039	1,095,055
Current assets	70,589	123,026
Non-current liabilities	362,935	359,906
Current liabilities	114,450	123,997
Net assets	646,243	734,178
Group's share of net assets (32.48%)	209,900	238,461
Goodwill	11,707	11,707
Carrying amount of interest in associate	221,607	250,168
Revenue	148,338	540,093
Profit/(loss) for the year	(87,769)	95,227
Other comprehensive income	(165)	59
Total comprehensive income	(87,934)	95,286
Total comprehensive income (32.48%)	(28,561)	27,951

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 19 – FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Investments in banks	9,932	10,389	9,932	10,389
Investments in companies	2,103	2,722	2,103	2,722
Total	12,035	13,111	12,035	13,111

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

	2020. HRK'000	2019. HRK'000	2020. HRK'000	2019. HRK'000
Opening balance	13,111	11,064	13,111	11,064
Revaluation gains	(1,076)	2,047	(1,076)	2,047
Closing balance	12,035	13,111	12,035	13,111

Investments in securities are stated at fair value using quoted prices on the domestic capital market.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 20 – DEFERRED TAX ASSETS AND LIABILITIES

	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
<i>(in thousands of HRK)</i>						
Property, plant and equipment	-	-	(9,795)	(10,198)	(9,795)	(10,198)
Financial assets measured at fair value through OCI	-	-	(175)	(368)	(175)	(368)
Provisions	345	345	-	-	345	345
Receivables	1,081	-	-	-	1,081	-
Income tax credit	26,651	19,150	-	-	26,651	19,150
Tax losses	33,196	-	-	-	33,196	-
Payables	1,376	-	-	-	1,376	-
Jubilee awards and termination benefits	1,361	1,251	-	-	1,361	1,251
Total	64,010	20,746	(9,970)	(10,566)	54,040	10,180

Movements in deferred tax assets and liabilities:

Group and Company <i>(in thousands of HRK)</i>	1 Jan 2019	Recognised in profit and loss account	Recognised as OCI	31 Dec 2019	Recognised in profit and loss account	Recognised as OCI	31 Dec 2020
Property, plant and equipment	(10,601)	403	-	(10,198)	403	-	(9,795)
Financial assets measured at fair value through OCI	-	-	(368)	(368)	11	182	(175)
Provisions	345	-	-	345	-	-	345
Receivables	-	-	-	-	1,081	-	1,081
Income tax credit	51,323	(32,173)	-	19,150	7,501	-	26,651
Tax losses	-	-	-	-	33,196	-	33,196
Payables	-	-	-	-	-	-	1,376
Jubilee awards and termination benefits	1,267	(25)	9	1,251	26	84	1,361
Total	42,334	(31,795)	(359)	10,180	43,594	266	54,040

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 21 – LOAN RECEIVABLES

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Long term:				
Loan receivables	8,365	9	8,365	9
Impairment of loan receivables	(1,581)	-	(1,581)	-
	<u>6,784</u>	<u>9</u>	<u>6,784</u>	<u>9</u>
Short term:				
Loan receivables	4,515	12	4,515	12
Impairment of loan receivables	(785)	-	(785)	-
	<u>3,730</u>	<u>12</u>	<u>3,730</u>	<u>12</u>
Total loan receivables	<u>10,514</u>	<u>21</u>	<u>10,514</u>	<u>21</u>

Maturity of non-current loan receivables is as follows:

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
From 1 to 2 years	3,510	9	3,510	9
From 2 to 5 years	3,274	-	3,274	-
Total	<u>6,784</u>	<u>9</u>	<u>6,784</u>	<u>9</u>

