ANNUAL REPORT

2018

VALAMAR
All you can holiday

EXECUTIVE SUMMARY

KEY FINANCIAL INDICATORS
(in HRK '000,000)

	2017	2018	2018/2017
Total revenues	1,842.0	2,047.8	11.2%
Sales revenues	1,755.3	1,961.4	11.7%
Board revenues	1,447.9	1,629.0	11.5%
Operating expenses	1,145.2	1,264.3	10.4%
EBITDA	606.0	694.5	14.6%
Adjusted EBITDA	622.6	702.9	12.9%
EBIT	259.5	283.5	9.3%
Adjusted EBIT	276.1	292.0	5.8%
EBT	238.6	258.1	8.1%
Net profit	245.1	239.2	-2.4%
EBITDA margin	34.1%	34.9%	80 bp
Adjusted EBITDA margin	35.0%	35.3%	30 bp

Net debt	1,772.4	2,169.1	22.4%
Cash and cash equivalents	287.8	261.8	-9.0%
Net debt / Adjusted EBITDA	2.85	3.09	8.4%
Capital investments	877.7	703.6	-19.8%
Market capitalization	5,420.3	4,468.8	-17.6%
EV	7,192.6	6,637.9	-7.7%
DPS	0.80	0.90	12.5%

KEY OPERATING INDICATORS

	2017	2018	2018/2017
Accommodation units (capacity)	20,852	21,371	2.5%
Number of beds	56,662	58,023	2.4%
Full occupancy days	127	132	4.5%
Annual occupancy (%)	35%	36%	100 bp
Accommodation units sold ('000)	2,640	2,827	7.1%
Overnights ('000)	6,173	6,460	4.6%
ADR (in HRK)	548	576	5.0%
RevPAR (in HRK)	69,435	76,224	9.8%

Note: Details and explanations can be found on page 16 in "Results of the Group".

13%

GROWTH OF ADJUSTED EBITDA TO

703

MILLION HRK

EBITDA AND EBITDA MARGIN

Valamar Riviera Group continues to assert its leadership position through exceptional results. In 2018 the Group achieved the set goals and double-digit growth in business results despite slower peak-season demand in tourism. The high adjusted EBITDA in the amount of HRK 703 million (+13%; HRK 623 million in 2017) is the result of a 12% increase in sales revenues, as well as in operating efficiency through the growth of adjusted EBITDA margin to 35.3% (35.0% in 2017); the strong increase in operating profit was also contributed by an intensive investment cycle worth more than HRK 700 million.

REVENUES

Total revenues were HRK 2,048 million, up 11% vs. last comparable period (HRK 1,842 million in 2017). In total revenues, HRK 1,961 million represented sales revenues (HRK 1,755 million in 2017), while the remaining part was mainly financial income, down HRK 7 million (from HRK 64 million to HRK 57 million). The growth of sales revenues growth was largely driven by 12% higher board revenues that amounted to HRK 1,629 million (HRK 1,448 million in 2017) and 10% higher F&B outlet revenues. Croatia had reported growing demand for several years before experiencing a recent slowdown in tourist turnover during the

EXECUTIVE SUMMARY
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summer season. Despite these unfavourable trends, Valamar Riviera recorded 6.5 million overnight stays (+5%) during 2018, while the average daily rate increased to HRK 576 (+5%). The HRK 181 million growth in board revenues was mainly driven by: (i) large investments to improve competitiveness and the quality of services and products, (ii) strong business development during 1H 2018, (iii) demand- driven optimization of distribution and prices, (iv) 5 days increase in full occupancy ratio, (v) the development of destination products with added value, and (vi) acquisition of Hoteli Makarska and Valamar Obertauern.

COSTS

Pressure on growth of operating costs was successfully reduced by a high level of operative efficiency. Their controlled increase by 10% to a level of HRK 1,264 million was mainly due to: (i) increase in material costs due to increased business volume, (ii) increase in other costs (increase in the costs of accommodation, food and transportation of employees and consolidation of Hotel Makarska and Valamar Obertauern); and (iii) increase in staff costs (payrolls). Payrolls growth was planned in line with the salary increase policy and the new staff hired to ensure service quality in the Premium and Upscale products. However, human resources still remain the greatest challenge for growth and development in the forthcoming period.

INCREASE IN OPERATING EFFICIENCY TO

35.3%

(ADJUSTED EBITDA MARGIN)

PROFIT

Profit before tax grew by HRK 20 million to HRK 258 million. The strong 8% growth was achieved despite higher amortization cost (HRK +64 million coming from earlier large investment cycles), due to excellent operating results. The Group's net profit decreased by HRK 6 million to HRK 239 million, primarily as a result of lower tax revenues mainly due the lower one-off recognition of deferred tax assets related to the achieved tax incentives prescribed by the Act on Investment Promotion (HRK 26 million in 2018, compared to HRK 54 million in 2017).

EXECUTIVE SUMMARY
/ continued

2019
GROUP'S PLANNED INVESTMENT CYCLE AMOUNTS TO HRK
793
MILLION

MARKET CAPITALIZATION AND NET DEBT

The Company's market capitalization fell by 18% in 2018, coinciding with the decrease in international and national stock market indices. Despite the 22% increase in net debt due to the acquisition of 46.93% of Hoteli Makarska's share capital, purchase of Valamar Obertauern and the large investment cycle that was carried out (over HRK 700 million outflow), the net debt / adjusted EBITDA ratio recorded only a 8% growth to the anticipated level of 3.09, thus confirming the prudent and sustainable debt management and Group's growth.

INVESTMENTS

The Valamar Riviera Group completed its large investment cycle worth over HRK 700 million. The investments included several projects: the repositioning of Rabac as a leading high-end holiday destination was completed with the opening of the Valamar Collection Girandella Maro Suites 5*, and the Valamar Argosy Hotel 4* was repositioned as "designed for adults" accommodation. Moreover, we continued investing in raising camping quality to offer products and services with high added value. The investments also included Imperial's projects and a range of other smaller projects to improve quality operating efficiency, and ensure efficient energy use. Currently, the market demand for the recently developed properties is strong. For details, see "Investments 2018" on page 38.

In line with the previously announced strategic goals, the Group is planning new large investments worth HRK 793 million in 2019. The planned investments represent the continuation of strategical investments to reposition the portfolio towards products and services with high added value while focusing on premium camping in Istria and on Krk and Rab islands. For details, see "2019 Investments" on page 41.

In accordance with our strategic goals for the period up to 2020, we are focusing on investments projects aimed at improving the portfolio properties and services. However, numerous factors reduce the competitiveness of Croatian tourism and hinder further investment potential: VAT and the rate of total contributions to salaries (both among the highest in the Mediterranean), the still unresolved issue of tourism land, skilled labor shortages, the likely introduction of property tax and tourist tax increase.

ACQUISITIONS

Croatia's Restructuring and Sales Centre (CERP) accepted Valamar Riviera's binding bid to buy a stake in Hoteli Makarska (726-key portfolio). On 4 April

EXECUTIVE SUMMARY
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ACQUISITIONS DURING 2018

2018 Valamar concluded an agreement on the purchase and transfer of 55.48% of Hoteli Makarska's share capital. Valamar Riviera also concluded a cooperation agreement with Allianz ZB d.o.o., a company for managing mandatory pension funds, to start their acting in concert regarding Hoteli Makarska. After the acquisition of shares, Valamar transferred 30.48% of Hoteli Makarska's share capital to Allianz ZB. After the completion of the takeover bid and transfer of 95,276 shares to its partner Allianz ZB, Valamar Riviera now owns 525,379 shares or 46.93% of the acquired company's share capital. The consolidation of operations started in August 2018. Hoteli Makarska's operations account for 2 percentage points of total revenues and 4 percentage points of adjusted EBITDA growth.

On 20 August 2018, Valamar Riviera disclosed to the investment community that, in their capacity as buyers, Valamar Riviera and Valamar A GmbH (a company in 100% ownership by Valamar Riviera), concluded an agreement on the purchase and transfer of a 100% stake in the company Matthias Aichmann GmbH, that owns the Petersbühel Hotel 4*. The hotel has a prime location in the centre of Obertauern, one of the most popular Austrian winter destinations. It has been operating for over 50 years and features 82 keys and facilities such as wellness, a restaurant and a garage, while the ski lift is in the hotel's immediate vicinity. At the end of November, Valamar opened the hotel, named Valamar Obertauern Hotel 4*, under the Valamar Hotels & Resorts brand. In the same period, the company name was changed to Valamar Obertauern GmbH. Business internationalization is one of the key strategic goals of the company's development in the forthcoming period and this represents a major step forward in the Company's business expansion across Croatia's borders. Business consolidation was initiated from November 2018 and has had no significant impact on total revenues and EBITDA in the observed period due to its seasonal winter business.

Valamar Riviera d.d. and PBZ Croatia osiguranje d.d. (managing mandatory pension funds), submitted on 15 May 2017 a joint offer for the investment and recapitalisation of a bankrupt hospitality company on Hvar Island, Helios Faros d.d. u stečaju, with 591 keys in its portfolio. On 8 November 2018, Valamar Riviera informed the public that the Commercial Court in Split adopted a temporary decision on confirming the Bankruptcy Plan for the investment and recapitalisation of the company Helios Faros. Upon the finality of the Decision confirming the Bankruptcy Plan, under which a total investment of HRK 91.2 million is planned, it will be possible to initiate the planned procedures that should enable the company Helios Faros to exit bankruptcy and develop its operations under the restructuring plan, as well as investments into premium hospitality assets, thus turning Stari Grad into an attractive and well-known destination.

Following the successful acquisition of Hoteli Baška on Krk Island, Imperial on Rab Island, Hoteli Makarska in Makarska, and the first hotel in Austria (Valamar Obertauern), we are considering further expansion by pursuing new partnerships and acquisition opportunities in Croatia and abroad.

AWARDS AND RECOGNITIONS

The Croatian Business Council for Sustainable Development and the Croatian Chamber of Economy have given the Valamar Riviera a prestigious award: the CSR Indices Award for the field of socially responsible diversity policies and human rights protection.

Valamar Riviera received two valuable recognitions given by the Zagreb Stock Exchange in 2018: Share of the Year by public vote for the 7th consecutive time and Top Turnover Share. Moreover, it won another award for Best Investor Relations, conferred by the business newspaper "Poslovni dnevnik" and the Zagreb Stock Exchange.

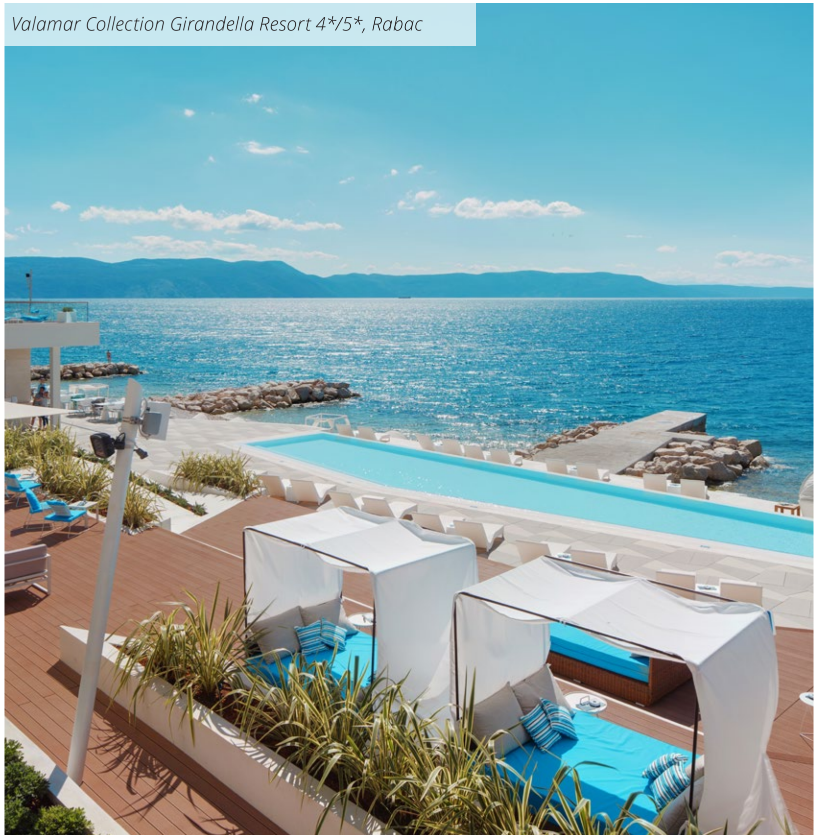
In 2018 Valamar Riviera has received numerous awards and certificates: ANWB Top 2018 (ANWB), ADAC Superplatz 2018 (ADAC), World Travel Awards (four awards), World Luxury Hotel Awards (three awards), Employer Partner, Golden Key (Croatia Exporters Association), Silver effective manager for the affirmation of social values and fruitful business cooperation, Family hotel of the year and Best beach on the Adriatic (Croatian Tourism Board and Croatian Chamber of Economy), Travellers Choice (TripAdvisor), Golden Goat - Terra Magica Adventure Mini Golf (Istria Tourist Board), Inovacamp 2018 (Croatian Camping association), Camping2be, Travelife, EU Ecolabel, ISO 50001, ISO 9001, ISO 14001, Codex Alimentarius - HACCP, Gault & Millau 2018, etc.

Valamar's press release is available on the Valamar Riviera corporate website (valamar-riviera.com/en/1Y2018).

MORE THAN

50

AWARDS FOR PRODUCTS AND SERVICES EXCELLENCE IN 2018



Valamar Collection Girandella Resort 4/5*, Rabac*

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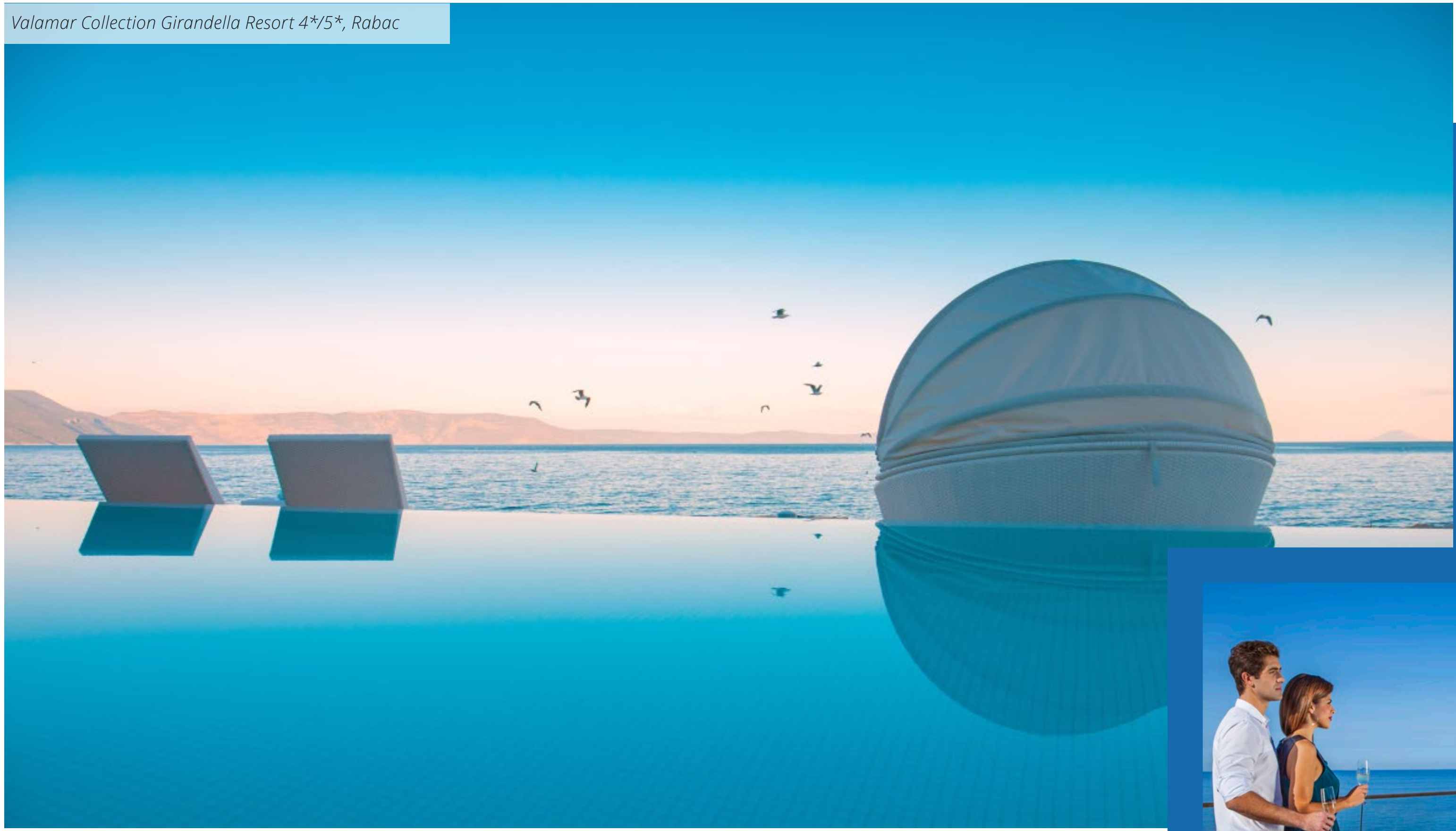
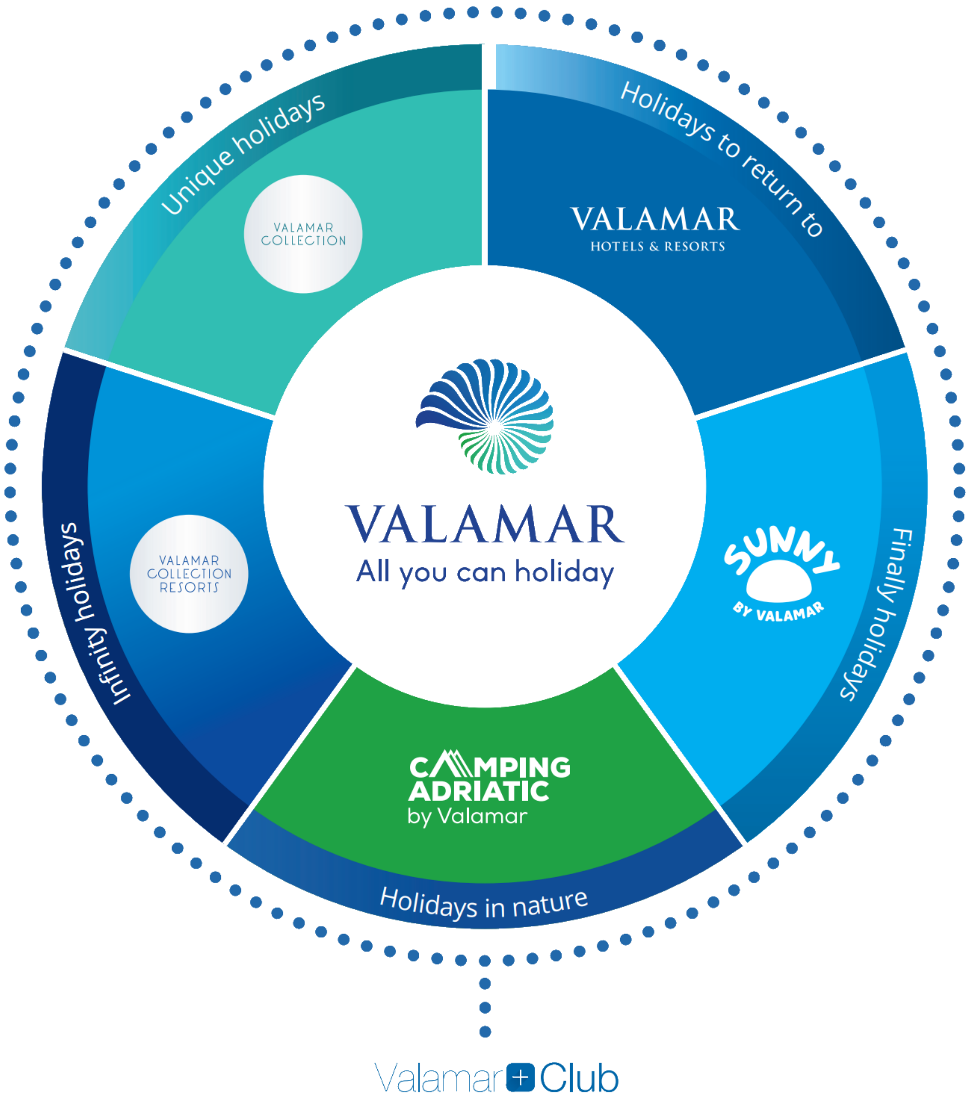

Valamar Collection Girandella Resort 4/5*, Rabac*

Significant Business Events

ABOUT VALAMAR RIVIERA

Valamar Riviera is the leading tourism group in Croatia. It is also one of the largest investors in Croatian tourism with more than HRK 4 billion invested over the last 14 years. It owns the Valamar All you can holiday umbrella brand and the sub-brands: Valamar Collection, Valamar Collection Resorts, Valamar Hotels & Resorts, Sunny by Valamar and Camping Adriatic by Valamar. With 2018 acquisitions of Hoteli Makarska d.d. in Makarska and the first Valamar hotel in Austria, Valamar Riviera Group is now present in seven attractive destinations, from Istria and Kvarner to Dubrovnik in Croatia and Obertauern in Austria. It operates about 12% of the total categorized tourist accommodation in Croatia. The tourist property portfolio includes 34 hotels and 15 camping resorts. More than 21,000 accommodation units can welcome almost 58,000 guests daily. Therefore, Valamar Riviera is the largest tourism group in Croatia, both in terms of portfolio size and revenues. Valamar Riviera cares for the interests of all its stakeholders: guests, suppliers and partners, local communities and destinations, around 22,000 shareholders and more than 6,000 people employed during peak season, and society at large. Stakeholders' interests are actively promoted through Valamar Riviera's principles of sustainable and socially responsible growth and development. The company aims at growing further through portfolio investments, new acquisitions and partnerships, by developing its destinations and human resources, and by increasing operating efficiency.

New Valamar Riviera's brand strategy



HOTELI MAKARSKA D.D. SHARE PURCHASE

On 27 December 2017, Valamar Riviera submitted a binding bid to buy a 55.48% stake (621,086 shares) in Hoteli Makarska d.d. (hereinafter: Hoteli Makarska), a company seated in Makarska with 726 keys in its portfolio. At the same time, Valamar Riviera concluded a cooperation agreement with AZ, a pension fund management company from Zagreb acting in its own name and on behalf of the mandatory pension funds it manages, to start their acting in concert regarding Hoteli Makarska. On 4 April 2018, Valamar Riviera concluded an agreement with the Republic of Croatia, represented by CERP (Restructuring and Sale Center), regarding the sale and transfer of Hoteli Makarska's shares. With this agreement, Valamar bought 621,086 ordinary shares for a total of HRK 172.7 million. Following this acquisition, on 12 April 2018 Valamar Riviera transferred 30.48% of Hoteli Makarska's share capital (341,218 shares) to its partner AZ and retained 25.00%. On 16 May 2018, HANFA (Croatian Financial Services Supervisory Agency) decided to approve Valamar Riviera's disclosure of the takeover bid for Hoteli Makarska. After the completion of the takeover bid and the transfer of 95,276 shares to AZ, Valamar Riviera owns 525,379 shares or 46.93% of the acquired company's share capital. On 1 August 2018 Valamar Riviera has concluded Hotel management contract with Hoteli Makarska. The consolidation start date is 1 August 2018.

INVESTMENT AND RECAPITALIZATION OFFER FOR HELIOS FAROS

Valamar Riviera and PBZ Croatia osiguranje, a pension fund management company acting in its own name and on behalf of PBZ Croatia osiguranje mandatory pension funds categories: A and B, submitted on 15 May 2017 a joint offer for the investment and recapitalization of Helios Faros, a hospitality company undergoing bankruptcy proceedings from Stari Grad on Hvar Island. The Assembly of bankruptcy creditors of Helios Faros decided on 20 July 2017 to prepare a Bankruptcy Plan, following the investment and recapitalization offer. In this offer, PBZ Croatia osiguranje and Valamar Riviera presented a restructuring plan as well as a six-year plan worth HRK 650 million for investments in hospitality assets. The total renovation and construction of two premium resorts containing around 600 keys would reposition the Helios Faros portfolio as premium accommodation, thus turning Stari Grad into an attractive and well-known destination. Helios Faros would employ around 500 people after the renovation of the Arkada and Lavanda hotels. The Bankruptcy plan would enable Helios Faros to emerge from bankruptcy and continue its business operations in close partnership with the destination, Stari Grad, to bring prosperity to the whole island. PBZ Croatia osiguranje and Valamar Riviera see this project as a confirmation of synergies from the joint activity of a large institutional investor and a strategic tourism investor contributing with its expertise and results. Consequently, Valamar Riviera would manage Helios Faros' development and operations through a model contract related to the management of facilities. On 8 November 2018, Valamar Riviera announced to the general public that the Commercial Court in Split had adopted a provisional Decision on Endorsing the Insolvency Plan for the Investment and Recapitalization of the company Helio Faros. Upon the finality of the Decision confirming the Bankruptcy Plan, under which a total investment of HRK 91.2 million is planned, it will be possible to initiate the planned procedures that should enable the company Helios Faros to exit bankruptcy and develop its operations under the restructuring plan, as well as investments into premium hospitality assets.

IN

2019

WE CONTINUE TO ACTIVELY CONSIDER OPTIONS FOR EXPANSION, PARTNERSHIP AND ACQUISITIONS IN CROATIA AND THE REGION

STATUTORY CHANGE

On 26 January 2018, Valamar Riviera received a notification by EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H. with registered office in Vienna, 8 Plösslgasse, Republic of Austria, regarding the changes in the percentage of voting rights (drop below the voting rights threshold), caused by the transfer of 55,594,884 shares due to the agreed demerger with takeover: EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H. being the demerging company and EPIC Hospitality Holding GmbH with registered office in Vienna, 8 Plösslgasse, Republic of Austria, being the transferee company. As evidenced by the received notifications, the structure of members in the transferee company is indirectly identical to the structure of members in the demerging company. Consequently, no changes occurred in the controlling persons, since the members in EPIC Hospitality Holding are indirectly the same persons and hold the same stakes as the members in EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H. Consequently, on the same day, Valamar Riviera received a notification by EPIC Hospitality Holding regarding the acquisition of 55,594,884 RIVP shares representing 44.11% of the Company's share capital.

After carrying out the required procedure and pursuant to relevant regulations and the decision rendered by the General Assembly on 8 May 2018, the merger of EPIC Hospitality Holding (transferor) to Valamar Riviera (transferee) was entered in the court register of the Commercial court in Pazin on 15 June 2018. Therefore, Valamar Riviera became the universal legal successor of EPIC Hospitality Holding. The transferee's share package held by the transferor was entirely used as compensation, i.e. share exchange for the members in the transferor (Wurmböck Beteiligungs GmbH, Goldscheider Keramik Gesellschaft m.b.H. and Dr. Franz Lanschützer) proportionally to the size of the stake that each individual member held in the transferor. Thus, the merger and share transfer did not result in any change of controlling persons.

The merger does not significantly affect Valamar Riviera's balance sheet, income statement, employment, operating earnings and other financial and business indicators, and it is also tax neutral for both companies, so the transferee will not be burdened by any additional liabilities. This status change secures continuity in the shareholding structure, thus enabling the continuation of the Company's transparent management, care for employees, focus on destination development and business model sustainability. Therefore, Valamar Riviera retains its market-leading position and the long-term trust of the controlling shareholders.

98%

OF THE LOAN PORTFOLIO IS COMPRISED OF LONG-TERM FIXED INTEREST LOANS OR, RESPECTIVELY, LOANS HEDGED BY A DERIVATIVE INSTRUMENTS (IRS) FOR PROTECTION AGAINST INTEREST RATE RISK

LOAN AGREEMENTS

On 12 February 2018 and 13 February 2018, Valamar Riviera concluded two club loan agreements with OTP banka Hrvatska and OTP Bank Nyrt from Hungary worth EUR 80 million in total. On 6 March 2018, Valamar Riviera concluded a loan agreement with the European Investment Bank from Luxembourg (EIB) worth EUR 16 million. This is the first EIB transaction in Croatia that involves direct financing of a private sector company with the support of the EU-budget guarantee through the European Fund for Strategic Investments as the financing component of the Investment Plan for Europe. On 11 September 2018, a loan agreement worth EUR 10 million was concluded with Istarska kreditna banka. On 18 December 2018, Valamar Riviera concluded a loan agreement worth EUR 10 million with Erste&Steiermärkische Bank d.d. All these legal transactions were concluded with the aim of financing long-term investments and working capital, and present an additional confirmation of the trust that the investors and the financing community place in the further development of Valamar Riviera.

VALAMAR RIVIERA'S GENERAL ASSEMBLY

The Management Board met on 20 February 2018, while the Supervisory Board met on 27 February 2018 to determine the 2017 4Q audited financial statements and the 2017 audited annual financial statements. The General Assembly of Valamar Riviera was held on 8 May 2018 and decided to:

- Distribute the Company's realized profit in 2017 totaling HRK 231,979,074 to retained profit
- Discharge the Management Board members from managing the Company's business in

2017 and the Supervisory Board members from performing the supervision of the management of the Company's business in 2017
- Pay a dividend of HRK 0.90 (ninety lipas) per each share. The dividend would be paid out of the retained profit achieved in the years 2015 and 2016. Valamar Riviera's shareholders who opted so, received one quarter of their dividend in rights- company shares.
- Appoint Ernst & Young d.o.o. from Zagreb, as Valamar Riviera's auditor in 2018.
- Approve the Joint plan of the merger of EPIC Hospitality Holding GmbH (transferor) into Valamar Riviera (transferee)
- Determine the remuneration for Supervisory Board members.

RE-APPOINTMENT OF THE MANAGEMENT BOARD MEMBERS AND LONG-TERM REWARDING PLAN

On 9 May 2018, the Supervisory Board of Valamar Riviera reappointed Mr. Željko Kukurin as Management Board President and Mr. Marko Čižmek as Management Board Member for a new term of office starting from 1 January 2019 to 31 December 2022. In order to further develop Valamar's business, the Supervisory Board adopted a long-term plan of rewarding the management board and key management with Valamar's shares, amounting to 2% of the annual increase in the market capitalization of the shares on the Official market of the Zagreb Stock Exchange.

2019 INVESTMENTS

The Supervisory Boards of Valamar Riviera, Imperial and Hoteli Makarska granted their approval of the 2019 investment cycle in the amount of HRK 636 million, HRK 140 million and HRK 18 million, respectively. The investments are focused on the premium camping segment in Istria and the islands of Krk and Rab, as well as on the opening of Valamar Collection Marea Suites 5*, by which will further develop the offer of premium family vacation in Poreč as well as upgrade the quality of accommodation and services at Valamar Carolina Resort 4*. Numerous other investment projects aimed at upgrading guest amenities in all destinations as well as additional large investments in accommodation for seasonal employees will be continued in line with Valamar's strategic goals until 2020. For details, see "2019 Investments' on page 41.

AGREEMENT WITH TUI UK

On 13 December 2018, Valamar Riviera announced that it concluded legal transactions with the company TUI UK on providing hospitality services in its facilities in 2019, with an estimated total annual value of HRK 125.5 million. Through its collaboration with the company TUI UK, one of the leading tour operators in the European outbound market, Valamar Riviera has secured partial occupancy of its hotels, both during high season as well as pre- and post-season in 2019.

Our vision is to be the leader in leisure tourism and create authentic guest experiences in partnership with our destinations.

ACQUISITION OF MATTHIAS AICHMANN GMBH (VALAMAR OBERTAUERN GMBH) IN OBERTAUERN, AUSTRIA

Valamar Riviera has been pursuing expansion opportunities abroad for some time now, with special focus on opportunities in Austria, seeing that it is a large tourism market with over 120 million overnights per year. Austria has a highly developed leisure tourism segment, and it is recognized for its exemplary sustainability and quality in the development of its destinations and tourism infrastructure. Hence, on 26 July 2018, Valamar Riviera disclosed to the investment community that it had made a binding offer, and on 20 August 2018 that, in their capacity as buyers, Valamar Riviera and Valamar A GmbH (a company owned by Valamar Riviera d.d.), concluded an agreement on the purchase and transfer of a 100% stake in the company Matthias Aichmann GmbH seated in Obertauern, that owns the Petersbühel Hotel 4*. The hotel has a prime location in the center of Obertauern, one of the most popular Austrian winter destinations. It has been operating for over 50 years and features 82 keys and facilities such as wellness, restaurant and garage. The ski lift is in the hotel's immediate vicinity. At the end of November, Valamar opened a hotel as part of the Valamar Hotels & Resorts brand, under the name Valamar Obertauern Hotel 4*. In the same period Matthias Aichmann changed the company's name to Valamar Obertauern GmbH. Business internationalization is one of the key strategic goals of the company's development in the forthcoming period and this represents a major step forward in the Company's business expansion across Croatia's borders. Consolidation start date is 1 November 2018.

FIRST

VALAMAR HOTEL IN AUSTRIA

Obertauern, Austria

The Management Board presents the 2018 annual audited financial statements.

Valamar Collection Dubrovnik President Hotel 5*, Dubrovnik

ANNUAL AUDITED FINANCIAL STATEMENTS

The Management Board hereby presents the annual audited financial statements for the year 2018. These statements must be viewed in the context of the said mergers and acquisitions, and they provide information on the state of the Company and Group, as well as significant events.

The Company income statement for the reviewed period includes the data of the merged companies Puntižela d.o.o. for the period following the merger, i.e. as of 1 April 2017, and Elafiti Babin Kuk d.o.o. as of 29 December 2017.

The Group income statement for the reviewed period includes the data of companies Hoteli Makarska d.d. and Valamar A GmbH as from 1 August 2018 and Valamar Obertauern GmbH as from 1 November 2018. The Group balance sheet for the reviewed period, as at 31 December 2018, includes data of Hoteli Makarska d.d., Valamar A GmbH and Valamar Obertauern GmbH. Please note that 2018 data cannot be entirely compared to data from the previous period, as the latter do not include data for the company Hoteli Makarska d.d., Valamar A GmbH and Valamar Obertauern GmbH.

