PLAVA LAGUNA

YEAR 2021
ANNUAL REPORT

Poreč, June 2022

PLAVA LAGUNA

FOR THE YEAR 2021

ANNUAL REPORT

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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, it operates in three destinations - Poreč, Umag and Rijeka.

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 with 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, simple d.o.o. and ISTRA D.M.C. d.o.o. which together with the associated company JADRANSKI LUKSUZNI HOTELI d.d. and HOTEL CROATIA 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 more than 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. and Hotel Croatia 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 2021

Even though the Group's operations in the first six months of 2021 were strongly marked by the COVID-19 pandemic, the Group achieved significantly better operating results compared to the previous year.

In the second part of the year, after the easing of epidemiological measures and the relaunch of the tourism sector, the business carried on at levels approaching 2019.

Despite the uncertainty of the tourist season, in the first part of the year the Group's business activities were aimed at preparing a quality tourist season through capital investments in accommodation capacities and accompanying facilities on one hand, and the implementation of protocols and measures to protect the health of guests, employees and other stakeholders in the conditions involving the pandemic on the other hand.

Caring for the safety and health of guests and all employees has been one of the main preconditions for achieving a successful tourist season, so Plava Laguna joined the project Safe Stay in Croatia by the Ministry of Tourism and Sports, and additionally implemented a certified SAFEGUARD programme in all accommodation facilities for prevention of Covid-19 virus contamination and health protection.

The recovery of the tourism sector in the second part of the year was certainly supported by previously undertaken activities and measures of the Government of the Republic of Croatia through the programme of subsidies for the preservation of jobs, priority vaccination of tourist workers, introduction of the „green pass".

In 2021 investments aimed at maintaining and improving the quality of service have been completed, of which the most significant projects were the renovation of 31 villas of the more luxurious type Istrian Villas Plava Laguna in Stella Maris, the reconstruction of the zone and the set up of 22 new mobile homes with swimming pools in the Ulika campsite, the renovation of common areas in hotel Bonavia, continuation of investments in increasing the quality of staff accommodation, rationalisation of business through energy and water savings, and a number of minor projects concerning whole assets of the Group with the aim of maintaining quality in accordance with the standards of services provided.

In year 2021, 3.66 million overnight stays were realised, which is higher by 2 million overnight stays or 134% compared to the previous year. Compared to 2019, there were 23% fewer overnight stays, with 91% of overnight stays realised in campsites, while hotels and apartments were at the level of 66% of overnight stays. Analysed by emissive markets, the most numerous were guests from Germany achieving 37.2% of total overnight stays and recording a 1.7% increase in the number of overnight stays compared to 2019, followed by guests from Austria, Slovenia and the Netherlands.

In year 2021, the total level of business revenues of the Group amounted to HRK 1,009 million, which is 108% or HRK 524 million higher compared to the previous year.

Sales revenues from services were HRK 956 million and are 134% higher than in the previous year as a result of the increase in the number of overnight stays while at the same time increasing the average net prices due to the changed structure of sales channels. The realised sales revenues were at the level of 82% of realised sales revenues in 2019. Other operating revenues amounted to HRK 52.4 million and are lower than in the previous year, primarily due to achieving lower revenues in relation to the Government's programme for job preservation. In 2021, revenues generated on the basis of Government's support measures and assistance to the economy for the period January-July were recorded in the amount of HRK 47.5 million, while in the previous year the subsidies for job preservation were at the level of HRK 67.4 million.

Financial performance indicators for year 2021 (continued)

Business expenditures of the Group amount to HRK 609 million and compared to the previous year, excluding depreciation, are higher by 61% or HRK 231 million, compared to year 2019 they record a decrease of 16% due to a significantly lower volume of business activity in the first part of the year, and activities undertaken towards rationalisation and adjustment of certain individual cost categories of the operational cycle.

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 14.2 million, and in the absence of parameters necessary for the recognition of the use of the same in accordance with IFRS 16. This total amount of operating expenses includes a one-time fee upon termination of a long-term contract with the aim of repositioning the facilities in our portfolio and strengthening of our own brand. Excluding the above operating costs, they have a decrease of 18.6% compared to 2019, which reflects a significant level of efficiency.

The nominal level of the Group's operating earnings measured by EBITDA, corrected for the effect of one-time extraordinary positions, is HRK 407.1 million, recording a significant growth in the amount of HRK 307.4 million compared to the same period of the previous year, as a result of the growth in business volumes during the main tourist season, excellent occupancy in the segment of campsites and activities undertaken to manage operating costs during the pandemic in order to increase business efficiency. Total earnings are positioned 10% below realised earnings in record year 2019, when EBITDA was HRK 450 million. Analysing only the contribution of the Group's management performance without the influence of the subsidies received, EBITDA reaches 80% of the level achieved in 2019. The efficiency of the Group in the observed period expressed by the EBITDA, adjusted for the Government's support measures, margin is 40% (2019. 40.1%).

HRK m

DESCRIPTION / PERIOD	**2021**	**2020**
Operating income – after deduction for agency fees and one-time extraordinary positions	946.6	456.3
EBITDA	**399.6**	**106.7**
Effect of one-time extraordinary positions	**(7.5)**	**7.0**
EBITDA - w/o one-time positions	**407.1**	**99.7**
EBITDA margin (%)	**43.0%**	**21.9%**
Net debt*	(31)	335
Net debt* / EBITDA	(0.08)	3.14

*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 amounts to HRK 10.8 million, which is by HRK 7.1 million better compared to the previous year, primarily due to an increase in interest expenses by HRK 5.8 million, reduced financing expenditures and dividends received.

Financial performance indicators for year 2021 (continued)

In the consolidated profit and loss account, the share in the profits of the associated companies Jadranski luksuzni hoteli d.d. (Jadranski luksuzni hoteli) and Hotel Croatia d.d. in the amount of HRK 5.3 million is reported for the observed period, while for the same period in the previous year loss of HRK 28.6 million was reported.

In the cumulative period under review, the Group recorded a pre-tax profit of HRK 174.9 million

Income tax recorded in the amount of HRK 22.2 million mainly relates to movement in deferred tax asset in respect of tax losses incurred by Plava Laguna d.d. in the previous period. On 31.12.2021, the Company has the right to use tax incentives for the next period under the Investment Promotion Act in the amount of HRK 27 million.

In 2021, the Group made a net profit of HRK 152.7 million.

Total assets of the Group on 31.12.2021 amounted to HRK 3,384 billion and increased by 2.7% compared to the previous year. Total capital and reserves amount to HRK 2,418 billion which represents a growth of 6.9% due to the recorded gain in the business year. Total loan liabilities amount to HRK 702 million and have decreased by 16% compared to the previous year, while on the other hand, the cash position amounts to HRK 733.4 million which gives us a growth of 47.7% compared to 31.12.2020. Net working capital is positive and amounts to HRK 382.9 million, which confirms the stability of the financial position of the Group.

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 unrelated 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 realised 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 2021, 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 re-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 geopolitical uncertainty regarding the conflicts between Ukraine and Russia, and its impact on future operations. According to the information currently available, the situation in Ukraine and Russia should not have a significant impact on the operations of the Group and the Company, given the activity and low exposure to the Russian and Ukrainian markets, which account for only 4% of the total turnover of the Group and the Company. The loss from the Russian and Ukrainian markets is expected to be compensated in other emitting markets. Currently, since we are not able to predict the direction and scale of the development of the situation in Ukraine, it is very difficult to predict the consequences on the business. However, if the global geopolitical risk increases, it is possible to expect a significant increase in inflation that would directly affect the increase of prices of energy and raw material on the one hand, and on the other hand the global decline in demand for services of the Group and the Company due to the decrease in the purchasing power of guests and the increase in security risks when traveling.

The Group and the Company shall take adequate measures and activities in a timely manner to minimize the operational and financial risks to which they are exposed, all in order to maintain financial stability. Mentioned adaptability and readiness was also proven during the global pandemic when the Group developed several business scenarios in a timely manner, and operational decisions were made in the short term in accordance with epidemiological trends.

After the end of the fiscal year with previously justified characteristics, the financial position of the Company and the Group remains stable, which allows for quality preparation of the next fiscal year and significant reduces risk factors especially in the part of preserving the going concern of the business.

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. With the termination of the franchise agreement with Melia Hotels International S.A. as of Dec 31st 2021, the Company turned to strengthening its own brand "Plava Laguna", by repositioning previous brands "Sol" and "Melia" into the brand Plava Laguna. With this, the Company enters the 2022 season with a unique portfolio, which will enable the standardization of processes and activities and the creation of new unique products and services, with the highest business standards. Cooperation with Melia Hotels International S.A. continues through a distribution agreement model.

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 construction 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 2021. 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.

THE NON-FINANCIAL REPORT (continued)

Environmental liability and sustainable development (continued)

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. Seasonality of employment was particularly evident in years 2020 and 2021 under the influence of COVID-19, which resulted with a decline in the average employment rate. Thus, on 20 August 2021 the Group employed 2,687 workers in its three destinations Poreč, Umag and Rijeka, of whom 42% with indefinite employment contracts and permanent seasonal staff with multi-year contracts, considering that a smaller number of seasonal workers was employed. For reference, in 2019, the Group on the same day employed 2,907 workers, of whom 45% had indefinite employment contracts.

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 and 2021, the scope of new indefinite employment contracts was somewhat smaller but the policy has not changed. One of the basic goals set by the Group is caring human resources management practices through contracts for permanent or longer-term cooperation, having in mind the seasonability of business, education and trainings, cooperation with educational institutions and highly competitive material rights of workers in relation to the industry.