At the end of 2020, the Group (the Company) entered into Agreements with some tenants regarding the repayment of the rent for 2020, as many tenants found themselves in financial difficulties due to the coronavirus pandemic. Deferred rent payments are defined as a loan to which an interest rate of 1% plus 12-month EURIBOR applies, with a minimum of 1%.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 22 – TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Domestic trade receivables	7,747	5,453	7,565	7,554
Foreign trade receivables	6,267	8,734	3,617	3,668
Due from brokers - agencies	2	321	2	321
Impairment of trade receivables	(11,593)	(8,171)	(8,925)	(5,511)
Trade receivables - net	2,423	6,337	2,259	6,032
Accrued income not yet invoiced	7,595	(420)	7,595	(420)
Total financial assets	10,018	5,917	9,854	5,612
Due from state institutions	11,526	842	11,125	832
VAT prepayments	5,200	1,631	5,297	1,489
Advances from suppliers	541	116	542	116
Other current receivables	3,647	657	3,371	577
Impairment of other receivables	(8)	(8)	(8)	(8)
Total	30,924	9,155	30,181	8,618

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

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
At 1 January	8,171	7,592	5,511	5,005
New impairments, net	3,641	579	3,633	506
Recovery of previously written-off receivables	(219)	-	(219)	-
At 31 December	11,593	8,171	8,925	5,511

Most of the receivables from customers for which there is a write-off, and where cost 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.

As at 31 December 2020 the Group (Company) had loss allowance for ECL in the amount of HRK 416 thousand (31 December 2019: HRK 197 thousand).

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 23 – CASH AND CASH EQUIVALENTS

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Giro and current accounts	39,697	12,283	32,868	5,710
Foreign currency accounts	456,749	559,748	455,344	557,329
Cash in hand	49	281	47	271
	<u>496,495</u>	<u>572,312</u>	<u>488,259</u>	<u>563,310</u>

NOTE 24 – EQUITY

The equity ownership structure as at 31 December 2020 and 2019 was as follows:

Shareholder	Holding in share capital %	Total number of shares	Total amount (HRK)
<i>Ownership of ordinary shares:</i>			
Adriatic Investment Group, Luxembourg	84.24	1,851,352	1,128,388,955
Treasury shares	0.11	2,346	1,429,874
Other legal entities and natural persons	15.65	344,074	209,711,228
	<u>100</u>	<u>2,197,772</u>	<u>1,339,530,057</u>
<i>Ownership of preference shares:</i>			
Adriatic Investment Group, Luxembourg	100	420,000	105,000,000
	<u>100</u>	<u>420,000</u>	<u>105,000,000</u>
Total			<u><u>1,444,530,057</u></u>

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. Fixed annual dividend is declared and paid out simultaneously with the dividend on regular shares. . In 2020 no preferred dividend was paid out due to the shareholder's waiver (Note 30).

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 25 – RESERVES

		Group		Company	
		2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Legal reserves	i/	53,021	53,021	53,021	53,021
Other reserves	ii/	72,500	73,714	72,500	73,714
Total		125,521	126,735	125,521	126,735

Changes in reserves:

Legal reserves					
Opening balance		53,021	53,021	53,021	53,021
Transfer from retained earnings		-	-	-	-
Closing balance		53,021	53,021	53,021	53,021
Other reserves					
Opening balance		73,714	72,077	73,714	72,077
Remeasurement of defined benefit liability		(332)	(42)	(332)	(42)
Fair value of financial assets through comprehensive income		(882)	1,679	(882)	1,679
Closing balance		72,500	73,714	72,500	73,714

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.

As at 31 December 2020 and 31 December 2019, the legal reserves amounted to HRK 53,021 thousand or 3.67% 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, which are formed by the denomination of the value of shares in 2001 (from HRK 1,860 to HRK 1,800 per share), representing a share of 5.72% (2019: 5.72%) of the Company's share capital. Merger reserves were created by merging company Istraturist d.d. on 1 January 2018.