Valamar Collection Isabella Island Resort 4*/5*, Poreč

Results of the Group

KEY FINANCIAL INDICATORS[1]

	2017	2018	2017/2018
Total revenues	1,842,036,109	2,047,774,770	11.2%
Operating income	1,778,395,862	1,990,984,717	12.0%
Sales revenues	1,755,286,721	1,961,413,631	11.7%
Board revenues (accomodation and board revenues)[2]	1,447,866,807	1,628,991,417	11.5%
Operating costs[3]	1,145,185,720	1,264,286,140	10.4%
EBITDA[4]	606,042,467	694,453,630	14.6%
Extraordinary operations result and one-off items[5]	-16,566,528	-8,441,326	-49.0%
Adjusted EBITDA[6]	622,608,995	702,894,956	12.9%
EBIT	259,502,687	283,546,818	9.3%
Adjusted EBIT[6]	276,069,214	291,988,144	5.8%
EBT	238,643,759	258,081,503	8.1%
Net profit	245,087,385	239,187,507	-2.4%
EBT margin	13.4%	13.0%	-40 bp
EBITDA margin	34.1%	34.9%	80 bp
Adjusted EBITDA margin[6]	35.0%	35.3%	30 bp

	31/12/2017	31/12/2018	2017/2018
Net debt[7]	1,772,353,634	2,169,067,569	22.4%
Net debt / Adjusted EBITDA	2.85	3.09	8.4%
Cash and cash equivalents	287,836,954	261,842,353	-9.0%
Capital investments (details in chapter "2018 Investments"	877,743,649	703,559,000	-19.8%
ROE[8]	9.7%	8.5%	-120 bp
Adjusted ROCE[9]	6.4%	5.9%	-50 bp
Market capitalization[10]	5,420,289,760	4,468,823,546	-17.6%
EV[11]	7,192,643,394	6,637,891,115	-7.7%
EPS[12]	1.96	1.90	-3.1%
DPS[13]	0.80	0.90	12.5%

KEY BUSINESS INDICATORS[14]

	2017	2018	2017/2018
Number of accommodation units (capacity)	20,852	21,371	2.5%[15]
Number of beds	56,662	58,023	2.4%[15]
Full occupancy days	127	132	4.5%
Annual occupancy (%)	35%	36%	100 bp
Accommodation units sold	2,639,755	2,827,338	7.1%
Overnights	6,173,142	6,459,734	4.6%
ADR[16] (in HRK)	548	576	5.0%
RevPAR[17] (in HRK)	69,435	76,224	9.8%

1 Classified accordiong to the Annual Financial Statement (GFI POD-RDG). EBIT, EBITDA and their adjusted values and respective margins are recorded on the basis of operating income.

2 In compliance with the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry).

3 Operating costs include material costs, staff costs, other costs, and other operating costs reduced by extraordinary expenses and oneoff items.

4 EBITDA (eng. earnings before interest, taxes, depreciation and amortization) is calculated as: operating income - total operating costs + depreciation and amortisation + value adjustments

5 Adjustments were made for (i) extraordinary income (in the amount of HRK 23.8 million in 2018, and HRK 11.0 million in 2017), (ii) extraordinary expenses (in the amount of HRK 28.7 million in 2018, and HRK 26.5 million in 2017), and (iii) termination benefit costs (in the amount of HRK 3.5 million in 2018, and HRK 1.0 million in 2017).

6 Adjusted by the result of extraordinary operations and one-off items.

7 Net debt: non-current and current liabilities to banks and other financial institutions + liabilities for loans, deposits and other– cash and cash equivalents – long-term and short-term investments in securities – current loans given, deposits, etc.

8 ROE refers to return on equity; calculated as: profit for the period / (capital and reserves).

9 Adjusted ROCE refers to return on capital employed; calculated as: adjusted EBIT / (capital and reserves at the end of the period + noncurrent and current liabilities to banks and other financial institutions - cash and cash equivalents - long-term and short-term investments in securities - loans given, deposits, etc.).

10 The number of shares as at 31 December 2017 net of treasury shares amounts to 124,233,091, while per 31 December 2018 amounts to 122,904,938.

11 EV refers to enterprise value; calculated as market capitalization + net debt.

12 EPS refers to earnings per share calculated on the basis of net profit. Weighted average number of shares as at 31 December 2018: 123,968,146. Weighted average number of shares as at 31 December 2017: 124,207,204.

13 DPS refers to dividends per share.

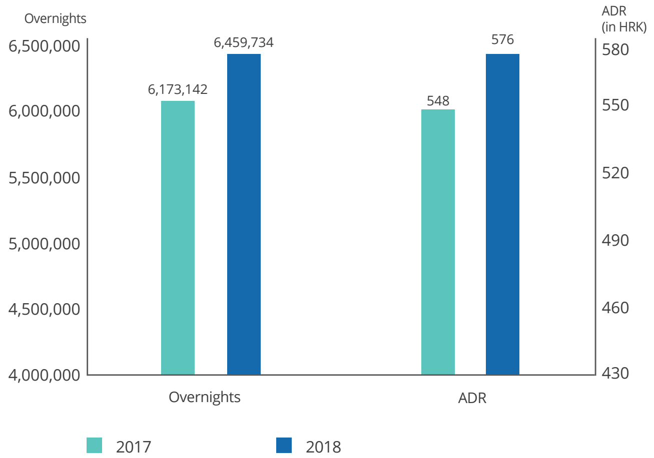
14 2017 key business indicators of Valamar Riviera Group do not include data of Hoteli Makarska and Valamar Obertauern.

15 The change in the number of accommodation units and beds is mostly due to the acquisition of Hoteli Makarska (726 additional accommodation units, or 1,416 beds) and Valamar Obertauern (82 accommodation units, or 161 bed) and decrease in capacity resulting from investment in the San Marino Camping Resort by Valamar 4* (the conversion of 3 camping plot zones into a parking lot and the installation of premium mobile homes), as well as the conversion of camping plots into premium mobile homes in the other campsites undergoing investment.

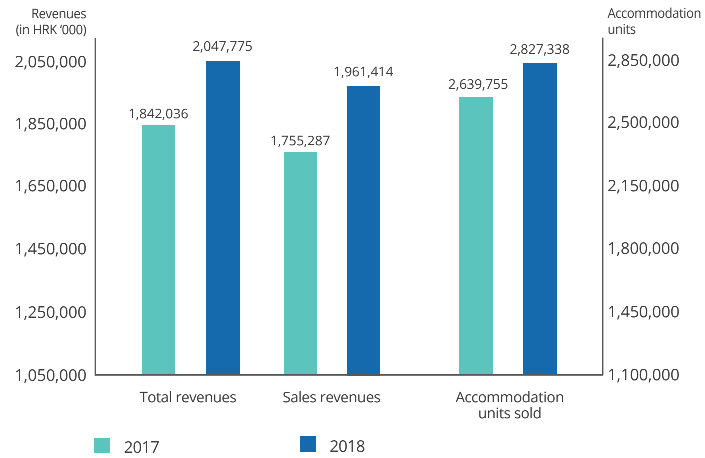
16 Average daily rate is recorded on the basis of board revenues (accommodation and board's food and beverage revenues)

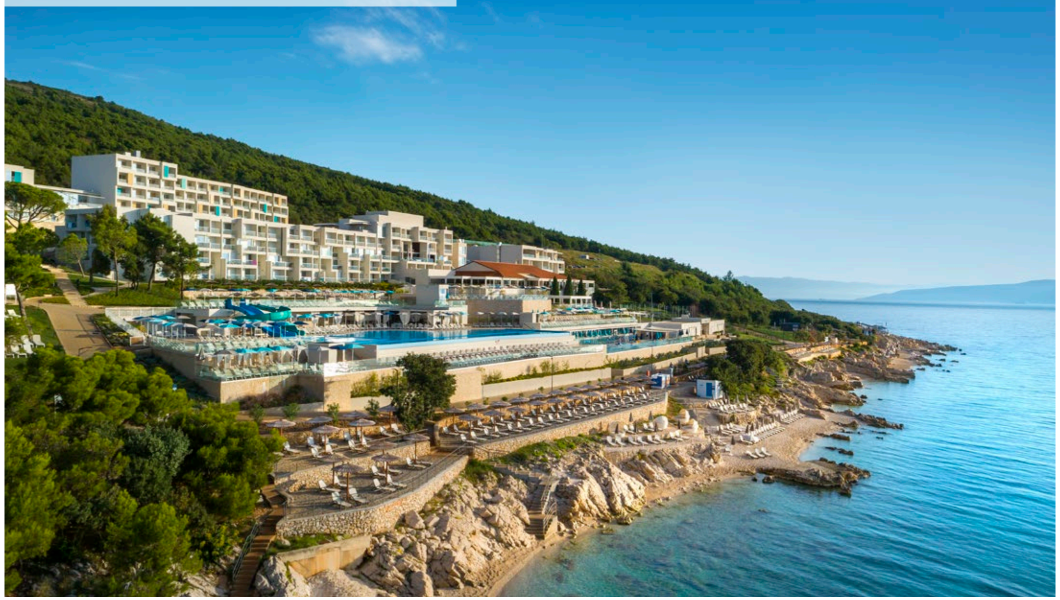
17 Revenue per accommodation unit is recorded on the basis of cumulative board revenues (accommodation and board's food and beverage revenues).

Overnights and ADR



Revenues and accommodation units sold





TUI Family Life Bellevue Resort 4, Rabac*

Valamar Riviera Group continues to assert its leadership position through record results and investments into Croatian and Austrian tourism. 2018 was a year of double-digit growth in operating revenue and operating earnings (EBITDA). Valamar Riviera owes its continued success to the concept of sustainable growth and development led by the principles of corporate social responsibility. It is reflected in: (i) continuous portfolio investments (over HRK 700 million were invested in the preparation for 2018 tourist season, while planned investments for the 2019 amount to HRK 793 million), (ii) acquisitions and partnerships (46.93% of Hoteli Makarska's share capital and the first Valamar hotel in Austria were both successfully acquired in 2018) and (iii) the development of our employees and destinations.

REVENUES

In 2018, total revenues were HRK 2,047.8 million, up by 11.2% (HRK +205.7 million). The total realised revenues were affected by:

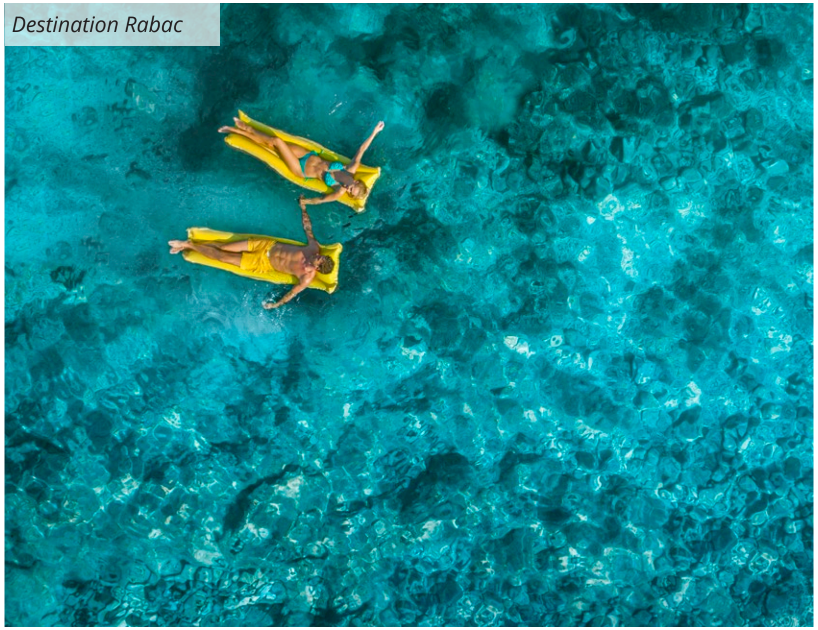
(i) strong growth in sales revenues, up by 11.7% (HRK +206.1 million), amounting to HRK 1,961.4 million. The increase of sales revenues was largely driven by 11.5% higher board revenues (HRK 181.1 million) and 10% higher F&B outlet revenues. All marketing segments grew in the January-March period, individuals and allotments in particular. Although Easter holidays occurred in March, strong growth was reported in April as well, especially in the individual and M.I.C.E.[18] segment. Due to the earlier occurrence of holidays in the DACH[19] market, an expected growth was reported in all the segments in May. The active management of channels and prices drove the strong market feedback reported by all channels in June, except for O.T.A.[20], which maintained a controlled growth. During peak season (July-September), growth in board revenues was mainly due to high increase in the direct sales channel, along with controlled decrease of the O.T.A. sales channel's share. Shoulder season (October-December) saw higher group and allotment numbers, as well as an increase in the M.I.C.E. segment in Dubrovnik. Market feedback during the Christmas / New Year period was equally strong, with an increase in the number of American guests in Dubrovnik. 2018 saw 6.5 million overnights (+4.6% as compared to 2017), while the average daily rate grew by 5.0% to HRK 576.

Domestic sales revenues were HRK 180.5 million and represented 8.8% of total revenues (8.1% in 2017). They grew by 20.3% compared to the previous comparable period. International sales revenues were HRK 1,780.9 million, up by HRK 175.7 million and represented by 87.0% of total revenues (87.1% in 2017).

(ii) other operating revenues[21] grew by 28.0% (HRK +6.5 million) to HRK 29.6 million, mainly due to the cancelling of long-term provisions for Imperial's litigations.

(iii) financial income fell by -10.8% (HRK -6.9 million) to HRK 56.8 million, mainly due to a lower appreciation of HRK vs. EUR in Q4 2018 compared to last year's comparable period.

Destination Rabac



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MILLION HRK HIGHER SALES REVENUES COMPARED TO 2017

(iv) consolidation of Hoteli Makarska and Valamar Obertauern with 2 and 0.1 percentage point contribution to the Group's total revenues, respectively.

Other operating and financial income represented 4.2% of total revenues (4.7% in 2017).

18 M.I.C.E. = Meetings, incentives, conferencing, exhibitions.

19 DACH market represent Germany (D), Austria (A) and Switzerland (CH).

20 O.T.A. = Online travel agencies.

21 Other operating revenues include revenues from the usage of own products, goods and services in the amount of HRK 0.4 million and other operating revenues of HRK 29.2 million.

TOTAL OPERATING EXPENSES OF VALAMAR RIVIERA GROUP[22]

(in HRK)	2017	2018	2018/2017
Operating costs[23]	1,145,185,720	1,264,286,140	10.4%
Total operating expenses	1,518,893,175	1,707,437,899	12.4%
Material costs	519,753,525	552,089,395	6.2%
Staff cost	480,161,466	541,715,389	12.8%
Depreciation and amortisation	346,413,599	410,521,539	18.5%
Other costs	143,755,460	174,686,587	21.5%
Provisions and value adjustments	9,612,565	7,511,545	-21.9%
Other operating expenses	19,196,560	20,913,444	8.9%

TOTAL OPERATING EXPENSES

Total operating expenses were HRK 1,707.4 million and grew by 12.4% (HRK +188.5 million). Excluding the operations of Hoteli Makarska and Valamar Obertauern for reasons of comparability, total operating expenses grew by 9%. Breakdown of total operating expenses:

(i) material costs represented 32.3% (34.2% in 2017). Up by 6.2% (HRK +32.3 million) to HRK 552.1 million due to an increase in (a) direct costs of raw materials and consumables (especially food and beverage costs and energy consumption costs) driven by a larger business volume and (b) consolidation of Hoteli Makarska and Valamar Obertauern.

(ii) staff costs represented by an almost equal share in the total operating expenses (31.6% in 2017, 31.7% in 2018). They grew by 12.8% (HRK +61,5 million) to HRK 541.7 million due to the consolidation of Hoteli Makarska and Valamar Obertauern, which accounts for 3% of growth, and due to the efforts invested in securing competitive salaries and other material and non-material work conditions, as well as new staff hired to ensure service quality for the new Premium and Upscale products. Valamar Riviera is thus the first company in Croatia guaranteeing a minimum net income between HRK 5,000 and 7,500 for all its employees.

(iii) amortization costs represented 24.0% (22,5% in 2017). Its 18.5% growth (HRK +64.1 million) to HRK 410.5 million is mainly due to the earlier large investment cycle and consolidation of Hoteli Makarska and Valamar Obertaurn.

(iv) other costs represented 10.2% (9.5% in 2017). 21.5% growth (HRK +30.9 million) amounting to HRK 174.7 million is, among others, due to (a) an increase in the costs of lodging, meals and transportation for employees, (b) an increase in insurance and design, technical and other documentation (for investment purposes) costs, and (c) the consolidation of Hoteli Makarska and Valamar Obertauern operations.

22 Classified accordiong to Annual Financial Statements (GFI POD-RDG).

23 Operating costs include material costs, staff costs, other costs, and other operating costs reduced by extraordinary expenses and one-off items.

(v) provisions and value adjustments with a share of 0.4% (0.6% in 2017). A decrease of HRK 2.1 million to the amount of HRK 7.5 is due to lower-scale provisions for Imperial's litigations.

(vi) other operating expenses represented 1.2% (1.3% in 2017). An increase of HRK 1.7 million to HRK 20.9 million was mainly due to the finalisation of Imperial's litigations.

OPERATING COSTS[23]

Operating costs amounted to HRK 1,264.3 million. Pressure on growth of operating costs was successfully reduced by a high level of operative efficiency. Their controlled increase of 10.4% was due to (i) the increase in material costs driven by larger business volume, (ii) the increase in other costs (previously explained), (iii) the increase in staff costs (previously explained), and (iv) the consolidation of Hoteli Makarska and Valamar Obertauern. Excepting the operations of the aforementioned companies for reasons of comparability, operating costs grew by 9%.

EBITDA AND EBITDA MARGIN

Adjusted EBITDA[24], marked by strong double-digit growth, reached HRK 702.9 million (HRK 622.6 million in 2017). The increase of HRK 80.3 million (+12.9%) is the result of a further increase in operating efficiency through the growth of the adjusted EBITDA margin from 35.0% to 35.3%, as well as the continuation of the large investment cycle focused on improving competitiveness and the quality of properties and services, the acquisition of Hoteli Makarska and optimization of the distribution and price management in line with increased demand, particularly for properties in which new investments were made. The consolidation of Hoteli Makarska and Valamar Obertauern was initiated in August 2018 and November 2018, respectively, resulting in a 4 percentage point growth in adjusted EBITDA. Stronger operating results were also reflected in the unadjusted EBITDA that soared by 14.6% to HRK 694.5 million. Please note that the strong growth of adjusted and unadjusted EBITDA is influenced by the 2018 negative impact of the lower seasonal EUR/HRK exchange rate.

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MILLION HRK
ADJUSTED EBITDA
(+13% COMPARED
TO 2017)

PROFIT

Profit before tax grew by HRK 19.6 million to HRK 258.1 million. The 8.1% growth was achieved despite higher amortization costs, due to excellent operating results. The Group's net profit amounted to HRK 239.2 million in 2018. The decrease of HRK 5.9 million was primarily a result of lower tax revenues (HRK -24.7 million), reflecting a lower one-time recognition of deferred tax assets[25]. The EBT margin fell by 40 basis points to 13.0% (13.4% in 2017).

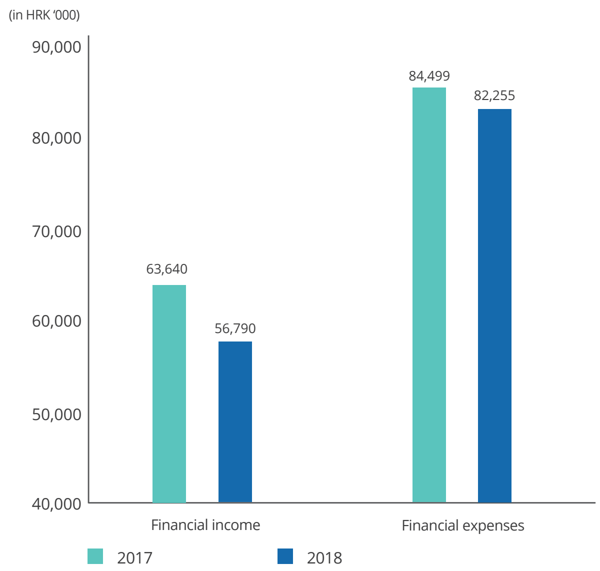
24 Adjustments were made for (i) extraordinary income (in the amount of HRK 23.8 million in 2018, and HRK 11.0 million in 2017), (ii) extraordinary expenses (in the amount of HRK 28.7 million in 2018, and HRK 26.5 million in 2017), and (iii) termination benefit costs (in the amount of HRK 3.5 million in 2018, and HRK 1.0 million in 2017).

25 In 2018 deferred tax assets was recognized mainly due to tax incentives prescribed by the Act on Investment Promotion and Investment Improvement which amounted to HRK 25.8 million, in respective to HRK 54.1 million in 2017.

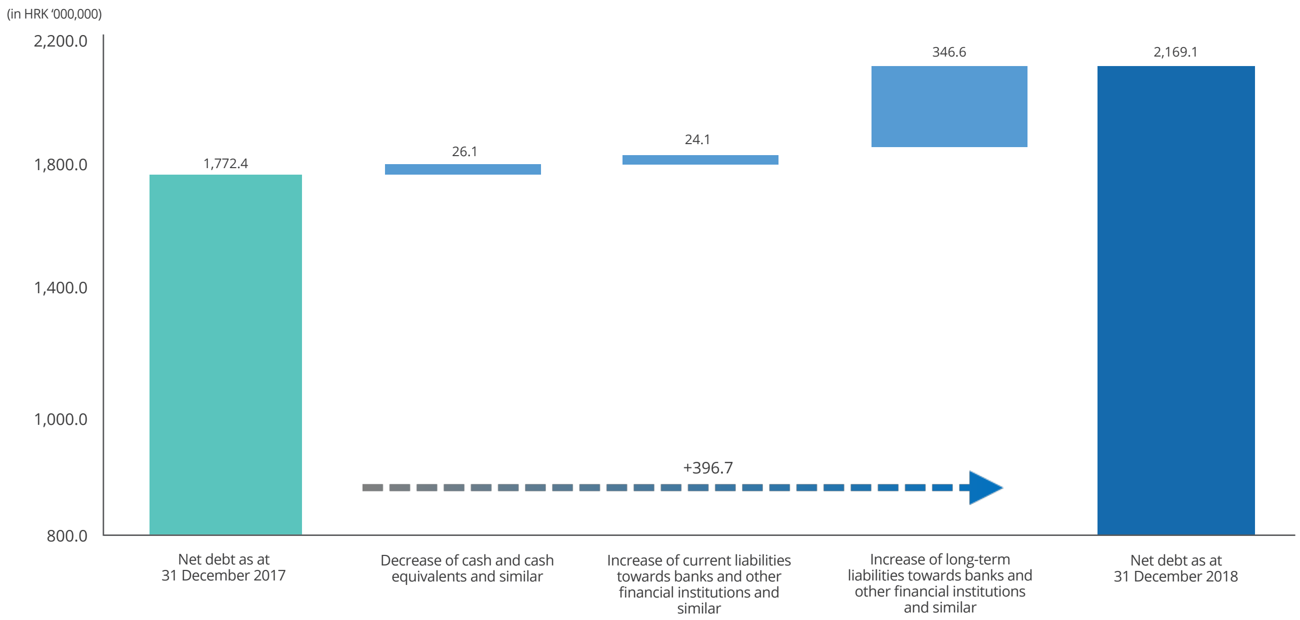
FINANCIAL RESULT

In 2018, the Group reported a financial result of HRK -25.5 million (HRK -20.9 million in 2017). The financial result, down by HRK 4.6 million compared to the previous year, is mainly due to: (i) higher net (positive) foreign exchange differences amounting to HRK 10.2 million, (ii) the net effect of the HRK 7.7 million increase in financial expenses related to interest on long-term loans for financing large investments, (iii) lower unrealised gains from financial assets amounting to HRK 2.8 million due to a lower positive fair value of FX forwards, and (iv) increase in unrealised expenses from financial assets amounting to HRK 4.0 million, driven by spreading the scope of protection and increased liabilities related to the fair value of interest rate swaps.

Financial income and expenses



Net debt [26]



26 Net debt: non-current and current liabilities to banks and other financial institutions + liabilities for loans, deposits and other– cash and cash equivalents – long-term and short-term investments in securities – current loans given, deposits, etc.

22% increase in net debt is the result of the acquisition of Hoteli Makarska and Valamar Obertauern and performed large investment cycle.

Valamar Collection Imperial Hotel 4*, Rab Island

Financial income

In 2018, financial income amounted to HRK 56.8 which is HRK 6.9 million lower than in 2017. Foreign exchange differences and other financial income amounted to HRK 47.7 million, down by HRK 4.7 million primarily due to the absence of positive exchange rate differences on deposits in the last quarter of 2018, as a consequence of the appreciation of the Croatian Kuna. Unrealised gains (income) from financial assets amounted to HRK 4.7 million and fell by HRK 2.8 million due to a lower positive fair value of FX forwards compared to the last year due to the lower appreciation of HRK vs. EUR in 1H 2018. Other financial income amounted to HRK 4 million and increased by HRK 0.9 million.

Financial expenses

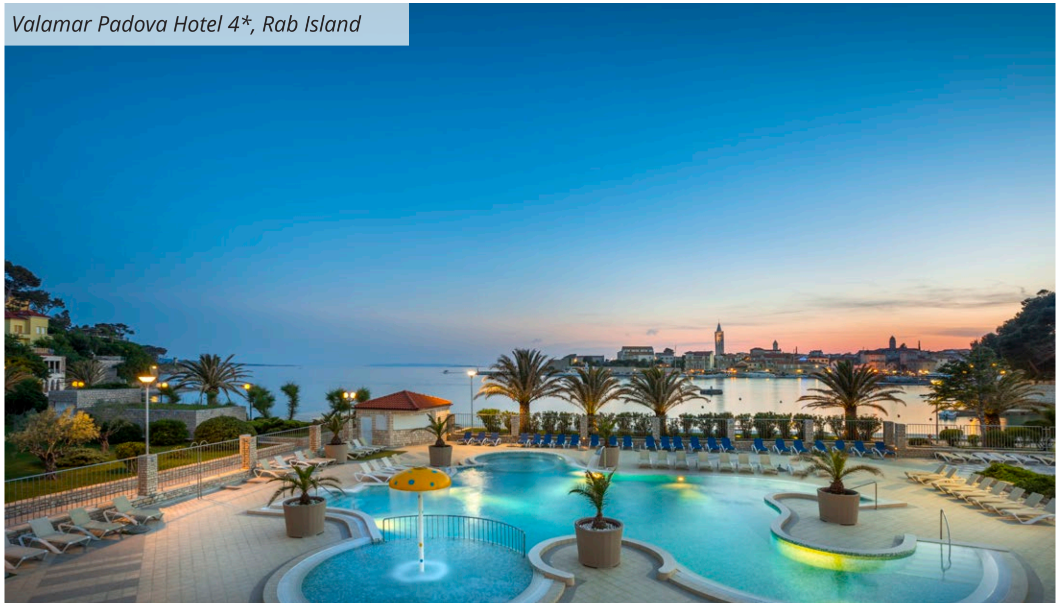
The Group's financial expenses amounted to HRK 82.3 million and, compared to the previous period, they fell by HRK 2.2 million. The negative foreign currency differences are down by HRK 15.0 million due to the lower HRK vs. EUR depreciation in 2H of 2018 compared to the same period in 2017. Due to an increase in credit liabilities for the financing of large investment cycles in 2017 and 2018, financial expenses related to interest grew by HRK 7.7 million, amounting to HRK 49.9 million. Unrealised expenses from financial assets increased by HRK 4.0 million, driven by spreading the scope of protection and increased liabilities related to the fair value of interest rate swaps. Other financial expenses amounted to HRK 2.7 million, an increase of HRK 1.1 million.

ASSETS AND LIABILITIES

As at 31 December 2018, the total value of the Group's assets was HRK 5,669.0 million, up by 13.5% compared to 31 December 2017.

Total share capital and reserves grew by 9.6% and totalled HRK 2,758.5 million. Total long-term liabilities grew from HRK 1,915.7 million to HRK 2,284.1 million due to loans contracted to finance this year's investment cycle and, to a smaller part, as a result of the consolidation of Hoteli Makarska and Valamar Obertauern. Almost the entire loan portfolio is comprised of long-term fixed interest loans or, respectively, loans hedged by a derivative instruments (IRS) for protection against interest rate risk.

Total short-term liabilities were HRK 425.8 million, up by 5.7% compared to 31 December 2017. The aforementioned is mainly a result of (i) lower trade payables (down by HRK 19.7 million) given the smaller size of 2017/18 investments (for details, see page 38), (ii) the current repayment of the 2018 long-term debt (up by HRK 24.1 million), (iii) higher liabilities related to advance payments from customers (up by HRK 7.6 million),



Valamar Padova Hotel 4*, Rab Island

Assets and liabilities

and (iv) liabilities related to employees (up by HRK 5.9 million due to a larger consolidation scope and the increased number of employees vs 31/12/2017).

Cash and cash equivalents as at 31 December 2018 amount to HRK 261.8 million. The contracted credit lines for investments and the strong cash potential from business activities ensure a smooth continuation of future investments and potential acquisitions.

PROFITABILITY INDICATORS OF VALAMAR RIVIERA GROUP

	2017	2018	2018/2017
EBITDA margin	34.1%	34.9%	80 bp
Adjusted EBITDA margin	35.0%	35.3%	30 bp
EBIT margin	14.6%	14.2%	-40 bp
Adjusted EBIT margin	15.5%	14.7%	-80 bp
EBT margin	13.4%	13.0%	-40 bp
Net profit margin	13.8%	12.0%	-180 bp
ROA	4.9%	4.2%	-70 bp
ROE	9.7%	8.5%	-120 bp
Adjusted ROCE	6.4%	5.9%	-50 bp

VALUATION OF VALAMAR RIVIERA GROUP

	31/12/2017	31/12/2018	2018/2017
Average share price per (in HRK)	43.63	36.36	-16.7%
Market capitalization (in HRK)	5,420,289,760	4,468,823,546	-17.6%
EV (in HRK)	7,192,643,394	6,637,891,115	-7.7%
EPS (in HRK)	1.96	1.90	-3.1%
DPS (in HRK)	0.80	0.90	12.5%
EV / Sales revenues	4.1x	3.4x	-17.4%
EV / EBITDA	11.9x	9.6x	-19.5%
EV / Adjusted EBITDA	11.6x	9.4x	-18.3%
EV / EBIT	27.7x	23.4x	-15.5%
EV / Adjusted EBIT	26.1x	22.7x	-12.7%

KEY OPERATING INDICATORS OF VALAMAR RIVIERA GROUP PER SEGMENTS[27]

HOTELS AND RESORTS	Total			Premium		
	2017	2018	2018/ 2017	2017	2018	2018/ 2017
Number of accommodation units	8,982	9,973	11.0%	1,269	1,554	22.5%
Full occupancy days	162	163	0.8%	174	177	2.0%
Annual occupancy rate (%)	44%	45%	0.8%	48%	48%	2.0%
Accommodation units sold	1,452,014	1,625,278	11.9%	220,226	275,063	24.9%
Overnights	3,115,692	3,386,892	8.7%	463,667	607,008	30.9%
ADR[16]	764	769	0.6%	1,257	1,314	4.5%
Board revenues (in HRK)	1,109,581,848	1,249,936,599	12.6%	276,758,965	361,346,559	30.6%
RevPAR[17] (in HRK)	123,534	125,332	1.5%	218,092	232,527	6.6%
Adjusted EBITDA[28] (in HRK)	642,958,760	723,000,739	12.4%	162,000,898	220,585,212	36.2%

Total hotels and resorts

Hotels and resorts reported a strong +12.6% growth (HRK +140.4 million) and achieved HRK 1,249.9 million in board revenues. The high increase resulted from the earlier large investment cycle, the optimization of the marketing mix and prices, as well as the demand-driven larger number of operating days, especially in the Premium and Upscale segment, and acquisition of Hoteli Makarska and Valamar Obertauern.

Premium hotels and resorts

Premium hotels and resorts reported a 30.6% increase in board revenues that totalled HRK 361.3 million. The HRK 84.6 million growth was mostly driven by the following: (i) larger number of operating days of the Valamar Collection Girandella Family Hotel 4*, taking into account 2017 investment, (ii) the newly opened Valamar Collection Girandella Maro Suites 5*, (iii) excellent placement of preseason events and post season M.I.C.E. channel, and growth in all segments in peak season, especially in the individual channel at the Valamar Collection Isabella Island Resort 4*/5*, (iv) earlier opening and increase in the direct and group channels at the Valamar Collection Dubrovnik President Hotel 5*, especially M.I.C.E. and groups in preseason accompanied by a great feedback of the allotments in the post season, (v) stable growth in M.I.C.E. during the preseason and post season period, as well as increase in the direct and allotment channels in the Valamar Lacroma Dubrovnik Hotel 4* in the fourth quarter, and (vi) repositioning of the Valamar Collection Imperial Hotel 4* in the Premium segment.

27 According to the classification under the USALI international standard for reporting According to the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry). Economy segment includes non-commercial segment (accommodation for employees). Business operations of Hoteli Makarska and Valamar Obertauern are not included in 2017. Puntižela - Pula business is included in destination Poreč. A detailed comparison of the new portfolio segmentation can be found on page 32.

28 When calculating adjusted EBITDA, internal allocation of revenues and expenses as well as inter-segment revenues and expenses are excluded from the calculation. Adjusted EBITDA of other segments amounts to HRK -304.1 million in 2018, i.e. HRK -270.0 million in 2017. Other segments include business of central operations, laundry, sport, central kitchen, strategic rentals, etc. The data for 2017 are not comparable to those published in the 2017 Annual Report due to a internally different segmental overview.

HOTELS AND RESORTS / CONTINUED

Upscale

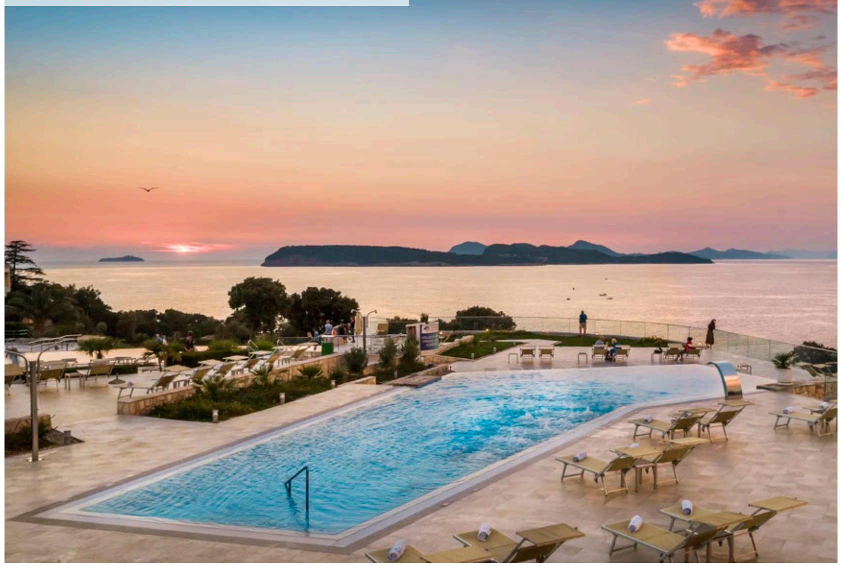
	2017	2018	2018/ 2017
Number of accommodation units	1,980	1,964	-0.8%
Full occupancy days	158	171	8.5%
Annual occupancy rate (%)	43%	47%	8.5%
Accommodation units sold	312,618	336,327	7.6%
Overnights	729,117	781,326	7.2%
ADR[16]	1,009	1,026	1.7%
Board revenues (in HRK)	315,357,057	345,096,367	9.4%
RevPAR[17] (in HRK)	159,271	175,711	10.3%
Adjusted EBITDA[28] (in HRK)	182,909,049	199,921,567	9.3%

Premium and upscale hotel resorts segments are board reveneus growth drivers.