The basic goal during the pandemic that has been successfully achieved was job preservation, while ensuring quality service to guests and where support has also been provided by the workers from the Group's administration departments, thus, strengthening the collective sense of togetherness in difficult times, pride and commitment to the companies within the Group.

All material rights of workers have been retained and in accordance with business results, workers have been additionally rewarded at the end of the tourist season. In a very intense, yet fair, cooperation with the unions, the Group has committed to pay the maximum non-taxable amount fas reward for the good results in the amount of HRK 5,000.00 and a Christmas bonus of HRK 3.000,00, vacation bonus, gift for a child and benefit in kind, all up to or over HRK 10.000,00 in total additional benefits. Although the Group strived to optimally engage all employees, in periods when the workers did not work they received a salary compensation, which depending on the period amounted to 60% or 70% of their salary, and all jobs have been preserved. Tourism industry, inevitably, due to seasonability, encounters significant challenges in the segment of workforce. Therefore, as a Group that respects and promotes the right to equality, we have satisfied our needs for workforce with employees from abroad by hiring over 600 foreign employees.

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 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.

THE NON-FINANCIAL REPORT (continued)

Employment and workers' rights (continued)

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.

- **Workers' Council**

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 2021 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 meaningful.

- **Workers' representative in Company's Supervisory Board**

Workers, in accordance with the law, have the right to have a representative in Company's Supervisory Board. The representative of the workers as a member of the Supervisory Board participates at an equal level, and is particularly engaged in decisions on workers' rights.

- **Unions**

Joining the union is free will. Within the Group three Unions are established, and their members are in no way discriminated in correlation with the workers that are not members of the Unions or do not participate in union activities. The COLLECTIVE AGREEMENT of PLAVA LAGUNA d.d. Poreč applies to Group companies and represents a consensus on all important issues for the status of employees, reached between the representatives of the Employer at the highest level and representative trade unions. Traditionally, in our collective agreement, we cherish the highest standards of workers' rights in the industry, which is openly recognized by union partners as well.

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.

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 NON-FINANCIAL REPORT (continued)

Respecting human rights (continued)

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 confidential. 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.

Health and safety protection

By abiding regulations and principles of occupational health care, and continuous education of management and workers about risks, accidents at work and occupational diseases on the employer’s side are reduced to a minimum. All mentioned we also apply to our partners' employees working on our premises.

We ensure continuous monitoring of industry's best practices and standards through specialized occupational health and safety employees.

In the previous period we paid special attention to health protection of both our employees and our guests.

Specific protocols have been put in place aimed especially at protective measures from COVID-19 in all facilities and premises of the Group. Our internal protocols have been certified by the Bureau Veritas with the SAFEGUARD certificate, which have been aligned with the conditions of Safe stay in Croatia by the Ministry of Tourism and Sports. Besides implementing special measures and protocols we have been conducting testing on COVID-19 for employees and guests whenever necessary.

In cooperation with the Department of Public Health Istria, on several occasions, we have organized vaccinations of our employees and partners' employees for COVID-19, on many locations, in order to provide everyone easy access and protection against the disease.

The importance of health is promoted also through sport events which the Group organizes or supports, and in which employees are also happy to participate.

Anti-corruption efforts

The Group advocates compliance with positive regulations applicable in the Republic of Croatia, especially with the framework for anti-corruption measures, that finds its stronghold mainly in the provisions of the criminal legislation but also in the international legal instruments that the Republic of Croatia has acceded to. The Company applies high ethical standards in business, implements a zero tolerance policy against corruption and promotes the same principles in relations with partners at all levels. 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.

THE NON-FINANCIAL REPORT (continued)

Personal data protection (continued)

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.

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.

The frequency and the method of the engagement vary, depending on a certain situation, and is not formally defined. Future plans are regularly communicated with the relevant local community participants through the organizations, tourist boards and other ways of achieving the goals.

Donations encourage excellence (education), humanitarian projects, development of sport activities in the community, culture and ecology. As an exception, in year 2020 and 2021, due to significantly reduced revenues, the Company backed down from the established practices in the segment of donations.

It was extremely important to show togetherness and social awareness 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 we participated in their delivery so that they would be 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.

We were also happy to participate in the project of the Croatian Tourism Association „A Thousand Students, a Million Experiences“, the project was supported by the appropriate ministries, through which we hosted students from High school Petrinja.

During the tourist season, the number of inhabitants and guests exponentially rises, so it is crucial to ensure the necessary safety, therefore the Group participates in providing accommodation for foreign police officers that provide necessary assistance to their local colleagues.

Every year in December, the Groups’ employees also participate in humanitarian work and in 2021 they have donated the children of SOS Children’s village Croatia with the funds for summer holidays. The Group has also joined this action by the employees to provide summer holidays for two families in our facilities.

In 2021, 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 pre-schoolers and school children, as well as the organization of events have been paused in 2021, due to the unfavourable epidemiological situation.

THE NON-FINANCIAL REPORT (continued)

Key indicators of environmentally sustainable economic activities

In accordance with the Delegated Regulation of the EU Commission 2020/852 and the Delegated Regulation of the EU Commission 2021/2139, the Group publishes key indicators for two main environmental objectives, Climate change mitigation and Adoption to climate changes.

The Group as a non-financial Company in accordance with the Delegated Regulation of the EU Commission 2021/2178 publishes three key indicators:

1. Revenue from products or services in connection with the economic activities related to the taxonomy-sales revenues from services do not result from eligible activities according to the EU Taxonomy. The stated revenue represents Sales revenue of services referenced to Financial Statements Note 6.
2. Capital expenditures for products or services in connection with the economic activities related to the taxonomy-total capital expenditure arises from taxonomically ineligible activities. Capital expenditures „CAPEX" ,both tangible and untangible, can be referenced to Financial Statements Note 15, Increase in tangible assets, Note 15a, Property, Plant and Equipment-Additions and Note 16, Intangible Assets-Additions.
3. Operating expenditures for products or services in connection with the economic activities related to the taxonomy – total operational expenditures for products or services do not result from eligible activities according to the EU Taxonomy. Total operational expenditures include the cost of material/services in Note 7 of the Financial Statement and Other operating expenses Note 9 of the Financial Reports deducted for the accrued litigation costs and costs of compensation upon the termination of the contract.

The tables completed in line with reporting requirements as specified in the Delegated Regulation of the EU Commission 2021/2178 can be found attached within these Reports.

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 Company will complete the publication and delivery of both questionnaires according to the statutory deadlines.

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 2021 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 no-par value and 420,000 preference shares with par value of HRK 250.00. In the period from 1.1.2021 to 31.12.2021, the Company did not acquire or dispose of its own shares. On 31.12.2021, 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 2021 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%
OTP BANKA D.D./ AZ OMF KATEGORIJE B	custodial acc.per name	93,360	4.25%
ERSTE & STEIERMARKISCHE BANK D.D./PBZ CO OMF - KATEGORIJA B	custodial acc. Per name	20,024	0.91%
BOGDANOVIĆ ZORAN	basic account	16,139	0.73%
ZAGREBAČKA BANKA D.D./ AZ PROFIT OTV. DOBR. MIR. FOND	custodial acc.per name	9,829	0.45%
OTP BANKA D.D./ ERSTE PLAVI OMF KATEGORIJE B	custodial acc.per name	9,457	0.43%
RAIFFEISENBANK AUSTRIA D.D. (53056966535)	custodial acc.per name	9,140	0.42%
CERP	basic account	6,096	0.28%
OTP BANKA D.D./ ERSTE PLAVI EXPERT – DOB. MIR. FOND	Custodial acc. Per name	5,333	0.24%
CERP/REPUBLIKA HRVATSKA	representative acc.	4,832	0.22%

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 2021, 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 lasts 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.

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 president 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 2021, the mandate of the Supervisory Board ended, so the General Assembly held on the 26 August 2021 confirmed the new mandate of the members for the following four years, starting from 29 August 2021. The Supervisory Board, named on behalf of the General Assembly, was appointed in the same composition, and the mandate of the former Workers' Council representative was also confirmed. The Constituent session was held on 2 September 2021, where Mr. Davor Luksic Lederer was elected as the President of the Supervisory Board, and Mr. Patricio Tomas Balmaceda Tafra as a Deputy President of the Supervisory Board.

Therefore, the Supervisory Board during 2021 operated in two convocations, as follows:

Mr. Davor Luksic Lederer, President of the Supervisory Board

Mr. Patricio Tomas Balmaceda Tafra, Deputy President 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 Kurtek, Member of the Supervisory Board, workers' representative.

During 2021, the Supervisory Board of the Company performed the tasks within the competence of the Appointment committee on its own. The Company has following active committees;

- the Audit Committee, composed of Mr. Davor Luksic Lederer, Ms. Danira Rančić and Ms. Suzana Kocijančić.
- The Audit Committee act in accordance with the applicable laws, the Statute of the Company and the decisions of the Supervisory Board.

the Remuneration Committee, composed of Mr. Davor Luksic Lederer, Mr. Patricio Tomas Balmaceda Tafra and Mr. Davor Domitrovic Grubisic.
The remuneration to the members of the Supervisory Board for participation in the meetings of the Supervisory Board is determined by the Decision of the General Assembly No: 01/01/2019/3, Reg. No.: 01-04-2019-6 of 31 October 2019, in the amount of EUR 2,000.00 net equivalent in kuna per session.

GENERAL ASSEMBLY

The General Assembly is assembled, 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 d.d.

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.