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Capital reserves	29,572	29,572	29,572	29,572
Merger reserves	38,554	38,554	38,554	38,554
Reserves for own shares	737	737	737	737
Reserves-fair value of financial assets	4,035	4,917	4,035	4,917
Actuarial gains/(losses)	(398)	(66)	(398)	(66)
Total	72,500	73,714	72,500	73,714

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 26 – BORROWINGS

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Long-term loans				
Bank borrowings	701,353	692,577	701,353	692,577
Borrowings from subsidiaries	-	-	6,112	6,614
	701,353	692,577	707,465	699,191
Short-term loans				
Current portion of bank borrowings	115,147	113,706	115,147	113,706
Accrued interest and fees	15,487	1,412	15,487	1,412
	130,634	115,118	130,634	115,118
Total borrowings	831,987	807,695	838,099	814,309

Bank borrowings

Long-term bank borrowings are denominated in EUR at fixed interest rates of 1.6% and 1.95% per annum. The loans are repayable in annual instalments where one loan matures in 2023 and remaining loans in 2026. Bank borrowings are secured by a mortgage over land and buildings (note 15). Bank loan contracts contain a loan covenant.

Intercompany loans - Company

Borrowing from the related party relates to sale of mobile houses to Plava Laguna d.d., whereas the part of it is contracted to be repaid by the loan. Interest rate is rate defined by Tax Authorities to loans between related parties. The loan matures as of 31 December 2022.

The maturity of long-term borrowings is as follows:

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
From 1 to 2 years	160,370	158,363	166,482	164,977
From 2 to 5 years	414,112	408,929	414,112	408,929
Over 5 years	126,871	125,285	126,871	125,285
Total	701,353	692,577	707,465	699,191

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 26 – BORROWINGS (continued)

The movements in debt during 2020 are presented in the table below:

	Group	Company
	HRK'000	HRK'000
As at 1 January 2020	832,335	838,950
Increase of lease liability - MSFI 16	4,091	4,091
Cash outflow	(2,085)	(2,588)
Interest paid	(908)	(1,126)
Interest expense	14,983	15,201
Net foreign exchange difference	10,217	10,217
As at 31 December 2020	858,633	864,745

The movements in debt during 2019 are presented in the table below:

	Group	Company
	HRK'000	HRK'000
As at 1 January 2019	670,442	679,029
Increase of lease liability – IFRS 16	26,339	26,339
Cash inflow	223,291	223,291
Cash outflow	(90,580)	(92,552)
Interest paid	(11,559)	(11,862)
Interest expense	12,676	12,979
Net foreign exchange difference	1,726	1,725
As at 31 December 2019	832,335	838,949

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 27 – TRADE AND OTHER PAYABLES

	Group		Company	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Trade payables	19,553	24,582	19,493	24,212
Due to related parties (Note 30)	-	-	80	95
Dividends payable (Note 14)	6,899	5,358	6,899	5,358
Accrued costs not yet invoiced	7,298	2,857	7,219	2,856
Concession payable	64,426	57,099	64,426	57,099
	98,176	89,896	98,117	89,620
Net salaries payable	16,858	28,129	16,822	28,071
Taxes and contributions payable	10,360	20,561	10,357	20,281
Advances payable	21,174	22,582	21,297	22,274
Other current liabilities	4,252	6,050	4,220	5,927
Total	150,820	167,218	150,813	166,173

i/ Tourist land provisions and obligations in accordance with the provisions of the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process (the 'Act'), the Company submitted requests to the Republic of Croatia for the approval of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to land areas in campsites and tourist resorts in Croatia. Since the adoption of the Act in 2010, as far as the Company is aware, no concession agreement has been signed into with respect to tourist land in campsites/tourist resorts in the Republic of Croatia due to ambiguities in the wording of the Act and other related regulations. The status of the Company's tourist land concession requests is similar to the status of concession requests submitted by other companies in the Republic of Croatia. In practice, companies that have applied for a concession regularly pay the concession fee according to the received invoices based on the Regulations in the amount of 50% of the concession fee.

On 2 May 2020 a new law related to this mater (The Law on Unrated Construction Land) entered into force, pursuant to which the Company became a lessee of the land for which a concession application was submitted. In addition, it is necessary to issue regulations to regulate the amount and method of rent payment, for which a period of 2 months has been set from the entry into force of the law, which have not been adopted by the date of this note. For the remaining part of 2020, the fee was calculated according to the previous principle and the Company considers that the recorded liabilities are sufficient. Concession expense for Group and the Company for 2020 of HRK 12,001 thousand (2019: HRK 14,130 thousand) have been included in *Other operating expenses*.