Upscale hotels and resorts

Upscale hotels and resorts reported HRK 345.1 million in board revenues. The strong growth (HRK 29.7 million) was primarily driven by larger volumes, i.e. 781,326 overnights achieved (+7.2%). The drivers of 9.4% growth in board revenues were: (i) larger number of operating days of the TUI Family Life Bellevue Resort 4* as a result of last year's investment, (ii) the Valamar Argosy Hotel 4* due to very strong feedback by the individual channel and very successful placement of groups and M.I.C.E., (iii) good feedback by the direct sales channel as well as good placement of groups during the preseason and in the post season period at the Valamar Hotel & Casa Sanfior 4*, (iv) increase in all segments with notable increase in groups during the preseason at the Valamar Zagreb Hotel 4*, and (v) the Valamar Padova Hotel 4*, due to excellent feedback by the direct channel resulting from the synergy of Valamar Riviera's management of operations as determined by the provisions of the concluded Hotel management contract.

Valamar Argosy Hotel 4*, Dubrovnik



HOTELS AND RESORTS / CONTINUED

	Midscale			Economy		
	2017	2018	2018/ 2017	2017	2018	2018/ 2017
Number of accommodation units	3,493	3,771	8.0%	2,240	2,684	19.8%
Full occupancy days	163	149	-8.5%	156	168	7.7%
Annual occupancy rate (%)	45%	41%	-8.5%	43%	46%	7.7%
Accommodation units sold	569,159	562,286	-1.2%	350,011	451,602	29.0%
Overnights	1,193,419	1,215,124	1.8%	729,489	783,434	7.4%
ADR[16]	672	733	9.1%	385	290	-24.6%
Board revenues (in HRK)	382,724,084	412,415,854	7.8%	134,741,742	131,077,819	-2.7%
RevPAR[17] (in HRK)	109,569	109,365	-0.2%	60,153	48,837	-18.8%
Adjusted EBITDA[28] (in HRK)	224,461,891	236,609,302	5.4%	73,586,921	65,884,658	-10.5%

Midscale hotels and resorts
The midscale segment reported HRK 412.4 million in board revenues and is mostly influenced by the repositioning of the Valamar Collection Imperial Hotel 4* as Premium accommodation, and consolidation of the Valamar Meteor Hotel 4* and the Dalmacija Sunny Hotel by Valamar 3* in Makarska as from August 2018, as well as Valamar Obertauern Hotel 4* from November 2018. If we exclude the results achieved by these facilities, board revenues went up by 3.9%. The drivers of growth were: (i) better operating results of the Valamar Club Dubrovnik Hotel 3*, especially in the individual segment, (ii) increase of the average price and accommodation units sold at the Corinthia Baška Sunny Hotel by Valamar 3*, (iii) the Valamar Crystal Hotel 4*, primarily due to increased physical volumes especially by the placement of group and M.I.C.E. Events in the post season period, (iv) stronger market feedback received by the allotment and M.I.C.E. channels at the Valamar Diamant Hotel 4*, (v) growth in the allotment channel at the Valamar Rubin Hotel 3*, (vi) the repositioning of the Valamar Pinia Hotel 3* into an all-inclusive facility, and (vii) increase in all channels, except for the group channel, at the Valamar Zvonimir Hotel 4*, the Valamar Atrium Baška Residence 4*/5* and the Valamar Villa Adria 4*.

Economy hotels and resorts
Economy hotels and resorts achieved HRK 131.1 million in board revenues. The economy segment shows a decrease by 2.7%, primarily due to the conversion of Pical apartments and Marina hotel in Rabac into accommodation for employees.

Board revenues growth in midscale hotel resorts segment is driven by the 9% increase in ADR.

CAMPING RESORTS

	Total			Premium		
	2017	2018	2018/ 2017	2017	2018	2018/ 2017
Number of accommodation units	11,870	11,398	-4.0%[29]	3,466	4,053	16.9%
Full occupancy days	100	105	5.4%	112	119	5.7%
Annual occupancy rate (%)	27%	29%	5.4%	31%	32%	5.7%
Accommodation units sold	1,187,741	1,202,060	1.2%	388,757	480,597	23.6%
Overnights	3,057,450	3,072,842	0.5%	1,135,715	1,380,392	21.5%
ADR[16]	285	315	10.7%	343	393	14.5%
Board revenues (in HRK)	338,284,959	379,054,818	12.1%	133,352,887	188,714,620	41.5%
RevPAR[17] (in HRK)	28,499	33,256	16.7%	38,475	46,562	21.0%
Adjusted EBITDA[28] (in HRK)	249,621,643	283,951,633	13.8%	101,669,058	147,343,042	44.9%

Total camping resorts
Camping resorts achieved a total of HRK 379.1 million in board revenues. Successful optimization of the average rate for mobile homes and camping pitches (+10.6%) resulted in a strong growth in total board revenues by 12.1% (HRK +40.8 million).

Premium camping resorts
Premium camping resorts reported HRK 188.7 million in board revenues. A 41.5% increase (HRK +55.4 million) is driven by ADR of HRK 393 (+14.5%) and 480,597 accommodation units sold (+23.6%). The high growth rates in physical indicators and ADR are mainly due to: i) excellent business results reported by the Lanterna Premium Camping Resort by Valamar 4* (17% higher board revenues, also due to strong market feedback received by this year's investments in new products and guest amenities, especially mobile homes), and ii) the Ježevac Premium Camping Resort by Valamar 4* going from Upscale to Premium. The rest of the growth is attributed to the strong performance of the Krk Premium Camping Resort by Valamar 5*.

29 Decrease in capacity is mainly due to investment in the San Marino Camping Resort by Valamar 4* (the conversion of 3 camping plot zones into a parking lot and the installation of premium mobile homes), as well as the conversion of camping plots into premium mobile homes in the other campsites undergoing investment.

CAMPING RESORTS
/ CONTINUED

	Upscale			Midscale			Economy		
	2017	2018	2018/ 2017	2017	2018	2018/ 2017	2017	2018	2018/ 2017
Number of accommodation units	1,434	2,157	50.4%	5,150	3,293	-36.1%	1,820	1,895	4.1%
Full occupancy days	117	112	-4.7%	93	95	2.0%	83	89	6.3%
Annual occupancy rate (%)	32%	31%	-4.7%	25%	26%	2.0%	23%	24%	6.3%
Accommodation units sold	168,264	241,267	43.4%	479,060	312,336	-34.8%	151,660	167,860	10.7%
Overnights	398,631	653,798	64.0%	1,153,982	675,563	-41.5%	369,122	363,089	-1.6%
ADR[16]	316	349	10.3%	252	238	-5.4%	206	190	-7.8%
Board revenues (in HRK)	53,156,811	84,084,654	58.2%	120,533,212	74,356,730	-38.3%	31,242,049	31,898,815	2.1%
RevPAR[17] (in HRK)	37,069	38,982	5.2%	23,405	22,580	-3.5%	17,166	16,833	-1.9%
Adjusted EBITDA[28] (in HRK)	41,528,065	65,094,264	56.7%	86,505,421	51,179,211	-40.8%	19,919,099	20,335,116	2.1%

Upscale camping resorts
Upscale camping resorts reported a 58.2% increase in board revenues. The HRK 84.1 million in board revenues were because: (i) the Ježevac Premium Camping Resort by Valamar 4* went from Upscale to Premium, (ii) the San Marino Camping Resort by Valamar 4* went from Midscale to Upscale, and (iii) the Zablaće Camping Resort by Valamar 4* went from Midscale to Upscale. Excluding the influence of the segmentation shift for the said campsites, the comparable growth was 6% because two campsites reported better operating results: the Marina Camping Resort by Valamar 4* and the Bunculuka Camping Resort by Valamar 4*.

Midscale camping resorts
Midscale campsites reported a 38.3% decrease to HRK 74.4 million because the San Marino Camping Resort by Valamar 4* and the Zablaće Camping Resort by Valamar 4* went from Midscale to Upscale. The comparable growth in board revenues was 5% thanks to the stronger results achieved by the other Midscale camping resorts.

Economy camping resorts
Economy campsites reported HRK 31.9 million in board revenues. Despite the earlier closure of Istra Sunny Camping by Valamar 2 * due to the investment, the Economy segment recorded HRK 0.7 million higher board revenue as a result of better business operations of Brioni Sunny Camping by Valamar 2 *.

KEY OPERATING INDICATORS OF VALAMAR RIVIERA GROUP PER DESTINATIONS[27]

DESTINATIONS	Poreč			Rabac			Krk Island		
	2017	2018	2018/ 2017	2017	2018	2018/ 2017	2017	2018	2018/ 2017
Number of accommodation units	10,584	10,511	-0.7%	1,971	2,124	7.8%	3,577	3,496	-2.3%
Full occupancy days	121	127	4.8%	156	162	3.8%	126	132	4.6%
Annual occupancy rate (%)	33%	35%	4.8%	43%	44%	3.8%	35%	36%	4.6%
Accommodation units sold	1,282,228	1,335,131	4.1%	308,369	344,957	11.9%	451,987	462,244	2.3%
Overnights	3,075,877	3,084,331	0.3%	673,169	777,279	15.5%	1,063,850	1,106,948	4.1%
ADR[16]	487	494	1.4%	635	741	16.6%	432	460	6.5%
Board revenues (in HRK)	624,793,941	659,806,559	5.6%	195,916,080	255,585,586	30.5%	195,074,956	212,477,386	8.9%
RevPAR[17] (in HRK)	59,032	62,773	6.3%	99,399	120,332	21.1%	54,536	60,777	11.4%
Adjusted EBITDA[28] (in HRK)	393,293,569	416,934,989	6.0%	95,161,189	132,217,344	38.9%	129,928,462	143,515,370	10.5%

Destination Poreč
Destination Poreč reported HRK 659.8 million in board revenues. The HRK 35.0 million increase in board revenues was mostly due to the strong performance of Valamar Collection Isabella Island Resort 4*/5*, Valamar Tamaris Resort 4*, Valamar Zagreb Hotel 4*, Valamar Pinia Hotel 3*, Valamar Crystal Hotel 4* and Lanterna Premium Camping Resort by Valamar 4*.

Destination Rabac
Destination Rabac reported HRK 255.6 million in board revenues. The 30.5% growth was mostly driven by: (i) earlier opening of the Valamar Collection Girandella Family Hotel 4* and the TUI Family Life Bellevue Resort 4* as regards 2017 investment, (ii) the newly opened Valamar Collection Girandella Maro Suites 5* and (iii) the increased physical volumes at the Valamar Hotel & Casa Sanfior 4*.

Destination Krk Island
This destination reported HRK 212.5 million in board revenues that were driven by 1,106,948 overnights achieved, and the average daily rate going up by 6.5% to HRK 460. The main contributors to the total growth are the destination's campsites, especially Krk Premium Camping Resort by Valamar 5*, Ježevac Premium Camping Resort by Valamar 4* and Zablaće Camping Resort by Valamar 4*, along with Corinthia Baška Sunny Hotel by Valamar 3*.

DESTINATIONS
/ CONTINUED

	Rab Island			Dubrovnik			Makarska	Obertauern
	2017	2018	2018/ 2017	2017	2018	2018/ 2017	2018	2018
Number of accommodation units	2,759	2,466	-10.6%	1,961	1,966	0.3%	726	82
Full occupancy days	96	116	21.3%	170	175	2.9%	/	/
Annual occupancy rate (%)	26%	32%	21.3%	47%	48%	2.9%	/	/
Accommodation units sold	264,114	286,252	8.4%	333,057	343,719	3.2%	53,720	1,313
Overnights	716,510	726,183	1.4%	643,736	653,266	1.5%	108,710	3,017
ADR[16]	499	513	2.8%	901	928	3.0%	612	1,827
Board revenues (in HRK)	131,842,656	146,864,366	11.4%	300,239,175	319,007,455	6.3%	32,851,352	2,398,715
RevPAR[17] (in HRK)	47,786	59,556	24.6%	153,105	162,262	6.0%	45,250	29,253
Adjusted EBITDA[28] (in HRK)	80,715,170	88,956,420	10.2%	193,482,014	211,142,776	9.1%	16,456,329	-2,270,855

Destination Rab Island
Although the Valamar Collection Imperial Hotel 4* had fewer operating days because of the investments, board revenues in 2018 grew by HRK 15.0 million to HRK 146.9 million. Most of the growth was driven by Valamar Padova Hotel 4* due to successful feedback of the direct channel and Valamar Carolina Hotel & Villas 4*, as well as San Marino Camping Resort by Valamar 3* and Padova Camping Resort by Valamar 3*.

Destination Dubrovnik
Destination Dubrovnik reported HRK 319.0 million in board revenues. The HRK 18.8 million increase in board revenues was mostly due to stronger operating results reported by Valamar Collection Dubrovnik President Hotel 5*, Valamar Lacroma Dubrovnik Hotel 4*, and Valamar Argosy Hotel 4* and Valamar Club Dubrovnik Hotel 3*.

Destination Makarska
The hotel and resort consolidation in Makarska from August 2018 contributed HRK 32.9 million to board revenues. In comparison to the comparable previous year period, Makarska reported an increase by 4% in board revenues.

Destination Obertauern
The hotel and resort consolidation in Obertauern from November 2018 contributed HRK 2.4 million to board revenues. In comparison to the comparable previous year period, Obertauern reported an almost 10% increase in board revenues.

HOTELS AND RESORTS OVERVIEW

	Categorization		Segment		Destination
	2017	2018	2017	2018	
Valamar Collection Isabella Island Resort	**** / *****	**** / *****	Premium	Premium	Poreč
Valamar Collection Girandella Resort	****/*****	****/*****	Premium	Premium	Rabac
Valamar Collection Dubrovnik President Hotel	*****	*****	Premium	Premium	Dubrovnik
Valamar Lacroma Dubrovnik Hotel	**** +	**** +	Premium	Premium	Dubrovnik
Valamar Collection Imperial Hotel	****	****	Midscale	Premium	Rab Island
Valamar Tamaris Resort	****	****	Upscale	Upscale	Poreč
Valamar Riviera Hotel & Residence	****	****	Upscale	Upscale	Poreč
Valamar Zagreb Hotel	****	****	Upscale	Upscale	Poreč
TUI Family Life Bellevue Resort	****	****	Upscale	Upscale	Rabac
Valamar Sanfior Hotel & Casa	****	****	Upscale	Upscale	Rabac
Valamar Argosy Hotel	****	****	Upscale	Upscale	Dubrovnik
Valamar Padova Hotel	****	****	Upscale	Upscale	Rab Island
Valamar Diamant Hotel & Residence	****	****	Midscale	Midscale	Poreč
Valamar Crystal Hotel	****	****	Midscale	Midscale	Poreč
Valamar Pinia Hotel	***	***	Midscale	Midscale	Poreč
Rubin Sunny Hotel by Valamar	***	***	Midscale	Midscale	Poreč
Allegro Sunny Hotel by Valamar	***	***	Midscale	Midscale	Rabac
Miramar Sunny Hotel by Valamar	***	***	Midscale	Midscale	Rabac
Corinthia Baška Sunny Hotel by Valamar	***	***	Midscale	Midscale	Krk Island
Valamar Zvonimir Hotel	****	****	Midscale	Midscale	Krk Island
Valamar Atrium Baška Residence	**** / *****	**** / *****	Midscale	Midscale	Krk Island
Valamar Villa Adria	****	****	Midscale	Midscale	Krk Island
Valamar Koralj Hotel	***	***	Midscale	Midscale	Krk Island
Valamar Club Dubrovnik Hotel	***	***	Midscale	Midscale	Dubrovnik
Valamar Carolina Hotel & Villas	****	****	Midscale	Midscale	Rab Island
San Marino Sunny Resort by Valamar	***	***	Midscale	Midscale	Otok Rab
Valamar Meteor Hotel	/	****	/	Midscale	Makarska
Dalmacija Sunny Hotel by Valamar	/	***	/	Midscale	Makarska
Valamar Obertauern Hotel	/	****	/	Midscale	Obertauern, Austria
Pical Sunny Hotel by Valamar	**	**	Economy	Economy	Poreč
Lanterna Sunny Resort by Valamar	**	**	Economy	Economy	Poreč
Tirena Sunny Hotel by Valamar	***	***	Economy	Economy	Dubrovnik
Eva Sunny Hotel & Residence by Valamar	**	**	Economy	Economy	Rab Island
Riviera Sunny Resort by Valamar	/	**	/	Economy	Makarska

CAMPING RESORTS OVERVIEW

	Categorization		Segment		Destination
	2017	2018	2017	2018	
Lanterna Premium Camping Resort by Valamar	****	****	Premium	Premium	Poreč
Krk Premium Camping Resort by Valamar	*****	*****	Premium	Premium	Krk Island
Ježevac Premium Camping Resort by Valamar	****	****	Upscale	Premium	Krk Island
Marina Camping Resort by Valamar	****	****	Upscale	Upscale	Rabac
Bunculuka Camping Resort by Valamar	****	****	Upscale	Upscale	Krk Island
Zablaće Camping Resort by Valamar	***	****	Midscale	Upscale	Krk Island
San Marino Camping Resort by Valamar	***	****	Midscale	Upscale	Rab Island
Orsera Camping Resort by Valamar	***	***	Midscale	Midscale	Poreč
Solaris Camping Resort by Valamar	***	***	Midscale	Midscale	Poreč
Škrila Sunny Camping by Valamar	***	***	Midscale	Midscale	Krk Island
Solitudo Sunny Camping by Valamar	***	***	Midscale	Midscale	Dubrovnik
Padova Camping Resort by Valamar	***	***	Midscale	Midscale	Rab Island
Istra Sunny Camping by Valamar	**	**	Economy	Economy	Poreč
Brioni Sunny Camping by Valamar	**	**	Economy	Economy	Pula - Puntižela
Tunarica Sunny Camping by Valamar	**	**	Economy	Economy	Rabac

46%

OF ACCOMMODATION UNITS IS IN THE PREMIUM AND UPSCALE SEGMENT

Over the years Valamar Riviera has consolidated its portfolio in order to clearly differentiate, develop and reposition its hospitality products. A precise definition of market segments, the innovative development of service concepts, active brand management, profitability increase and return-on-investment optimization demanded a revised segmentation of the portfolio of hospitality properties. Over time, the brand architecture was supplemented and modified, adapting to the changes within the Company, and in 2016, the process of redefining the existing brand strategy was launched; the process was completed and implemented in the second half of 2018. The new brand strategy enables us to increase market reach, improve product and service compatibility with specific market segments, increase guest loyalty and, ultimately, increase the key business indicators.

All you can holiday

UMRELLA BRAND OF VALAMAR RIVIERA

Cava beach, Dubrovnik

Key brand changes:

i) The key core values of the Valamar All you can holiday umbrella brand, which are linked to all the brands in the system, have been defined.

ii) The existing Valamar brand architecture undergoes reshaping from a system with two main product brands to a system with five main product brands closely linked to Valamar's core culture and values.

ii) The system of communication for the standardized Valamar signature programs has been defined, alongside their application to the compatible Valamar product brands.

iv) Each property in the portfolio is linked to one of the product brands and has had specific positioning, USPs, target markets and sales channels defined specifically for it.

v) Valamar Collection and Valamar Collection Resorts are brands of strategic importance and are the closest to Valamar's core values; they include the best products in the portfolio.

vi) Valamar Hotels & Resorts is a brand covering the largest portion of the Company's capacities and includes both upscale and midscale properties; specific labels will be introduced through this brand, depending on the special characteristics of each individual product.

vii) Sunny by Valamar is the economy brand that includes both midscale and economy portions of the portfolios.

viii) Camping Adriatic by Valamar will be lifted to a higher level and be more strongly linked to the Valamar brand; additionally, it has been divided into three categories, using the same principle as for hotels and resorts – Premium Resorts, Resorts and Sunny.


Valamar Collection Isabella Island Resort 4*/5*, Poreč

Results of the Company

Please note that the data provided in the 2018 financial statements cannot be fully compared with the data from the previous year because of the said mergers. Current and prior period items up to the time of the merger, i.e. until 31 March 2017, do not include data for Puntižela d.o.o., and data on Elafiti Babin Kuk d.o.o. up to 29 December 2017 has been excluded as well.

Total revenues in 2018 rose by HRK 152.2 million (+9.0%), amounting to HRK 1,848.2 million. Total sales revenues amounted to HRK 1,768.6 million and represented 96% of total revenues (95% in 2017). Compared to the same period last year, they grew by 9.4%, i.e. HRK 151.9 million. Sales revenues between undertakings in the Group were HRK 18.6 million (HRK 13.9 million in 2017), and mainly represented the management fee for Imperial's properties and Hotel Makarska. Sales revenues outside the Group amounted to HRK 1,750.0 million (HRK 1,602.8 million in 2017). Domestic sales revenues amounted to HRK 162.3 million, i.e. 8.8% of total revenues (8.1% in 2017), up 17.7% in relation to the previous comparable period. International sales revenues amounted to HRK 1.606,3 million and represented 86.9% of total revenues (87.2% in 2017). They grew 8.6% compared to the previous comparable period. Other operating revenues increased by 2% and totalled HRK 20.1 million, representing 1% of total revenues (1% in 2017). Other operating and financial income represented 5% of total revenues (4% in 2017).

Material costs totalled HRK 501.4 million and represented 33% of operating expenses (36% in 2017), signifying a decline in that share. Although direct raw material and material costs (especially food and beverage costs, as well as costs of energy and water consumption) driven by larger business volumes increased by HRK 19.8 million, the total material costs item decreased by HRK 10.4 million primarily due to the absence of lease cost of the Valamar Lacroma Dubrovnik Hotel 4* because of the merger of its owner-company, Elafiti Babin-kuk d.o.o., to Valamar Riveira. Staff costs amount to HRK 487.8 million, representing 32% of operating expenses (32% in 2017). Compared to the same period last year, they grew by HRK 44.0 million. This was mainly due to the efforts invested in securing competitive salaries and other material and non-material work conditions, as well as hiring new employees necessary to ensure service quality for the new Premium and Upscale products.

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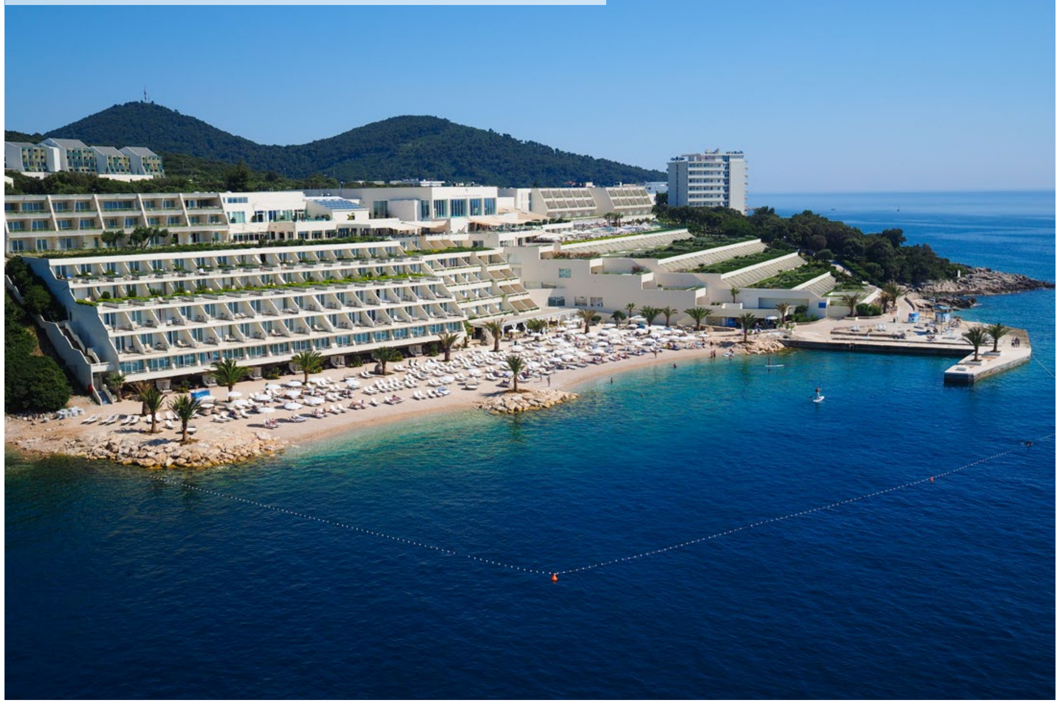
MILLION HRK INCREASE IN SALES REVENUES

Valamar Riviera is therefore the first company in Croatia guaranteeing a minimum net salary between HRK 5,000 and 7,500 for all of its employees. Amortization represented 23% of operating expenses (20% in 2017) and totalled HRK 344.7 million (HRK 283.5 million in 2017). The 22% growth is the result of the earlier large investment cycle that had been carried out. Other costs totalled HRK 159.2 million. The 19% growth is, among other, due to (i) an increase in the costs of lodging and meals for employees, (ii) an increase in insurance costs, and (iii) the design, technical and other documentation for investment purposes. Value adjustments and provisions amounted to HRK 6.3 million and increased by HRK 1.1 million. Other operating expenses amounted to HRK 12.7 million, a decrease of HRK 5.6 million due to the lower value of depreciated assets not written off (demolition due to investment) and lower expenses from previous years.

Valamar Collection Dubrovnik President Hotel 5, Dubrovnik*



RESULTS OF
THE COMPANY
/continued

Financial income in 2018 was HRK 59.6 million and remained at the same level compared to 2017. The biggest individual item of the decrease are foreign exchange differences and other financial income, down by HRK 3.6 million primarily due to the absence of positive exchange rate differences on deposits in the last quarter of 2018 as a consequence of the appreciation of the Croatian Kuna compared to the Euro. The highest individual growth in 2018 has been reported in income from investment in stakes (shares) of undertakings in the Group amounting to HRK 6.1 million, related to payout of Imperial shares. Unrealised gains from financial assets fell by HRK 2.8 million, mainly due to a lower positive fair value of FX forwards compared to last year.

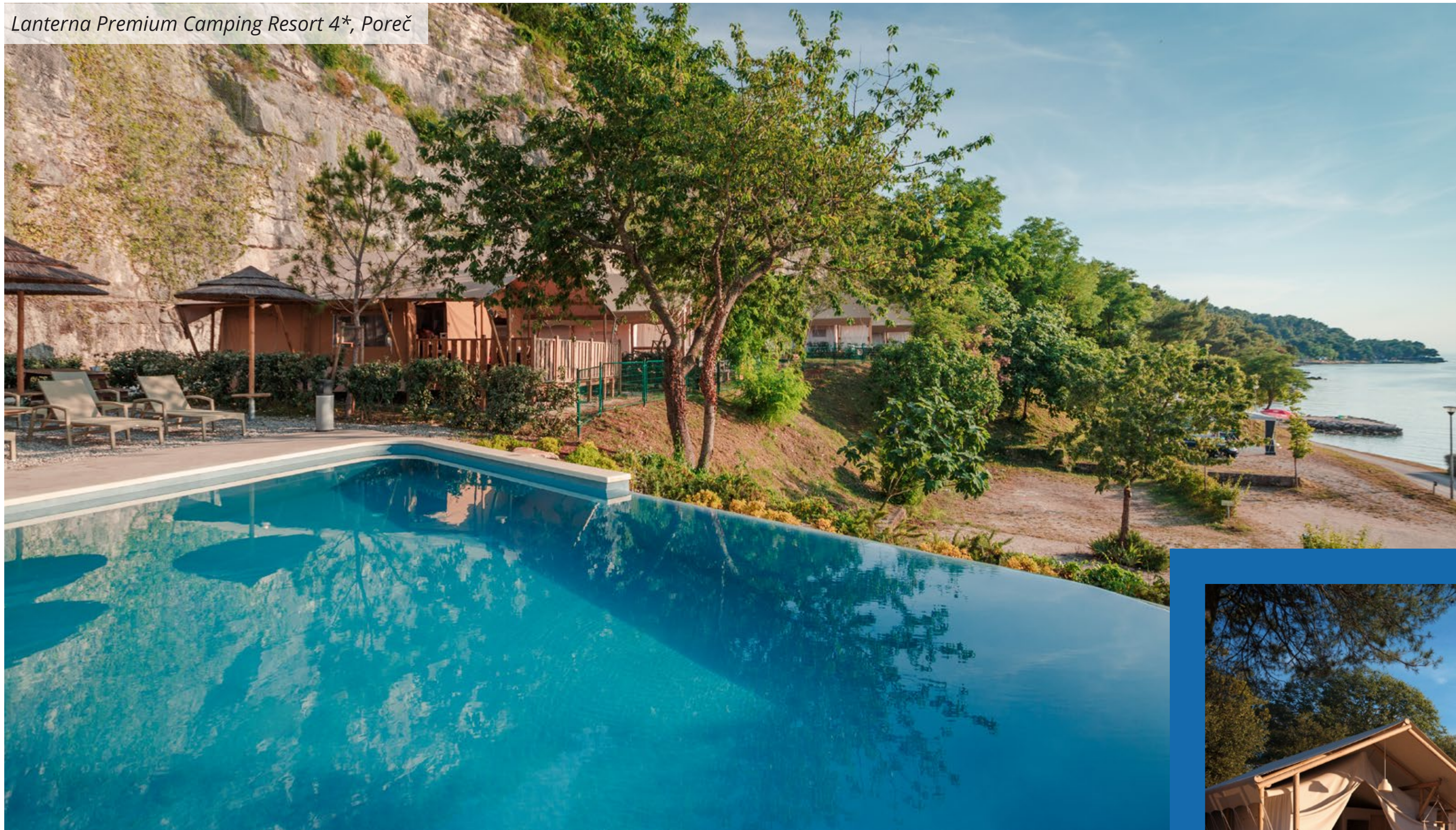
Financial expenses amounted to HRK 76.0 million. Compared to the same period last year, they fell by HRK 6.1 million. The biggest individual item of the decrease are foreign currency differences and other expenses, down by HRK 14.1 million primarily due to the lower HRK vs. EUR depreciation in 2H of 2018 in relation to last year's comparable period. Interest expenses and similar expenses amounted to HRK 45.3 million, up by HRK 8.1 million due to financial leverage used for intensive investment cycles in 2017 and 2018.

Operating profit rose by HRK 36.5 million, amounting to HRK 276.7 million, driven by the large investment cycle focused on improving competitiveness and the quality of properties and services, as well as active operating efficiency management and demand - driven optimization of prices, marketing mix and sales channels, particularly for properties for which new investments were made. Profit before tax was HRK 260.2 million (HRK 217.7 million in 2017). The Company's gross margin was 15% (13% in 2017). Net profit increased by HRK 7.3 million, amounting to HRK 239.3 million in 2018 (HRK 232.0 million in 2017), resulting from better operating results.

As at 31 December 2018, the total company assets amounted to HRK 4,997.6 million, an increase of 8% compared to 31 December 2017.

Valamar Pinia Hotel 3, Poreč*

Operating profit rose by HRK 37 million to HRK 277 million.



Lanterna Premium Camping Resort 4*, Poreč

2018 Investments

Investments worth HRK 703.6 million were capitalized in the existing portfolio of non-current tangible assets in 2018. 2018 investment cycle was part of our strategy focused on further double-digit business growth and encompasses all of our five destinations, while Valamar's success and growth is based on sustainable and socially responsible investments in products, employees and destinations.

In 2018 we continued with the reposition of our portfolio towards top quality products and services. Opening of the two new resorts in Rabac in 2017 represented the largest investment in Croatia's tourism. In 2018 we completed Valamar Collection Girandella Resort 4*/5* (392 rooms) investment in Rabac by opening the first Kinderhotel in our portfolio - Valamar Collection Girandella Maro Suites 5* (149 rooms). Besides this key project in Rabac, other large investments were carried out at other destinations as well as investments in premium camping.

The investment cycle carried out by Imperial was one of the largest in the history of the company (HRK 72 million). The investments were aimed at improving the quality of properties and services and the competitiveness of the whole destination. The reconstruction and repositioning of Valamar Collection Imperial Hotel 4* as "designed for adults" accommodation was the largest investment on Rab Island.

Destination Poreč

Investments at Lanterna Premium Camping Resort by Valamar 4* were focused on improving accommodation and overall quality, including the reconstruction of the main road with footpaths and cycling paths. In 2018 the resort included a large number of new features: the brand new family-friendly Maro Premium Village with 86 mobile homes, 9 glamping tents and other amenities (two swimming pools and children's playgrounds); 18 new mobile homes at Marbello Premium Village; 14 new glamping tents and improved beach at Glamping Village; a new zone for sports, recreation and entertainment –V Sport Park with Terra Magica adventure mini golf and numerous other amenities.

The repositioning of Istra Sunny Camping by Valamar 2* as premium accommodation is divided in three phases, and the first phase was performed in 2018. It included the reconstruction of the municipal infrastructure (electrical and water supply, drainage, optical network, wireless network and the construction of a new main road). It also covered the improvement of several beaches and the reconstruction of the present 117 pitches in the southern part of the camping pitch zone and a new sanitary block.

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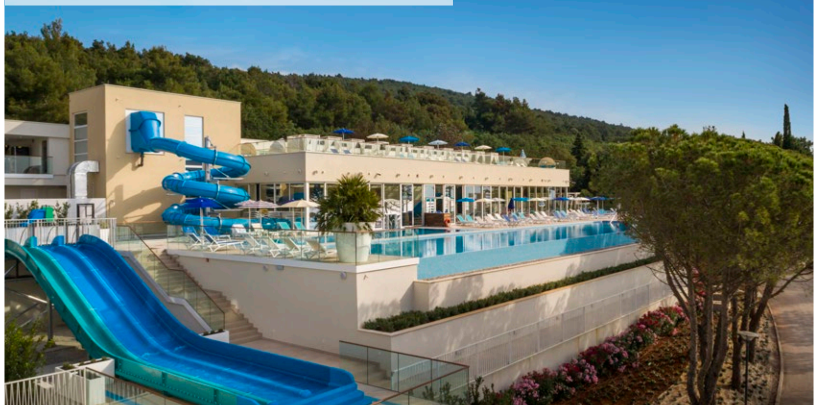
MILLION HRK INVESTMENTS CAPITALIZED IN 2018

Destination Rabac

We opened our first Kinderhotel, Valamar Collection Girandella Maro Suites 5*. The accommodation, services and amenities at Valamar Collection Girandella Maro Suites 5* are tailored according to the needs of families with children of different ages: from spacious family rooms with children's accessories, indoor and outdoor swimming pools with water attractions and slides, to entertainment activities at the Maro clubs and the Teen Hangout zone. The restaurant includes a children's buffet serving soft drinks and afternoon snacks such as salads, soups and cakes and there is also a play lounge with an indoor playground. There are 50 Kinderhotels in Europe, and this is the third Kinderhotel in Croatia. By its opening, 150 new jobs were opened and over HRK 600 million was invested in Rabac destination which repositioned it as leading high-end holiday destination.

Valamar Girandella Maro Suites 5, Rabac*



Destination Krk Island

The repositioning of Zablaće Camping Resort by Valamar from 3* to 4* was performed. The investment included 35 new mobile homes, the construction of a new sanitary block and other amenities, landscaping work, infrastructural improvements of camping pitches and the introduction of energy-saving LED lighting.