During 2021, the Group has held its regular General Assembly on the 26th of August, where the Management Report about the state of the Group in 2020 year was accepted (consolidated and unconsolidated), Report of the Supervisory Board on the conducted supervision regarding the Group and the Company affairs in 2020 was accepted, decisions made on the establishment and adoption of financial reports (consolidated and unconsolidated), covering the Company's loss in business year 2020 in the amount of HRK 90,095,559.46 from retained earnings, and the payment of dividends to the holders of preference shares, on the release of members of the Management Board and of the Supervisory Board, the Report on remunerations for members of the Management Board and the Supervisory Board, the Company's Statute was supplemented with activities in the field of electricity, the members of the Supervisory Board were elected in the same composition and KPMG Croatia d.o.o. Zagreb was appointed as auditor of the Company for year 2021.

All decisions were adopted unanimously and made public in accordance with the provisions of the Companies Act, Capital Market Act and the Rules of the Zagreb Stock Exchange d.d. The holder of the preference stocks has waived the fixed dividend regulated by the Statue of the Company in the amount of 0.25 HRK per share.

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 2021.

STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES

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 and for the preparation and publication of financial statements in electronic form in accordance with the ESEF Regulation. The Management Report and the Statement on the Application of the Corporate Governance Code, the electronic financial statement in accordance with the ESEF Regulation and the accompanying financial statements together constitute the Annual Report of the Group (Company) and were approved and signed by the Management Board on 28 April 2022 for submission to the Supervisory Board.

Dragan Pujas
President of Management Board

Damir Mendica
Member of Management Board

Danira Rančić
Member of Management Board

PLAVA LAGUNA d.d.
Poreč
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Independent Auditors' Report to the shareholders of Plava Laguna d.d.

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 2021, 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 2021 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.

KPMG

Independent Auditors' Report to the shareholders of Plava Laguna d.d. *(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 2021: HRK 2,265,264 thousand *(31 December 2020: HRK* 2,383,327 *thousand)* and of the Company: HRK 2,265,154 thousand *(31 December 2020: HRK* 2.383.140 *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	How our audit addressed the matter
As at 31 December 2021, the carrying amount of property, plant and equipment represented approximately 67% of the Group's total assets (Company: 68%). 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, terminal value and revenue per available room. Due to the above factors and complexities, as well as to the magnitude of the amounts involved, carrying amounts of 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.	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;

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 recalculating depreciation expense; • 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.

KPMG

Independent Auditors' Report to the shareholders of Plava Laguna d.d. *(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. *(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.
- 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.

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

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

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

- 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.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 26 August 2021 to audit the financial statements of the Company and the Group for the year ended 31 December 2021. Our total uninterrupted period of engagement is three years, covering the year ending 31 December 2019, 31 December 2020 and 31 December 2021.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 25 April 2022;
- we have not provided any prohibited non-audit services (NASs) 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.

Report on Compliance with the ESEF Regulation

In accordance with the requirements of Article 462 paragraph 5 of Capital Market Act, we are required to express an opinion on compliance of the separate and consolidated financial statements, as included in the separate and consolidated annual report, with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation of the separate and consolidated financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

- the preparation of the separate and consolidated financial statements in the applicable xHTML format and their publication;
- the selection and application of appropriate iXBRL tags, using judgment where necessary;
- ensuring consistency between digitised information and the separate and consolidated financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the RTS on ESEF.

Those charged with governance are responsible for overseeing the Company's and the Group's ESEF reporting, as a part of the financial reporting process.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the separate and consolidated financial statements included in the separate and consolidated annual report comply, in all material respects, with the RTS on ESEF, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

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

Report on Compliance with the ESEF Regulation (continued)

Auditors' Responsibilities (continued

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements of set out in the RTS on ESEF, whether due to fraud or error. Our procedures included, among other things:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation of relevant controls over the tagging process;
- tracing the tagged data to the separate and consolidated financial statements of the Company and the Group presented in human-readable format;
- evaluating the completeness of the Company's and the Group's tagging of the separate and consolidated financial statements;
- evaluating the appropriateness of the separate and consolidated use of iXBRL elements selected from the ESEF taxonomy used;
- evaluating the appropriateness of the format of the separate and consolidated financial statements.

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

Opinion

In our opinion, the separate and consolidated financial statements of the Company and the Group as at and for the year ended 31 December 2021 have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

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

28 April 2022

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

Joško Džida
Director, Croatian Certified Auditor

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Group 2021. HRK'000	Group 2020. HRK'000	Company 2021. HRK'000	Company 2020. HRK'000
Sale of services	6	956,032	409,417	943,354	408,322
Other income	6a	52,396	75,652	52,269	75,408
Cost of materials and services	7	(300,950)	(159,797)	(293,452)	(158,299)
Staff costs	8	(230,898)	(157,516)	(229,389)	(156,834)
Depreciation and amortisation		(219,206)	(222,774)	(219,097)	(222,609)
Other operating expenses	9	(77,121)	(60,977)	(75,733)	(61,670)
Other gains((losses) - net	10	184	(64)	184	(63)
Operating profit/(loss)		**180,437**	**(116,059)**	**178,136**	**(115,745)**
Finance income	11	3,602	224	3,284	223
Finance costs	11	(14,423)	(18,181)	(14,581)	(18,168)
Finance income/(costs) - net		**(10,821)**	**(17,957)**	**(11,297)**	**(17,945)**
Share in associate	18	5,263	(28,561)	-	-
Profit/(loss) before tax		**174,879**	**(162,577)**	**166,839**	**(133,690)**
Income tax	12	(22,199)	43,594	(21,717)	43,594
Profit/(loss) for the year		**152,680**	**(118,983)**	**145,122**	**(90,096)**
Other comprehensive income/(loss)					
Change in the value of financial assets measured at fair value through other comprehensive income, net of tax		2,494	(882)	2,494	(882)
Actuarial gain/(loss), net of tax		104	(332)	104	(332)
Total comprehensive income/(loss) for the year		**155,278**	**(120,197)**	**147,720**	**(91,310)**
Basic and diluted earnings/(loss) per share (in HRK):					
- ordinary shares	13	58.34	(45.53)		
- preference shares	13	58.59	(45.28)		

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	Group		Company	
		31 December 2021	31 December 2020	31 December 2021	31 December 2020
		HRK'000	HRK'000	**HRK'000**	HRK'000
ASSETS					
Property, plant and equipment	*15*	2,265,264	2,383,327	2,265,154	2,383,140
Investment property	*15a*	27,072	28,565	27,072	28,565
Intangible assets	*16*	16,206	16,419	16,174	16,355
Right-of-use assets	*17*	24,286	26,360	24,286	26,360
Investments in subsidiaries and associate	*18*	226,870	221,607	190,845	190,845
Financial assets	*19*	15,077	12,035	15,077	12,035
Deferred tax assets	*20*	41,868	64,010	41,868	64,010
Loans receivable	*21*	3,179	6,784	3,136	6,784
Non-current assets		**2,619,822**	**2,759,107**	**2,583,612**	**2,728,094**
Inventories		4,289	3,714	4,243	3,662
Trade and other receivables	*22*	22,711	30,924	21,955	30,181
Income tax receivable		50	341	-	-
Loans receivable	*21*	3,900	3,730	3,879	3,730
Bank deposits		97,723	-	97,723	-
Cash and cash equivalents	*23*	635,672	496,495	620,877	488,259
Current assets		764,345	535,204	748,677	525,832
Total assets		**3,384,167**	**3,294,311**	**3,332,289**	**3,253,926**
EQUITY					
Share capital	*24*	1,444,530	1,444,530	1,444,530	1,444,530
Capital reserves		693	693	693	693
Treasury shares		(1,430)	(1,430)	(1,430)	(1,430)
Reserves	*25*	128,119	125,521	128,119	125,521
Retained earnings		846,196	693,621	792,148	647,131
Total equity		**2,418,108**	**2,262,935**	**2,364,060**	**2,216,445**
LIABILITIES					
Borrowings	*26*	539,569	701,353	539,569	707,465
Provisions	*28*	12,706	11,132	12,706	11,132
Deferred tax liabilities	*20*	10,115	9,970	10,115	9,970
Lease liabilities	*17*	22,210	24,289	22,210	24,289
Non-current liabilities		**584,600**	**746,744**	**584,600**	**752,856**
Borrowings	*26*	162,482	130,634	165,835	130,634
Trade and other payables	*27*	215,248	150,820	214,488	150,813
Lease liabilities	*17*	2,516	2,357	2,516	2,357
Income tax payable		423	-	-	-
Provisions	*28*	790	821	790	821
Current liabilities		**381,459**	284,632	**383,629**	284,625
Total liabilities		**966,059**	**1,031,376**	**968,229**	**1,037,481**
Total equity and liabilities		**3,384,167**	3,294,311	**3,332,289**	3,253,926

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 2021

Group

(in thousands of HRK)	Share capital	Capital reserves	Treasury shares	Reserves	Retained earnings	Total
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)**	**(118,983.0)**	**(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**
At 1 January 2021	**1,444,530**	**693**	**(1,430)**	**125,521**	**693,621**	**2,262,935**
Profit for the year	-	-	-	-	152,680	152,680
Other comprehensive income	-	-	-	2,598	-	2,598
Total comprehensive income for 2021	**-**	**-**	**-**	**2,598**	**152,680**	**155,278**
Dividends	-	-	-	-	(105)	(105)
Total transactions with owners of the Company	**-**	**-**	**-**	**-**	**(105)**	**(105)**
At 31 December 2021	**1,444,530**	**693**	**(1,430)**	**128,119**	**846,196**	**2,418,108**

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

STATEMENTS OF CHANGES IN EQUITY (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