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 28 – PROVISIONS

	Group and Company		
	Legal claims	Provision for jubilee awards and termination benefits	Total
	HRK'000	HRK'000	HRK'000
Balance at 1 January 2020	5,831	7,009	12,840
Increase in provisions	454	1,417	1,871
Unused provisions released	(1,224)	-	(1,224)
Utilized during the year	(668)	(866)	(1,534)
Balance at 31 December 2020	4,393	7,560	11,953
Non-current	4,393	6,739	11,132
Current	-	821	821

Jubilee awards and regular retirement benefits

According to the current benefits, there is an obligation to pay jubilee awards and retirement to employees. The employees are entitled to a regular retirement benefit of HRK 8 thousand. No other post-retirement benefits are provided. Jubilee awards are paid out according to the passage of certain continuous service.

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, mortality rates or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty. Key assumptions were a discount rate of 1.4% and fluctuation rate of 3% for males and 2.5% for females.

Legal claims

The amounts comprise provisions in respect of certain legal claims brought against the Group (Company).

NOTE 29 – CONTINGENT liabilities

Litigation (NLB litigation of the merged company Istraturist Umag d.d., Umag).

Introduction and dispute history

ISTRATURIST UMAG, d.d., which was on 1 January 2018 merged into the company PLAVA LAGUNA d.d. (hereinafter: the Company), contracted loans and other financial arrangements with Ljubljanska Banka d.d. in the early 1990s, of an approximate value of DEM 31 million (approximately HRK 120 million), which, due to difficulties in business operations resulting from events of the war, it failed to repay.

In accordance with the relevant legislation which prescribes the manner in which deposits of Croatian depositors with banks domiciled outside the Republic of Croatia are to be settled, ZAGREBAČKA BANKA d.d. retained and sold part of its claims towards Ljubljanska Banka d.d. titled “old foreign currency savings” amounting to DEM 31 million, to its client ISTRATURIST UMAG, d.d. Umag, in return acquiring a share in the equity of the Company. The Company offset its (purchased) receivables from Ljubljanska Banka d.d. in the amount of DEM 31 million, with its financial liabilities towards Ljubljanska banka d.d. in the same amount.

The Republic of Slovenia established Nova Ljubljanska Banka d.d., by means of a special Constitutional Act, after the above-mentioned offset, to which all claims but not liabilities of Ljubljanska Banka were transferred, also excluding from the transfer the liabilities of Ljubljanska Banka to ISTRATURIST UMAG, d.d.

Proceedings initiated by Nova Ljubljanska banka d.d.

Nova Ljubljanska banka d.d. initiated two disputes against the Company before a court in the Republic of Slovenia in the period between 1994 and 1998, demanding payment of liabilities in the amount of DEM 31 million plus interest. Both disputes were concluded in favour of Nova Ljubljanska banka, and the claim filed by the Company before the European Court of Human Rights was dismissed as inadmissible.

In addition to disputes initiated in the Republic of Slovenia, Nova Ljubljanska banka initiated several court (enforcement) proceedings in the Republic of Croatia for the purpose of settling mortgage claims and credit claims, as well as recognition of the Slovenian court verdicts in Croatia. Most of the proceedings have been put on hold and no actions to the detriment of the Company have been taken. It is our opinion that the proceeding that took place before the Commercial Court in Rijeka is of key importance, as in this proceeding it was confirmed in all instances, including the Supreme Court of the Republic of Croatia, that the above-mentioned offset by the Company in respect of the loans to which the court verdicts relates, was entirely valid and lawful, and hence the request of Nova Ljubljanska banka d.d. was rejected by a binding decision, which has the effect of a legal precedent in proceedings conducted in the Republic of Croatia.