Investments in Ježevac Premium Camping Resort by Valamar 4* represented a new pool zone featuring a sundeck and slides, a new children's playground, 31 new mobile homes and the replacement of 18 existing mobile homes with new ones. In the 2018 season, the campsite featured an EV charging station and upgraded services in line with premium campsite standards. Škrila Sunny Camping by Valamar 3* featured a new shopping area, redesigned landscape, new mobile homes and energy-saving LED lighting.

Investments at Bunculuka Camping Resort by Valamar 4* were focused on the installation of solar panels and the redesign of the campsite entrance area. After a four-year investment cycle, in 2016 Krk Premium Camping Resort by Valamar became the first 5-star campsite in Croatia. The investments were focused on improving a number of features: overall quality, beach services, landscape, sanitary block and now it also includes an EV charging station.

Destination Rab Island

In May 2018 was the opening of the repositioned Valamar Collection Imperial Hotel 4* on Rab Island: the new "designed for adults" luxury hotel included 136 keys, modern double rooms, a premium restaurant and other improved amenities. Investments in campsites on Rab Island were focused on Lopar Garden Village at San Marino Camping Resort by Valamar 4* that offers new mobile homes.

Moreover, numerous new features were introduced at Padova Camping Resort by Valamar 3*: from the new Marine Premium Village to the introduction of innovative camping concepts such as the spacious "camping suites" and "romantic camping chalets" for couples.

OVER

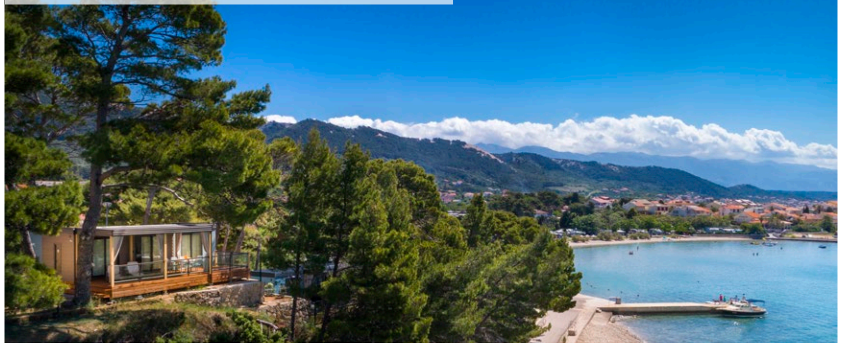
600

MILLION HRK INVESTED IN THE REPOSITIONING OF RABAC DESTINATION AS LEADING HIGH-END HOLIDAY DESTINATION

Destination Dubrovnik

Investments in Dubrovnik were focused on repositioning hotel accommodation and developing high-quality products and services. The Valamar Argosy Hotel 4* opened the 2018 season offering upgraded service quality and new improved amenities such as the new outdoor pool featuring a new snack bar and terraces, landscape improvements, the total refurbishment of the 308 rooms, reception, lobby and restaurant and the redesign of the common areas.

Padova Camping Resort 3, Rab Island*



Ježevac Premium Camping Resort 4, Krk Island*

Istra Premium Camping Resort, Poreč (vizualization)

2019 Investments

The focus of investment projects of the Valamar Group in 2019 will be on repositioning the portfolio towards products and services with high added value. Total investments in all Valamar's destinations will reach HRK 793 million. The development strategy for products and amenities contains ambitious plans for an innovative enhancement of Valamar's offer, with a focus on the upscale and premium sections of the portfolio, both in the hotel and resort segment as well as in the camping resort segment. The development of Valamar's service concepts is a continuous process, which will keep being focused, year after year, on aligning the supply with the most recent market demands, primarily the guests' demands and expectations. We will keep investing in our signature programmes, such as V Level, Maro Holiday, Designed for Adults, V Sport, Stay Fit, Music and Fun, Camping Piazza and others.

Out of the HRK 636 million within the Valamar Riviera's investment cycle, we would like to highlight the investments in camping Istra, which will become the largest 5* camping in Croatia next season. Furthermore, the opening of the luxury family hotel Valamar Collection Marea Suites 5* in Poreč as well as investing in the further improvement of accommodation, products and services in the Lanterna Premium Camping Resort 4* and Ježevac Premium Camping Resort 5* are also planned. Large investments in accommodation for seasonal employees will be continued in line with Valamar's strategic goals.

Istra Sunny Camping 2* in Funtana started its second phase of investments in autumn 2018. This summer Valamar's guests will be able to enjoy a highly decorated camping resort - Istra Premium Camping Resort 5*. Besides becoming a fully textile camping resort, the guests will be more than delighted when they discover a large family water park Aquamar, spreading over 1,000m^2 of water areas with a wide range of slides and water attractions, a large entertainment arena with a cinema, stage, children's clubs and playrooms as well as Super Maro children's programmes. The offer will also include one of the best decorated Valamar beaches, Piazza market, restaurants, bars, sport and recreation zone V Sport Park, Terra Magica adventure miniature golf, numerous children's playgrounds, as well as new camping parcels (83), new glamping tents (9), a variety of new mobile homes (135), as well as new luxury mobile homes (4) with private pools. Istra Premium Camping Resort will be a top-class resort with a wide range of amenities and excellent service.

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MILLION HRK
2019 GROUP'S
INVESTMENT CYCLE

Work is also in progress at the new Valamar Collection Marea Suites 5* hotel in the Borik area of Poreč, at the location of the current Pinia Sunny Residence by Valamar. Valamar is thereby continuing its development of the Borik zone, through accommodation and amenities with added value; 100 new vacancies are set to become available due to the subject investment. The future Valamar Collection Marea Suites 5* has been designed for families with children, where the guests will have an opportunity to enjoy V level service, luxury suites ranging from 32 to 56 square metres in size and a sea view (108 rooms), more than 200 square metres of appealing pools, Val Marea Sandy Family sandy beach, restaurants, sport facilities and Maro amenities for children of all ages. Special attention will be paid to horticultural decoration and planting new trees, vegetation and decorative plants native to the Istrian climate.

At the Lanterna Premium Camping Resort, as Valamar Riviera's largest camping, we will keep developing the premium segment by installing new mobile homes with a sea view (12) at the Marbello zone, by arranging three camping zones where the guests will be able to enjoy in new mobile homes (136), and by repositioning a part of the existing parcels. We will also continue arranging the beaches at Tarska vala, by reconstructing the sanitation facilities and adding more water areas to the family aquapark, as well as other works aimed at upgrading the service and quality of the amenities.

30 A portion already recorded in 2018.

Valamar Marea Suites, Poreč (vizualization)

2019 INVESTMENTS /continued

The investments on the island of Krk are focused on raising the quality and range of accommodation at the Ježevac Premium Camping Resort by Valamar 4*. The high added value of the camping amenities will be further enhanced by new mobile homes (23) in the Lungomare zone, as well as by replacing the existing homes with new ones (20) and expanding the capacity of the camping resort to a total of 661 units. Next year's guests will also be able to enjoy a new central market, while the upgraded amenities for families with children will include Maro club and new children's playgrounds.

HRK 140 million of planned investments on the island of Rab in 2019 represent Imperial's largest investment cycle in the last ten years. Along with numerous projects aimed at improving the quality of services for the guests, the major focus of the new investments will be the reconstruction and repositioning of Valamar Carolina Hotel & Villas 4* and the further upgrade of Padova Camping Resort by Valamar 3* toward the upscale and premium segments by continuing the improvement of accommodation facilities and investing in additional amenities. The investment into Valamar Carolina Hotel & Villas 4* will increase the capacity (from 152 to 174 rooms), improve the quality of accommodation and other features and services (existing restaurant, lobby bar, public spaces, new adult swimming pool, and wellness and fitness zones) which will made possible the partnership with the TUI Sensimar brand. Valamar Padova Hotel 4* will welcome the new tourist season as a family offer hotel. Projects are planned with the aim of improving energy efficiency by implementing solar heating systems, efficient heat pumps and other.

140

MILLION HRK PLANNED IMPERIAL'S INVESTMENTS REPRESENT ITS LARGEST INVESTMENT CYCLE IN THE LAST TEN YEARS

TUI Sensimar Carolina, Rab Island (vizualization)

HRK 17 million worth of investments in Makarska will primarily be aimed at improving the quality and amenities of Meteor Hotel, which will continue its business next season under the Valamar Hotels & Resorts brand.

As stated in our strategic goals, by continuously raising the quality of the portfolio properties and services, we create added value both for our guests and all company stakeholders. However, numerous factors reduce the competitiveness of Croatian tourism and hinder further investment potential: VAT (one of the highest rates in the Mediterranean), the rate of total contributions to salaries, the still unresolved issue of tourism land, skilled labor shortages, the likely introduction of property tax and tourist tax increase. While global trends report low interest rates and market demand focuses on safe tourist destinations, Croatia has the opportunity to reposition its tourism by incentivizing investments in products and services with high added value that stimulate employment and economic growth. Unfortunately, tourism is still not sufficiently recognized as an opportunity for the Croatian economy. Current financing programs supporting tourism growth are insufficient, therefore other measures need to be systematically implemented to significantly increase the growth pace and level Croatia's position with other destinations in the Mediterranean.

Valamar Collection Dubrovnik President Hotel 5*, Dubrovnik

The Risks of the Company and the Group

Tourism is a global industry, closely connected with the real and financial economy, geopolitical position and environmental sustainability. The integrity of this industry will determine its future growth. Given the importance of tourism and its overall impact on society, the Company and the Group monitor and assess risks at micro and macro levels. Moreover, when defining the strategy, particular attention is given to the short and medium–term risk impact in order to maintain business sustainability over time.

When monitoring and assessing risks the Company and Group use a proactive approach thus assessing the potential impact of each individual risk. The Company and Group consider risk management to be a key factor of differentiation among competitors. Risk management aims at creating sustainable value, thus offering reliability and security to numerous stakeholders.

5

KEY STEPS IN RISK MANAGEMENT PROCESS

Valamar Crystal Hotel 4, Poreč*

There are five key steps in a risk management process:

1) Identifying potential risks;
2) Assessing identified risks;
3) Determining actions and responsibilities for efficient risk management;
4) Monitoring and overseeing preventive actions;
5) Exchanging information on risk management results conducted by the Management board.

The different types of risks facing Valamar Riviera can be classified into the following groups:

- Financial risks
  - related to financial variables, can have a negative impact on meeting liabilities for the company and the Group, liquidity, debt management etc.;
- Business risks
  - related to the way company business is conducted in terms of supply and demand, competition, adapting to market trends, investments, growth etc.;
- Operational risks
  - can arise from inadequate use of information, errors in business operations, non-compliance with internal procedures, human error, IT system, financial reporting and related risks, etc.;
- Global risks
  - can arise from natural disasters, pandemics, food shortage, social unrest, wars and other force majeure events beyond Valamar Riviera's control;
- Compliance risks
  - can arise from failure to comply with state laws and local regulations; risks related to changes in tax and other regulations.

FINANCIAL RISKS

In their day-to-day business activities, the Company and Group face a number of financial threats, especially:

1) Foreign exchange risk;
2) Interest rate risk;

3) Credit risk;
4) Price risk;
5) Liquidity risk;
6) Share-related risks.

The Company and Group have a proactive approach in mitigating interest rate and foreign exchange risks, by employing available market instruments. Internal risk management goals and policies aim at protecting foreign currency inflows during seasonal activity and partial interest hedging of the principal loan amount.

1) Foreign exchange risk

The Company and Group conduct their business operations across national borders and are exposed to foreign exchange risks. They mainly result from changes in the euro/ kuna exchange rate. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. Most of the sales revenue generated abroad is denominated in euros, and so is the major part of long-term debt. Hence, for the most part the Company and Group are naturally hedged from exchange rate risks. Since some liabilities are denominated in kunas, the Company and Group actively manage risks by using derivative instruments available on the financial market. The instruments are used according to operating assessments and expected market trends. In this way the assets, liabilities and cash flow are protected from the risk impact.

2) Interest rate risk

Variable rate loans expose the Company and Group to cash flow interest rate risk. Actively, the Company and Group resort to derivative instruments in order to hedge cash flow and interest rate by applying interest rate swaps. The economic effect of such swaps is the conversion of variable interest rate loans into fixed interest rate loans for a pre-committed hedged part of the loan principal. Therefore, almost the entire loan portfolio is comprised of long-term fixed interest loans or, respectively, loans hedged by a derivative instrument (IRS). The Company and Group have interest-bearing assets (cash assets and deposits) so their revenue and cash flow depend on changes in market interest rates. This becomes evident especially during the season when the Company and Group have significant cash surpluses at their disposal.

3) Credit risk

Credit risk arises from cash assets, time deposits and receivables. According to the Company and Group sales policy, business transactions are conducted only with customers with suitable credit history, i.e. by agreeing advances, bank securities and (for individual customers) payments made through major credit card companies. The Company and Group continuously strive to monitor their exposure towards other parties and their credit rating as well as obtain security instruments (bills of exchange, promissory notes) in order to reduce bad debt risks related to services provided.

4) Price risk

The Company and Group hold equity securities and are exposed to equity price risk due to security price volatility. Valamar Riviera is not an active participant in the market trade in terms of trading in equity and debt securities. However, with investments in buying Imperial and Hoteli Makarska shares, the company is exposed to the said risk to a certain extent.

5) Liquidity risk

The Company and Group have a sound liquidity risk management. Sufficient funds for meeting liabilities are available at any given moment through adequate amounts from contracted credit lines and by ensuring credit line availability in the future. Liquidity risk is managed by generating strong positive net operating cash flows, while capital investments are financed by credit lines. Credit lines in 2019 were arranged with reputable financial institutions. The repayment of the major credit lines coincides with periods of strong cash inflows from operations. The Company and Group monitor the level of available funds through daily cash and debt reports. Long-term cash flow forecasts as well as annual (monthly) forecasts are based on the set budget. After meeting the needs of working capital management the surplus is deposited in the treasury. From there the funds are invested in interest-bearing current accounts, time deposits, money market deposit accounts and marketable securities. Only instruments with suitable maturities and sufficient liquidity are selected, according to the forecast needs for liquid funds.

6) Share-related risks

The market value of shares is the riskiest asset class due to its volatility resulting from the volatile nature of the whole capital market, macroeconomic trends on markets where the Company and Group operate and discrepancies between the expectations of financial analysts and the actual results. Furthermore, other contributing factors are also changes in the dividend policy, various activities in the segment of consolidations, mergers, acquisitions and forming of strategic partnership, the instability of the business model of the Company and Group as well as the fluctuations in the financial results for the Company and Group. In case any negative implications happen to be associated with these factors there is a considerable risk of market value drop that will in turn prevent investors from selling their shares at a fair market price.

BUSINESS RISK

The Company and Group are constantly exposed to risks threatening its competitiveness and future stability. Since the Company and Group own real estate, this business model requires a large amount of capital in order to maintain high product and service standards. Various large capital investments in the upgrade of products and services can surpass budget expectations, delay the end of construction works, as well as the town-planning regulations and fiscal policy may be changed. These risks can increase costs for the Company and Group, and have a negative impact on the cash flow and revenues. In the previous period, the company and Group's business decisions improved their results and operating efficiency in the demanding Mediterranean market. These positive trends are expected to continue in the future through a prudent long-term strategic management.

Over 95% of Valamar Riviera's guests come from other countries and they are very careful when choosing their vacation destination in the competitive Mediterranean environment. Stable domicile countries macroeconomic indicators are important decision-making factors especially those relating to exchange rates and the price of goods and services because they directly affect the guests' purchasing power. However small, the share of domestic guests is also important; it is a segment directly influenced by various other macroeconomic indicators: employment/ unemployment rate, GNP rise/fall, industrial production and others. They all have a direct impact not only on the purchasing power of Croatian residents but they also determine whether they will choose to spend their vacation on the Adriatic.

When considering risks related to the tourism and hospitality industry, in previous years, the Croatian economy has been afflicted by the consequences of a global financial crisis and economic standstill. In this period, the tourism and hospitality industry has been among the rare growing industries in Croatia. Moreover, the marked seasonality of this industry leads to insufficient use of the Company and Group's resources. After joining the European Union, the Croatian market became part of a large European market, while safety risks decreased after joining the NATO. The Croatian Tourism Development strategy until 2020 (a government document published in the Official Gazette no. 55/13) defines the kind of tourism Croatia wants and needs to develop using the country's comparative advantages and expertise in order to improve the competitiveness of Croatian tourism. Maintaining the current tourism growth rates in the following years is of vital importance. It can be achieved by strategically developing tourism products and investing in the creation of additional values, which will help distinguish Croatian tourism from its competitors by emphasizing its uniqueness, appeal and quality.

Good management of human resources is vital for the future growth of the Company and Group. Risks related to shortages of specific skills, expertise and jobs are connected with the opening and expansion of the labor market. Valamar Riviera is one of the largest and most desirable employers in tourism. The active approach towards HR management develops key talents and supports investments in training opportunities (HRK 2.5 million was invested in training and professional development during 2018). We determine the needs for new skills and expertise by following emerging global trends in tourism. In this way, we are able to respond to challenges effectively. Through a continual dialogue with our social partners, we have ensured a high level of workers' rights in terms of competitive salaries, reward systems, career development, employees' wellbeing and cooperation with training institutions from all parts of Croatia.

OPERATIONAL RISKS

Operational risks are risks connected with direct or indirect losses that arise form inadequate or wrong internal or external processes within the Company and the Group. They include the creation and analysis of financial reporting data (also known as “financial reporting risk”) and also the potential insufficient and inadequate internal and external information sharing. When implementing the system of operational risk management, the Company and Group focused on its continuity and complexity due to the size of the organization. The benefits of the system include i) defining and identifying the Company and Group risk profile in relation to the operating risk ii) identifying and managing the known risk occurrences in order to decrease the Company and Group costs and iii) data analysis which indicates the business trends for the Company and Group and trends in the domestic economy. The Company and Group are aware of the reliability of IT business solutions and safety in the cyber world. Hence, they continually upgrade, develop and implement new technologies in everyday business operations. A special focus is given to providing sufficient resources for the development and implementation of new technologies related to ICT, data protection, and upgrade of the current business systems and implementation of new ones.

Valamar Sanfior Hotel & Casa 4*, Rabac

GLOBAL RISKS

Despite improved security and political conditions, which have encouraged to a certain extent investments into tourism and hospitality, there are challenges that the Croatian tourism has to face, such as:

- Periods of global financial crisis which reduce the purchasing power of the travelling-prone population;
- Security and political issues related to globally escalating terrorism threats;
- Security and political instability in the immediate environment of the neighboring countries.

Environmental risks can also have an adverse effect on the Company and Group’s business results, primarily in terms of customer satisfaction with the whole experience while staying at one of Valamar’s properties and this can affect the number of arrivals. The possible risks can include: sea pollution (caused by oil or chemical spillage), but also long-term water quality reduction and coast pollution due to inadequate waste disposal and waste water treatment as well as extensive use of agricultural fertilizers. Other environmental conditions typical for climate changes such as long drought periods or long rainy periods can directly influence the guests’ length of stay in the hotels and campsites as well as increasing the operating costs. A number of other natural disasters and calamities (earthquakes, fires, floods and rainstorms), air pollution caused by toxic gas emissions from industrial plants and vehicles, as well excessive urbanization and the introduction of invasive species should also be taken into consideration.

COMPLIANCE RISKS

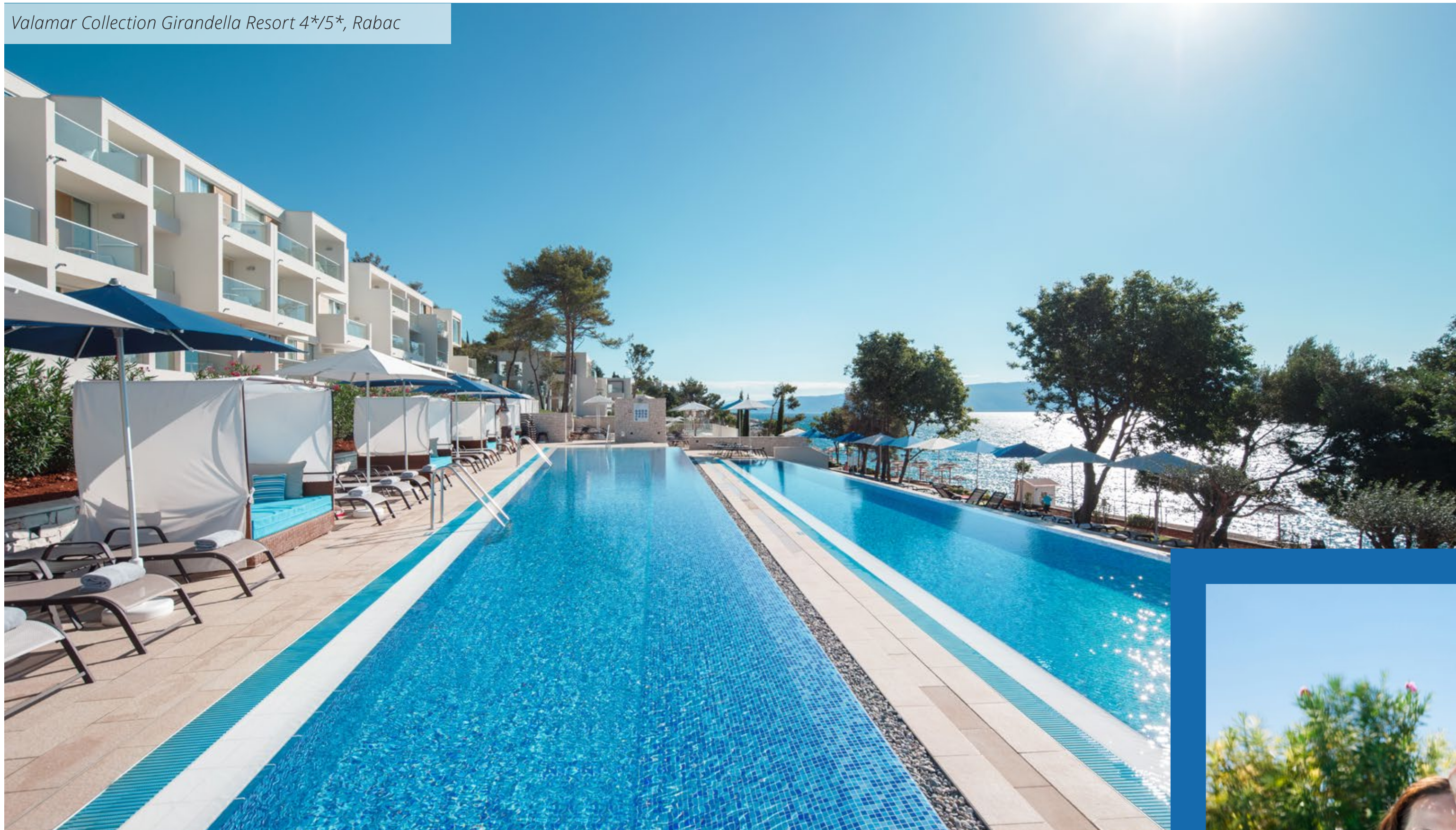
Changes in tax laws and other regulations pose a very serious threat and represent a demanding segment in risk management because in this particular situation the possibilities for the Company and Group are limited. In previous years, there has been a number of important changes in tax and non-tax charging regulations, which have adversely affected the Company and Group profitability:

- In March 2012 the standard VAT rate grew from 23% to 25%, in January 2013 a new 10% VAT rate was introduced only to be replaced within a year by a 13% VAT rate applicable to the tourism and hospitality

industry (January 2014), while in January 2017 a new 25% VAT rate was introduced for F&B (a la carte) services;
- In May 2012 the health insurance employer contribution rate fell from 15% to 13% and then in April 2014 it grew back to 15%;
- Frequent increases in various fees and charges regarding water distribution, waste disposal and the like;
- Tourist tax increase in 2018 ranging between HRK 2.5 and HRK 8.0 per person per overnight, depending on the class of the destination and utilization period (August 2017).

Such frequent changes in laws regulating taxes and parafiscal charges often take place only after the business policy and budget for the next financial year have been approved and commercial terms and conditions with partners agreed. All this jeopardizes the Company and Group financial position and future investment plans as well as credibility towards shareholders. The Company and Group are also threatened by changes in regulations governing concession fees for maritime domain and tourism land use, the latter still presenting unresolved legal issues. Given the nature of the Company and Group's business, the right to use parts of the maritime domain as well as land for tourism purposes is of vital importance for future growth, especially for campsite-related operations.

Valamar Lacroma Dubrovnik Hotel 4, Dubrovnik*



Valamar Collection Girandella Resort 4*/5*, Rabac

Corporate Governance

The Company and the Group continuously strive to develop and operate according to good practices of corporate governance. The business strategy, corporate policy, key corporate regulations and business practice are all geared towards creating a transparent and efficient business operation while forging solid bonds with the local community. In order to foster further growth and set high corporate governance standards, the Company adopted its own Corporate Governance Code in 2008 and the Management Board fully complies with its provisions. After the company was listed on the Official market of the Zagreb Stock Exchange, the Company has also complied with the Zagreb Stock Exchange Governance Code. The Company respects and implements the prescribed corporate governance measures (as reported in detail in the prescribed annual questionnaire and published as prescribed on the Zagreb Stock Exchange and Valamar Riviera websites).

The major direct shareholders according to the Central Depository and Clearing Company data are presented in the overview in the "Valamar Share" section.

2.49%

OF THE SHARE CAPITAL RELATES TO TREASURY SHARES (AT THE TIME OF 2018 FINANCIAL STATEMENTS PUBLISHING)

Valamar Diamant Hotel & Residence 4, Poreč*

The Company defined the process of preparing and disclosing financial reports in a detailed internal document. With this, the financial reporting procedure is set within a system of internal review and risk management. Moreover, in order to monitor and mitigate the financial reporting risk, the Company uses the measures described in "The Risks of the Company and the Group".

The Companies Act and the Company Statute define the General Assembly's authority and prescribe how it meets and works. The meeting invitation, proposals and the adopted resolutions are made public according to the provisions of the Companies Act, Capital Market Act and the Zagreb Stock Exchange Rules. There is a time limit related to the voting right at the General Assembly: according to the provisions of the Croatian Companies Act, shareholders are required to register their participation within the prescribed time limit in order to attend the General Assembly. Under no circumstances can the financial right arising from securities be separated from holding the securities. There are no securities with special control rights nor are there any limitations to voting rights at the Company (one share, one vote). The Company Statute complies with the Croatian Companies Act and defines the procedure of appointing and recalling members of the Management Board and Supervisory Board. There are no limitations based on gender, age, education, profession or similar. The Companies Act determines any amendments to the Company Statute, without any additional limitations. The Management Board members' authority fully complies with the regulations prescribed by the Companies Act.

The Company may acquire treasury shares based on and under the conditions stipulated by the decision of the Main Assembly on Share Buyback of 17 November 2014. The Company does not have a share-buyback programme or an employee share ownership plan. The Company holds and acquires treasury shares as a form of rewarding the Management and key managers pursuant to the Company acts on the long-term reward plan and for the purpose of dividend payout in rights - Company share to the equity holders. The Company publicly disclosed each acquisition and disposal of treasury shares during 2018.

THE COMPANY'S CORPORATE BODIES ARE:

Management Board: Mr. Željko Kukurin, President of the Management Board, and Mr. Marko Čižmek, Member of the Management Board.

Pursuant to the provisionss of the Capital Market Act and Regulation (EU) no. 596/2014, the Company has determined its senior management, consisting of the key company management: four vice presidents: Alen Benković, Davor Brenko, Ivana Budin Arhanić and David Poropat; and 21 sector directors: Miroslav Dinčić (up to 31 December 2018, from 1 January 2019 Ines Damjanić Šturman), Tomislav Dumančić, Ljubica Grbac, Flavio Gregorović, Marin Gulan, Vlastimir Ivančić, Željko Jurcan, Ivan Karlić, Dario Kinkela, David Manojlović, Sebastian Palma, Mile Pavlica, Tomislav Poljuha, Mirella Premeru, Bruno Radoš, Sandi Sinožić, Martina Šolić, Andrea Štifanić, Mauro Teković, Dragan Vlahović and Ivica Vrkić.

Supervisory Board: Mr. Gustav Wurmböck - Chairman, Mr. Franz Lanschützer - Deputy Chairman, Mr. Mladen Markoč - Deputy Chairman, and members: Mr. Georg Eltz, Mr. Hans Dominik Turnovszky, Mr. Vicko Ferić, and Mr. Valter Knapić (employee representative).

In order to perform efficiently its function and duties as prescribed by the Audit Act, the Supervisory Board has formed the following bodies:

Presidium of the Supervisory Board: Mr. Gustav Wurmböck, Chairman, Mr. Franz Lanschützer and Mr. Mladen Markoč, Presidium Members.

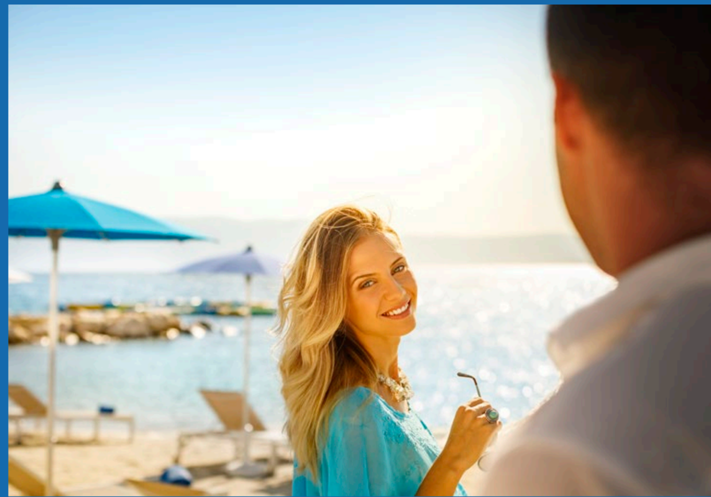
Audit Committee: Mr.Georg Eltz, Chairman and Members: Mr. Franz Lanschützer, Mr. Mladen Markoč, Mr. Vicko Ferić and Mr. Dubravko Kušeta. On 25 January 2018, Mr. Dubravko Kušeta resigned as Audit Committee member, and on 27 February 2018 the Supervisory Board appointed Mr. Gustav Wurmböck in his place. On 24 October 2018, the Supervisory Board increased the number of the Audit Committee members from 5 to 6 and appointed Mr. Hans Dominik Turnovszky as member. From that date the Audit Committee comprises: Mr. Georg Eltz, Chairman, and members: Mr. Franz Lanschützer, Mr. Mladen Markoč, Mr. Vicko Ferić, Mr. Gustav Wurmböck and Mr. Hans Dominik Turnovszky.

Investment Committee: Mr. Franz Lanschützer, Chairman and members: Mr. Georg Eltz, Mr. Vicko Ferić, Mr. Hans Dominik Turnovszky, and Mr. Gustav Wurmböck.

Compliant to effective regulations and Company bylaws, The Management and Supervisory Board primarily act through meetings and by correspondence in their decision-making.

Valamar Collection Isabella Island Resort 4/5*, Poreč*


Cava beach, Dubrovnik



Related-party Transactions & Branch Offices

RELATED-PARTY TRANSACTIONS

Transactions between related parties within the Group are conducted under standard commercial terms and conditions and at current market prices.

In the reviewed period, revenues from related party transactions totaled HRK 17.1 million[31] (2017: HRK 13.9 million) for the Company, and HRK 1.231 (2017: HRK 21 thousand) for the Group. Costs were HRK 1.8 million (2017: HRK 31.2 million[32]) for the Company, and HRK 966 thousand for the Group (2017: HRK 1.5 million).

As at 31 December 2018, related-party receivables and payables were as follows: receivables totaled HRK 1.9 million for the Company (year-end 2017: HRK 3.4 million), and none for the Group (year-end 2017: none). Payables totaled HRK 304 thousand (year-end 2017: HRK 604 thousand) for the Company, and HRK 52 thousand for the Group (year-end 2017: HRK 425 thousand).

In accordance with the provision of Article 497 of the Companies Act, on 19 February 2019 the Management Board prepared a separate report on the Company's relatedparty transactions and in accordance with Paragraph 3 of Article 497, the Management Board declares that in line with circumstances known at the time when certain legal transactions or actions were undertaken, the Company received suitable consideration and was not harmed.

31 The most part represents the fee regarding the management of Imperial's and Hoteli Makarska's properties and services. The implementation of the Management contract started on 4 January 2017 and 1 August 2018, respectively

32 For the most part refers to the re-invoiced amount arising from the investment made in the reconstruction and upgrading of the hotel Valamar Lacroma owned by subsidiary Elafiti Babin-kuk d.o.o. which was merged on 29 December 2017.

BRANCH OFFICES OF THE COMPANY

The following branch offices were registered on 2 September 2011: Podružnica za turizam RABAC, with registered office in Rabac, Slobode 80, Podružnica za turizam ZLATNI OTOK, with registered office in Krk, Vršanska 8. The following branch office was registered on 4 October 2013: Podružnica za turizam DUBROVNIK BABIN KUK, with registered office in Dubrovnik, Dr. Ante Starčevića 45. The following branch office was registered on 1 October 2014: Podružnica za savjetovanje u vezi s poslovanjem i upravljanjem ZAGREB, with registered office in Zagreb, Miramarska 24. The following branch office was registered on 1 April 2017: Podružnica za turizam BRIONI, with registered office in Pula, Puntižela 155.

The branch offices of Rabac, Zlatni otok, Dubrovnik-Babin kuk and Brioni are the drivers of economic growth in their local communities. They operate at their destinations and support their development by promoting further investments and the development of tourism while participating in social and business activities.

The Company also established offices in the Town of Rab on Rab Island and in Makarska to increase the efficiency and streamline the management of operations as determined by the provisions of the concluded Hotel management contracts with Imperial d.d. and Hoteli Makarska d.d.