Company

(in thousands of HRK)	**Share capital**	**Capital reserves**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**
At 1 January 2020	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**
At 1 January 2021	1,444,530	693	(1,430)	125,521	647,131	2,216,445
Profit for the year	-	-	-	-	145,122	145,122
Other comprehensive income	-	-	-	2,598	-	2,598
Total comprehensive income for 2021	-	-	-	**2,598**	**145,122**	**147,720**
Dividends	-	-	-	-	(105)	(105)
Total transactions with owners of the Company	**-**	**-**	**-**	**-**	**(105)**	**(105)**
At 31 December 2021	**1,444,530**	**693**	**(1,430)**	**128,119**	**792,148**	**2,364,060**

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Group 2021. HRK'000	Group 2020. HRK'000	Company 2021. HRK'000	Company 2020. HRK'000
Profit/(loss) before tax		**174,879**	**(162,577)**	**166,839**	**(133,690)**
Adjustments for:					
Depreciation and amortisation	*15,16,17*	219,207	222,774	219,097	222,609
Impairments of loans given	*21*	(1,300)	2,366	(1,300)	2,366
Impairments of receivables - net	*22*	(2,143)	3,422	(2,113)	3,414
Property, plant and equipment write off	*15,16*	254	171	253	169
Dividend income	*11*	(574)	-	(574)	-
Gain on disposal of property, plant and equipment		(184)	(64)	(184)	(64)
Finance income and costs		11,395	17,957	11,871	17,945
Share of (profit)/loss of associate	*18*	(5,263)	28,561	-	-
		396,271	**112,610**	**393,889**	**112,749**
Changes in working capital:					
Trade and other receivables		8,785	(37,890)	8,975	(37,676)
Inventories		(575)	811	(581)	808
Trade and other payables		51,489	(8,649)	50,341	(8,159)
Provisions		1,669	(1,291)	1,669	(1,291)
Cash flows from operating activities		**457,639**	**65,591**	**454,293**	**66,431**
Interest paid		(27,335)	(908)	(27,504)	(1,126)
Income tax received		291	7,834	-	7,667
Net cash from operating activities		**430,595**	**72,517**	**426,789**	**72,972**
Cash flows from investing activities					
Acquisition of property, plant and equipment, and intangible assets		(82,476)	(152,015)	(82,475)	(151,703)
Proceeds from sale of tangible assets		184	64	184	64
Dividend received	*18*	574	-	574	-
Increase in deposits		(97,921)	-	(97,921)	-
Receipts from loans receivable		6,360	-	6,360	-
Interest received		131	22	130	21
Net cash from investing activities		**(173,148)**	**(151,929)**	**(173,148)**	**(151,618)**
Cash flows from financing activities					
Proceeds from loans and borrowings		5	13	5	13
Repayment of loans and borrowings		(114,522)	-	(117,281)	-
Payment of lease liabilities		(2,439)	(2,085)	(2,438)	(2,085)
Net cash from financing activities		**(116,956)**	**(2,072)**	**(119,714)**	**(2,072)**
Net (decrease)/increase in cash and cash equivalents		**140,491**	**(81,484)**	**133,927**	**(80,718)**
Cash and cash equivalents at the beginning of the year		496,495	572,312	488,259	563,310
Effects of movement in exchange rates on cash held		(1,314)	5,667	(1,309)	5,667
Cash and cash equivalents at the end of the year	23	**635,672**	**496,495**	**620,877**	**488,259**

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

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 2020: 100%)
- Istraturist j.d.o.o. with an ownership interest of 100% (31 December 2020: 100%)
- ISTRA DMC d.o.o. with an ownership interest of 100% (31 December 2020: 100%).

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

The Group's associates are Jadranski luksuzni hoteli d.d. and Hotel Croatia d.d. with a shareholding of 32.48% each (2020: only Jadranski luksuzni hoteli d.d. with share of 32.48%).

The majority owner of the Company on 31 December 2020 and 2021 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 2020 and 2021, 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
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

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 28 April 2022.

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.

2.5 Going concern

In the year ended 31 December 2021 the Group and Company realised a profit in the amount of HRK 155,278 thousand and HRK 147,720 thousand respectively. At the balance sheet date, the net assets of the Group and Company were in the amount of HRK 2,418,108 thousand and HRK 2,364,060 thousand respectively. The balance of cash equivalents and bank deposits as at 31 December 2021 amounted to HRK 733,395 thousand for the Group and HRK 718,600 thousand for the Company.

As described in the note *Events after the balance sheet date*, the Company does not expect a significant impact on the operations of the Company and the Group due to Russia's invasion of Ukraine. In the event of extremely unfavorable business conditions, the Company has strong liquidity to cover current liabilities.

Management believes that the pandemic of COVID 19 and the war will not affect the Company's ability to continue as a going concern. Management believes that the preparation of financial statements on the going concern basis is still appropriate.

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)*

a) 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.

b) 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.

c) 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 2021 was HRK 7. 517174 (31 December 2020: HRK 7. 536898).

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 gains or losses

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 (continued)

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 the 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 (2020: 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.

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 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 payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

NOTE 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 2021 and have not been previously adopted by the Company and are not expected to have a material impact on the Company's financial statements.

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

31 December 2021	Loans and receivables HRK'000	Financial assets at fair value through other comprehensive income HRK'000	Total HRK'000
Investments in shares of domestic companies	-	15,077	15,077
Trade and other receivables	22,711	-	22,711
Deposits with banks and loans given	104,802	-	104,802
Cash and cash equivalents	635,672	-	635,672
Total	**763,185**	**15,077**	**778,262**

31 December 2020	Loans and receivables HRK'000	Financial assets at fair value through profit and loss HRK'000	Total 000'kn
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**

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

Company
- Assets

31 December 2021	Financial assets at amortised cost HRK'000	Financial assets at fair value through other comprehensive income HRK'000	Total HRK'000
Investments in shares of domestic companies	-	15,077	15,077
Trade and other receivables	21,955	-	21,955
Deposits with banks and loans given	104,738	-	104,738
Cash and cash equivalents	620,877	-	620,877
Total	**747,570**	**15,077**	**762,647**

31 December 2020	Financial assets at amortised cost HRK'000	Financial assets at fair value through other comprehensive income HRK'000	Total HRK'000
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**

- Liabilities-at amortised cost

	Group		Company	
	2021 HRK'000	2020 HRK'000	**2021 HRK'000**	2020 HRK'000
Borrowings	702,051	831,987	705,404	838,099
Trade and other payables	215,248	150,820	214,488	150,813
Total	**917,299**	982,807	**919,892**	988,912

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 2021 and 2020, the currency structure of the Group's (Company's) financial instruments within the scope of IFRS 9 is as follows:

31 December 2021	**EUR**	**HRK**	**CHF**	**Other**	**Total**
Financial assets					
Trade and other receivables	8,092	14,568	-	51	22,711
Deposits with banks and loans given	98,924	5,878	-	-	104,802
Available-for-sale financial assets	-	15,077	-	-	15,077
Cash and cash equivalents	500,918	125,511	983	8,260	635,672
Total	**607,934**	**161,034**	**983**	**8,311**	**778,262**
Financial liabilities-at amortised cost					
Borrowings	702,051	-	-	-	702,051
Trade and other payables	18,981	195,699	-	568	215,248
Total	**721,032**	**195,699**	**-**	**568**	**917,299**
Net exposure	**(113,098)**	**(34,665)**	**983**	**7,743**	**(139,037)**

31 December 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)**

NOTE 4 – FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(i) Foreign exchange risk *(continued)*

Company

31 December 2021	**EUR**	**HRK**	**Other**	**Total**
Financial assets				
Trade and other receivables	8,004	13,901	50	21,955
Deposits with banks and loans given	98,924	5,814	-	104,738
Available-for-sale financial assets	-	15,077	-	15,077
Cash and cash equivalents	498,852	117,798	4,227	620,877
Total	**605,780**	**152,590**	**4,277**	**762,647**
Financial liabilities - at amortised cost				
Borrowings	702,052	3,352	-	705,404
Trade and other payables	18,947	194,984	557	214,488
Total	**720,999**	**198,336**	**557**	**919,892**
Net exposure	**(115,219)**	**(45,746)**	**3,720**	**(157,245)**

31 December 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)**

As at 31 December 2021, if HRK had strengthened/weakened by 10% (2020: 10%) against the EUR, with all other variables held constant, the profit for the year before tax would have been higher/lower for HRK 11,310 thousand for the Group and HRK 11,522 thousand for the Company (2020: HRK 38,068 thousand and HRK 38,085 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.

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	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Trade and other receivables	22,711	30,924	21,955	30,181
Deposits and loans given	104,802	10,514	104,738	10,514
Cash and cash equivalents	635,672	496,495	620,877	488,259
Total	**763,185**	537,933	**747,570**	528,954

The credit quality of financial assets:

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Neither past due nor impaired	125,911	39,702	125,581	39,103
Past due but not impaired	1,602	1,736	1,112	1,592
Impaired	10,212	13,957	7,629	11,291
Impairment	(10,212)	(13,957)	(7,629)	(11,291)
Total	**127,513**	41,438	**126,693**	40,695

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

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Trade and other receivables	21,109	29,188	20,843	28,589
Deposits and loans given	104,802	10,514	104,738	10,514
Total	**125,911**	39,702	**125,581**	39,103

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+ (2020: 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	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Up to 1 month	379	441	121	441
1 to 2 month	144	266	86	118
2 to 3 month	185	140	290	135
Over 3 months up to 1 year	894	889	615	898
Total	**1,602**	1,736	**1,112**	1,592

(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).

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.