NOTE 29 – CONTINGENT liabilities (continued)***Proceedings initiated by the Company***

The Company has sought the protection of its rights before the Croatian courts, claiming that the offset described above was entirely lawful and valid and that the mutual claims had thus ceased altogether, and that the transfer of the assets to a universal legal successor, without a simultaneous transfer of liabilities, was contrary to the Croatian legal order, seeking the declaration of the enforcement proceedings as inadmissible and the termination of the related liens, and, as a key proceeding, seeking that the Court find that Nova Ljubljanska banka d.d. and its predecessor Ljubljanska Banka d.d. hold no claims whatsoever, on any legal basis, towards the Company. In the latter, the High Commercial Court, after confirming through a retrial that all the liabilities of the Company had been settled through offset, in its ruling on an appeal, brought a clear and binding legal decision that the offset was valid, thus eliminating any doubt as to whether the Company had legally acquired receivables from Zagrebačka banka d.d. and then offset these with liabilities towards the then Ljubljanska banka d.d. Nova Ljubljanska banka d.d. filed for an audit with the Supreme Court of the Republic of Croatia, according to which the Group (Company) had not received a court decision until the date of drafting this Note.

Other proceedings within the EU

In addition to the recognition and enforcement of the Slovenian judgments in the Republic of Croatia, in 2017 and early 2018, the Company was provided with documents indicating that Nova Ljubljanska banka had initiated proceedings in 2017 and 2018 for recognition and enforcement of the Slovenian judgments in the Republic of Slovenia, the Republic of Austria, the Czech Republic and the Kingdom of the Netherlands, for the purpose of seizing the Group's (Company') receivables towards its debtors, i.e. travel agencies in the respective countries. The proceeding for recognition and enforcement in the Kingdom of the Netherlands was concluded with a binding decision in favour of the Group (Company), with the annulment of the lower court's decision by which the lower court upheld the enforceability of the Slovenian judgment and the respective enforcement order. In the Republic of Austria, the Group (Company) sought a declaration of inadmissibility of enforcement proceedings (opposition lawsuit), whereby a judgment (still not binding) was issued declaring that the enforcement proceedings were terminated due to the non-existence of grounds for enforcement. In the Czech Republic, the Company requested a termination of enforcement due to the illegality of the decision on the recognition of Slovenian judgments, which request was rejected at first instance, to which the Company filed an appeal which was not decided by the end of the business year. After the balance sheet date, in the first months of 2021, the Company's appeal was rejected, and an extraordinary legal remedy is being considered.

NOTE 29 – CONTINGENT liabilities (continued)

Management assessment

With the established business model, the Group (Company) freely manages and fully controls the sales business segment, and the Management Board considers, taking into account the guarantees of Zagrebačka banka d.d. Zagreb in relation to the Group (Company), that the proceedings for recognition and enforcement of the Slovenian judgments initiated by Nova Ljubljanska banka d.d. will not adversely affect the Group's (Company's) performance or the achievement of its planned business goals. The Group and the Company have not recognized provision.

Provisions for legal claims

Provisions for legal claims of HRK 4,393 thousand (2019: HRK 5,831 thousand) have been estimated on each reporting date taking into account probability of future cash out flow and taking into account the risk and uncertainties surrounding the obligation. The Group (Company) consults with its legal advisors in relation to probability of outflows to settle such obligations and assess the Group's (Company's) position in such claims.

Capital commitments

Future commitments contracted for investments in tourist facilities, for which provisions were not made, as at 31 December 2020 amounted to HRK 31 million (31 December 2019: HRK 46 million).

Franchise agreement

On 1 January 2016, the Group (Company) has signed franchised agreement with Melia Hotels International S.A. for the period of 10 years. Trademark fee is being charged on the base of the number of room units under Melia franchise. Due to the circumstances caused by the coronavirus pandemic and the consequent decline in tourist traffic, the Company entered into an Annex to the contract in question, which redefined the fee for 2020 (Note 7).

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 30 – RELATED PARTY TRANSACTIONS

The Group (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 company Adriatic Investment Group registered in Luxembourg became registered as a holder of 84.24% of ordinary shares and 100% of preferential shares of the Company. The ultimate control company is the Vallum Foundation, registered in Vaduz, Liechtenstein.