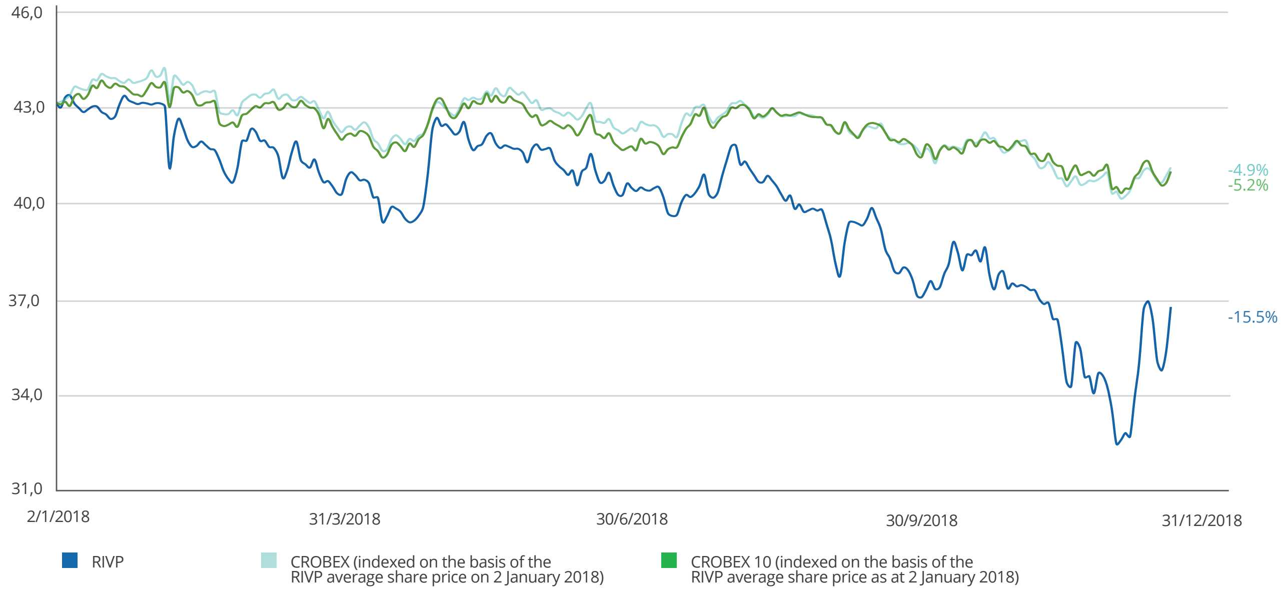

Valamar Collection Isabella Island Resort 4*/5*, Poreč

Valamar Share

Performance of Valamar Riviera's share and CROBEX and CROBEX 10 indices

Average RIVP share price

(in HRK)



In the period between 1 January 2018 and 31 December 2018, Valamar Riviera acquired 1.397.932 treasury shares at the total acquisition cost of HRK 51,705,655, representing 1.11% of the share capital and disposed of 69,779 treasury shares (0.06% of the share capital) of which 17,800 treasury shares were used for dividend payout, and the remaining part was used for key management remuneration. As at 31 December 2018, the Company held a total of 3,122,604 treasury shares or 2.48% of the share capital. Pursuant to the provisions of Article 474(3) of the Capital Market Act, the Company announces that, at the time of its 2018 financial statement submission, i.e. from the date of its public disclosure, it holds 3,144,105 treasury shares or 2.49% of the share capital.

During 2018, the highest achieved share price in regular trading on the regulated market was HRK 43.60, while the lowest was HRK 31.20. The share price of the Company decreased by 15% in the reviewed period, coinciding with the decrease in international and national stock market indices. In 2018 Valamar Riviera was the most traded share on the Zagreb Stock Exchange with the average regular turnover of HRK 1.1. million per day[33].

Apart from the Zagreb Stock Exchange indices, the share is also part of the Vienna Stock Exchange indices (CROX[34] and SETX[35]), the regional SEE Link indices (SEELinX and SEELinX EWI)[36] and the world's MSCI Frontier Markets Indexes. Zagrebačka banka d.d. and Interkapital vrijednosni papiri d.o.o. are responsible for the market making in ordinary Valamar Riviera shares listed on the Official Market of the Zagreb Stock Exchange. They provide support to Valamar Riviera's share turnover, which in the period under review averaged 25.4%[37].

33 Block transactions are excluded from the calculation.

34 Croatian Traded Index (CROX) is a capitalization-weighted price index and is made up of 12 most liquid and highest capitalized shares of Zagreb Stock Exchange.

35 South-East Europe Traded Index (SETX) is a capitalization-weighted price index consisting of blue chip stocks traded on stock exchanges in the region of South-eastern Europe (shares listed in Bucharest, Ljubljana, Sofia, Belgrade and Zagreb).

36 SEE Link is a regional platform for securities trading. It was founded by Bulgarian, Macedonian, and Zagreb Stock Exchange. SEE LinX and SEE LinX EWI are two "blue chip" regional indices composed of ten most liquid regional companies listed on three Stock Exchanges: five from Croatia, three from Bulgaria, and two from Macedonia.

37 Block transactions are excluded from the calculation. Data refers to the period 1/1 - 31/12/2018.

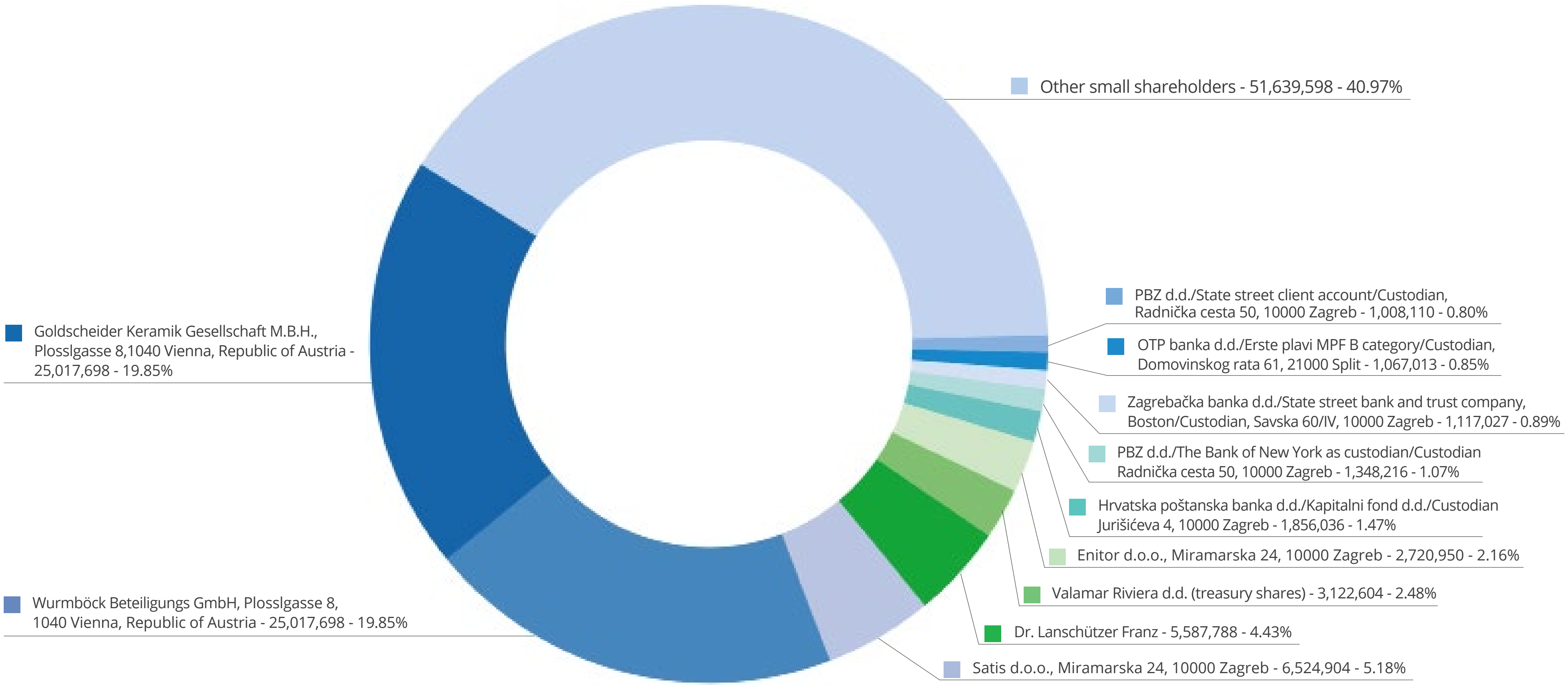
Valamar Riviera is active in holding meetings, presentations and conference calls with domestic and foreign investors. This approach supports high-level transparency, creates additional liquidity, increases share value and the involvement of potential investors. During 2018 meetings were held on the London Stock Exchange, the Zagreb and Ljubljana Stock Exchange Investor conference in Zagreb, Erste Consumer Conference 2018 in Warsaw, Wood&Co. conference in Bucharest, Erste Group conference in Stegersbach, Wood&Co. conference in Belgrade and Prague and Auerbach Grayson in New York, as well as non-deal roadshows in other European financial centers. Valamar Riviera will continue with this active approach to grow further value for all its stakeholders so the Company's share can be recognized as one of the market leaders on the Croatian capital market and in the CEE region.

OVER
80
MEETINGS WITH INSTITUTIONAL INVESTORS IN 2018

The analytical coverage of Valamar Riviera is provided by:
1) ERSTE bank d.d., Zagreb;
2) FIMA vrijednosnice d.o.o., Varaždin;
3) Interkapital vrijednosni papiri d.o.o., Zagreb;
4) Raiffeisenbank Austria d.d., Zagreb;
5) UniCredit Group - Zagrebačka banka d.d., Zagreb.


Istra Premium Camping Resort, Poreč (vizualization)

OVERVIEW OF MAJOR SHAREHOLDERS AS AT 31 DECEMBER 2018:



Investors Day & 2017 Integrated report

Valamar Riviera was awarded as the share of the year for the 7th consecutive time, share with the highest turnover and won another award for Best Investor Relations.

INVESTORS DAY, NEW BRANDING AND THE 2017 INTEGRATED ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY

Rab was the destination chosen to host the third Investors Day on 12 June 2018. As customary, Valamar's formula of sustainable and socially responsible investments in employees, products and destinations was presented to institutional investors by Management Board President Željko Kukurin and Management Board Member Marko Čižmek. This event was also an opportunity to present the new brand strategy that will serve as a framework for business development in the forthcoming period. Valamar's new brand identity features the "All you can holiday" business concept to create the perfect holiday for each individual guest as well as five new product brands that will be used to differentiate Valamar's portfolio of hotels, resorts and campsites. The new brand strategy sets a clear path and guidelines for the Valamar brand and sub-brands on which the company builds its future growth and development. It will increase market reach, improve the compatibility of products and services with specific market segments, increase guest loyalty and boost key business indicators.

On this occasion, the 2017 Integrated annual report and corporate social responsibility was presented to the investors. The report was prepared following G4 GRI guidelines and aims to present a strategic and long-term insight into Valamar's business to all key stakeholders, including shareholders, employees, partners, guests and the community, with special focus on corporate social responsibility that represents the foundation of the company's sustainable business and future development. The report can be found on the Zagreb Stock Exchange website and **www.valamar-riviera.com**.

Additional Information

The Management Board expresses its gratitude to all shareholders, business partners, and guests for their support and trust, and particularly to all employees for their contribution.

ADDITIONAL INFORMATION

As one of the largest employers in Croatia (as at 31 December 2018, the Group employed 3,242 people of which 1,680 were permanent employees; the Company employed 2,749 people of which 1,337 were permanent employees), the Company and the Group systematically and continuously invest in the development of human resources. An integral strategic approach to human resources management and top practices applied include transparent hiring processes, clear objectives and employees' performance measurement, rewarding systems, opportunities for career advancement, investment in employees' development and encouraging two-way communication.

In the course of 2018, the Company's Management Board managed and represented the company pursuant to regulations and the provisions of the Company Statute, and planned a business policy that was implemented with prudent care. The Company's Management Board will continue to undertake all the necessary measures in order to ensure sustainability and business growth. The audited annual financial statements for 2018 were adopted by the Management Board on 19 February 2018. The Management Board expresses its gratitude to all shareholders, business partners, and guests for their support and trust, and particularly to all employees for their contribution.

Management Board of the Company

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMETNS

In Poreč, 19 February 2019

In accordance with provisions of Law on Capital Market, Marko Čižmek, Management board member responsible for finance, treasury and IT business as well as relations with institutional investors and Ljubica Grbac director of Department of Finance and Accounting, procurator and person responsible for finance and accounting, together as persons responsible for the preparation of annual reports of the company VALAMAR RIVIERA d.d. seated in Poreč, Stancija Kaligari 1, OIB 36201212847 (hereinafter: Company), hereby make the following

STATEMENT

According to our best knowledge

- the annual audited, consolidated and unconsolidated financial statements for 2018, are prepared in accordance with applicable standards of financial reporting and give true and fair view of the assets and liabilities, profit and loss, financial position and operations of the Company and the companies included in consolidation (Group);

- Report of the Company's Management board for the period from 1 January to 31 December 2018 including the period from 1 October to 31 December 2018 contains the true presentation of development, results and position of the Company and companies included in the consolidation, with description of signifcant risks and uncertainties which the Company and companies included in consolidation are exposed.

Marko Čižmek
Management Board Member

VALAMAR
VALAMAR RIVIERA D.D.
POREČ (4)

Ljubica Grbac
Director of Department of
Finance and Accounting

Reporting period: from 01.01.2018 to 31.12.2018

Annual Business Financial Statement

Tax number (MB):	3474771	Issuer's Home Member state code:	HR
Company registration number (MBS):	40020883		
Personal identification number (OIB):	36201212847	LEI:	529900DUWS1DGNEK4C68
Institution code:	30577		
Issuing company:	Valamar Riviera d.d.		
Postal code and place:	52440	Poreč	
Street and house number:	Stancija Kaligari 1		
E-mail address:	uprava@riviera.hr		
Internet address:	www.valamar-riviera.com		
Number of employees: (period end)	3242		
Consolidated report:	KD	(KN-non consolidated/KD-consolidated)	
Audited report:	RD	(RN-non audited/RD-audited)	

Companies of the consolidation subject (according to IFRS):	Seat:	MB:
Valamar Obertauern GmbH	Obertauern	195893 D
Valamar hotels & resorts GmbH	Frankfurt	4724750667
Valamar A GmbH	Tamsweg	486431 S
Hoteli Makarska d.d.	Makarska	3324877
Palme Turizam d.o.o.	Dubrovnik	2006103
Magične stijene d.o.o.	Dubrovnik	2315211
Pogača Babin Kuk d.o.o.	Dubrovnik	2236346
Elafiti Babin Kuk d.o.o.	Dubrovnik	1273094
Imperial d.d.	Rab	3044572
Bugenvilia d.o.o.	Dubrovnik	2006120
Puntižela d.o.o.	Pula	3203379

Bookkeeping service: No

(bookkeeping service company name)

Contact person: Sopta Anka
(only surname and name)

Telephone: 052/408 188

E-mail address: anka.sopta@riviera.hr

Auditing company: Ernst & Young d.o.o.
(the name of the company)

Certified auditor: Berislav Horvat
(name and surname)

Documents disclosed:

1. Financial statements (Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity and notes to financial statements)
2. Management Interim Report;
3. Declaration of the persons responsible for preparing the issuer’s statements;

VALAMAR
VALAMAR RIVIERA D.D.
POREČ (4)

L.S.

(authorized representative's signature)

Balance Sheet (as at 31.12.2018)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
A) SUBSCRIBED CAPITAL UNPAID	**001**		
B) NON CURRENT ASSETS (ADP 003+010+020+031+036)	**002**	**4.632.400.572**	**5.310.891.538**
I. INTANGIBLE ASSETS (ADP 004 to 009)	**003**	**45.224.706**	**53.726.810**
1. Research and Development expenditure	004		
2. Patents, licences, royalties, trademarks and service marks, software and similar rights	005	37.949.592	46.298.666
3. Goodwill	006	6.567.609	6.567.609
4. Prepayments for intangible assets	007		
5. Intangible assets under construction	008	707.505	860.535
6. Other intangible assets	009		
II. TANGIBLE ASSETS (ADP 011 to 019)	**010**	**4.440.260.536**	**5.111.237.027**
1. Land	011	874.708.080	973.018.037
2. Property	012	2.871.712.565	3.331.975.756
3. Plants and equipment	013	367.257.268	443.971.567
4. Tools, plants and vehicles	014	101.131.434	132.923.120
5. Biological asset	015		
6. Prepayments for tangible assets	016	24.768.328	12.350.960
7. Assets under construction	017	149.431.796	160.356.644
8. Other tangible assets	018	40.996.707	47.000.469
9. Investments property	019	10.254.358	9.640.474
III. NON-CURRENT FINANCIAL ASSETS (ADP 021 to 030)	**020**	**5.417.132**	**20.074.375**
1. Stakes (shares) in undertakings in a Group	021	1.435.245	
2. Investments in other securities of undertakings in a Group	022		
3. Loans, deposits etc given to undertakings in a Group	023		
4. Stakes (shares) in undertakings with participating interest	024		
5. Investments in other securities of undertakings with participating interest	025		
6. Loans, deposits etc given to undertakings with participating interest	026		
7. Investments in securities	027	3.620.830	4.289.892
8. Given loans, deposits and similar	028	191.057	15.590.772
9. Other investments accounted for using the equity method	029		
10. Other non-current financial assets	030	170.000	193.711
IV. TRADE RECEIVABLES (ADP 032 to 035)	**031**	**834.499**	**147.290**
1. Receivables from undertakings in a Group	032		
2. Receivables from undertakings with participating interests	033		
3. Trade receivables	034	43.750	
4. Other receivables	035	790.749	147.290
V. DEFERRED TAX ASSETS	**036**	**140.663.699**	**125.706.036**
C) CURENT ASSETS (ADP 038+046+053+063)	**037**	**343.822.386**	**332.775.548**
I. INVENTORIES (ADP 039 to 045)	**038**	**24.496.814**	**25.447.350**
1. Raw materials and consumables	039	24.296.180	25.241.646
2. Work in progress	040		
3. Finished products	041		
4. Merchandise	042	156.426	172.328
5. Prepayments for inventories	043	44.208	33.376
6. Other available-for-sale assets	044		
7. Biological asset	045		
II. RECEIVABLES (ADP 047 to 052)	**046**	**30.637.890**	**45.442.095**
1. Receivables from undertakings in a Group	047	231.675	
2. Receivables from undertakings with participating interest	048		1.380.025
3. Trade receivables	049	13.742.895	33.928.832
4. Receivables from employees and members of the undertaking	050	1.226.272	1.428.327
5. Receivables from Government and other institutions	051	13.614.153	7.256.256
6. Other receivables	052	1.822.895	1.448.655
III. CURRENT FINANCIAL ASSETS (ADP 054 to 062)	**053**	**850.728**	**43.750**
1. Stakes (shares) in undertakings in a Group	054		
2. Investments in other securities of undertakings in a Group	055		
3. Loans, deposits etc given to undertakings in a Group	056		
4. Stakes(shares) in undertakings with participating interest	057		
5. Investments in other securities of undertakings with participating interest	058		
6. Loans, deposits etc given to undertakings with participating interest	059		43.750
7. Investments in securities	060		
8. Given loans, deposits and similar	061	746.646	
9. Other financial assets	062	104.082	
IV. CASH AND CASH EQUIVALENTS	**063**	**287.836.954**	**261.842.353**
D) PREPAYMENTS AND ACCRUED INCOME	**064**	**20.382.090**	**25.278.400**
E) TOTAL ASSETS (ADP 001+002+037+064)	**065**	**4.996.605.048**	**5.668.945.486**
F) OFF-BALANCE SHEET ITEMS	**066**	**54.545.066**	**58.014.172**

Balance Sheet (as at 31.12.2018) (continued)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
LIABILITIES			
A) CAPITAL AND RESERVES (ADP 068 to 070+076+077+081+084+087)	**067**	**2.516.174.910**	**2.758.532.748**
I. SHARE CAPITAL	**068**	**1.672.021.210**	**1.672.021.210**
II. CAPITAL RESERVES	**069**	**3.602.906**	**5.304.283**
III. RESERVES FROM PROFIT (ADP 071+072-073+074+075)	**070**	**102.055.847**	**94.297.196**
1. Legal reserves	071	83.601.061	83.601.061
2. Reserves for own shares	072	44.815.284	96.815.284
3. Own stocks and shares (deductible items)	073	-35.889.621	-86.119.149
4. Statutory reserves	074		
5. Other reserves	075	9.529.123	
IV. REVALUATION RESERVES	**076**		
V. FAIR VALUE RESERVES (ADP 078 to 080)	**077**	**634.097**	**905.282**
1. Fair value of financial assets available for sale	078	634.097	905.282
2. Efficient portion of cash flow hedge	079		
3. Efficient portion of foreign net investment hedge	080		
VI. RETAINED EARNINGS OR LOSS CARRIED FORWARD (ADP 082-083)	**081**	**263.138.894**	**348.674.430**
1. Retained earnings	082	263.138.894	348.674.430
2. Loss carried forward	083		
VII. PROFIT OR LOSS FOR THE FINANCIAL YEAR (ADP 085-086)	**084**	**243.596.016**	**235.337.282**
1. Profit for the financial year	085	243.596.016	235.337.282
2. Loss for the financial year	086		
VIII. MINORITY INTEREST	**087**	**231.125.940**	**401.993.065**
B) PROVISIONS (ADP 089 to 094)	**088**	**58.356.183**	**77.311.656**
1. Provisions for pensions, severance pay and similar libabilities	089	5.446.558	10.114.484
2. Provisions for tax obligations	090		
3. Provisions for litigations in progress	091	52.909.625	67.197.172
4. Provisions for renewal of natural resources	092		
5. Provision for costs within warranty period	093		
6. Other provisions	094		
C) NON-CURRENT LIBILITIES (ADP 096 to 106)	**095**	**1.915.658.762**	**2.284.143.535**
1. Liabilites to related parties	096		
2. Liabilities for loans, deposits etc of undertakings in a Group	097		
3. Liabilities to undertakings with participating interest	098		
4. Liabilities for loans, deposits etc of undertakings with participating interest	099		
5. Liabilities for loans, deposits and other	100	9.046.000	8.943.000
6. Liabilities to banks and other financial institutions	101	1.852.267.505	2.198.942.318
7. Liabilities for advance payments	102		
8. Trade payables	103		81.000
9. Amounts payable for securities	104		
10. Other non-current liabilities	105	1.585.824	7.615.740
11. Deffered tax	106	52.759.433	68.561.477
D) CURRENT LIABILITIES (ADP 108 to 121)	**107**	**402.912.295**	**425.784.158**
1. Liabilities to undertakings in a Group	108	198.872	3.785.129
2. Liabilities for loans, deposits etc of undertakings in a Group	109		
3. Liabilities to undertakings with participating interest	110		
4. Liabilities for loans, deposits etc of undertakings with participating interest	111		
5. Liabilities for loans, deposits and other	112	103.000	103.000
6. Liabilities to banks and other financial institutions	113	203.141.559	227.211.496
7. Amounts payable for prepayment	114	31.365.529	38.933.044
8. Trade payables	115	132.651.065	112.908.087
9. Liabilities upon loan stocks	116		
10. Liabilities to emloyees	117	22.455.819	28.396.296
11. Taxes, contributions and similar liabilities	118	11.077.721	11.757.015
12. Liabilities arising from share in the result	119	230.130	250.516
13. Liabilities arising from non-current assets held for sale	120		
14. Other current liabilities	121	1.688.600	2.439.575
E) ACCRUED EXPENSES AND DEFERRED INCOME	**122**	**103.502.898**	**123.173.389**
F) TOTAL LIABILITIES (ADP 067+088+095+107+122)	**123**	**4.996.605.048**	**5.668.945.486**
G) OFF-BALANCE SHEET ITEMS	**124**	**54.545.066**	**58.014.172**

Income Statement (for 01.01.2018 to 31.12.2018)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding period	Current period
1	2	3	4
I. OPERATING INCOME (ADP 126+127+128+129+130)	**125**	**1.778.395.862**	**1.990.984.717**
1. Revenues from sales with undertakings in a Group	126	189.245	
2. Sales revenues (outside the Group)	127	1.755.097.476	1.961.413.631
3. Revenues from use of own products, goods and services	128	5.211.178	361.270
4. Other operating revenues with undertakings in a Group	129		
5.Other operating revenues (outside the Group)	130	17.897.963	29.209.816
II. OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)	**131**	**1.518.893.175**	**1.707.437.899**
1. Changes in inventories of finished products and work in progress	132		
2. Material costs (ADP 134 to 136)	133	519.753.525	552.089.395
a) Cost of raw materials & consumables	134	299.650.484	328.413.023
b) Cost of goods sold	135	2.952.180	3.380.801
c) Other costs	136	217.150.861	220.295.571
3. Staff costs (ADP 138 to 140)	137	480.161.466	541.715.389
a) Net salaries	138	292.865.456	331.617.032
b) Employee income tax	139	119.910.409	135.404.814
c) Tax on payroll	140	67.385.601	74.693.543
4. Depreciation and amortisation	141	346.413.599	410.521.539
5. Other expenditures	142	143.755.460	174.686.587
6. Value adjustment (ADP 144+145)	143	126.181	385.273
a) non-current assets (without financial assets)	144		
b) current asssets (without financial assets)	145	126.181	385.273
7. Provisions (ADP 147 to 152)	146	9.486.384	7.126.272
a) Provision for pensions, severance payments and other employment benefits	147	5.446.558	4.409.973
b) Provisions for tax liabilities	148		
c) Provisions for litigations in progress	149	3.653.477	2.688.556
d) Provisions for renewal of natural resources	150		
e) Provision for costs within warranty period	151		
f) Other provisions	152	386.349	27.743
8. Other operating expenses	153	19.196.560	20.913.444
III. FINANCIAL INCOME (ADP 155 to 164)	**154**	**63.640.247**	**56.790.053**
1. Income from stakes (shares) in undertakings in a Group	155		
2. Income from stakes (shares) in undertakings with participating interest	156		
3. Income from other non-current financial investments and loans to undertakings in a Group	157		
4. Other interest income from undertakings in a Group	158		
5. Foreign exchange differences and other financial income from undertakings in a Group	159		
6. Income from other non-current financial investments and loans	160		
7. Other interest income	161	655.416	528.885
8. Foreign exchange differences and other financial income	162	52.405.389	47.598.882
9. Unrealized gains (income) from the financial assets	163	7.520.020	4.696.029
10. Other financial income	164	3.059.422	3.966.257
IV. FINANCIAL COSTS (ADP 166 to 172)	**165**	**84.499.175**	**82.255.368**
1. Interest expenses and similar expenses with undertakings in a Group	166		
2. Foreign exchange differences and other expenses with undertakings in a Group	167		
3. Interest expenses and similar	168	42.218.873	49.874.101
4. Foreign exchange differences and other expenses	169	33.867.818	18.895.559
5. Unrealized loss (expenses) from the financial assets	170	6.761.354	10.757.668
6. Value adjustment expense on financial assets (net)	171		
7. Other financial expenses	172	1.651.130	2.728.040
V. SHARE OF PROFIT FROM UNDERTAKINGS WITH PARTICIPATING INTEREST	**173**		
VI. SHARE OF PROFIT FROM JOINT VENTURES	**174**		
VII. SHARE OF LOSS FROM UNDERTAKINGS WITH PARTICIPATING INTEREST	**175**		
VIII. SHARE OF LOSS FROM JOINT VENTURES	**176**		
IX. TOTAL INCOME (ADP 125+154+173+174)	**177**	**1.842.036.109**	**2.047.774.770**
X. TOTAL EXPENSES (ADP 131+165+175+176)	**178**	**1.603.392.350**	**1.789.693.267**
XI. PROFIT OR LOSS BEFORE TAX (ADP 177-178)	**179**	**238.643.759**	**258.081.503**
1. Profit before tax (ADP 177-178)	180	238.643.759	258.081.503
2. Loss before tax (ADP 178-177)	181		
XII. INCOME TAX EXPENSE	**182**	**-6.443.626**	**18.893.996**
XIII. PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)	**183**	**245.087.385**	**239.187.507**
1. Profit for the period (ADP 179-182)	184	245.087.385	239.187.507
2. Loss for the period (ADP 182-179)	185		

Income Statement (for 01.01.2018 to 31.12.2018) (continued)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding period	Current period
1	2	3	4
PROFIT OR LOSS FROM DISCONTINUED OPERATIONS (applicable for entities which use IFRS and have discontinued operations)			
XIV. PROFIT OR LOSS FROM DISCONTINUED OPERATIONS BEFORE TAX (ADP 187-188)	**186**		
1. Profit before tax from discontinued operations	187		
2. Loss before tax from discontinued operations	188		
XV. INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS	**189**		
1. Profit for the period from discontinued operations (ADP 186-189)	190		
2. Loss for the period from discontinued operations (ADP 189-186)	191		
TOTAL PROFIT OR LOSS FOR THE PERIOD (applicable for entities which use IFRS and have discontinued operations)			
XVI. PROFIT OR LOSS BEFORE TAX (ADP 179+186)	**192**		
1. Profit before tax (ADP 192)	193		
2. Loss before tax (ADP 192)	194		
XVII. INCOME TAX EXPENSE (ADP 182+189)	**195**		
XVIII. PROFIT OR LOSS FOR THE PERIOD (ADP 192-195)	**196**		
1. Profit for the period (ADP 192-195)	197		
2. Loss for the period (ADP 195-192)	198		
APPENDIX TO THE INCOME STATEMENT (to be completed by entities submitting consolidated financial statements)			
XIX. PROFIT OR LOSS FOR THE PERIOD (ADP 200+201)	**199**	**245.087.385**	**239.187.507**
1. Attributable to parent company's shareholders	200	243.596.016	235.337.283
2. Attributable to non-controlling interests	201	1.491.369	3.850.224
STATEMENT OF OTHER COMPREHENSIVE INCOME (to be completed by entities subject to IFRS)			
I. PROFIT OR LOSS FOR THE PERIOD	**202**	**245.087.385**	**239.187.507**
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (ADP 204 to 211)	**203**	**450.979**	**338.982**
1. Exchange differences arising from foreign operations	204		
2. Revaluation of non-current assets and intangible assets	205		
3. Gains or loss available for sale investments	206	450.979	338.982
4. Gains or loss on net movement on cash flow hedges	207		
5. Gains or loss on net investments hedge	208		
6. Share of the other comprehensive income/loss of associates	209		
7. Acturial gain/loss on post employment benefit obligations	210		
8. Other changes in capital (minorities)	211		
III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD	**212**	**90.195**	**67.796**
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (ADP 203-212)	**213**	**360.784**	**271.186**
V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (ADP 202+213)	**214**	**245.448.169**	**239.458.693**
APPENDIX TO THE STATEMENT OF COMPREHENSIVE INCOME (to be completed by entities submitting consolidated financial statements)			
VI. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (ADP 216+217)	**215**	**245.448.169**	**239.458.693**
1. Attributable to parent company's shareholders	216	243.956.800	235.608.469
2. Attributable to non-controlling interests	217	1.491.369	3.850.224

Cash Flow Statement - Indirect Method (for 01.01.2018 to 31.12.2018)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding period	Current period
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before taxes	001	238.643.759	258.081.503
2. Adjustments (ADP 003 to 010)	002	396.630.365	461.705.290
a) Depreciation and amortisation	003	346.413.599	410.521.539
b) Profit and loss from sales and value adjustments of non-current tangible and intangible assets	004	10.701.234	5.841.704
c) Profit and loss from sales and unrealised profit and loss and value adjustments of financial assets	005	-211.830	1.118.573
d) Income from interest and dividends	006	-625.283	-273.758
e) Interest expenses	007	43.870.004	50.071.190
f) Provisions	008	10.681.641	23.210.743
g) Foreign exchange differences (unrealized)	009	-14.199.000	-28.784.701
h) Other adjustments for non-cash transactions and unrealized profit and loss	010		
I. Increase or decrease of cash flow before changes in working capital (ADP 001+002)	**011**	**635.274.124**	**719.786.793**
3. Changes in working capital (ADP 013 to 016)	012	3.955.741	-24.860.677
a) Increase or decrease of current liabilities	013	-2.906.436	6.473.299
b) Increase or decrease of current receivables	014	14.229.358	-37.600.790
c) Increase or decrease of inventories	015	-5.251.075	-950.536
d) Other increase or decrease of working capital	016	-2.116.106	7.217.350
II. Cash from operating activities (ADP 011+012)	**017**	**639.229.865**	**694.926.116**
4. Interest	018	-42.778.920	-45.792.353
5. Income tax paid	019	6.749.820	-8.450.097
A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)	**020**	**603.200.765**	**640.683.666**
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Proceeds from sale of non-current assets	021	3.504.147	5.144.096
2. Proceeds from selling financial instruments	022	1.808.303	50.000
3. Proceeds from interest rates	023	829.138	776.958
4. Proceeds from dividends	024	74.640	87.080
5. Proceeds from repayment of given loans and savings	025	11.226.988	949.241
6. Other proceeds from investment activities	026		
III. Total cash proceeds from investment activities (ADP 021 to 026)	**027**	**17.443.216**	**7.007.375**
1. Purchase of non-current tangible and intangible assets	028	-894.589.185	-730.451.033
2. Purchase of financial instruments	029		
3. Loans and deposits for the period	030	-10.637.180	-175.646
4. Acquisition of subsidiary, net of acquired cash	031	-6.207.552	-170.827.965
5. Other payments from investment activities	032		
IV. Total cash payments from investment activities (ADP 028 to 032)	**033**	**-911.433.917**	**-901.454.644**
B) NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 027+033)	**034**	**-893.990.701**	**-894.447.269**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Proceeds from increase of subscribed capital	035		
2. Proceeds from issuing equity-based and debt-based financial instruments	036		
3. Proceeds from loan principal, loans and other borrowings	037	582.241.320	605.645.120
4. Other proceeds from financial activities	038		
V. Total proceeds from financial activities (ADP 035 to 038)	**039**	**582.241.320**	**605.645.120**
1. Repayment of loan principals, loans and other borrowings and debt-based financial instruments	040	-179.917.851	-209.765.109
2. Dividends paid	041	-98.347.226	-116.405.354
3. Payment of finance lease liabilities	042		
4. Re-purchase of treasury shares and decrease in subscribed share capital	043		-51.705.655
5. Other payments from financial activities	044		
VI. Total cash payments from financing activities (ADP 040 to 044)	**045**	**-278.265.077**	**-377.876.118**
C) NET CASH FLOW FROM FINANCIAL ACTIVITIES (ADP 039+045)	**046**	**303.976.243**	**227.769.002**
1. Cash and cash equivalents-unrealized foreign exchange differences	047		
D) NET INCREASE OR DECREASE OF CASH FLOW (ADP 020+034+046+047)	**048**	**13.186.307**	**-25.994.601**
E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**049**	**274.650.647**	**287.836.954**
F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (ADP 048+049)	**050**	**287.836.954**	**261.842.353**

Statement of Changes in Equity (for the period from 01.01.2018 to 31.12.2018)
Taxpayer: 36201212847; Valamar Riviera d.d.