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
31 December 2021	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Borrowings	162,482	159,949	379,620	-	702,051
Trade and other payables	215,248	-	-	-	215,248
Total liabilities	**377,730**	**159,949**	**379,620**	**-**	**917,299**
31 December 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**

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 December 2021					
Borrowings	165,835	159,949	379,620	-	705,404
Trade and other payables	214,488	-	-	-	214,488
Total liabilities	**380,323**	**159,949**	**379,620**	**-**	**919,892**
31 December 2020					
Borrowings	130,634	166,482	414,112	126,871	838,099
Trade and other payables	150,813	-	-	-	150,813
Total liabilities	**281,447**	**166,482**	**414,112**	**126,871**	**988,912**

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 2021, assets carried at fair value in the amount of HRK 15,077 thousand (2020: HRK 12,035 thousand) were allocated into level 1.

During 2021 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. Based on future cash flow analysis, there are no goodwill impairments identified.

Key assumptions used in the estimation of the recoverable amount were the discount rate of 8.48% 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 1.25% and fluctuation rate of 3% for males and 2% 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 2021 the Company has achieved total investment tax credit incentives of HRK 109,101 thousand.

The Group (Company) for the year ended 31 December 2021 and 2020 has not utilized tax incentives (2018 and 2019: HRK 82,080 thousand). However the Group (Company) recognized additional tax incentives in 2021 and the remaining tax incentives as at 31 December 2021 amounted to HRK 27,021 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, 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*.

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 2021 is as follows:

HRK'000	Hotels & apartments	Campsites	**Total business segments**	Other business segments	**Total**
Total sales	739,943	278,397	1,018,340	27,113	1,045,453
Profit/(loss) before tax	**86,848**	**84,072**	**170,920**	**(1,304)**	**169,616**
Depreciation and amortisation (Note 15 and 16)	(160,013)	(51,256)	(211,269)	(7,937)	(219,206)
Income tax	-	-	-	-	(22,199)
Share in profit in the associate	-	-	-	-	5,263
Total assets	**1,584,953**	**493,240**	**2,078,193**	**88,757**	**2,166,950**
Investment in associate	**-**	**-**	**-**	**-**	**226,870**
Total liabilities	**14,272**	**7,050**	**21,322**	**464**	**21,786**

The segment information for the year ended 31 December 2020 is as follows:

HRK'000	Hotels & apartments	Campsites	**Total business segments**	Other business segments	**Total**
Total sales	327,577	166,039	493,616	13,827	507,443
Profit before tax	**(143,984)**	**14,689**	**(129,295)**	**(4,721)**	**(134,016)**
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**

NOTE 6 – SEGMENT INFORMATION *(continued)*

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

	2021	2020
	HRK'000	HRK'000
Total sales of business segment	1,018,340	493,616
Total sales of other segment	27,113	13,827
Inter-segment revenue	(37,025)	(22,374)
Revenue from external customers	**1,008,428**	485,069
Profit/(loss) before tax for business segment	170,920	(129,295)
Profit/(loss) before tax for other segment	(1,304)	(4,721)
Share in profit/(loss) in the associate	5,263	(28,561)
Profit/(loss) before tax	**174,879**	(162,577)

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

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
	HRK'000	HRK'000	HRK'000	HRK'000
Business segment assets/liabilities	2,078,193	21,322	2,196,782	5,051
Other segment assets/liabilities	88,757	464	193,519	1,316
Unallocated:	1,217,217	944,273	904,010	1,025,009
Available-for-sale financial assets	15,077	-	12,034	-
Loans and deposits given	104,802	-	10,514	-
Cash and cash equivalents	635,672	-	496,495	-
Share in associate	226,870	-	221,607	-
Deferred tax assets	41,868	-	64,010	-
Provisions	-	13,496	-	11,953
Borrowings	-	726,777	-	858,633
Deferred tax liability	-	10,115	-	9,970
Other assets/liabilities	192,928	193,885	99,350	144,453
Total	**3,384,167**	**966,059**	3,294,311	1,031,376

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.

NOTE 6 – SEGMENT INFORMATION *(continued)*

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Revenue from tourism services	919,883	373,145	907,261	371,902
Rental income	35,020	34,765	35,110	34,913
Other revenue	1,129	1,507	983	1,507
Total	**956,032**	409,417	**943,354**	408,322

NOTE 6a – OTHER OPERATING INCOME

	Group		Company	
	2021.	2020.	**2021.**	2020.
	HRK'000	HRK'000	**HRK'000**	HRK'000
Collection of insurance claims	1,502	2,928	1,488	2,928
Government subsidy - COVID 19	47,536	67,415	47,427	67,223
Other income	3,358	5,309	3,354	5,257
Total	**52,396**	75,652	**52,269**	75,408

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

NOTE 7 – COST OF MATERIALS AND SERVICES

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Raw materials and supplies				
Energy and water used	62,598	36,838	62,544	36,838
Raw materials and supplies used	63,985	26,489	63,932	26,488
Small inventories	7,836	6,546	7,835	6,546
Total	**134,419**	69,873	**134,311**	69,872
Services				
Maintenance services	28,931	26,642	28,483	26,642
Commission agency	50,719	17,824	49,841	16,691
Laundry and cleaning services	14,948	7,365	14,804	7,365
Security services for assets and individuals	10,661	7,053	10,208	7,053
Utility services	11,435	6,485	11,435	6,485
Advertising and promotion	12,760	6,343	11,468	6,313
Franchise cost	6,771	4,515	6,771	4,515
Entertainment and animation	8,932	4,238	8,857	4,238
Transportation and telecommunication	3,514	2,510	3,162	2,499
Student employment agency services	6,000	1,147	5,797	1,147
Rent	2,409	608	922	605
ATP tennis tournament services	1,881	273	-	-
Other services	7,570	4,921	7,393	4,874
Total	**166,531**	89,924	**159,141**	88,427
Total	**300,950**	159,797	**293,452**	158,299

NOTE 8 – STAFF COSTS

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Wages and salaries – net	125,086	88,295	124,613	87,909
Contributions to pension funds	34,340	24,796	34,204	24,682
Health insurance contribution	27,104	19,019	26,993	18,925
Other contributions and taxes on salaries	13,619	11,080	13,546	11,012
Other employee costs	30,749	14,326	30,033	14,306
Total	**230,898**	**157,516**	**229,389**	**156,834**
Number of employees as at 31 December	**1,156**	1,203	**1,152**	1,199

In 2021, a total of HRK 24,445 thousand (2020: HRK 14,704 thousand) was paid into the pension insurance system – Group (2021 Company: HRK 24,333 thousand (2020: 14,623 thousand).

NOTE 9 – OTHER OPERATING EXPENSES

	Group		**Company**	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Utility and similar charges, taxes and contributions	32,425	34,981	32,208	34,875
Impairment of trade and other receivables	1,121	5,788	1,117	5,780
Professional services	11,557	6,043	8,714	5,776
Insurance premiums	4,596	4,360	4,493	4,341
Bank charges and membership fees	4,675	2,591	4,620	2,555
Travel and entertainment	625	309	367	308
Increase in provisions for legal disputes	2,135	454	2,135	454
Other	19,987	6,451	22,079	7,581
Total	**77,121**	60,977	**75,733**	61,670

As at 31 December 2021 the Company terminated the franchise agreement with Melia Hotels International S.A. and under other operating expenses recognised the costs of compensation based on the termination of the contract in the amount of HRK 17.6 million. Professional services include HRK 26 thousand that relate to the consulting services in the procurement process provided by the auditor.

NOTE 10 – OTHER GAINS/LOSSES – NET

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Net gains/(losses) from sale of property, plant and equipment	184	(64)	184	(63)
Other gains/losses – net	**184**	(64)	**184**	(63)

NOTE 11 – FINANCE INCOME AND COSTS

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Financial income				
Dividend income - not affiliated companies	574	-	574	-
Interest income from cash deposits	131	22	131	21
Net foreign exchange gains	2,624	-	2,306	-
Other financial income	273	202	273	202
Total financial income	**3,602**	224	**3,284**	223
Financial expense				
Interest expense	14,423	14,983	14,581	15,201
Net foreign exchange gains	-	3,198	-	2,967
Total financial expense	**14,423**	18,181	**14,581**	18,168
Net financial (costs)/income	**(10,821)**	(17,957)	**(11,297)**	(17,945)

NOTE 12 – INCOME TAX

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	
	2021.	2020.	**2021.**	2020.
	HRK'000	HRK'000	**HRK'000**	HRK'000
Current income tax	482	-	-	-
Deferred tax expense/ (income)	21,717	(43,594)	21,717	(43,594)
Income tax	**22,199**	(43,594)	**21,717**	(43,594)

	Group		Company	
	2021.	2020.	**2021.**	2020.
	HRK'000	HRK'000	**HRK'000**	HRK'000
Profit/(loss) before tax	**174,879**	(162,577)	**166,839**	(133,690)
Income tax at rate of 18%	31,478	(29,264)	30,031	(24,064)
Effect of non-taxable income	(10,851)	(13,531)	(9,882)	(13,497)
Effect of non-deductible expenses	2,030	6,615	1,938	1,468
Tax loss utilised	(88)	-	-	-
Tax incentive	(370)	(7,501)	(370)	(7,501)
Tax loss not recognised as deferred tax asset	-	87	-	-
Income tax expense	**22,199**	(43,594)	**21,717**	(43,594)
Effective tax rate	*12.69%*	-	*13.02%*	-

The Company on the basis of the Investment Incentive Act, applied investment projects for the period from 2017 to 2021 in order to acquire the status of holder of incentive measures.

Based on realised qualifying investment up to 31 December 2021, the Company became entitled to tax incentives of HRK 109,101 thousand, out of which HRK 82,080 thousand was utilised to 31 December 2021. Outstanding income tax credit as of 31 December 2021 amounted to HRK 27,021 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.

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 2021 and 2020 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 preference shares though both periods was 420,000 shares.