In the ordinary course of business, the Group (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.

The Company’s transactions with related companies within the Group are as follows:

	2020. HRK’000	2019. HRK’000
Trade and other receivables	63	2,859
Sales revenue	40,389	225,219
Other income	-	-
Financial income	-	2,232
Trade and other payables	6,151	4,908
Borrowings	6,112	6,614
Other expenses	1,316	6,020
Financial expenses	336	303

Transactions with the majority shareholder of the parent company:

During 2020, there were no dividend payments since the majority shareholder submitted a statement of waiver of the preferential fixed dividend in the amount of HRK 105 thousand (2019: payment in the amount of HRK 78,012 thousand gross).

Also, the transaction with the majority shareholder was realized in the amount of HRK 1.5 thousand, based on the provided accommodation service.

During 2020, the Company Plava Laguna d.d. received no dividend from the associated company and subsidiary (2019: received dividend in the amount of HRK 26,241 thousand).

At the balance sheet date there are no claims and liabilities to the parent company.

Transactions with related companies outside the Plava laguna Group are as follows:

	2020. HRK’000	2019. HRK’000
Trade and other receivables	-	14
Sales revenue	227	204
Financial income	-	24,274
Other expenses	1	4

PLAVA LAGUNA D.D.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 30 – RELATED PARTY TRANSACTIONS *(continued)*

The Company's transactions with other related companies are as follows:

	2020 HRK'000	2019 HRK'000
Trade and other receivables	-	22
Sales revenue	12	38
	<hr/>	<hr/>

Group key management and Supervisory Board compensation

	Group		Company	
	2020. HRK'000	2019. HRK'000	2020. HRK'000	2019. HRK'000
Net salaries	6,310	12,875	6,310	12,875
Pension insurance contributions	1,864	2,926	1,864	2,926
Health insurance contributions	1,600	3,437	1,600	3,437
Other costs (contribution and taxes)	1,524	4,890	1,524	4,890
	<hr/>	<hr/>	<hr/>	<hr/>
	11,298	24,128	11,298	24,128
Supervisory Board compensation	1,376	1,012	1,376	1,012
	<hr/>	<hr/>	<hr/>	<hr/>
Total	12,674	25,140	12,674	25,140
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Key management comprises 23 persons (2019: 25 persons). The Supervisory Board comprises 7 members.

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 KPMG Croatia d.o.o. from 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 28th of August 2020, and on 24th of September 2020 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).

During 2020 and until the issuance of the report in the first part of 2021, members of the Audit Committee met several times with representatives of the certified auditor and responsible executors in order to discuss the applied accounting policies, record important business events, the effects of applying new accounting standards, and other auditor's observations.

In accordance with the requirements of auditing standards, the auditors submitted a Report to the Supervisory Board and the Audit Committee on 29 April 2021 which, as defined by the regulations, includes The Independent Auditor's Report, key audit issues and a conclusion on issuing an unmodified opinion.

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

- the 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,

- no events and conditions have been identified, including the global COVID 19 pandemic, that could affect the Company's ability to continue as a going concern.

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

THE AUDITING COMMITTEE

Pursuant to Art. 300c of the Companies Act and Art. 34 of the Statute of PLAVA LAGUNA joint stock company for hospitality and tourism, the Company's Supervisory Board, at the meeting held on June 4, 2021 adopts the following

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 STATEMENTS, THE REPORT ON
THE SITUATION IN THE COMPANY AND THE PROPOSED DECISION ON COVERING THE LOSSES
OF THE COMPANY AND THE GROUP FOR YEAR 2020

In the course of the fiscal year 2020, the Company's Supervisory Board continuously supervised the management of the Company's affairs, pursuant to the authorizations determined by the provisions of the Companies Act and the Statute, and held 12 meetings which were usually attended by all members.