Description	ADP	Distributable to majority owners															
		Subscribed Share capital	Capital reserves	Legal reserves	Reserves for own shares	Treasury shares and shares (deductible item)	Statutory reserves	Other reserves	Revaluation reserves	Fair value of financial assets available for sale	Efficient portion of cash flow hedge	Efficient portion of foreign net investment hedge	Retained earnings/ loss carried forward	Net profit/ loss for the period	Total distributable to majority owners	Minority (non-controlling) interest	Total capital and reserves
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16 (3 to 6 - 7 + 8 to 15)	17	18 (16+17)
Previous period																	
1. Balance at 1 January of the previous period	**01**	**1.672.021.210**	**2.204.690**	**67.198.750**	**44.815.284**	**37.141.295**		**9.529.123**		**273.313**			**36.580.064**	**342.313.777**	**2.137.794.916**	**235.842.123**	**2.373.637.039**
2. Changes in accounting policies	02																
3. Error correction	03																
4. Balance at 1 January of the previous period (ADP 01 to 03)	**04**	**1.672.021.210**	**2.204.690**	**67.198.750**	**44.815.284**	**37.141.295**		**9.529.123**		**273.313**			**36.580.064**	**342.313.777**	**2.137.794.916**	**235.842.123**	**2.373.637.039**
5. Profit/loss for the period	05													243.596.016	243.596.016	1.491.369	245.087.385
6. Foreign currency translation differences- foreign operations	06																
7. Changes in revaluation reserves of non-current tangible and intangible assets	07																
8. Profit or loss from re-evaluation of finacial assets held for sale	08									450.979					450.979		450.979
9. Profit or loss from cash flow hedge	09																
10. Profit or loss from foreign net investment hedge	10																
11. Share in other comprehensive income/loss from undertakings with participating interest	11																
12. Actuarial gains/losses from defined benefit plans	12																
13. Other changes in capital (minorities)	13																
14. Taxation of transactions recognized directly in equity	14									-90.195					-90.195		-90.195
15. Increase/decrease of subscribed share capital (except by reinvested profit and in pre-bankruptcy settlement)	15																
16. Increase of subscribed share capital by profit reinvestment	16																
17. Increase of subscribed share capital in pre-bankruptcy settlement	17																
18. Repurchase of own shares/stakes	18					-1.251.675									1.251.675		1.251.675
19. Share in profit/dividend payout	19																
20. Other distribution to majority owners	20		1.398.216										-99.352.192		-97.953.976		-97.953.976
21. Transfer to reserves according to annual plan	21			16.402.311									325.911.021	-342.313.777	-445	-6.207.552	-6.207.997
22. Increase in reserves in pre-bankruptcy settlement	22																
23. Balance at 31 December of previous period (ADP 04 to 22)	**23**	**1.672.021.210**	**3.602.906**	**83.601.061**	**44.815.284**	**35.889.620**		**9.529.123**		**634.097**			**263.138.893**	**243.596.016**	**2.285.048.970**	**231.125.940**	**2.516.174.910**
ADDITION TO STATEMENT OF CHANGES IN EQUITY (only for IFRS adopters)																	
I. OTHER COMPREHENSIVE INCOME OF PREVIOUS PERIOD NET OF TAX (ADP 06 to 14)	**24**									**360.784**					**360.784**		**360.784**
II. COMPREHENSIVE INCOME OR LOSS FOR THE PREVIOUS PERIOD (ADP 05+24)	**25**									**360.784**				**243.596.016**	**243.956.800**	**1.491.369**	**245.448.169**
III. TRANSACTIONS WITH OWNERS IN THE PREVIOUS PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 15 to 22)	**26**		**1.398.216**	**16.402.311**		**-1.251.675**							**226.558.829**	**-342.313.777**	**-96.702.746**	**-6.207.552**	**-102.910.298**
Current period																	
1. Balance at 1 January of current period	**27**	**1.672.021.210**	**3.602.906**	**83.601.061**	**44.815.284**	**35.889.620**		**9.529.123**		**634.097**			**263.138.893**	**243.596.016**	**2.285.048.970**	**231.125.940**	**2.516.174.910**
2. Changes in accounting policies	28																
3. Error correction	29																
4. Balance at 1 January of current period (ADP 27 to 29)	**30**	**1.672.021.210**	**3.602.906**	**83.601.061**	**44.815.284**	**35.889.620**		**9.529.123**		**634.097**			**263.138.893**	**243.596.016**	**2.285.048.970**	**231.125.940**	**2.516.174.910**
5. Profit/loss for the period	31													235.337.282	235.337.282	3.850.224	239.187.506
6. Foreign currency translation differences- foreign operations	32																
7. Changes in revaluation reserves of non-current tangible and intangible assets	33																
8. Profit or loss from re-evaluation of finacial assets held for sale	34									338.982					338.982		338.982
9. Profit or loss from cash flow hedge	35																
10. Profit or loss from foreign net investment hedge	36																
11. Share in other comprehensive income/loss from undertakings with participating interest	37																
12. Actuarial gains/losses from defined benefit plans	38																
13. Other changes in capital (minorities)	39																
14. Taxation of transactions recognized directly in equity	40									-67.797					-67.797		-67.797
15. Increase/decrease of subscribed share capital (except by reinvested profit and in pre-bankruptcy settlement)	41																
16. Increase of subscribed share capital by profit reinvestment	42																
17. Increase of subscribed share capital in pre-bankruptcy settlement	43																
18. Repurchase of own shares/stakes	44					51.705.655									-51.705.655		-51.705.655
19. Share in profit/dividend payout	45		356.885			-393.563							-111.730.149		-110.979.701		-110.979.701
20. Other distribution to majority owners	46		1.344.492			-1.082.563									2.427.055		2.427.055
21. Transfer to reserves according to annual plan	47				52.000.000			-9.529.123					197.265.686	-243.596.016	-3.859.453	167.016.901	163.157.448
22. Increase in reserves in pre-bankruptcy settlement	48																
23. Balance as at 31 December of the current period (ADP 30 to 48)	**49**	**1.672.021.210**	**5.304.283**	**83.601.061**	**96.815.284**	**86.119.149**				**905.282**			**348.674.430**	**235.337.282**	**2.356.539.683**	**401.993.065**	**2.758.532.748**
ADDITION TO STATEMENT OF CHANGES IN EQUITY (only for IFRS adopters)																	
I. OTHER COMPREHENSIVE INCOME OF CURRENT PERIOD, NET OF TAX (ADP 32 to 40)	**50**									**271.185**					**271.185**		**271.185**
II. COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31 + 50)	**51**									**271.185**				**235.337.282**	**235.608.467**	**3.850.224**	**239.458.691**
III. TRANSACTIONS WITH OWNERS IN THE CURRENT PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 41 to 48)	**52**		**1.701.377**		**52.000.000**	**50.229.529**		**-9.529.123**					**85.535.537**	**-243.596.016**	**-164.117.754**	**167.016.901**	**2.899.147**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (AFS)

Issuer name:
Valamar Riviera d.d.

OIB: **36201212847**

Reporting period:
01.01.2018. to 31.12.2018.

Notes to the financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter: IFRS) in a way that they need to:

a) provide information on the basis for the preparation of financial statements and certain accounting policies applied in accordance with International Accounting Standard 1 (IAS 1),

b) disclose information to IFRSs that is not presented in the statement of financial position, statement of comprehensive income, statement of cash flow and statement of changes in shareholder's equity,

c) provide additional information that is not presented in the statement of financial position, statement of comprehensive income, statement of cash flow and statement of changes in shareholder's equity, but is important for understanding any of them.

Reporting period: from 01.01.2018 to 31.12.2018

Annual Business Financial Statement

Tax number (MB):	3474771	Issuer's Home Member state code:	HR
Company registration number (MBS):	40020883		
Personal identification number (OIB):	36201212847	LEI:	529900DUWS1DGNEK4C68
Institution code:	30577		
Issuing company:	Valamar Riviera d.d.		
Postal code and place	52440	Poreč	
Street and house number:	Stancija Kaligari 1		
E-mail address:	uprava@riviera.hr		
Internet address:	www.valamar-riviera.com		
Number of employees: (period end)	2749		
Consolidated report:	KN	(KN-non consolidated/KD-consolidated)	
Audited report:	RD	(RN-non audited/RD-audited)	

Companies of the consolidation subject (according to IFRS):	Seat:	MB:

Bookkeeping service: No

(bookkeeping service company name)

Contact person: Sopta Anka

(only surname and name)

Telephone: 052/408 188

E-mail address: anka.sopta@riviera.hr

Auditing company: Ernst & Young d.o.o.

(the name of the company)

Certified auditor: Berislav Horvat

(name and surname)

Documents disclosed:

1. Financial statements (Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity and notes to financial statements)
2. Management Interim Report;
3. Declaration of the persons responsible for preparing the issuer's statements;

VALAMAR
VALAMAR RIVIERA D.D.
POREČ (4)

L.S.

(authorized representative's signature)

Balance Sheet (as at 31.12.2018)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
A) SUBSCRIBED CAPITAL UNPAID	**001**		
B) NON CURRENT ASSETS (ADP 003+010+020+031+036)	**002**	**4.321.068.373**	**4.745.258.461**
I. INTANGIBLE ASSETS (ADP 004 to 009)	**003**	**44.533.715**	**52.117.007**
1. Research and Development expenditure	004		
2. Patents, licences, royalties, trademarks and service marks, software and similar rights	005	37.646.206	44.689.688
3. Goodwill	006	6.567.609	6.567.609
4. Prepayments for intangible assets	007		
5. Intangible assets under construction	008	319.900	859.710
6. Other intangible assets	009		
II. TANGIBLE ASSETS (ADP 011 to 019)	**010**	**3.697.439.264**	**3.956.425.253**
1. Land	011	633.926.337	644.865.439
2. Property	012	2.416.617.894	2.589.871.537
3. Plants and equipment	013	345.844.344	398.353.730
4. Tools, plants and vehicles	014	89.672.494	113.623.233
5. Biological asset	015		
6. Prepayments for tangible assets	016	23.166.558	3.269.078
7. Assets under construction	017	137.209.673	150.627.634
8. Other tangible assets	018	40.747.606	46.174.128
9. Investments property	019	10.254.358	9.640.474
III. NON-CURRENT FINANCIAL ASSETS (ADP 021 to 030)	**020**	**456.347.314**	**635.859.184**
1. Stakes (shares) in undertakings in a Group	021	452.395.427	616.200.941
2. Investments in other securities of undertakings in a Group	022		
3. Loans, deposits etc given to undertakings in a Group	023		
4. Stakes (shares) in undertakings with participating interest	024		
5. Investments in other securities of undertakings with participating interest	025		
6. Loans, deposits etc given to undertakings with participating interest	026		
7. Investments in securities	027	3.620.830	3.959.812
8. Given loans, deposits and similar	028	191.057	15.558.431
9. Other investments accounted for using the equity method	029		
10. Other non-current financial assets	030	140.000	140.000
IV. TRADE RECEIVABLES (ADP 032 to 035)	**031**	**188.176**	**147.290**
1. Receivables from undertakings in a Group	032		
2. Receivables from undertakings with participating interests	033		
3. Trade receivables	034		
4. Other receivables	035	188.176	147.290
V. DEFERRED TAX ASSETS	**036**	**122.559.904**	**100.709.727**
C) CURENT ASSETS (ADP 038+046+053+063)	**037**	**291.552.583**	**228.130.083**
I. INVENTORIES (ADP 039 to 045)	**038**	**23.913.513**	**22.899.786**
1. Raw materials and consumables	039	23.767.779	22.761.740
2. Work in progress	040		
3. Finished products	041		
4. Merchandise	042	145.734	138.046
5. Prepayments for inventories	043		
6. Other available-for-sale assets	044		
7. Biological asset	045		
II. RECEIVABLES (ADP 047 to 052)	**046**	**29.405.487**	**36.668.851**
1. Receivables from undertakings in a Group	047	3.392.515	1.879.447
2. Receivables from undertakings with participating interest	048		
3. Trade receivables	049	12.221.884	29.757.242
4. Receivables from employees and members of the undertaking	050	1.171.905	1.366.667
5. Receivables from Government and other institutions	051	10.812.531	2.275.769
6. Other receivables	052	1.806.652	1.389.726
III. CURRENT FINANCIAL ASSETS (ADP 054 to 062)	**053**	**832.773**	**28.300**
1. Stakes (shares) in undertakings in a Group	054		
2. Investments in other securities of undertakings in a Group	055		
3. Loans, deposits etc given to undertakings in a Group	056	25.800	28.300
4. Stakes (shares) in undertakings with participating interest	057		
5. Investments in other securities of undertakings with participating interest	058		
6. Loans, deposits etc given to undertakings with participating interest	059		
7. Investments in securities	060		
8. Given loans, deposits and similar	061	702.891	
9. Other financial assets	062	104.082	
IV. CASH AND CASH EQUIVALENTS	**063**	**237.400.810**	**168.533.146**
D) PREPAYMENTS AND ACCRUED INCOME	**064**	**19.416.287**	**24.218.271**
E) TOTAL ASSETS (ADP 001+002+037+064)	**065**	**4.632.037.243**	**4.997.606.815**
F) OFF-BALANCE SHEET ITEMS	**066**	**54.545.066**	**54.446.042**

Balance Sheet (as at 31.12.2018) (continued)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
LIABILITIES			
A) CAPITAL AND RESERVES (ADP 068 to 070+076+077+081+084+087)	**067**	**2.395.468.296**	**2.474.760.657**
I. SHARE CAPITAL	**068**	**1.672.021.210**	**1.672.021.210**
II. CAPITAL RESERVES	**069**	**3.602.906**	**5.304.283**
III. RESERVES FROM PROFIT (ADP 071+072-073+074+075)	**070**	**102.055.847**	**94.297.196**
1. Legal reserves	071	83.601.061	83.601.061
2. Reserves for own shares	072	44.815.284	96.815.284
3. Own stocks and shares (deductible items)	073	-35.889.621	-86.119.149
4. Statutory reserves	074		
5. Other reserves	075	9.529.123	
IV. REVALUATION RESERVES	**076**		
V. FAIR VALUE RESERVES (ADP 078 to 080)	**077**	**634.097**	**905.282**
1. Fair value of financial assets available for sale	078	634.097	905.282
2. Efficient portion of cash flow hedge	079		
3. Efficient portion of foreign net investment hedge	080		
VI. RETAINED EARNINGS OR LOSS CARRIED FORWARD (ADP 082-083)	**081**	**385.175.162**	**462.953.210**
1. Retained earnings	082	385.175.162	462.953.210
2. Loss carried forward	083		
VII. PROFIT OR LOSS FOR THE FINANCIAL YEAR (ADP 085-086)	**084**	**231.979.074**	**239.279.476**
1. Profit for the financial year	085	231.979.074	239.279.476
2. Loss for the financial year	086		
VIII. MINORITY INTEREST	**087**		
B) PROVISIONS (ADP 089 to 094)	**088**	**31.597.492**	**35.699.314**
1. Provisions for pensions, severance pay and similar libabilities	089	4.665.359	7.894.989
2. Provisions for tax obligations	090		
3. Provisions for litigations in progress	091	26.932.133	27.804.325
4. Provisions for renewal of natural resources	092		
5. Provision for costs within warranty period	093		
6. Other provisions	094		
C) NON-CURRENT LIBILITIES (ADP 096 to 106)	**095**	**1.739.431.226**	**2.001.600.459**
1. Liabilites to related parties	096		
2. Liabilities for loans, deposits etc of undertakings in a Group	097		
3. Liabilities to undertakings with participating interest	098		
4. Liabilities for loans, deposits etc of undertakings with participating interest	099		
5. Liabilities for loans, deposits and other	100		
6. Liabilities to banks and other financial institutions	101	1.721.763.614	1.978.757.713
7. Liabilities for advance payments	102		
8. Trade payables	103		
9. Amounts payable for securities	104		
10. Other non-current liabilities	105	1.585.824	7.615.740
11. Deffered tax	106	16.081.788	15.227.006
D) CURRENT LIABILITIES (ADP 108 to 121)	**107**	**369.130.888**	**374.287.286**
1. Liabilities to undertakings in a Group	108	377.577	196.105
2. Liabilities for loans, deposits etc of undertakings in a Group	109		
3. Liabilities to undertakings with participating interest	110		
4. Liabilities for loans, deposits etc of undertakings with participating interest	111		
5. Liabilities for loans, deposits and other	112		
6. Liabilities to banks and other financial institutions	113	184.701.848	203.359.113
7. Amounts payable for prepayment	114	30.708.993	34.734.630
8. Trade payables	115	121.224.757	102.714.900
9. Liabilities upon loan stocks	116		
10. Liabilities to emloyees	117	20.606.875	22.822.891
11. Taxes, contributions and similar liabilities	118	10.270.639	9.464.523
12. Liabilities arising from share in the result	119	72.403	9.600
13. Liabilities arising from non-current assets held for sale	120		
14. Other current liabilities	121	1.167.796	985.524
E) ACCRUED EXPENSES AND DEFERRED INCOME	**122**	**96.409.341**	**111.259.099**
F) TOTAL LIABILITIES (ADP 067+088+095+107+122)	**123**	**4.632.037.243**	**4.997.606.815**
G) OFF-BALANCE SHEET ITEMS	**124**	**54.545.066**	**54.446.042**

Income Statement (for 01.01.2018 to 31.12.2018)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding period	Current period
1	2	3	4
I. OPERATING INCOME (ADP 126+127+128+129+130)	**125**	**1.636.413.207**	**1.788.691.935**
1. Revenues from sales with undertakings in a Group	126	13.865.641	18.501.792
2. Sales revenues (outside the Group)	127	1.602.798.436	1.750.101.402
3. Revenues from use of own products, goods and services	128	5.191.926	328.628
4. Other operating revenues with undertakings in a Group	129	46.785	53.245
5.Other operating revenues (outside the Group)	130	14.510.419	19.706.868
II. OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)	**131**	**1.396.220.124**	**1.512.025.945**
1. Changes in inventories of finished products and work in progress	132		
2. Material costs (ADP 134 to 136)	133	511.785.310	501.402.765
a) Cost of raw materials & consumables	134	274.645.200	294.408.484
b) Cost of goods sold	135	2.850.429	3.276.436
c) Other costs	136	234.289.681	203.717.845
3. Staff costs (ADP 138 to 140)	137	443.751.031	487.757.455
a) Net salaries	138	269.924.542	297.438.400
b) Employee income tax	139	111.612.209	123.009.680
c) Tax on payroll	140	62.214.280	67.309.375
4. Depreciation and amortisation	141	283.465.960	344.691.659
5. Other expenditures	142	133.772.749	159.208.901
6. Value adjustment (ADP 144+145)	143	112.132	296.981
a) non-current assets (without financial assets)	144		
b) current assets (without financial assets)	145	112.132	296.981
7. Provisions (ADP 147 to 152)	146	5.086.540	5.978.624
a) Provision for pensions, severance payments and other employment benefits	147	4.665.359	3.939.257
b) Provisions for tax liabilities	148		
c) Provisions for litigations in progress	149	421.181	2.039.367
d) Provisions for renewal of natural resources	150		
e) Provision for costs within warranty period	151		
f) Other provisions	152		
8. Other operating expenses	153	18.246.402	12.689.560
III. FINANCIAL INCOME (ADP 155 to 164)	**154**	**59.584.924**	**59.553.898**
1. Income from stakes (shares) in undertakings in a Group	155		6.050.776
2. Income from stakes (shares) in undertakings with participating interest	156		
3. Income from other non-current financial investments and loans to undertakings in a Group	157		
4. Other interest income from undertakings in a Group	158		
5. Foreign exchange differences and other financial income from undertakings in a Group	159		
6. Income from other non-current financial investments and loans	160		
7. Other interest income	161	467.081	459.866
8. Foreign exchange differences and other financial income	162	48.589.480	44.543.942
9. Unrealized gains (income) from the financial assets	163	7.520.020	4.696.029
10. Other financial income	164	3.008.343	3.803.285
IV. FINANCIAL COSTS (ADP 166 to 172)	**165**	**82.068.385**	**76.012.814**
1. Interest expenses and similar expenses with undertakings in a Group	166		
2. Foreign exchange differences and other expenses with undertakings in a Group	167		
3. Interest expenses and similar	168	37.199.453	45.277.357
4. Foreign exchange differences and other expenses	169	31.145.877	17.040.290
5. Unrealized loss (expenses) from the financial assets	170	6.761.354	10.757.668
6. Value adjustment expense on financial assets (net)	171	5.629.924	
7. Other financial expenses	172	1.331.777	2.937.499
V. SHARE OF PROFIT FROM UNDERTAKINGS WITH PARTICIPATING INTEREST	**173**		
VI. SHARE OF PROFIT FROM JOINT VENTURES	**174**		
VII. SHARE OF LOSS FROM UNDERTAKINGS WITH PARTICIPATING INTEREST	**175**		
VIII. SHARE OF LOSS FROM JOINT VENTURES	**176**		
IX. TOTAL INCOME (ADP 125+154+173+174)	**177**	**1.695.998.131**	**1.848.245.833**
X. TOTAL EXPENSES (ADP 131+165+175+176)	**178**	**1.478.288.509**	**1.588.038.759**
XI. PROFIT OR LOSS BEFORE TAX (ADP 177-178)	**179**	**217.709.622**	**260.207.074**
1. Profit before tax (ADP 177-178)	180	217.709.622	260.207.074
2. Loss before tax (ADP 178-177)	181		
XII. INCOME TAX EXPENSE	**182**	**-14.269.452**	**20.927.598**
XIII. PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)	**183**	**231.979.074**	**239.279.476**
1. Profit for the period (ADP 179-182)	184	231.979.074	239.279.476
2. Loss for the period (ADP 182-179)	185		

Income Statement (for 01.01.2018 to 31.12.2018) (continued)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding period	Current period
1	2	3	4
PROFIT OR LOSS FROM DISCONTINUED OPERATIONS (applicable for entities which use IFRS and have discontinued operations)			
XIV. PROFIT OR LOSS FROM DISCONTINUED OPERATIONS BEFORE TAX (ADP 187-188)	**186**		
1. Profit before tax from discontinued operations	187		
2. Loss before tax from discontinued operations	188		
XV. INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS	**189**		
1. Profit for the period from discontinued operations (ADP 186-189)	190		
2. Loss for the period from discontinued operations (ADP 189-186)	191		
TOTAL PROFIT OR LOSS FOR THE PERIOD (applicable for entities which use IFRS and have discontinued operations)			
XVI. PROFIT OR LOSS BEFORE TAX (ADP 179+186)	**192**		
1. Profit before tax (ADP 192)	193		
2. Loss before tax (ADP 192)	194		
XVII. INCOME TAX EXPENSE (ADP 182+189)	**195**		
XVIII. PROFIT OR LOSS FOR THE PERIOD (ADP 192-195)	**196**		
1. Profit for the period (ADP 192-195)	197		
2. Loss for the period (ADP 195-192)	198		
APPENDIX TO THE INCOME STATEMENT (to be completed by entities submitting consolidated financial statements)			
XIX. PROFIT OR LOSS FOR THE PERIOD (ADP 200+201)	**199**	**231.979.074**	**239.279.476**
1. Attributable to parent company's shareholders	200	231.979.074	239.279.476
2. Attributable to non-controlling interests	201		
STATEMENT OF OTHER COMPREHENSIVE INCOME (to be completed by entities subject to IFRS)			
I. PROFIT OR LOSS FOR THE PERIOD	**202**	**231.979.074**	**239.279.476**
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (ADP 204 to 211)	**203**	**450.979**	**338.982**
1. Exchange differences arising from foreign operations	204		
2. Revaluation of non-current assets and intangible assets	205		
3. Gains or loss available for sale investments	206	450.979	338.982
4. Gains or loss on net movement on cash flow hedges	207		
5. Gains or loss on net investments hedge	208		
6. Share of the other comprehensive income/loss of associates	209		
7. Acturial gain/loss on post employment benefit obligations	210		
8. Other changes in capital (minorities)	211		
III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD	**212**	**90.195**	**67.796**
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (ADP 203-212)	**213**	**360.784**	**271.186**
V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (ADP 202+213)	**214**	**232.339.858**	**239.550.662**
APPENDIX to the Statement of Comprehensive Income (to be completed by entities submitting consolidated financial statements)			
VI. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (ADP 216+217)	**215**		
1. Attributable to parent company's shareholders	216		
2. Attributable to non-controlling interests	217		

Cash Flow Statement - Indirect Method (for 01.01.2018 to 31.12.2018)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding period	Current period
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before taxes	001	217.709.622	260.207.073
2. Adjustments (ADP 003 to 010)	002	323.378.635	382.377.351
a) Depreciation and amortisation	003	283.465.960	344.691.659
b) Profit and loss from sales and value adjustments of non-current tangible and intangible assets	004	10.492.924	4.448.024
c) Profit and loss from sales and unrealised profit and loss and value adjustments of financial assets	005	-211.830	1.440.100
d) Income from interest and dividends	006	-436.947	-204.629
e) Interest expenses	007	38.531.230	46.213.364
f) Provisions	008	6.707.753	7.049.970
g) Foreign exchange differences (unrealized)	009	-13.101.550	-27.175.314
h) Other adjustments for non-cash transactions and unrealized profit and loss	010	-2.068.905	5.914.177
I. Increase or decrease of cash flow before changes in working capital (ADP 001+002)	**011**	**541.088.257**	**642.584.424**
3. Changes in working capital (ADP 013 to 016)	012	33.035.631	-21.944.066
a) Increase or decrease of current liabilities	013	1.433.296	4.209.742
b) Increase or decrease of current receivables	014	37.262.296	-27.169.779
c) Increase or decrease of inventories	015	-5.659.961	1.015.971
d) Other increase or decrease of working capital	016		
II. Cash from operating activities (ADP 011+012)	**017**	**574.123.888**	**620.640.358**
4. Interest	018	-38.109.984	-42.657.019
5. Income tax paid	019	102.419	53.533
A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)	**020**	**536.116.323**	**578.036.872**
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Proceeds from sale of non-current assets	021	3.469.847	5.144.096
2. Proceeds from selling financial instruments	022	1.808.303	50.000
3. Proceeds from interest rates	023	639.234	707.828
4. Proceeds from dividends	024	579.153	6.152.793
5. Proceeds from repayment of given loans and savings	025	11.143.895	905.491
6. Other proceeds from investment activities	026	338.416	333.341
III. Total cash proceeds from investment activities (ADP 021 to 026)	**027**	**17.978.848**	**13.293.549**
1. Purchase of non-current tangible and intangible assets	028	-860.324.118	-630.494.466
2. Purchase of financial instruments	029		
3. Loans and deposits for the period	030	-10.615.679	-175.676
4. Acquisition of subsidiary, net of acquired cash	031	-6.207.552	-165.484.114
5. Other payments from investment activities	032		
IV. Total cash payments from investment activities (ADP 028 to 032)	**033**	**-877.147.349**	**-796.154.256**
B) NET INCREASE OF CASH FLOW FROM INVESMENT ACTIVITIES (ADP 027+033)	**034**	**-859.168.501**	**-782.860.707**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Proceeds from increase of subscribed capital	035		
2. Proceeds from issuing equity-based and debt-based financial instruments	036		
3. Proceeds from loan principal, loans and other borrowings	037	582.241.802	488.930.130
4. Other proceeds from financial activities	038		
V. Total proceeds from financial activities (ADP 035 to 038)	**039**	**582.241.802**	**488.930.130**
1. Repayment of loan principals, loans and other borrowings and debt-based financial instruments	040	-161.094.158	-189.538.155
2. Dividends paid	041	-98.342.353	-111.730.149
3. Payment of finance lease liabilities	042		
4. Re-purchase of treasury shares and decrease in subscribed share capital	043		-51.705.655
5. Other payments from financial activities	044		
VI. Total cash payments from financing activities (ADP 040 to 044)	**045**	**-259.436.511**	**-352.973.959**
C) NET CASH FLOW FROM FINANCIAL ACTIVITIES (ADP 039+045)	**046**	**322.805.291**	**135.956.171**
1. Cash and cash equivalents-unrealized foreign exchange differences	047		
D) NET INCREASE OR DECREASE OF CASH FLOW (ADP 020+034+046+047)	**048**	**-246.887**	**-68.867.664**
E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**049**	**237.647.697**	**237.400.810**
F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (ADP 048+049)	**050**	**237.400.810**	**168.533.146**

Statement of Changes in Equity (for the period from 01.01.2018 to 31.12.2018)
Taxpayer: 36201212847; Valamar Riviera d.d.

Description	ADP	Distributable to majority owners														Minority (non-controlling) interest	Total capital and reserves
		Subscribed Share capital	Capital reserves	Legal reserves	Reserves for own shares	Treasury shares and shares (deductible item)	Statutory reserves	Other reserves	Revaluation reserves	Fair value of financial assets available for sale	Efficient portion of cash flow hedge	Efficient portion of foreign net investment hedge	Retained earnings / loss carried forward	Net profit/ loss for the period	Total distributable to majority owners		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16 (3 to 6 - 7 + 8 to 15)	17	18 (16+17)
Previous period																	
1. Balance at 1 January of the previous period	**01**	**1.672.021.210**	**2.204.690**	**67.198.750**	**44.815.284**	**37.141.295**		**9.529.123**		**273.313**			**228.523.684**	**336.657.721**	**2.324.082.480**		**2.324.082.480**
2. Changes in accounting policies	02																
3. Error correction	03																
4. Balance at 1 January of the previous period (ADP 01 to 03)	**04**	**1.672.021.210**	**2.204.690**	**67.198.750**	**44.815.284**	**37.141.295**		**9.529.123**		**273.313**			**228.523.684**	**336.657.721**	**2.324.082.480**		**2.324.082.480**
5. Profit/loss for the period	05													231.979.074	231.979.074		231.979.074
6. Foreign currency translation differences- foreign operations	06																
7. Changes in revaluation reserves of non-current tangible and intangible assets	07																
8. Profit or loss from re-evaluation of finacial assets held for sale	08									450.979					450.979		450.979
9. Profit or loss from cash flow hedge	09																
10. Profit or loss from foreign net investment hedge	10																
11. Share in other comprehensive income/loss from undertakings with participating interest	11																
12. Actuarial gains/losses from defined benefit plans	12																
13. Other changes in capital (minorities)	13																
14. Taxation of transactions recognized directly in equity	14									-90.195					-90.195		-90.195
15. Increase/decrease of subscribed share capital (except by reinvested profit and in pre-bankruptcy settlement)	15																
16. Increase of subscribed share capital by profit reinvestment	16																
17. Increase of subscribed share capital in pre-bankruptcy settlement	17																
18. Repurchase of own shares/stakes	18					-1.251.674									1.251.674		1.251.674
19. Share in profit/dividend payout	19																
20. Other distribution to majority owners	20		1.398.216										-99.352.193		-97.953.977		-97.953.977
21. Transfer to reserves according to annual plan	21			16.402.311									256.003.671	-336.657.721	-64.251.739		-64.251.739
22. Increase in reserves in pre-bankruptcy settlement	22																
23. Balance at 31 December of previous period (ADP 04 to 22)	**23**	**1.672.021.210**	**3.602.906**	**83.601.061**	**44.815.284**	**35.889.621**		**9.529.123**		**634.097**			**385.175.162**	**231.979.074**	**2.395.468.296**		**2.395.468.296**
ADDITION TO STATEMENT OF CHANGES IN EQUITY (only for IFRS adopters)																	
I. OTHER COMPREHENSIVE INCOME OF PREVIOUS PERIOD NET OF TAX (ADP 06 to 14)	**24**									**360.784**					**360.784**		**360.784**
II. COMPREHENSIVE INCOME OR LOSS FOR THE PREVIOUS PERIOD (ADP 05+24)	**25**									**360.784**				**231.979.074**	**232.339.858**		**232.339.858**
III. TRANSACTIONS WITH OWNERS IN THE PREVIOUS PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 15 to 22)	**26**		**1.398.216**	**16.402.311**		**-1.251.674**							**156.651.478**	**-336.657.721**	**-160.954.042**		**-160.954.042**
Current period																	
1. Balance at 1 January of current period	**27**	**1.672.021.210**	**3.602.906**	**83.601.061**	**44.815.284**	**35.889.621**		**9.529.123**		**634.097**			**385.175.162**	**231.979.074**	**2.395.468.296**		**2.395.468.296**
2. Changes in accounting policies	28																
3. Error correction	29																
4. Balance at 1 January of current period (ADP 27 to 29)	**30**	**1.672.021.210**	**3.602.906**	**83.601.061**	**44.815.284**	**35.889.621**		**9.529.123**		**634.097**			**385.175.162**	**231.979.074**	**2.395.468.296**		**2.395.468.296**
5. Profit/loss for the period	31													239.279.476	239.279.476		239.279.476
6. Foreign currency translation differences- foreign operations	32																
7. Changes in revaluation reserves of non-current tangible and intangible assets	33																
8. Profit or loss from re-evaluation of finacial assets held for sale	34									338.982					338.982		338.982
9. Profit or loss from cash flow hedge	35																
10. Profit or loss from foreign net investment hedge	36																
11. Share in other comprehensive income/loss from undertakings with participating interest	37																
12. Actuarial gains/losses from defined benefit plans	38																
13. Other changes in capital (minorities)	39																
14. Taxation of transactions recognized directly in equity	40									-67.797					-67.797		-67.797
15. Increase/decrease of subscribed share capital (except by reinvested profit and in pre-bankruptcy settlement)	41																
16. Increase of subscribed share capital by profit reinvestment	42																
17. Increase of subscribed share capital in pre-bankruptcy settlement	43																
18. Repurchase of own shares/stakes	44					51.705.655									-51.705.655		-51.705.655
19. Share in profit/dividend payout	45		356.885			-393.563							-111.730.149		-110.979.701		-110.979.701
20. Other distribution to majority owners	46		1.344.492			-1.082.564									2.427.056		2.427.056
21. Transfer to reserves according to annual plan	47				52.000.000			-9.529.123					189.508.197	-231.979.074			
22. Increase in reserves in pre-bankruptcy settlement	48																
23. Balance as at 31 December of the current period (ADP 30 to 48)	**49**	**1.672.021.210**	**5.304.283**	**83.601.061**	**96.815.284**	**86.119.149**				**905.282**			**462.953.210**	**239.279.476**	**2.474.760.657**		**2.474.760.657**
ADDITION TO STATEMENT OF CHANGES IN EQUITY (only for IFRS adopters)																	
I. OTHER COMPREHENSIVE INCOME OF CURRENT PERIOD, NET OF TAX (ADP 32 to 40)	**50**									**271.185**					**271.185**		**271.185**
II. COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31 + 50)	**51**									**271.185**				**239.279.476**	**239.550.661**		**239.550.661**
III. TRANSACTIONS WITH OWNERS IN THE CURRENT PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 41 to 48)	**52**		**1.701.377**		**52.000.000**	**50.229.528**		**-9.529.123**					**77.778.048**	**-231.979.074**	**-160.258.300**		**-160.258.300**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (AFS)

Issuer name:
Valamar Riviera d.d.

OIB: **36201212847**

Reporting period:
01.01.2018. to 31.12.2018.

Notes to the financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter: IFRS) in a way that they need to:

a) provide information on the basis for the preparation of financial statements and certain accounting policies applied in accordance with International Accounting Standard 1 (IAS 1),

b) disclose information to IFRSs that is not presented in the statement of financial position, statement of comprehensive income, statement of cash flow and statement of changes in shareholder's equity,

c) provide additional information that is not presented in the statement of financial position, statement of comprehensive income, statement of cash flow and statement of changes in shareholder's equity, but is important for understanding any of them.

MANAGEMENT BOARD'S DECISION ON ESTABLISHING THE ANNUAL FINANCIAL STATEMENTS AND ON THE PROPOSAL OF PROFIT DISTRIBUTION

VALAMAR RIVIERA d.d.
MANAGEMENT BOARD
Number: 62-1/19.
Poreč, 19 February 2019

Pursuant to Articles 250a, 250b, 300a and 300b of the Companies Act, Articles 462 and 463 of the Capital Market Act, Articles 3 and 4 of the Content and structure of the Issuer's annual report and form and manner of delivering it to the Croatian Financial Services Supervisory Agency Regulation and Articles 19, 20, 21 and 24 of the Accounting Act, at its meeting held on 19 February 2019, the Management Board of Valamar Riviera d.d. from Poreč, 1 Stancija Kaligari (hereinafter: Valamar Riviera d.d. or the Company) rendered the following

DECISION

I

The Annual Report of Valamar Riviera d.d. is hereby determined as stated in the text of the enclosed "2018 ANNUAL REPORT".