Diluted earnings per share

Diluted earnings per share for 2021 and 2020 are equal to basic earnings per share, since the Group did not have any convertible instruments or share options outstanding during either years.

2021		**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	**152,680**		
Fixed annual dividend - preference shares	(105)	105	-
Profit/(loss) for the year attributable to equity holders	152,575	24,501	128,074
Total earnings/(loss) for the year attributable to equity holders		**24,606**	**128,074**
Weighted average number of shares in issue excluding treasury shares		420,000	2,195,426
Basic and diluted earnings/(loss) per share (in HRK)		**58.59**	**58.34**

2020		**Preference shares**	**Ordinary shares**
Total number of shares issued		***420,000***	***2,197,772***
In HRK'000			
Loss for the year attributable to the owners of the Company, restated	**(118,983)**	-	-
Fixed anual dividend - preference shares	(105)	105	-
Loss for the year attributable to equity holders	(119,088)	(19,124)	(99,964)
Total 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 loss per share (in HRK)		**(45.28)**	**(45.53)**

NOTE 14 – DIVIDEND PER SHARE

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 to 31 July 2022, the Group and the Company would have to repay received government subsidy (COVID 19).

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

Group

(in thousands of HRK)	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
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 to investment property	(12,142)	1,770	113	-	(10,259)
Depreciation	(168,422)	(37,240)	(9,126)	-	(214,788)
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)
Net book amount	**2,235,180**	**90,036**	**49,615**	**8,496**	**2,383,327**
Year ended 31 December 2021					
Opening net book amount	2,235,180	90,036	49,615	8,496	2,383,327
Additions	-	-	-	95,148	95,148
Transfer	63,365	18,012	3,556	(84,933)	-
Write off	(14)	(212)	(28)	-	(254)
Transfers from other classes of PPE	(1,396)	-	-	-	(1,396)
Depreciation	(171,905)	(30,320)	(9,336)	-	(211,561)
Closing net book amount	**2,125,230**	**77,516**	**43,807**	**18,711**	**2,265,264**
At 31 December 2021					
Cost	4,932,886	597,783	134,953	18,711	5,684,333
Accumulated depreciation and impairment	(2,807,656)	(520,267)	(91,146)	-	(3,419,069)
Net book amount	**2,125,230**	**77,516**	**43,807**	**18,711**	**2,265,264**

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

Company

(in thousands of HRK)	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
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
Transfers	117,838	17,768	11,428	(147,034)	-
Write off	-	(169)	-	-	(169)
Transfers from/(to) investment property	(12,143)	1,770	113	-	(10,260)
Depreciation	(168,412)	(37,131)	(9,126)	-	(214,669)
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)
Net book amount	**2,235,127**	**89,902**	**49,615**	**8,496**	**2,383,140**
Year ended 31 December 2021					
Opening net book amount	2,235,127	89,902	49,615	8,496	2,383,140
Additions	-	-	-	95,146	95,146
Transfer	63,365	18,010	3,557	(84,932)	-
Write off	(13)	(212)	(28)	-	(253)
Transfers to Investment property	(1,396)	-	-	-	(1,396)
Depreciation	(171,894)	(30,253)	(9,336)	-	(211,483)
Closing net book amount	**2,125,189**	**77,447**	**43,808**	**18,710**	**2,265,154**
At 31 December 2021					
Cost	4,932,779	595,956	134,953	18,711	5,682,399
Accumulated depreciation and impairment	(2,807,590)	(518,509)	(91,146)	-	(3,417,245)
Net book amount	**2,125,189**	**77,447**	**43,807**	**18,711**	**2,265,154**

Additions under 'Land and buildings' relate to various construction works in hotels and campsites. As at 31 December 2021 the net carrying value of land and buildings pledged by the Group as collateral for repayment of long-term borrowings amounted to HRK 958,977 thousand (2020: HRK 1,008,494 thousand).

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	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Cost	113,436	103,298	113,436	103,298
Transfer from property, plant and equipment	13,216	10,138	13,216	10,138
Accumulated depreciation, 1 January	(84,871)	(81,782)	(84,871)	(81,782)
Transfer of accumulated depreciation from property, plant and equipment	(11,820)	-	(11,820)	-
Depreciation expense	(2,889)	(3,089)	(2,889)	(3,089)
Net book amount	**27,072**	28,565	**27,072**	28,565

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

As 31 December 2021, according to Managements best estimate, the estimated fair value of the investment property was HRK 208,658 thousand (2020: HRK 185,668 thousand).

During 2021, the Group realised rental income from the stated property in the amount of HRK 15,674 thousand (2020: HRK 13,951 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	
	2021.	2020.	**2021.**	2020.
	HRK'000	HRK'000	**HRK'000**	HRK'000
Up to 1 year	16,694	15,214	16,694	15,214
From 2 to 5 years	71,474	63,601	71,474	63,601
Total	**88,168**	78,815	**88,168**	78,815

NOTE 16 – INTANGIBLE ASSETS

Group

(in thousands of HRK)	Software	Goodwill	Asset being prepared	Total
At 1 January 2020				
Cost	30,285	12,480	17	42,782
Accumulated amortisation	(25,084)	-	-	(25,084)
Net book value	**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				
Cost	28,481	12,480	-	40,961
Accumulated amortisation	(24,542)	-	-	(24,542)
Net book amount	**3,939**	**12,480**	**-**	**16,419**
For year ended 31 December 2021				
Cost	3,939	12,480	-	16,419
Additions	-	-	1,954	1,954
Transfers	1,954	-	(1,954)	-
Amortisation	(2,167)	-	-	(2,167)
Closing net book amount	**3,726**	**12,480**	**-**	**16,206**
At 31 December 2021				
Cost	28,034	12,480	-	40,514
Accumulated amortisation	(24,308)	-	-	(24,308)
Net book value	**3,726**	**12,480**	**-**	**16,206**

NOTE 16 – INTANGIBLE ASSETS *(continued)*

Company

(in thousands of HRK)	Software	Goodwill	Asset being prepared	Total
At 1 January 2020				
Cost	30,065	12,480	-	42,545
Accumulated amortisation	(24,923)	-	-	(24,923)
Net book value	**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				
Cost	28,210	12,480	-	40,690
Accumulated amortisation	(24,335)	-	-	(24,335)
Net book amount	**3,875**	**12,480**	**-**	**16,355**
For year ended 31 December 2021				
Opening net book amount	3,875	12,480	-	16,355
Additions	-	-	1,954	1,954
Transfers	1,954	-	(1,954)	-
Amortisation	(2,135)	-	-	(2,135)
Closing net book amount	**3,694**	**12,480**	**-**	**16,174**
At 31 December 2021				
Cost	27,764	12,480	-	40,244
Accumulated amortisation	(24,070)	-	-	(24,070)
Net book value	**3,694**	**12,480**	**-**	**16,174**

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. Based on future cash flow analysis, there are no goodwill impairments identified. Key assumptions used in the estimation of the recoverable amount were the discount rate of 8.48% and the growth rate of 1%. Capital expenditure has been determined in accordance with Group's future plans.

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:

(in thousands of HRK)	Maritime domain	Business premises	Other	Total
Year ended 31 December 2021				
Opening net carrying amount	21,261	4,770	329	26,360
Additions	-	516	-	516
Depreciation	(1,687)	(903)	-	(2,590)
Closing net carrying amount	19,574	4,383	329	24,286

(in thousands of HRK)	**31 December 2021**
Lease liabilities	
Current portion	2,516
Non-current portion	22,210
	24,726

The maturity of long-term borrowings is as follows:

	Group and Company 2021 HRK'000
From 1 to 2 years	2,526
From 2 to 5 years	6,999
Over 5 years	12,685
Total	**22,210**

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	903
	2,590
Interest expense (included in financial expenses)	475

In 2021, a total of HRK 2,910 thousand of interest and principal for leases was repaid (2020: HRK 2,600 thousand).

NOTE 18 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATE

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Subsidiaries	-	-	113	113
Associates	226,870	221,607	190,732	190,732
Total	**226,870**	**221,607**	**190,845**	**190,845**

	Country	**Ownership %**	
Subsidiaries		**31.12.2021**	**31.12.2020**
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
Hotel Croatia d.d.	Croatia	32.48	-

Jadranski luksuzni hoteli d.d. is tourism company operating hotels in Dubrovnik, Croatia. Investment in the associated company Hotel Croatia d.d. was created after the demerger of the company Jadranski luksuzni hoteli d.d. The demerger of the associate was carried out based on the book values.

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

Changes in investments in associate is as follows:

	HRK '000	
	31.12.2021	**31.12.2020**
At the beginning of the year	221,607	250,168
Share of profit/(loss) in associate	5,263	(28,561)
At the end of the year	**226,870**	**221,607**

The non-listed associated is as follows:

	Jadranski luksuzni hoteli d.d.	Hotel Croatia d.d.	Jadranski luksuzni hoteli d.d.
	2021	**2021**	**2020**
	HRK'000	**HRK'000**	**HRK'000**
Percentage of ownership interest	**32.48%**	**32.48%**	**32.48%**
Non-current assets	755,620	239,466	1,053,039
Current assets	111,831	30,173	70,589
Non-current liabilities	327,797	831	362,935
Current liabilities	140,919	5,079	114,450
Net assets	**398,735**	**263,729**	**646,243**
Group's share of net assets (32.48%)	129,504	85,659	209,900
Goodwill	7,042	4,665	11,707
Carrying amount of interest in associate	**136,546**	**90,324**	**221,607**
Revenue	306,445	17,658	148,338
Profit/(loss) for the year	19,834	(3,630)	(87,769)
Other comprehensive income	(9)	(15)	(165)
Total comprehensive income	19,825	(3,645)	(87,934)
Total comprehensive income	6,442	(1,179)	(28,561)

Hotel Croatia d.d. was established on 1 September 2021 demerging from the company Jadranski luksuzni hoteli d.d. The demerger of the associate was carried out based on the book values.