During year 2020, Supervisory Board functioned in the following composition:

Davor Luksic Lederer, President of the Supervisory Board

Patricio Tomas Balmaceda Tafrá, Vice president of the Supervisory Board

Davor Domitrovic Grubisic, Member of the Supervisory Board

Joseph Ignace Bulnes, Member of the Supervisory Board

Neven Staver, Member of the Supervisory Board

Duncan Graham Bramwell, Member of the Supervisory Board

Marica Kurttek, Member of the Supervisory Board, workers' representative.

In addition to the aforementioned meetings, in year 2020, certain members of the Supervisory Board were informed during the year on an almost weekly basis, due to extraordinary circumstances caused by the coronavirus pandemic. With its constructive functioning, advice and recommendations, the Supervisory Board influenced the Company's activities that marked a very specific fiscal year 2020 which was focused on preserving financial stability and jobs, while increasing the activities aimed at protecting the health of employees and guests.

The Supervisory Board has two committees, the Audit Committee and the Remuneration Committee. The tasks of the nomination committee are performed directly by the Supervisory Board.

The Audit Committee was established in 2014 and is composed of three members, president Mr. Davor Luksic Lederer and members Ms. Danira Rančić and Ms. Suzana Kocijančić. The Audit Committee meets at least once a year with the participation of all members and performs the prescribed tasks within its scope.

The Remuneration Committee was established in 2020 and is composed of the president Mr. Davor Luksic Lederer and members Mr. Patricio Tomas Balmaceda Tafra and Mr. Davor Domitrovic Grubisic. The Remuneration Committee meets at least once a year with the participation of all members and performs the prescribed tasks within its scope.

Pursuant to Article 300b paragraph 1 and 2 of the Companies Act, the Management Board of the Company submitted to the Supervisory Board the annual financial statements, the report on the situation in the Company, as well as the proposed decision on covering the loss from year 2020.

Pursuant to its authorities under Article 300c paragraph 2 of the Companies Act, in a meeting held on 29 April 2021 and in the presence of the representatives of the auditing company KPMG Croatia d.o.o. of Zagreb, the Supervisory Board reviewed the submitted financial statements for 2020 for the Company and the Group, the report on the situation in the Company as well as the proposed decision on covering the loss. The Supervisory Board submits this report on the results of these reviews to the Management Board and Company's General Assembly for further action.

The reviews carried out undoubtedly show that in 2020 the Company's Management Board, 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, especially changes in business policy and processes during the year due to adjustments to new situation, then of the profitability of operations and profitability of the use of private 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 evaluates the operations of the Company and the work of the Management Board in cooperation with the Supervisory Board as successful, bearing in mind all measures taken in accordance with changes in circumstances that occurred during the year, and assumes that that the cooperation between the Supervisory Board and the Management Board has continuously been very correct and efficient, and business success is a result of open communication at all times and of mutual support. Furthermore, the Supervisory Board evaluates its effectiveness during 2020 as successful, and the composition and profiles of the members of the Supervisory Board and the committees, their knowledge and experience as satisfactory.

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 statements for 2020 demonstrate that the Company acts in accordance with positive legal regulations, the Company's general acts and decisions of the General Assembly.

The Supervisory Board established, after the review of financial statements for 2020 which the Management Board is accountable for, 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 correctly reveal the assets and operational state of the Company.

The Supervisory Board supports the Management Board's proposal on the covering of losses, and assumes that the proposal is aligned with the positive legal regulations and business policy of the Company, and the same is submitted to the General Assembly for adoption.

The Supervisory Board fully supports the auditing report which also confirms that the Company's financial statements for the year that ended on 31 December 2020, in all aspects fairly and accurately depict the non-consolidated financial position of the Company and the consolidated financial position of the Group as of 31 December 2020, and their non-consolidated and consolidated financial performance and cash flows for the year that then ended, in accordance with the International Financial Reporting Standards adopted by the European Union.

The Supervisory Board expresses its absolute approval of the submitted financial statements for year 2020 and of the Management Board's report on the situation in the Company, and leaves their affirming i.e. adoption to the Company's General Assembly.

PRESIDENT

Davor Luksic Lederer