II

The audited non-consolidated and consolidated Annual financial statements for the year 2018 are hereby determined, and consist of the following: Statement of Financial Position (Balance Sheet), Income Statement, Statement of Other Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity and Notes to Financial Statements, as stated in the text that is an integral part of the Report from point I of this decision.

III

It is hereby determined that the Auditor, Ernst & Young d.o.o. from Zagreb, 50 Radnička cesta, produced the Auditor's report for 2018, as stated in the text that is an integral part of the Report from point I of this decision.

IV

The Management Report on the Company's status for the period from 01/01/2018 to 31/12/2018 is hereby determined, as stated in the text that is an integral part of the Report from point I of this decision.

V

The proposed decision to distribute the Company's realized profits in 2018 totaling HRK 239,279,475.64 to the Company's retained profits is hereby determined.

VI

Pursuant to Article 300b of the Companies Act:

1. the reports mentioned in points II and IV of this Decision are submitted to the Supervisory Board for examination. It is proposed that the Supervisory Board approves the said reports,
2. the Auditor's Report mentioned in point III of this Decision is submitted to the Supervisory Board for approval
3. It is proposed that the Supervisory Board approves the proposed

decision for the distribution of profits pursuant to point V of this Decision, and to pass it as such to be adopted at the General Assembly.

VII
Pursuant to Article 129 of the Zagreb Stock Exchange Rules, the Zagreb Stock Exchange will be informed of this Decision.

After the Supervisory Board decides on the matters presented in point VI, the reports determined in this Decision and the proposal for the distribution of profits from point V will be released in the prescribed period, pursuant to Article 462 and Article 463 of the Capital Market Act and Article 4 Content and structure of the Issuer's annual report and form and manner of delivering it to the Croatian Financial Services Supervisory Agency Regulation.

VIII
Upon their adoption, the following decisions and reports will be submitted to the Financial Agency to be disclosed in the prescribed period, pursuant to Article 30 of the Accounting Act: this Decision together with the proposed decision on the distribution of profits in point V, the reports determined by this Decision and the decisions rendered by the Supervisory board in point VI.

For the attention of:
1. Supervisory Board
2. HANFA -Official registry of regulated information, pursuant to point VII
3. Zagreb Stock Exchange, pursuant to point VII
4. FINA-Financial Agency, pursuant to point VIII
5. Archive

VALAMAR
VALAMAR RIVIERA D.D.
POREČ (4)

Željko Kukurin
Management Board President

SUPERVISORY BOARD'S DECISION ON APPROVING THE ANNUAL FINANCIAL STATEMENTS

VALAMAR RIVIERA d.d.
SUPERVISORY BOARD
Number: 68-1/19.
Poreč, 26 February 2019

Pursuant to Article 300d, and Article 300c of the Companies Act and Management Board Decision no. 62-1/19 dated 19/02/2019, at its meeting held on 26 February 2019, the Supervisory Board of Valamar Riviera d.d. from Poreč rendered the following

DECISION

I

The Supervisory Board hereby approves the 2018 ANNUAL REPORT of Valamar Riviera d.d. that also includes the following:

1. Annual Financial Statements for the Year 2018, non-consolidated and consolidated, consisting of the Statement of Financial Position (Balance Sheet), Income Statement, Statement of Other Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity and Notes to Financial Statements

2. Report on the performed audit by Ernst & Young d.o.o. from Zagreb

3. Annual Management Report on the Company's status / Management Report

II

Pursuant to Article 300d of the Companies Act, by granting approval as stated in point I of this Decision, the 2018 Annual Financial Statements of Valamar Riviera d. d. from Poreč are considered to be approved both by the Management Board and by the Supervisory Board.

Gustav Wurmböck
Supervisory Board Chairman

SUPERVISORY BOARD'S REPORT ON THE PERFORMED SUPERVISION OF COMPANY'S BUSINESS MANAGEMENT IN 2018

VALAMAR RIVIERA d.d.
SUPERVISORY BOARD
Number: 68-2/19.
Poreč, 26 February 2019

Pursuant to Article 263, paragraph 3 and Article 300c, paragraph 3 of the Companies Act, at its meeting held on 26 February 2019, the Supervisory Board of Valamar Riviera d.d. from Poreč rendered the following

REPORT

to the General Assembly of VALAMAR RIVIERA d.d. from Poreč on the performed supervision of the Company's business management in 2018

I

In the course of the year 2018 (i.e. reporting period), the Supervisory Board consisted of: Gustav Wurmböck, Chairman, Franz Lanschützer and Mladen Markoč, Deputy Chairmen, and Members: Georg Eltz, Hans Dominik Turnovszky, Vicko Ferić and Valter Knapić.

Apart from the Supervisory Board, the Supervisory Board members formed the following three bodies:

- Presidium of the Supervisory Board, consisting of: Gustav Wurmböck, Chairman and SB Deputy Chairmen Franz Lanschützer and Mladen Markoč;

- Audit Committee, consisting of: Georg Eltz, Chairman and Members Franz Lanschützer, Mladen Markoč, Vicko Ferić and Dubravko Kušeta. When Dubravko Kušeta resigned from his post as committee member on 25 January 2018, the Supervisory Board appointed Mr. Gustav Wurmböck in his place on 27 February 2018. On 24 October 2018 the Supervisory Board increased the number of Audit Committee members that went from 5 to 6 and appointed Hans Dominik Turnovszky as committee member. Ever since, the Audit Committee has consisted of the following members: Georg Eltz, Chairman and Members Franz Lanschützer, Mladen Markoč, Vicko Ferić, Gustav Wurmböck and Hans Dominik Turnovszky.

- Investment Committee, consisting of: Franz Lanschützer, Chairman and Members Georg Eltz, Vicko Ferić, Hans Dominik Turnovszky and Gustav Wurmböck.

II

In the course of 2018, the Supervisory Board regularly received written reports on business operations, as well as other reports, proposals and decisions by the Management Board. The Supervisory Board examined and rendered its decisions pertaining to the said reports, proposals and decisions pursuant to regulations and provisions of the Company's Statute. During the year 2018, the Supervisory Board held fourteen

(14) meetings out of which nine (9) were held via correspondence, all pursuant to the Company's Statute. At the said meetings, it discussed numerous issues related to the Company's business and also supervised the management of the Company's business.

The Supervisory Board committees together with the Management Board and other responsible persons and experts held nineteen (19) meetings in 2018. During the said meetings, they examined documents and proposals pertaining to which the Supervisory Board rendered its decisions. This improved the Supervisory Board's efficiency and understanding of the Company's business while performing the supervision.

III

Pursuant to its duties, the Supervisory Board performed the supervision through meetings, committees and through documents and detailed information submitted by the Management Board in the course of 2018 and therefore

established

that Valamar Riviera d.d. from Poreč conducts its business pursuant to the law, Company Statute and other regulations and decisions of the Company.

IV

The Supervisory Board devoted particular attention to the examination of the reports and proposals submitted by the Management Board and consisting of the following:

1) 2018 ANNUAL REPORT of Valamar Riviera d.d. that also includes the following:
   - Annual Financial Statements for the Year 2018, non-consolidated and consolidated, consisting of the Statement of Financial Position (Balance Sheet), Income Statement, Statement of Other Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity and Notes to Financial Statements;
   - Report on the performed audit by Ernst & Young d.o.o. from Zagreb
   - Annual Management Report on the Company's status / Management Report
2) Proposal regarding the distribution of profit and dividend payout
3) Report on Related Party Transactions in 2018 and Auditor's Examination Report

At its meeting in the presence of the Auditor, Ernst & Young d.o.o. from Zagreb, the Audit Committee, followed by the Supervisory Board, examined the submitted annual financial statements for 2018 and established that they reflected the business records of the Company and rendered a veritable presentation of the position of the company in terms of business and assets, and therefore had no objections to them.

Pursuant to the previously submitted opinion by the Audit Committee, the Supervisory Board has no objection to the Auditor's report on the performed audit. Furthermore, the Supervisory Board has no objections to the Annual Management Report on the Company's Status.

The Supervisory Board also has no objection after examining the submitted Management Board Report on Related Party Transactions with the Auditor's examination report.

V

Besides the examination of the documents specified in the previous point, pursuant to the Company Statute, the Supervisory Board supervised the management of the Company's business by previously considering the Management Board proposals that required the Supervisory Board's approval. In that part, the Supervisory Board paid particular attention to approving the conditions for concluding legal transactions, concessions and the management of real estate. Furthermore, the Supervisory Board particularly focused on the approval of each loan and regularly monitored the Company's financial status and cash flow.

Besides the above mentioned, the Supervisory Board regularly reviewed the monthly business results by focusing on each individual property and the Company as a whole in relation to the previously adopted business plans. In this area, special attention was devoted to the 2019 business plan.

Furthermore, in the course of 2018, the Supervisory Board particularly focused on reviewing, directing and approving the planned investments at all stages of their preparation and execution. This was done by considering the actual need to improve the overall level of quality and standards of the facilities and providing a realistic estimate of the opportunities to sell such facilities and services on source markets as well as them being financially justifiable and profitable.

The Supervisory Board examined and approved the cross-border merger between EPIC Hospitality Holding GmbH and the Company (as transferee). This process was completed when the merger was recorded in the court register on 15 June 2018.

The Supervisory Board particularly monitored the Management Board in the processes of expressing interest for the purchase of shares and business stakes and potential acquisitions of strategic importance for the Company.

One of the most important activities to which the Supervisory Board devoted particular attention in 2018 was the acquisition of shares in HOTELI MAKARSKA d.d. from Makarska (in partnership with Allianz ZB d.o.o. društvo za upravljanje obveznim mirovinskim fondom from Zagreb, acting in its own name and on behalf of AZ Obvezni mirovinski fond kategorije A, personal identification number (OIB) 15220336427, and in its own name and on behalf of AZ Obvezni mirovinski fond kategorije B, personal identification number (OIB) 59318506371, with whom it had previously established a collaboration to act in concert regarding HOTELI MAKARSKA d.d.). The acquisition was carried out pursuant to the contract on share purchase and transfer from the Republic of Croatia and in the course of a takeover bid pursuant to the provisions of the Act on the Takeover of Joint Stock Companies.

Furthermore, the Supervisory Board also devoted particular attention to the first acquisitions of business stakes in Austria, i.e. the companies Valamar A GmbH (SPV) and Valamar Obertauern GmbH.

Finally, the Supervisory Board especially monitored the Management Board regarding the management of hospitality facilities and services of IMPERIAL d.d. Rab, pursuant to the concluded Management Contract that has been implemented since 4 January 2017 and of HOTELI MAKARSKA d.d. Makarska pursuant to the concluded Management Contract that has been implemented since 30 July 2018.

Furthermore, pursuant to the Company Statute, the Supervisory Board reappointed Željko Kukurin as Management Board President and Marko Čižmek as Management Board Member for a new term of office starting on 1 January 2019 and ending on 31 December 2022.

VI

Pursuant to what has been previously stated, and according to the comprehensive insight gained through the supervision of the Company's business management and information received during the course of work of the Supervisory Board and its committees in the period from 1 January to 31 December 2018, and the conducted examinations from point V of this Report, at its meeting held on 26 February 2019, the Supervisory Board

A)

approved the following

1) 2018 ANNUAL REPORT of Valamar Riviera d.d. that also includes the following:
   - Annual Financial Statements for the Year 2018, non-consolidated and consolidated, consisting of the Statement of Financial Position (Balance Sheet), Income Statement, Statement of Other Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity and Notes to Financial Statements;
   - Report on the performed audit by Ernst & Young d.o.o. from Zagreb
   - Annual Management Report on the Company's status / Management Report
2) Proposal regarding the distribution of profit achieved in 2018 and dividend payout

and hereby, according to Article 300d of the Companies Act, the Annual Financial Statements of Valamar Riviera d.d. from Poreč for 2018 are considered to be approved both by the Management Board and by the Supervisory Board.

B)

has no objection to

the Management Board statement given in the Report on Related Party Transactions in 2018 pursuant to the provisions of Article 497, paragraph 3 of the Companies Act

and

agrees with

the Auditor's examination by Ernst & Young d.o.o. of the Management Board Report on Related Party Transactions in 2018.

Gustav Wurmböck
Supervisory Board Chairman

SUPERVISORY BOARD'S DECISION ON THE PROPOSAL OF PROFIT DISTRIBUTION

VALAMAR RIVIERA d.d.
SUPERVISORY BOARD
Number: 68-3/19.
Poreč, 26 February 2019

Pursuant to Article 300d, and Article 300c of the Companies Act and the Management Board Decision no. 62-1/19 dated 19/02/2019, at its meeting held on 26 February 2019, the Supervisory Board of Valamar Riviera d.d. from Poreč rendered the following

DECISION

I
The proposal to distribute HRK 239,279,475.64 of the Company's achieved profit in 2018 in the Company's retained profit is hereby determined.

II
It is proposed that the General Assembly accepts the proposal determined in point I of this decision that was previously approved by the Supervisory and Management Board.

Gustav Wurmböck
Supervisory Board Chairman

SUPERVISORY BOARD'S DECISION ON THE PROPOSAL OF DIVIDEND PAYMENT

VALAMAR RIVIERA d.d.
SUPERVISORY BOARD
Number: 68-4/19.
Poreč, 26 February 2019

At its meeting held on 26 February 2019, the Supervisory Board of Valamar Riviera d.d. rendered the following

DECISION

I

The Supervisory Board hereby agrees with the proposed Decision on Dividend Payout, pursuant to the enclosed Management Board Decision number: 62-3/19 dated 19 February 2019, as follows:

"With reference to the meaning of the provisions of Article 275, paragraph 1, point 2 of the Companies Act, the General Assembly of Valamar Riviera dioničko društvo za turizam, with registered office in Poreč, 1 Stancija Kaligari (hereinafter: the Company) rendered on ____________ 2019 the following

DECISION
on dividend payout

I

The shareholders of the Company shall be paid a dividend of HRK 1.00 (one) per each share.

II

The dividend shall be paid out of the retained profit achieved in 2016.

III

*All Company shareholders as owners of shares registered in their accounts of dematerialized securities in the system of the Central Depository and Clearing Company (Središnje klirinško depozitarno društvo d.d.) as at **16 May 2019 (record date)** are eligible for dividend payout.*

IV

The company shareholders have the possibility to have one quarter of their dividend paid out in company shares. One fourth of the total dividend a shareholder is entitled to shall be determined as follows: the dividend tax and surtax (if applicable to a shareholder) shall first be deducted from the number of shares multiplied by the dividend amount per share, and then it shall be divided by the average daily company share price achieved on the official market of the Zagreb Stock Exchange on the day this decision is rendered, and then divided by 4 and resulting in ¼ of rights (shares) rounded to the next smaller integer. The remaining part will be paid out in cash. The Company shall use treasury shares for the payment in rights-company shares.

V

*Those shareholders who wish to have a quarter of their dividend paid out in rights-company shares, must have their written, hand-signed statement submitted to the Central Depository and Clearing Company by **30 May 2019** at the latest.*

The shareholders can find the application form on the corporate website: www.valamar-riviera.com.

VI

The shareholders who do not submit their statement to have their dividend paid out in rights - company shares or whose statement will not be submitted to the Central Depository and Clearing Company by 30 May 2019, will receive their dividend in cash.

VII

The ex date is 15 May 2019.

VIII

*Company shareholders shall receive their dividend on **7 June 2019 (payment date)**."*

II

It is hereby proposed that the General Assembly adopts the proposal established in point I of this decision, which was previously approved by the Supervisory Board and Management Board.

Gustav Wurmböck
Supervisory Board Chairman

Annual Financial Statements including the independent Auditor's Report for the year ended on 31 December 2018

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

CONTENT

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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 ("IFRS") as adopted by the European Union, which give a true and fair view of the state of affairs and results of Valamar Riviera d.d. (˝the Company˝) and its subsidiaries (˝the Group˝) for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company and the Group have 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 consolidated and separate financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed;
- the financial statements are prepared on the going concern basis.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group, 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 Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed by the Management Board on 19 February 2019:

Željko Kukurin
President of the
Management Board

Marko Čižmek
Member of the
Management Board

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POREČ (4)

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF VALAMAR RIVIERA D.D.

REPORT ON THE AUDIT OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of Valamar Riviera d.d. (the Company), and consolidated financial statements of Valamar Riviera d.d. and it's subsidiaries (the Group) which comprise the separate and consolidated statement of financial position as at 31 December 2018, the separate and consolidated statement of comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2018 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report.

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

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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

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KEY AUDIT MATTER

Impairment of the tourism property (separate and consolidated financial statements)

Refer to Notes 2.6. and 2.8. of Accounting Policies, Note 4 (a) of Critical Accounting estimates, and Note 14 on Property, Plant and Equipment of the Financial Statements.

The carrying amount of property, plant and equipment of the Group as at 31 December 2018 was HRK 5,101,597 thousand (Company: HRK 3,946,785 thousand) and it represented approximately 90% and 79% of the total assets of the Group and the Company, respectively. Property, plant and equipment mostly consists of tourism properties and related assets and is included in the statement of financial position at historical cost less accumulated depreciation and impairment, where required. Assets that are depreciated are examined for a potential impairment when events or changed circumstances indicate that the book value may not be recoverable.

The estimation process is complex and highly subjective and is based on the assumptions.

Due to the above factors and significant impact on the separate and consolidated financial statements, impairment of tourism properties was determined as key audit matter.

HOW WE ADDRESSED KEY AUDIT MATTER

Our audit procedures related to impairment of property, plant and equipment included, among others:

- Assessing the appropriateness of the methodology used for the impairment testing
- Testing, on a sample basis, of key management's estimates used to determine if there are impairment indicators;
- Review of the relevant Company and Group internal reports and comparison of the projections in the model for individual tourism properties with the historical data including, among other, a comparison of gross operating profit, occupancy rate, average daily rate, revenue per available room;
- Assessing the adequacy of related disclosures in the notes to the separate and consolidated financial statements and their compliance with IFRS as adopted by EU.

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Other information included in the Company's and the Group's 2018 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report and Corporate Governance Statement, other than the separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated 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. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2018 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

2. the enclosed Management report for 2018 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Company's and the Group's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Company's and the Group's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

In addition, in the 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, Corporate Governance Statement and Annual report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the separate and consolidated financial statements

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

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and 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 the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Company's and Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were initially appointed as the auditors of the Company by the General Meeting of Shareholders on 4 May 2017 and our uninterrupted engagement has lasted for two years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 February 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and the Group. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the separate and consolidated financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Berislav Horvat.

26 February 2019

Ernst & Young d.o.o.
Radnička cesta 50
Zagreb
Republic of Croatia

Berislav Horvat
President of the Board and Certified auditor

ERNST & YOUNG
d.o.o.
Zagreb, Radnička cesta 50

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CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts in thousands of HRK)	Note	GROUP 2017	GROUP 2018	COMPANY 2017	COMPANY 2018
Sales revenue	5	1,755,287	1,961,414	1,616,664	1,768,603
Other income	6	24,948	21,701	22,181	24,712
Cost of materials and services	7	(519,754)	(551,753)	(511,785)	(501,403)
Staff costs	8	(543,083)	(622,547)	(502,800)	(560,837)
Depreciation and amortisation	14,15,16	(346,414)	(410,522)	(283,466)	(344,692)
Other operating expenses	9	(109,344)	(115,315)	(97,869)	(103,522)
Other gains/(losses) – net	10	6,073	(3,756)	(222)	(3,821)
Operating profit		**267,713**	**279,222**	**242,703**	**279,040**
Finance income		625	274	437	205
Finance costs		(29,671)	(21,286)	(25,430)	(19,038)
Finance costs – net	11	**(29,046)**	**(21,012)**	**(24,993)**	**(18,833)**
Share of net profit/(loss) of equity-accounted investees	18	(24)	(128)	-	-
Profit before tax		**238,643**	**258,082**	**217,710**	**260,207**
Income tax	12	6,444	(18,894)	14,269	(20,928)
Profit for the year		**245,087**	**239,188**	**231,979**	**239,279**
Other comprehensive income					
Items that cannot be reclassified P&L account					
Change in financial assets value	20	451	339	451	339
Tax on other comprehensive income		(90)	(68)	(90)	(68)
Total comprehensive income for the year		**245,448**	**239,459**	**232,340**	**239,550**
Profit attributable to:					
Owners of the Parent Company		**243,596**	**235,337**	-	-
Non-controlling interests	32	**1,491**	**3,851**	-	-
		245,087	**239,188**	**-**	**-**
Total comprehensive income attributable to:					
Owners of the Parent Company		**243,957**	**235,608**	-	-
Non-controlling interests	32	**1,491**	**3,851**	-	-
		245,448	**239,459**	**-**	**-**
Earnings per share (in HRK) attributable to equity holders of the Group during the year:					
- basic and diluted	13	**1.96**	**1.90**	**-**	**-**

These financial statements were approved by the Management Board of the Company on 19 February 2019.

Management Board President:
Željko Kukurin

Management Board Member:
Marko Čižmek

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POREČ
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The notes below form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

(all amounts in thousands of HRK)	Note	GROUP 31 December 2017	GROUP 31 December 2018	COMPANY 31 December 2017	COMPANY 31 December 2018
ASSETS					
Non-current assets					
Property, plant and equipment	14	4,430,006	5,101,597	3,687,185	3,946,785
Investment property	15	10,254	9,640	10,254	9,640
Intangible assets	16	45,225	53,727	44,534	52,117
Investment in subsidiaries	17	189	-	450,905	616,201
Interest in joint venture	18	1,247	-	1,490	-
Deferred tax assets	25	140,664	125,706	122,560	100,710
Financial assets	20	3,791	4,484	3,761	4,100
Derivative financial instruments	24	91	-	91	-
Loans and deposits	21	423	15,706	379	15,706
Trade and other receivables	23	603	-	-	-
		4,632,493	5,310,860	4,321,159	4,745,259
Current assets					
Inventories	22	24,497	25,447	23,913	22,900
Trade and other receivables	23	50,470	68,447	48,519	61,163
Income tax receivable		308	1,908	63	9
Loans and deposits	21	986	441	969	393
Derivative financial instruments	24	13	-	13	-
Cash and cash equivalents	26	287,837	261,842	237,401	168,533
		364,111	358,085	310,878	252,998
Total assets		**4,996,604**	**5,668,945**	**4,632,037**	**4,998,257**
EQUITY AND LIABILITIES					
Share capital	27	1,672,021	1,672,021	1,672,021	1,672,021
Treasury shares	27	(35,889)	(86,119)	(35,889)	(86,119)
Capital reserves	28	3,116	4,817	3,603	5,304
Fair value reserves	28	634	905	634	905
Legal reserves	28	83,601	83,601	83,601	83,601
Other reserves	28	68,851	120,851	22,451	135,334
Retained earnings	28	492,716	560,463	649,047	663,714
		2,285,050	2,356,539	2,395,468	2,474,760
Non-controlling interest	32	231,125	401,993	-	-
Total equity		**2,516,175**	**2,758,532**	**2,395,468**	**2,474,760**

The notes below form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION / CONTINUED

AS AT 31 DECEMBER 2018

(all amounts in thousands of HRK)	Note	GROUP 31 December 2017	GROUP 31 December 2018	COMPANY 31 December 2017	COMPANY 31 December 2018
LIABILITIES					
Non-current liabilities					
Borrowings	29	1,861,314	2,207,885	1,721,764	1,978,758
Trade and other payables	30	43,436	50,476	41,980	48,755
Derivative financial instruments	24	952	5,162	952	5,162
Deferred tax liabilities	25	52,759	68,561	16,082	15,227
Provisions	31	58,356	77,312	31,597	35,699
		2,016,817	2,409,396	1,812,375	2,083,601
Current liabilities					
Borrowings	29	202,703	227,247	184,702	203,359
Trade and other payables	30	234,952	242,293	214,458	207,841
Derivative financial instruments	24	706	2,454	706	2,454
Income tax liability		1,039	555	1,040	-
Provisions	31	24,212	28,468	23,288	26,242
		463,612	501,017	424,194	439,896
Total liabilities		**2,480,429**	**2,910,413**	**2,236,569**	**2,523,497**
Total equity and liabilities		**4,996,604**	**5,668,945**	**4,632,037**	**4,998,257**

The notes below form an integral parts of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

GROUP

(in thousands of HRK)	Note	Share capital	Treasury shares	Capital reserves	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total
Balance as at 1 January 2017		**1,672,021**	**(37,141)**	**1,718**	**67,199**	**273**	**68,851**	**364,874**	**2,137,795**	**235,842**	**2,373,637**
Profit for the year		-	-	-	-	-	-	243,596	243,596	1491	245,087
Other comprehensive income	28	-	-	-	-	361	-	-	361	-	361
Total comprehensive income		**-**	**-**	**-**	**-**	**361**	**-**	**243,596**	**243,957**	**1491**	**245,448**
Transfer to legal reserves	28	-	-	-	16,402	-	-	(16,402)	-	-	-
Treasury shares released		-	1,252	1,398	-	-	-	-	2,650	-	2,650
Dividends	28	-	-	-	-	-	-	(99,352)	(99,352)	-	(99,352)
Change in non-controlling interest	28	-	-	-	-	-	-	-	-	(6,208)	(6,208)
Total contributions by and distributions to company owners, recognised directly in equity		**-**	**1,252**	**1,398**	**16,402**	**-**	**-**	**(115,754)**	**(96,702)**	**(6,208)**	**(102,910)**
Balance at 31 December 2017		**1,672,021**	**(35,889)**	**3,116**	**83,601**	**634**	**68,851**	**492,716**	**2,285,050**	**231,125**	**2,516,175**
Profit for the year		-	-	-	-	-	-	235,337	235,337	3,851	239,188
Other comprehensive income	28	-	-	-	-	271	-	-	271	-	271
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**271**	**-**	**235,337**	**235,608**	**3,851**	**239,459**
Transfer to legal reserves	28	-	-	-	-	-	52,000	(52,000)	-	-	-
Treasury shares released	27	-	1,476	1,368	-	-	-	-	2,844	-	2,844
Treasury shares purchased	27	-	(51,706)	-	-	-	-	-	(51,706)	-	(51,706)
Dividends	28	-	-	-	-	-	-	(111,730)	(111,730)	-	(111,730)
Merger effect	36b			333	-	-	-	-	333		333
Change in non-controlling interest		-	-	-	-	-	-	-	-	20,196	20,196
Subsidiary acquisition - non-controlling interest	17, 28	-	-	-	-	-	-	-	-	146,821	146,821
Subsidiary acquisition	28	-	-	-	-	-	-	(3,860)	(3,860)	-	(3,860)
Total contributions by and distributions to company owners, recognised directly in equity		**-**	**(50,230)**	**1,701**	**-**	**-**	**52,000**	**(167,590)**	**(164,119)**	**167,017**	**2,898**
Balance at 31 December 2018		**1,672,021**	**(86,119)**	**4,817**	**83,601**	**905**	**120,851**	**560,463**	**2,356,539**	**401,993**	**2,758,532**

The notes below form an integral parts of these financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

COMPANY

(in thousands of HRK)	Note	Share capital	Treasury shares	Capital reserves	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance as at 1 January 2017		**1,672,021**	**(37,141)**	**2,205**	**67,199**	**273**	**124,614**	**494,911**	**2,324,082**
Profit for the year		-	-	-	-	-	-	231,979	231,979
Other comprehensive income	28	-	-	-	-	361	-	-	361
Total comprehensive income		**-**	**-**	**-**	**-**	**361**	**-**	**231,979**	**232,340**
Effect of merger of Puntižela d.o.o.	28	-	-	-	-	-	(10,087)	-	(10,087)
Effect of merger of Elafiti Babin kuk d.o.o.	28	-	-	-	-	-	(54,165)	-	(54,165)
Transfer to legal reserves	28	-	-	-	16,402	-	-	(16,402)	-
Treasury shares released	27	-	1,252	1,398	-	-	-	-	2,650
Dividends	28	-	-	-	-	-	(37,911)	(61,441)	(99,352)
Total contributions by and distributions to company owners, recognised directly in equity		**-**	**1,252**	**1,398**	**16,402**	**-**	**(102,163)**	**(77,843)**	**(160,954)**
Balance at 31 December 2017		**1,672,021**	**(35,889)**	**3,603**	**83,601**	**634**	**22,451**	**649,047**	**2,395,468**
Profit for the year		-	-	-	-	-	-	239,279	239,279
Other comprehensive income	28	-	-	-	-	271	-	-	271
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**271**	**-**	**239,279**	**239,550**
Subsidiary loss cover	28	-	-	-	-	-	60,883	(60,883)	-
Merger effect	36b	-	-	333	-	-	-	-	333
Transfer to treasury shares reserve	28	-	-	-	-	-	52,000	(52,000)	-
Treasury shares released	27	-	1,476	1,368	-	-	-	-	2,844
Treasury shares acquired	27	-	(51,706)	-	-	-	-	-	(51,706)
Dividends	28	-	-	-	-	-	-	(111,730)	(111,730)
Total contributions by and distributions to company owners, recognised directly in equity		**-**	**(50,230)**	**1,701**	**-**	**-**	**112,883**	**(224,613)**	**(160,258)**
Balance at 31 December 2018		**1,672,021**	**(86,119)**	**5,304**	**83,601**	**905**	**135,334**	**663,714**	**2,474,760**

The notes below form an integral parts of these financial statements.

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

		GROUP		COMPANY	
(all amounts in thousands of HRK)	Note	2017	2018	2017	2018
Cash flow generated from operating activities					
Cash from operations	34	639,230	694,926	574,125	620,648
Income tax (paid)/received	12	6,749	(8,450)	102	54
Net cash inflow from operating activities		**645,979**	**686,476**	**574,227**	**620,702**
Cash flow from investment activities					
Cash from merger of subsidiary	36a	-	-	338	-
Cash from merger of parent company	36b	-	-	-	333
Purchase of property, plant and equipment	14	(866,050)	(709,404)	(832,459)	(610,372)
Purchase of intangible assets	16	(28,539)	(21,047)	(27,865)	(20,122)
Proceeds from disposal of property, plant and equipment		3,504	5,144	3,470	5,144
Acquisition of subsidiary	17, 37	(6,208)	(170,828)	(6,208)	(165,485)
Proceeds from disposal of financial assets		1,808	50	1,808	50
Loans granted		(10,637)	(176)	(10,616)	(176)
Loan repayments received		11,227	949	11,144	905
Dividend received		75	87	579	6,153
Interest received		829	777	639	708
Net cash outflow from investment activities		**(893,991)**	**(894,448)**	**(859,170)**	**(782,862)**
Cash flow from financing activities					
Dividend payment	28	(98,347)	(116,405)	(98,342)	(111,730)
Purchase of treasury shares	28	-	(51,706)	-	(51,706)
Interest paid		(42,779)	(45,792)	(38,110)	(42,657)
Proceeds from borrowings		582,242	605,645	582,242	488,930
Repayments of borrowings		(179,918)	(209,765)	(161,094)	(189,545)
Net cash inflow from financing activities		**261,198**	**181,977**	**284,696**	**93,292**
Net increase/(decrease) in cash and cash equivalents		**13,186**	**(25,995)**	**(247)**	**(68,868)**
Cash and cash equivalents at beginning of year		274,651	287,837	237,648	237,401
Cash and cash equivalents at year end	26	**287,837**	**261,842**	**237,401**	**168,533**

The notes below form an integral parts of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1 – GENERAL INFORMATION

Valamar Riviera d.d., Poreč ("the Company") has been registered in accordance with Croatian laws and regulations. The Company is registered with the Commercial Court in Pazin. The principle activity of the Company is the provision of accommodation in hotels, resorts and campsites, food preparation and catering services as well as the preparation and serving of beverages. The registered office of Valamar Riviera d.d. is in Poreč, Stancija Kaligari 1.
Valamar Riviera Group consists of Valamar Riviera d.d., Poreč, joint-stock company for tourism services (the Parent Company) and its subsidiaries (the Group) as follows:

- Elafiti Babin kuk d.o.o., Dubrovnik, 100% ownership (subsidiary until 29 December 2017, date of merger into the Parent Company taking effect on 30 December 2017)
- Palme turizam d.o.o., Dubrovnik, 100% ownership
- Magične stijene d.o.o., Dubrovnik, 100% ownership
- Bugenvilia d.o.o., Dubrovnik, 100% ownership
- Pogača Babin kuk d.o.o., Dubrovnik, 33% ownership, joint venture - until 26 October 2018, when the business share was sold pursuant to the Agreement covering the purchase and transfer of shares in Pogača Babin kuk d.o.o.
- Puntižela d.o.o., 100% ownership (subsidiary until 31 March 2017, date of merger into the Parent Company, taking effect from 1 April 2017)
- Valamar Hotels & Resorts GmbH, 100% ownership (subsidiary until 15 June 2018, when the winding-up process ended)
- Imperial d.d., Rab, 56.21% ownership
- Hoteli Makarska d.d., Makarska, 46.93% ownership (Note 37a)
- Valamar A GmbH, Tamsweg, 100% ownership
- Valamar Obertauern GmbH, Obertauern, 10% direct ownership and 90% indirect ownership (90% share owned by Valamar A GmbH) (Note 37b)

The Company's shares are listed on the Zagreb Stock Exchange d.d. and were traded in 2018 in accordance with the relevant regulations on the organised market.

NOTE 1 – GENERAL INFORMATION / CONTINUED

The presentation method of the Statement of financial position and the Statement of comprehensive income for the Valamar Riviera Group in the consolidated and separate financial statements is shown below. The following table presents the effects of various mergers and acquisitions within the group on comparable data of the Company and the Group.

Table 1

		GROUP				COMPANY			
		Statement of financial position		Statement of comprehensive income		Statement of financial position		Statement of comprehensive income	
Company	Note	31.12. 2017	31.12. 2018	2017	2018	31.12. 2017	31.12. 2018	2017	2018
Puntižela d.o.o.	a	✓	✓	1.1-31.12	1.1-31.12	✓	✓	1.4-31.12	1.1-31.12
Elafiti Babin kuk d.o.o.	b	✓	✓	1.1-31.12	1.1-31.12	✓	✓	30.12.-31.12	1.1-31.12
Hoteli Makarska d.d.	c	–	✓	-	1.8-31.12	–	–	-	-
Valamar A GmbH	d	–	✓	-	1.8-31.12	–	–	-	-
Valamar Obertauern GmbH	e	–	✓	-	1.11-31.12	–	–	-	-
Epic Hospitality Holding GmbH	f	–	✓	-	16.6-31.12	–	✓	-	16.6-31.12

a) The merger of Puntižela d.o.o. Pula into Valamar Riviera d.d. was entered in the court register on 31 March 2017, pursuant to the Decision of the Commercial Court in Pazin No. Tt-17/2060-3 dated 31 March 2017. The legal effect of the said merger started as of 1 April 2017, when Valamar Riviera d.d. became the universal legal successor of Puntižela d.o.o.

b) The merger of Elafiti Babin kuk d.o.o. Dubrovnik into Valamar Riviera d.d. was entered in the court register on 29 December 2017, pursuant to the Decision of the Commercial Court in Pazin No. Tt-17/7303-3 dated 29-12-2017. The legal effect of the said merger started as of 30 December 2017, when Valamar Riviera d.d. became the universal legal successor of Elafiti Babin kuk d.o.o.