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

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Investments in banks	12,736	9,932	12,736	9,932
Investments in companies /i/	2,341	2,103	2,341	2,103
Total	**15,077**	12,035	**15,077**	12,035

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

	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Opening balance	12,035	13,111	12,035	13,111
Change in fair value	3,042	(1,076)	3,042	(1,076)
Closing balance	**15,077**	12,035	**15,077**	12,035

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

NOTE 20 – DEFERRED TAX ASSETS AND LIABILITIES

	Assets		Liabilities		Net	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
(in thousands of HRK)						
Property, plant and equipment	-	-	(9,392)	(9,795)	(9,392)	(9,795)
Financial assets measured at fair value through OCI	-	-	(723)	(175)	(723)	(175)
Provisions	-	345	-	-	-	345
Receivables	298	1,081	-	-	298	1,081
Income tax credit	27,021	26,651	-	-	27,021	26,651
Tax losses	11,850	33,196	-	-	11,850	33,196
Payables	1,376	1,376	-	-	1,376	1,376
Jubilee awards and termination benefits	1,323	1,361	-	-	1,323	1,361
Total	41,868	64,010	(10,115)	(9,970)	31,753	54,040

Movements in deferred tax assets and liabilities:

Group and Company	**1 Jan 2020**	**Recognised in profit and loss account**	**Recognised in OCI**	**31 Dec 2021**	**Recognised in profit and loss account**	**Recognised in OCI**	**31 Dec 2021**
(in thousands of HRK)							
Property, plant and equipment	(10,198)	403	-	(9,795)	403	-	(9,392)
Financial assets measured at fair value through OCI	(368)	11	182	(175)	-	(548)	(723)
Provisions	345	-	-	345	(345)	-	-
Receivables	-	1,081	-	1,081	(783)	-	298
Income tax credit	19,150	7,501	-	26,651	370	-	27,021
Tax losses	-	33,196	-	33,196	(21,346)	-	11,850
Payables	-	1,376	-	1,376	-	-	1,376
Jubilee awards and termination benefits	1,251	26	84	1,361	(16)	(22)	1,323
Total	**10,180**	**43,594**	**266**	**54,040**	**(21,717)**	**(570)**	**31,753**

NOTE 21 – LOAN RECEIVABLES

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Long term:				
Loan receivables	3,716	8,365	3,673	8,365
Impairment of loan receivables	(537)	(1,581)	(537)	(1,581)
	3,179	6,784	**3,136**	6,784
Short term:				
Loan receivables	4,429	4,515	4,408	4,515
Impairment of loan receivables	(529)	(785)	(529)	(785)
	3,900	3,730	**3,879**	3,730
Total loan receivables	**7,079**	10,514	**7,015**	10,514

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%.

Maturity of non-current loan receivables is as follows:

	Group		Company	
	2021.	2020.	**2021.**	2020.
	HRK'000	HRK'000	**HRK'000**	HRK'000
From 1 to 2 years	**2,230**	3,510	**2,188**	3,510
From 2 to 5 years	**949**	3,274	**948**	3,274
Over 5 years	**-**	-	**-**	-
Total	**3,179**	6,784	**3,136**	6,784

NOTE 22 – TRADE AND OTHER RECEIVABLES

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Domestic trade receivables	5,194	7,747	5,584	7,565
Foreign trade receivables	6,875	6,267	3,581	3,617
Due from brokers - agencies	67	2	67	2
Impairment of trade receivables	(9,137)	(11,593)	(6,554)	(8,925)
Trade receivables - net	**2,999**	2,423	**2,678**	2,259
Accrued income not yet invoiced	7,076	7,595	7,076	7,595
Total financial assets	**10,075**	10,018	**9,754**	9,854
Due from state institutions	1,113	11,526	713	11,125
VAT prepayments	6,025	5,200	5,990	5,297
Advances from suppliers	1,086	541	1,086	542
Other current receivables	4,421	3,647	4,421	3,371
Impairment of other receivables	(9)	(8)	(9)	(8)
Total	**22,711**	30,924	**21,955**	30,181

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

	Group		Company	
	2021.	2020.	**2021.**	2020.
	HRK'000	HRK'000	**HRK'000**	HRK'000
At 1 January	**11,593**	8,171	**8,925**	5,511
New impairments, net	**1,042**	3,641	**1,042**	3,633
Write-off	**(313)**	-	**(258)**	-
Recovery of previously written-off receivables	**(3,185)**	(219)	**(3,155)**	(219)
At 31 December	**9,137**	11,593	**6,554**	8,925

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 2021 the Group (Company) had loss allowance for ECL in the amount of HRK 90 thousand (31 December 2020: HRK 416 thousand).

NOTE 23 – CASH AND CASH EQUIVALENTS

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Giro and current accounts	**136,253**	39,697	**117,657**	32,868
Foreign currency accounts	**499,312**	456,749	**503,116**	455,344
Cash in hand	**107**	49	**104**	47
	635,672	496,495	**620,877**	488,259

NOTE 24 – EQUITY

The equity ownership structure as at 31 December 2021 and 2020 was as follows:

Shareholder	**Holding in share capital %**	**Total number of shares**	**Total amount (HRK)**
Ownership of ordinary shares:			
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
	100	**2,197,772**	**1,339,530,057**
Ownership of preference shares:			
Adriatic Investment Group, Luxembourg	100	420,000	105,000,000
	100	**420,000**	**105,000,000**
Total			**1,444,530,057**

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 2021 no preferred dividend was paid out due to the shareholder's waiver.

NOTE 25 – RESERVES

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Legal reserves	53,021	53,021	53,021	53,021
Other reserves	75,098	72,500	75,098	72,500
Total	**128,119**	125,521	**128,119**	125,521

Changes in reserves:

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
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	72,500	73,714	72,500	73,714
Remeasurement of defined benefit liability	104	(332)	104	(332)
Fair value of financial assets through comprehensive income	2,494	(882)	2,494	(882)
Closing balance	**75,098**	72,500	**75,098**	72,500

i/ Legal reserves are formed in accordance with Croatian regulations stipulating that the Company is obliged to enter into the legal reserve twentieth part (5%) of the year's profit until the reserves together with the capital reserves reach the five percent (5%) of the Company's registered capital. This reserve is non-distributable.

ii/ As at 31 December 2021 and 31 December 2020, 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 before denomination), representing a share of 5.72% (2020: 5.72%) of the Company's share capital. Merger reserves were created by merging company Istraturist d.d. on 1 January 2018.

NOTE 25 – RESERVES *(continued)*

Other reserves:

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	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	6,529	4,035	6,529	4,035
Actuarial gains/(losses)	(294)	(398)	(294)	(398)
Total	**75,098**	72,500	**75,098**	72,500

NOTE 26 – BORROWINGS

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Long-term loans				
Bank borrowings	539,569	701,353	539,569	701,353
Borrowings from subsidiaries	-	-	-	6,112
	539,569	701,353	**539,569**	707,465
Short-term loans				
Current portion of bank borrowings	159,949	115,147	159,949	115,147
Borrowings from subsidiaries	-	-	3,352	-
Accrued interest and fees	2,533	15,487	2,534	15,487
	162,482	130,634	**165,835**	130,634
Total borrowings	**702,051**	831,987	**705,404**	838,099

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.

NOTE 26 – BORROWINGS *(continued)*

The maturity of long-term borrowings is as follows:

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
From 1 to 2 years	159,949	160,370	159,949	166,482
From 2 to 5 years	379,620	414,112	379,620	414,112
Over 5 years	-	126,871	-	126,871
Total	**539,569**	701,353	**539,569**	707,465

The movements in debt during 2021 are presented in the table below:

	Group	Company
	HRK'000	HRK'000
As at 1 January 2021	**858,633**	**864,745**
Increase of lease liability - MSFI 16	516	516
Cash outflows and offsets	(116,961)	(119,719)
Interest paid	(27,335)	(27,504)
Interest expense	14,423	14,581
Net foreign exchange difference	(2,499)	(2,489)
As at 31 December 2021	**726,777**	**730,130**

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 - IFRS 16	4,091	4,091
Cash outflow and offsets	(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**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 27 – TRADE AND OTHER PAYABLES

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Trade payables	56,787	19,553	56,495	19,493
Due to related parties (Note 30)	-	-	102	80
Dividends payable (Note 14)	6,899	6,899	6,899	6,899
Accrued costs not yet invoiced	9,611	7,298	9,547	7,219
Concession payable	78,601	64,426	78,601	64,426
	151,898	98,176	**151,644**	98,117
Net salaries payable	23,846	16,858	23,793	16,822
Taxes and contributions payable	18,655	10,360	18,611	10,357
Advances payable	16,984	21,174	16,580	21,297
Other current liabilities	3,865	4,252	3,860	4,220
Total	**215,248**	150,820	**214,488**	150,813

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 have been paying 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. The fee was further calculated according to the previous principle and the Company considers that the recorded liabilities are sufficient. Concession expense for Group and the Company for 2021 of HRK 14,177 thousand (2020: HRK 12,001 thousand) have been included in *Other operating expenses*.

NOTE 28 – PROVISIONS

	Legal claims	Provision for jubilee awards and termination benefits restated	Total
	HRK'000	HRK'000	HRK'000
Balance at 1 January 2021	4,393	7,560	11,953
Increase in provisions	2,135	589	2,724
Decrease in provisions	(106)	-	(106)
Decrease through other comprehensive income	-	(127)	(127)
Utilised during the year	(273)	(675)	(948)
Balance at 31 December 2021	**6,149**	**7,347**	**13,496**
Non-current	**6,149**	**6,557**	**12,706**
Current	**-**	**790**	**790**

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 1.25% and fluctuation rate of 3% for males and 2% 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., legal predecessor of 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).

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.

Based on these rulings, Nova Ljubljanska banka initiated several court (enforcement) proceedings in the Republic of Croatia and some European union states, for the purpose of settling mortgage and credit claims, as well as recognition of the Slovenian court verdicts in Croatia.

Management assessment

With the established business model, the Group (Company) freely manages and fully controls the sales business segment, and the Management Board considers 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 6,149 thousand (2020: HRK 4,393 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 2021 amounted to HRK 113 million (31 December 2020: HRK 31 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. The agreement was terminated as at 31 December 2021.

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).

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:

	2021	2020
	HRK'000	HRK'000
Trade and other receivables	928	63
Sales revenue	98,920	40,389
Trade and other payables	3,890	6,151
Borrowings	3,352	6,112
Other expenses	2,508	1,316
Financial expenses	226	336

Transactions with the majority shareholder of the parent company:

During 2021, 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 (2020: payment in the amount of HRK 105 thousand gross).

Also, the transaction with the majority shareholder was realized in the amount of HRK 1 thousand, based on the provided accommodation service (2020: HRK 1.5 thousand).

During 2021, the Company Plava Laguna d.d. received no dividend from the associated company and subsidiary (2020: no dividend received).

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

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

	2021	2020
	HRK'000	HRK'000
Trade and other receivables	1	-
Sales revenue	95	227
Other expenses	-	1

NOTE 30 – RELATED PARTY TRANSACTIONS (continued)

Group key management and Supervisory Board compensation

	Group		Company	
	2021	2020	**2021**	2020
	HRK'000	HRK'000	**HRK'000**	HRK'000
Net salaries	7,310	6,310	7,310	6,310
Pension insurance contributions	2,027	1,864	2,027	1,864
Health insurance contributions	1,768	1,600	1,768	1,600
Other costs (contribution and taxes)	1,496	1,524	1,496	1,524
	12,601	11,298	12,601	11,298
Supervisory Board compensation	1,788	1,376	1,788	1,376
Total	**14,389**	12,674	**14,389**	12,674

Key management comprises 23 persons (2020: 23 persons). The Supervisory Board comprises 7 members (2020: 7 members).

NOTE 31 – SUBSEQUENT EVENTS

In February 2022 Russia commenced the invasion on Ukraine. Number of guests from these countries is not significant, therefore the Group (Company) expect no significant adverse effect on the operations, however, at the moment it is not possible to quantify the effects. In 2021, number of overnights stays of Russian and Ukrainian guests was 3.3%.

PLAVA LAGUNA D.D.

APPENDIX

CAPEX

Capital expenditures for products or services in connection with the economic activities related to the taxonomy

				SUBSTANTIAL CONTRIBUTION CRITERIA						DNSH CRITERIA (Does not Significantly Harm)										
Economic Activity (1)	Code (2)	Absolute Opex (3)	Proportion of Opex (4)	Climate Change Mitigation (5)	Climate Change Adaptation (6)	Water & Marine Resources (7)	Circular Economy (8)	Pollution (9)	Biodiversity and Ecosystem (9)	Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water & Marine Resources (13)	Circular Economy (14)	Pollution (15)	Biodiversity and Ecosystem (16)	Minimum Safeguards (17)	Taxonomyaligned proportion of CAPEX Year N (18)	Taxonomyaligned proportion of CAPEXYear N-1 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
		HRK '000	%	%	%	%	%	%	%	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Percent	Percent	E	T
A. TAXONOMY- ELIGIBLE ACTIVITY			0%	0%	0%															
A.1. Environmentally sustainable activities (Taxonomy -aligned)																				
Activities 1																				
Activities 2																				
Capex of environmentally sustainable activities (Taxonomyaligned) (A.1.)		0																		
A.2. Elligible but not environmentally sustainable activities (not Taxonomy -aligned)																				
Activities 1																				
Activities 3																				
Capex of Taxonomy Eligible but not environmentally sustainable activities (notTaxonomyaligned activities) (A.2.)		0																		
Total (A.1. +A.2.)		0																		
B. TAXONOMY -NON - ELIGIBLE ACTIVITIES																				
Capex of Taxonomy-noneligible activities (B)		98,498	100%																	
TOTAL (A+B)		98,498	100%																	

PLAVA LAGUNA D.D.

APPENDIX

Revenues

Revenue from products or services in connection with the economic activities related to the taxonomy 2021

				SUBSTANTIAL CONTRIBUTION CRITERIA						DNSH CRITERIA (Does not Significantly Harm)										
Economic Activity (1)	Code (2)	Absolute Opex (3)	Proportion of Opex (4)	Climate Change Mitigation (5)	Climate Change Adaptation (6)	Water & Marine Resources (7)	Circular Economy (8)	Pollution (9)	Biodiversity and Ecosystem (9)	Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water & Marine Resources (13)	Circular Economy (14)	Pollution (15)	Biodiversity and Ecosystem (16)	Minimum Safeguards (17)	Taxonomyaligned proportion of Revenue Year N (18)	Taxonomyaligned proportion of Revenue Year N-1 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
		HRK '000	%	%	%	%	%	%	%	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Percent	Percent	E	T
A. TAXONOMY- ELIGIBLE ACTIVITY			0%	0%	0%															
A.1. Environmentally sustainable activities (Taxonomy -aligned)																				
Activities 1																				
Activities 2																				
Revenue of environmentally sustainable activities (Taxonomyaligned) (A.1.)		0																		
A.2. Elligible but not environmentally sustainable activities (not Taxonomy -aligned)																				
Activities 1																				
Activities 3																				
Opex of Taxonomy Eligible but not environmentally sustainable activities (notTaxonomyaligned activities) (A.2.)		0																		
Total (A.1. +A.2.)		0																		
B. TAXONOMY -NON - ELIGIBLE ACTIVITIES																				
Revenue of Taxonomy-noneligible activities (B)		956,032	100%																	
TOTAL (A+B)		956,032	100%																	

PLAVA LAGUNA D.D.

APPENDIX

OPEX

Operating expenditures for products or services in connection with the economic activities related to the taxonomy

				SUBSTANTIAL CONTRIBUTION CRITERIA						DNSH CRITERIA (Does not Significantly Harm)										
Economic Activity (1)	Code (2)	Absolute Opex (3)	Proportion of Opex (4)	Climate Change Mitigation (5)	Climate Change Adaptation (6)	Water & Marine Resources (7)	Circular Economy (8)	Pollution (9)	Biodiversity and Ecosystem (9)	Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water & Marine Resources (13)	Circular Economy (14)	Pollution (15)	Biodiversity and Ecosystem (16)	Minimum Safeguards (17)	Taxonomyaligned proportion of OPEX Year N (18)	Taxonomyaligned proportion of OPEX Year N-1 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
		HRK '000	%	%	%	%	%	%	%	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Percent	Percent	E	T
A. TAXONOMY- ELIGIBLE ACTIVITY			0%	0%	0%															
A.1. Environmentally sustainable activities (Taxonomy -aligned)																				
Activities 1																				
Activities 2																				
Opex of environmentally sustainable activities (Taxonomyaligned) (A.1.)																				
A.2. Elligible but not environmentally sustainable activities (not Taxonomy - aligned)																				
Activities 1																				
Activities 3																				
Opex of Taxonomy Eligible but not environmentally sustainable activities (notTaxonomyaligned activities) (A.2.)		0																		
Total (A.1. +A.2.)		0																		
B. TAXONOMY -NON - ELIGIBLE ACTIVITIES																				
Opex of Taxonomy-noneligible activities (B)		358,345	100%																	
TOTAL (A+B)		358,345	100%																	

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 May 6, 2022 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 THE USE OF PROFIT OF THE COMPANY AND THE GROUP FOR YEAR 2021

In the course of the fiscal year 2021, 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 13 meetings which were usually attended by all members. Due to the termination of the four year mandate of the Supervisory Board Members, at the General Assembly held on August 26th 2021 the Supervisory Board was elected with the same members, and the Employees council PLAVA LAGUNA j.s.c. confirmed the mandate of the current member – employees' representative. The constituent session was held on 2 September 2021, where Mr. Davor Luksic Lederer was elected as the President of the Supervisory Board, and Mr. Patricio Tomas Balmaceda Tafra as a Deputy President of the Supervisory Board.

During year 2021, Supervisory Board functioned in two convocations in the following composition:
Davor Luksic Lederer, President of the Supervisory Board
Patricio Tomas Balmaceda Tafra, 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 Kurtek, Member of the Supervisory Board, employees' representative.

Particular informing of certain members of the Supervisory Board were held during the year as needed due to extraordinary circumstances caused by the coronavirus pandemic.

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 the use of profit gained in 2021.

Pursuant to its authorities under Article 300c paragraph 2 of the Companies Act, in a meeting held on 25 April 2022 and in the presence of the representatives of the auditing company KPMG Croatia d.o.o. Zagreb, the Supervisory Board reviewed the submitted financial statements for 2021 for the Company and the Group, the report on the situation in the Company as well as the proposed decision on the use of profit. 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 2021 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 2021 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 2021 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 2021 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 use f profit gained in 2021 and part of the retained earnings from 2019 for the payment of dividend for preferred and ordinary shares, 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 2021, 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 2021, 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 2021 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

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 26th of August 2021, and on 28th of September 2021 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 2021 and until the issuance of the report in the first part of 2022, 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 25th April 2022 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 and the war conflicts in Ukraine, 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