Transactions of the mergers above were recorded according to the accounting method applicable to mergers of companies under joint control. Results of the merged companies are accounted for in the Statement of Comprehensive Income of Valamar Riviera d.d. from the date of merger, while the Statement of comprehensive income of the Group for the previous year includes the results of the merged companies for the whole year, as detailed in Table 1 above.

c) On 4 April 2018, the Agreement regarding the purchase and transfer of HOTELI MAKARSKA d.d. shares was concluded between the Republic of Croatia, represented by the Center for Restructuring and Sale (CERP), as seller, and Valamar Riviera d.d. as buyer. The Company acquired 621,086 shares, nominal value HRK 200.00 per share, for the amount of HRK 172,662 thousand, which makes 55.48% of share capital of HOTELI MAKARSKA d.d.. The Company concluded a Collaboration Agreement with Allianz ZB d.o.o. društvo za upravljanje obveznim mirovinskim fondom, a pension fund company from Zagreb which acts in its own name and on behalf of the mandatory pension funds it manages (AZ Obvezni mirovinski

NOTE 1 – GENERAL INFORMATION / CONTINUED

fond kategorije A, personal identification number (OIB) 15220336427 and AZ Obvezni mirovinski fond kategorije B, personal identification number (OIB) 59318506371) (hereinafter: AZ) in order to start joint activity regarding the purchase of HOTELI MAKARSKA d.d. shares. On 12 April 2018, the Company sold 341,218 (30.48%) shares of HOTELI MAKARSKA d.d. to AZ, at the purchase price.

On 27 June 2018, the public acquisition of HOTELI MAKARSKA d.d. was concluded pursuant to the regulations of the Act on the Acquisition of Limited Companies, whereby Valamar Riviera d.d. acquired 340,887 (30.45%) shares of Hoteli Makarska d.d., of which 95,376 (8.51%) shares were sold to AZ on 3 August 2018.

Valamar Riviera d.d., together with AZ, acquired the control over HOTELI MAKARSKA d.d. on 31 July 2018 when all decisions adopted at the General Meeting of Hoteli Makarska d.d. held on 17 July 2018, were entered in the court register. At the said meeting, the Statute was changed and new members of the Supervisory Board were elected.

Upon completion of all the procedures mentioned above, the Company holds 525,379 (46.93%) shares of Hoteli Makarska d.d.

d) The Company has acquired a 100% stake in Valamar A GmbH, based in Tamsweg, Austria, on the basis of the Agreement on business share sale and transfer from the former company Eff GmbH, Vienna, concluded on 23 July 2018. After all relevant changes have been entered into authorised court registers, the Company acquired the control over Valamar A GmbH.

e) The Company has acquired a 10% stake and Valamar A GmbH has acquired a 90% stake in Valamar Obertauern GmbH, based in Obertauern, Austria, on the basis of the Agreement on business share sale and transfer from the former company Matthias Aichman GmbH, concluded on 18 August 2018. After all relevant changes have been entered into authorised court registers, the Company acquired the control over Valamar Obertauern GmbH.

f) On 26 January 2018, Valamar Riviera was notified by EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H. with registered office in Vienna, Plösslgasse 8, the Republic of Austria, regarding the changes to the voting rights percentage. The change in the percentage of voting rights, i.e. slipping under the voting rights threshold, was due to the transfer of 55,594,884 shares of Valamar Riviera d.d. pursuant to the demerger agreement and status change - demerger of EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H., as the demerging company, and EPIC Hospitality Holding GmbH, based in Vienna, Plösslgasse 8, the Republic of Austria, as the transferee company. As evidenced by the received notifications, the shareholder structure of the transferee company is indirectly identical to the shareholder structure of the demerging company. Consequently, no changes occurred in the controlling parties, since the shareholders in EPIC Hospitality Holding GmbH are indirectly the same parties and hold the same stakes as the shareholders in EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H.

The cross-border merger of EPIC Hospitality Holding GmbH, Vienna into Valamar Riviera d.d. was entered in the court register on 15 June 2018, pursuant to the Decision of the Commercial Court in Pazin No. Tt-18/2913-3 dated 15 June 2018. The legal effect of the said merger started as of 16 June 2018, when Valamar Riviera d.d. became the universal legal successor of EPIC Hospitality Holding GmbH. As the merged company held 55,594,884 shares of the acquirer, these shares were transferred to the members of the merged company in exchange for their shares in proportion to the shares that each member had in the merged company and thus members of the merged company became direct shareholders of Valamar Riviera d.d

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Company and Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The financial statements have been prepared under the historical cost method, except for the financial assets at fair value through profit or loss and financial assets through comprehensive income.

The preparation of financial statements in accordance with IFRS requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's and Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are relevant to the financial statements, are disclosed in the notes.

These financial statements represent the unconsolidated and consolidated financial position and results of the Company and the Group, respectively.

2.2 Consolidation

(a) Subsidiaries
Subsidiaries are all entities (incl. special purpose companies) in which the Group has control over the financial and operating policies, which generally goes hand in hand with holding more than half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or exchangeable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is effectively transferred to the Group. They are de-consolidated from the date such control ceases.

In the consolidated financial statements, all within-Group transactions, balances and unrealised gains and losses on transactions between the Group companies are eliminated. Where necessary, accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling shareholders that do not result in loss of control are accounted for by the Group as equity transactions – that is, as transactions with the majority owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Joint ventures
The Group's interests in jointly controlled ventures are accounted for under the equity method. Under this method, an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venture's share of net assets of the jointly controlled entity. The profit or loss of the venture includes the venture's share of the profit or loss of the jointly controlled entity. In the separate financial statements, the Company's interest in joint venture is measured at purchase cost less impairment.

2.2.1 Subsidiaries in separate financial statements

The Company discloses its subsidiaries in the separate financial statements at cost value less impairment (Note: Investment in subsidiaries).

2.3 Merger of entities and transactions with companies under common control

Merger of entities classified as companies from parties under common control are accounted for using book values (carryover basis accounting). Under this method, the assets and liabilities of the entities under common control are transferred to the predecessor entities' carrying amounts. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of the net assets and the consideration paid is accounted for in these financial statements as an adjustment to equity.

2.4 Segment reporting

The 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 a person or group responsible for allocating the resources and assessing the performance of the operating segments. The chief operating decision-makers are the Company and Group Management, which are in charge of managing the hotel and tourist properties and facilities.

2.5 Foreign currencies

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

(b) Transactions and balances in foreign currency
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.

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

2.6 Property, plant and equipment

Property, plant and equipment are included in the statement of financial position at historical cost less the accumulated depreciation and impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land, arts and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

2.6 Property, plant and equipment / CONTINUED

Buildings	10-25 years*
Plant and equipment	4-10 years
Furniture, tools and horticulture	3-10 years

** except as stated in Note 4*

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.7 Intangible assets

(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2.8 Impairment of non-financial assets

The Company determines the impairment indicators of the property, plant and equipment identified as separate cash generating units by using the GOP multiplicator and segment carrying net book values, which is determined by comparing the individual property segment (identified as separate cash generating units' ("CGUs") carrying values with the gross operating profit ("GOP").

If the determined ratios and multiples are not in line with expected amounts or targeted levels (at individual cash generating unit level), the recoverable amount is based as the higher amount of fair value less the costs of disposal and its value in use.

Determination of impairment indicators, determination of the fair value of assets (or group of assets), and estimation of future cash flows, which are based on the projections of expected cash flows, applicable discount rates, useful lives and remaining values require significant judgement by the management.

Determination of fair value less the costs of disposal is based on the market approach, which uses the prices and other relevant information generated by the market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business. The Company and Group use internal and external valuations.

2.9 Non-current assets classified as held for sale

The non-current assets are classified in the statement of the financial position as 'Non-current assets held for sale' if their carrying amount shall be recovered principally through a sale transaction rather than through continuing use. The non-current assets classified as held for sale are measured at the lower of their carrying and fair value, less the costs to sell. The assets should be available for immediate sale in their present condition and their sale should be very likely. Gains and losses on the sale of non-current assets held for sale are included in the statement of comprehensive income within 'other gains/(losses) – net'.

2.10 Investment property

Investment property, principally comprising business premises, is held for long-term rental yields or appreciation and is not occupied by the Company or the Group. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified, in which case it is classified within the current assets.

Investment property is carried at historical cost less the accumulated depreciation and provision for impairment, where required. Investments in progress are not depreciated. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (using a depreciation rate of 4%).

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with it shall flow to the Company and the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.11 Financial assets

2.11.1 Classification

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income (OCI), and financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. The Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the Management. Assets in this category are classified as current assets except derivative financial instruments.

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

The Company measures financial assets at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of holding the financial assets to collect and selling contractual cash flows,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES / CONTINUED

2.11 Financial assets / CONTINUED

2.11.1 Classification / CONTINUED

in the statement of profit or loss and computed in the same manner as for the financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

(c) Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at amortised cost include trade receivables.

2.11.2 Measurement and recognition

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company committed to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the statement of comprehensive income within “other (losses)/gains – net” in the period in which they arise.

The interest on securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on equity instruments are recognised in the statement of comprehensive income as part of other income when the right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.11.3 Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES / CONTINUED

2.11 Financial assets / CONTINUED

2.11.3 Impairment of financial assets / CONTINUED

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Financial assets are written off when there is no reasonable expectation of recovery.

2.12 Derivative financial instruments

Derivative financial instruments include forward contracts in foreign currencies and interest rate swaps. Derivative financial instruments are recognised in the statement of financial position at fair value. The fair value is determined according to the market value, if appropriate. All derivatives are recorded in the statement of financial position as assets when their fair value is positive, and as liabilities when their fair value is negative. These derivatives do not classify as hedge accounting and are recognised as derivatives held for trading.

2.13 Leases

The Company and the Group lease certain property, plant and equipment. The leases of property, plant and equipment, where the Company and the Group bear substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at lease commencement at the lower of fair value of the leased property or the present value of minimum lease payments. In accordance with the Tourist Land Act, the Company and the Group make so-called advance payments of the concession fees, and the annual concession fee for tourist land area is reported as expense in the current period.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the outstanding finance balance. The corresponding rental obligations, net of finance charges, are included in other current and non-current liabilities depending on maturity.

The interest element of the finance costs is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

Leases in which a significant portion of risks and rewards of ownership are not retained by the Company and the Group are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Assets under lease are disclosed in the Statement of financial position in the line “Property, plant and equipment”. Assets are depreciated on the straight line basis as for similar assets. Revenue from lease is recognised according to period of the lease.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the applicable variable selling expenses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES / CONTINUED

2.14 Inventories / CONTINUED

Small inventory is written-off in full at the moment of commencement of the use (porcelain, glass, metal, kitchen appliances, sports inventory, work clothing and other small items), except of the part of small inventory (linens, sheets and towels) for which the useful life is estimated up to 3 years.

2.15 Trade receivables

Trade receivables are amounts due from the customers for the services provided in the ordinary course of business. 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 receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less the impairment.

2.16 Cash and cash equivalents

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

2.17 Share capital

Ordinary shares are classified as equity. Where the Company and the Group purchase their equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from the equity attributable to the Company and Group equity holders until the shares are issued or purchased. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included into the equity attributable to the Company and Group equity holders.

2.18 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 shall be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility shall be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it refers.

Borrowings are classified as current liabilities unless the Company and the Group have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired, i.e. provided in the ordinary course of business from, i.e. by the suppliers. Accounts payable are classified as current liabilities if the payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES / CONTINUED

2.20 Current and deferred income tax / CONTINUED

is recognised in the statement of comprehensive income, except to the extent in which it refers to items recognised in equity. In that case, tax is also recognised in equity.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit shall be available, against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associated companies, except where the timing of the temporary difference reversal is controlled by the Company and the Group and it is probable that the temporary difference shall not be reversed in the foreseeable future.

Investment tax credits

Investment tax credits are incentives arising from government incentive schemes, which enable the Company and the Group to reduce their income tax liability or liabilities arising from other specified taxes in future periods, and are linked to the construction or acquisition of certain assets and / or the performance of certain activities and / or the fulfilment of certain specific conditions prescribed in the relevant regulation on investment incentives adopted by the relevant authorities. Tax investment credits are recognised as a deferred tax asset and an income tax benefit when the criteria for recognition is fulfilled (Note 12) in the amount which the Company and the Group shall be able to utilize until the incentive expires. Deferred tax assets recognised as a result of investment tax credits is utilised during the period of the incentive, i.e. until the expiration of the credits (if so specified) in accordance with and subject to the availability of the tax obligations in the future years, against which the credits can be offset.

2.21 Employee benefits

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

(b) Termination benefits
Termination benefits are recognized when the Company and the Group terminate employment contracts of employees before their normal retirement date in accordance with pension and labor regulations. The Company and the Group recognize termination benefits when they have made an individual decision on the termination of an employment agreement due to business or personal reasons, whereby the liability to pay termination benefits are objectively determined, in accordance with regulations and by-laws.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES / CONTINUED

2.21 Employee benefits / CONTINUED

(c) Short-term employee benefits
The Company and the Group recognise a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Company and the Group recognise a liability for accumulated compensated absences based on unused vacation days at the reporting date and if the liability can be reliably estimated.

(d) Long-term employee benefits
The Company and the Group recognise the obligation for long-term employee benefits (severance payments and jubilee awards) evenly over the period in which the benefit is realised, based on the actual number of years of service. The long-term employee benefit obligation includes the assumptions on the number of employees to whom the benefits should be paid, the estimated cost of the benefits and the discount rate.

2.22 Provisions

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The increase in the provision due to passage of time is recognised as interest expense.

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 the passage of time is recognised as interest expense.

2.23 Revenue recognition

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

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

(a) Sales of services
Revenue from hotel and tourist services is recognised in the period in which the services are provided.

(b) Rental of services
Revenue for rental services is generally recognised in the period in which the services are provided using a straight-line basis over the terms of contracts with lesser and presented in Statement of comprehensive income within 'Revenue'.

(c) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company and the Group reduce the carrying amount to its recoverable amount being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continue unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES / CONTINUED

2.23 Revenue recognition / CONTINUED

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

2.24 Earnings per share

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

2.25 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the statement of financial position on a net basis. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.26 New and amended standards and interpretations

The following new standards and amendments to the existing standards issued by the International Accounting Standards Board and the interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the European Union are effective for the current period:

IIFRS 9: Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company and the Group adopted this standard on 1 January 2018 and did not restate comparative information. The Company and the Group performed an analysis of the effects of applying the listed standard and the Management concluded that its adoption does not have a material impact on the financial statements of the Company and the Group.

IFRS 15: Revenue from Contracts with Customers
IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Company and the Group adopted this standard on 1 January 2018 and did not restate comparative information. The Company and the Group performed an analysis of the effects of applying the listed standard and the Management concluded that its adoption does not have a material impact on the financial statements of the Company and the Group.

IFRS 2: Classification and Measurement of Share-Based Payment Transactions (Amendments)
The Amendments provide requirements on the accounting for the effects

2.26 New and amended standards and interpretations / CONTINUED

of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company and the Group.

IAS 40: Transfers to Investment Property (Amendments)
The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in the Management's intentions for the use of a property does not provide evidence of a change in use. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company and the Group.

IFRIC interpretation 22: Foreign Currency Transactions and Advance Consideration
The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company and the Group.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- IFRS 16: Leases

  IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES / CONTINUED

2.26 New and amended standards and interpretations / CONTINUED

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective / CONTINUED

Lessor accounting under IFRS 16 is substantially unchanged with regard to today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Company and the Group performed a preliminary assessment of the potential effect of adopting IFRS 16 on its financial statements and estimated that the impact of its application will be in increasing the balance sheet amount for the Company and the Group in the total of HRK 17 mil.

• IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment is effective for the annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company and the Group.

• IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular the impairment requirements, of long-term interests in associates and joint ventures that, in substance, form a part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company and the Group.

• IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company and the Group.

• IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES / CONTINUED

2.26 New and amended standards and interpretations / CONTINUED

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective / CONTINUED

current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company and the Group.

• Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support the transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop the accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

• IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company and the Group.

• IAS 1: Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors:

Definition of 'material' (Amendments)
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company and the Group.

• The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES / CONTINUED

2.26 New and amended standards and interpretations / CONTINUED

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective / CONTINUED

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Management has performed an analysis of the effects of applying the listed standard and considers that it does not have a material impact on the financial statements of the Company and the Group

- IFRS 3: Business Combinations and IFRS 11 Joint Arrangements

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

The amendments to IFRS 11 clarify that, when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12: Income Taxes

The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits has been recognised.

- IAS 23: Borrowing Costs

The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

In their day-to-day business activities, the Company and the Group face a number of financial risks, especially market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company and the Group have a proactive approach in mitigating the interest rate and foreign exchange risks by using available market instruments. Internal risk management goals and policies aim at protecting the foreign currency inflows during seasonal activity and partial interest hedging of the principal loan amount.

(a) Market risk

(i) Foreign exchange risk

The Company and the Group conduct their business operations across national borders and are exposed to foreign exchange risks. They mainly result from changes in the EUR/HRK exchange rate. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Most of the sales revenue generated from foreign customers and long-term debt is denominated in euros. Hence, the Company and the Group are, for the most part, naturally hedged from exchange rate risks. Since some liabilities are denominated in HRK, the Company and the Group actively manage the risks by using derivative instruments available on the financial market. The instruments are used according to operating assessments and expected market trends. In this manner, the assets, liabilities and cash flow are protected from the risk impact.

At 31 December 2018, if the EUR had weakened/strengthened by 1% against the HRK, with all other variables held constant, the net profit of the Group for the year would have been HRK 17,694 thousand (2017: HRK 15,016 thousand) higher/(lower) mainly as a result of foreign exchange gains/(losses) on translation of EUR denominated trade receivables, borrowings and foreign cash funds.

(ii) Interest rate risk

Variable rate loans expose the Company and the Group to cash flow interest rate risk. Periodically, the Company and the Group use derivative instruments in order to hedge cash flow and interest rate by applying interest rate swaps. The economic effect of such swaps is the conversion of variable interest rate loans into fixed interest rate loans for a pre-committed hedged part of the loan principal. The Company and the Group have interest-bearing assets (cash and deposits) so their revenue and cash flow depend on changes in market interest rates. This becomes evident especially during the season when the Company and the Group have significant cash surpluses at their disposal.

At 31 December 2018, if interest rates on currency-denominated borrowings had been higher/lower by 1 percentage point, with all other variables held constant, the profit of the Group for the year would have been HRK 4,230 thousand (2017: HRK 4,197 thousand) higher/(lower), mainly as a result of higher/(lower) interest expense on variable-rate borrowings.

At 31 December 2018, if interest rates on currency-denominated deposits had been 1 percentage point higher/(lower), with all other variables held constant, the profit of the Group for the year would have been HRK 529 thousand (2017: HRK 1,368 thousand) higher/(lower), mainly as a result of higher/(lower) interest income on variable rate deposits.

NOTE 3 – FINANCIAL RISK MANAGEMENT / CONTINUED

3.1 Financial risk factors / CONTINUED

(a) Market risk / CONTINUED

(iii) Price risk

The Company and the Group hold equity and debt securities and are exposed to equity price risk due to price volatility. The Company and the Group are not active participants in the market trade in terms of trading with equity and debt securities. However, with the HRK 293 million invested in acquiring shares of Imperial d.d., Rab and HRK 146 million in acquiring shares of Hoteli Makarska d.d., Makarska, the Company is exposed to the said risk to a certain extent.

As at 31 December 2018, if the indices of the ZSE had been higher/(lower) by 6.54% for 2018 (which was the average index movement), with all other variables held constant, reserves of the Group within equity and other comprehensive income would have been HRK 230 thousand higher/(lower) as a result of gains/(losses) on equity securities available for sale.

(b) Credit risk

Credit risk arises from cash, time deposits and receivables. According to the Company's and Group's sales policy, business transactions are conducted only with customers with suitable credit history, i.e. by agreeing advances, bank securities and (for individual customers) payments made through major credit card companies. The Company and the Group continuously monitor their exposure towards customers and their credit rating as well as obtain security instruments in order to reduce bad debt risks related to services provided.

(c) Liquidity risk

The Company and the Group have a sound liquidity risk management. Sufficient funds for meeting the liabilities are available at any given moment through adequate amounts from contracted credit lines and by ensuring credit line availability in the future. Liquidity risk is managed by generating strong positive net operating cash flows, while capital investments are financed by credit lines. As at 31 December 2018, the Company has contracted unused credit lines with financial institutions for 2019 in the total amount of HRK 370,879 thousand, and the Group in the total amount of HRK 373,104. The repayment of the major credit lines coincides with periods of strong cash inflows from operations. The Company and the Group monitor the level of available funds through daily cash and debt reports. Long-term cash flow forecasts as well as annual (monthly) forecasts are based on the set budget.

After meeting the requirements of working capital management, the surplus is deposited in the treasury. From there the funds are invested in interest-bearing current accounts, time deposits, money market deposits accounts and marketable securities. Only instruments with suitable maturities and sufficient liquidity are selected, according to the forecasted requirements for liquid funds.

NOTE 3 – FINANCIAL RISK MANAGEMENT / CONTINUED

3.1 Financial risk factors / CONTINUED

(c) Liquidity risk / CONTINUED

The expected contractual cash flows for financial liabilities of the Group and the Company according to contracted maturities are analysed in the table below. The amounts stated below include interest, if applicable, and represent undiscounted cash flows.

GROUP

(in thousands of HRK)	Less than 3 months	3 months-1 year	1-3 years	3-6 years	Over 6 years
As at 31 December 2017					
Trade and other payables	128,304	12,388	43,436	-	-
Borrowings	37,151	210,505	435,317	610,553	1,096,939
Derivative financial instruments	-	706	789	163	-
Total liabilities (contractual maturities)	**165,455**	**223,599**	**479,542**	**610,716**	**1,096,939**
As at 31 December 2018					
Trade and other payables	105,157	13,512	50,476	-	-
Borrowings	46,283	232,526	565,092	767,754	1,148,239
Derivative financial instruments	325	2,129	3,604	1,348	210
Total liabilities (contractual maturities)	**151,765**	**248,167**	**619,172**	**769,102**	**1,148,449**

COMPANY

(in thousands of HRK)	Less than 3 months	3 months-1 year	1-3 years	3-6 years	Over 6 years
As at 31 December 2017					
Trade and other payables	116,373	12,388	41,980	-	-
Borrowings	37,099	189,847	397,987	568,439	1,032,995
Derivative financial instruments	-	706	789	163	-
Total liabilities (contractual maturities)	**153,472**	**202,941**	**440,756**	**568,602**	**1,032,995**
As at 31 December 2018					
Trade and other payables	94,202	13,512	48,755	-	-
Borrowings	41,529	208,641	503,822	691,511	1,036,261
Derivative financial instruments	325	2,129	3,604	1,348	210
Total liabilities (contractual maturities)	**136,056**	**224,282**	**556,181**	**692,859**	**1,036,471**

3.2 Capital management

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

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company and the Group is the current bid price. The fair value of financial instruments that are not traded in the active market is determined by using valuation techniques. The Company and the Group use a variety of methods and make assumptions that are based on market conditions existing at each reporting date.

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

Quoted market prices for similar instruments are used for long-term debt.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company and the Group for similar financial instruments.

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

NOTE 3 – FINANCIAL RISK MANAGEMENT / CONTINUED

3.3 Fair value estimation / CONTINUED

The following table presents assets measured at fair value as at:

GROUP

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Assets measured at fair value				
Financial assets - equity securities	3,791	-	-	3,791
Derivative financial instruments	-	104	-	104
Total assets measured at fair value	**3,791**	**104**	**-**	**3,895**
Liabilities measured at fair value				
Derivative financial instruments	-	1,658	-	1,658
Total liabilities measured at fair value	**-**	**1,658**	**-**	**1,658**
As at 31 December 2018				
Assets measured at fair value				
Financial assets - equity securities	4,484	-	-	4,484
Total assets measured at fair value	**4,484**	**-**	**-**	**4,484**
Liabilities measured at fair value				
Derivative financial instruments	-	7,616	-	7,616
Total liabilities measured at fair value	**-**	**7,616**	**-**	**7,616**

NOTE 3 – FINANCIAL RISK MANAGEMENT / CONTINUED

3.3 Fair value estimation / CONTINUED

COMPANY

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Assets measured at fair value				
Financial assets - equity securities	3,761	-	-	3,761
Derivative financial instruments	-	104	-	104
Total assets measured at fair value	**3,761**	**104**	**-**	**3,865**
Liabilities measured at fair value				
Derivative financial instruments	-	1,658	-	1,658
Total liabilities measured at fair value	**-**	**1,658**	**-**	**1,658**
As at 31 December 2018				
Assets measured at fair value				
Financial assets - equity securities	4,100	-	-	4,100
Total assets measured at fair value	**4,100**	**-**	**-**	**4,100**
Liabilities measured at fair value				
Derivative financial instruments	-	7,616	-	7,616
Total liabilities measured at fair value	**-**	**7,616**	**-**	**7,616**

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Company and the Group make estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent the sources of estimation uncertainty. These and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Impairment of non-financial assets

The Company determines the impairment indicators of property, plant and equipment as identified as separate cash generating units by using the gross operating profit ("GOP") multiplier and segment carrying net book values, which are determined by comparing the property segment carrying values with the GOP.

If the determined ratios and multiples are not in line with expected amounts or targeted levels (at individual cash generating unit level), the recoverable amount is determined as the higher amount of fair value less costs of disposal and its value in use. Furthermore, recoverable amount is determined for newly acquired properties (including those via business combinations). To determine recoverable amount, the Company and the Group use both internal and external valuations.

Determination of impairment indicators, determination of the fair value of assets (or group of assets), and estimation of future cash flows, which are based on expected cash flows models, future capital investments, applicable discount rates, useful lives and remaining values require significant judgement by the Management. The Management also considers occupancy rates, revenue per available room, market growth with externally derived data including external hotel industry reports.

Determination of fair value less the costs of disposal is based on the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as business.

(b) Estimated useful lives

By using a certain asset, the Company and the Group use the economic benefits contained in this asset, which diminish more intensely with economic and technological aging. 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 shall 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 components was assessed by the Management to be 10 to 25 years, except with the newly acquired company in Austria where the useful life of buildings is estimated at 40 years. The useful lives of equipment and other assets have also been assessed.

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

(c) Land ownership

Due to the transition from public to private ownership, e.g. in the transformation and privatisation process and the fact that the properties of the Company that were used in the transformation process were appraised in the share capital of the Company, and a

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES / CONTINUED

(c) Land ownership / CONTINUED

part was not appraised, there are certain ambiguities and proceedings regarding the ownership of a part of the land within the majority of tourist companies. The Company has approximately 1.77 million m^2 of land in clear and undisputed ownership, and land which is subject to determining the status of co-ownership or ownership in accordance with the regulations of the Act on Tourist and Other Construction Land not appraised in the transformation and privatisation process, that came into force on 1 August 2010 (hereinafter the Act) amounts to approximately 3.24 million m^2. On 31 January 2011, the Company submitted requests for concessions pursuant to the Act in appropriate legal deadline and prescribed content.
Concessions are required: a) for approximately 2.28 million m^2 of land in the camps to determine the co-ownership shares of the Republic of Croatia and for which, according to relevant wage regulations, advance concession fee of approximately HRK 5.5 mil. per year; and b) for approximately 960 thousand m^2 of land in tourist resorts and hotels that should determine the ground plan of the hotels, apartments and other estimated buildings and land owned by the Company and other land owned by the local government and for which, according to relevant regulations, an advance concession fee is paid in the amount of approximately HRK 1.5 mil. per year.

A more detailed description of proceedings and unsolved situations for properties of the Company are disclosed in the Note 33.

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

Under the Act on Investment Incentives from 2014, the Company has achieved total investment tax credit incentives of HRK 178,831 thousand based on investments in the Valamar Isabella Resort and destination Rabac from 2014 up to 31 December 2017.
The Company has fulfilled the requirements of preserving the properties and of additional employment in the period 2016-2017, and for the year ended 31 December 2017 it has utilised HRK 81,899 thousand of tax incentives and recognised remaining tax incentives of HRK 96,932 thousand as the deferred tax asset.

Under the 2015 Act on Investment Incentives and the 2016 Regulation on Investment Incentives, the Company achieved total tax incentives of HRK 25,771 thousand based on reported new investments in reconstruction and repositioning of accommodation facilities (Camp Istra 5*, Valamar Collection Marea Suites 5* and Valamar Collection Pical Resort (4*/5*)) realised up to the 31 December 2018. The Company in 2018 utilised HRK 49,154 thousand of tax incentives.

(e) Consolidation
The Group acquired company Hoteli Makarska d.d. on 31 July 2018. Assets and liabilities of the subsidiary are included into the consolidated financial position statement of the Group as at 31 December 2018, while the parent company's share in the subsidiary plus the subsidiary's capital and reserves have been eliminated. Income and expenses of Hoteli Makarska d.d. realised in the period from 1 August (date of acquisition) until 31 December 2018 are included in the Group's consolidated statement of comprehensive income. Mutual transactions from the acquisition date until the date of the financial statements, i.e. 31 December 2018, are excluded from the consolidated statement of financial position and consolidated statement of comprehensive income.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES / CONTINUED

(e) Consolidation / CONTINUED

The Group acquired two companies in Austria, Valamar A GmbH on 31 July and Valamar Obertauern GmbH on 31 October 2018. Assets and liabilities of subsidiaries are included into the consolidated statement of financial position of the Group as at 31 December 2018, while the parent company's share in the subsidiaries plus capital and reserves of the subsidiaries have been eliminated. Income and expenses of Valamar A GmbH realised in the period from 1 August and of Valamar Obertauern GmbH realised from 1 November, both until 31 December 2018, are included into the Group's consolidated statement of comprehensive income. Mutual transactions from the acquisition date until the date of financial statements, i.e. 31 December 2018, are excluded from the consolidated statement of financial position and consolidated statement of comprehensive income.

NOTE 5 – SEGMENT INFORMATION

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

The Group records operating revenues and expenses by types of services rendered in three basic segments: hotels and apartments, camping and other business segments. Revenue was divided between segments according to the organisational principle, where all of the income generated from camping profit centres was reported in the camping segment, and all of the income generated from hotel and apartment profit centres was reported in that segment. Other business segments include revenue from sports activities, laundry services, other rentals of properties and revenue generated from the central services and central kitchens.

The segment information related to reportable segments for the year ended 31 December 2017 is as follows:

GROUP

(in thousands of HRK)	**Hotels and apartments**	**Camping**	**Other business segments**	**Total**
Total sales	1,292,813	420,780	116,408	1,830,001
Inter-segment revenue	(4,337)	(149)	(70,228)	(74,714)
Revenue from external customers	**1,288,476**	**420,631**	**46,180**	**1,755,287**
Depreciation and amortisation	249,415	70,069	26,930	346,414
Net finance income/(expense) net	(23,462)	(8,016)	2,433	(29,046)
Write-off of fixed assets	5,169	6,837	2	12,008
Profit/(loss) of segment	665,293	289,026	(261,962)	692,357
Total assets	3,104,787	986,334	434,077	**4,525,198**
Total liabilities	2,238,805	42,918	48,607	**2,330,330**

Borrowings are allocated to the Hotels and apartments segment due to the pledge that serve as loan insurance.

NOTE 5 – SEGMENT INFORMATION / CONTINUED

The segment information related to reportable segments for the year ended 31 December 2018 is as follows:

GROUP

(in thousands of HRK)	Hotels and apartments	Camping	Other business segments	Total
Total sales	1,472,590	445,196	143,517	2,061,303
Inter-segment revenue	(1,367)	(23)	(98,499)	(99,889)
Revenue from external customers	**1,471,223**	**445,173**	**45,018**	**1,961,414**
Depreciation and amortisation	288,325	84,793	37,404	410,522
Net finance income/(expense) net	(16,688)	(7,031)	2,707	(21,012)
Write-off of fixed assets	7,048	593	262	7,903
Profit/(loss) of segment	761,140	309,435	(301,938)	768,637
Total assets	3,571,045	1,177,461	477,806	**5,226,312**
Total liabilities	2,608,292	44,817	52,920	**2,706,029**

All hotels, apartments and camping (operating assets) are located in the Republic of Croatia, except the hotel own by the newly acquired company Valamar Obertauern GmbH located in Austria.

Borrowings are allocated to the Hotels and apartments segment due to the pledge that serve as loan insurance.

Reconciliation of the profit per segment with profit before tax is as follows:

GROUP

(in thousands of HRK)	2017	2018
Revenue		
Revenue from segments	1,830,001	2,061,303
Inter-segment revenue	(74,714)	(99,889)
Total revenue	**1,755,287**	**1,961,414**
Profit		
Profit from segments	692,357	768,637
Other unallocated expenses	(417,476)	(483,800)
Elimination of inter-segment profit/(loss)	(36,238)	(26,755)
Total profit before tax	**238,643**	**258,082**

NOTE 5 – SEGMENT INFORMATION / CONTINUED

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

GROUP

(in thousands of HRK)	2017 Assets	2017 Liabilities	2018 Assets	2018 Liabilities
Segment assets/liabilities	**4,525,198**	**2,330,330**	**5,226,312**	**2,706,029**
Hotels and apartments segment	3,104,787	2,238,805	3,571,045	2,608,292
Camping segment	986,334	42,918	1,177,461	44,817
Other segment	434,077	48,607	477,806	52,920
Unallocated	**471,406**	**150,099**	**442,633**	**204,384**
Investments in joint ventures	1,247	-	-	-
Investment in subsidiaries	189	-	-	-
Other financial assets	3,791	-	4,484	-
Loans and deposits	1,409	-	16,147	-
Cash and cash equivalents	287,837	-	261,842	-
Income tax receivable	308	-	1,908	-
Other receivables	35,857	-	32,546	-
Deferred tax assets/liabilities	140,664	52,759	125,706	68,561
Other liabilities	-	42,773	-	61,010
Derivative financial assets/ liabilities	104	1,658	-	7,616
Provisions	-	52,909	-	67,197
Total	**4,996,604**	**2,480,429**	**5,668,945**	**2,910,413**

The Group's hospitality services are provided in Croatia and Austria to domestic and foreign customers. The Group's sales revenues are classified according to the customers' origin.

GROUP

(in thousands of HRK)	2017	2018
Revenue from sales to domestic customers	150,095	180,547
Revenue from sales to foreign customers	1,605,192	1,780,867
	1,755,287	**1,961,414**

NOTE 5 – SEGMENT INFORMATION / CONTINUED

Foreign sales revenues can be classified according to the number of overnights based on the customers' origin, as follows:

	GROUP			
Sales to foreign customers	**2017**	**%**	**2018**	**%**
EU members	1,438,810	89.63	1,580,598	88.75
Other	166,382	10.37	200,269	11.25
	1,605,192	**100.00**	**1,780,867**	**100.00**

NOTE 6 – OTHER INCOME

	GROUP		COMPANY	
(In thousand HRK)	**2017**	**2018**	**2017**	**2018**
Income from cassa sconto	2,848	3,968	2,797	3,795
Income from donations and other	1,973	2,903	1,750	2,538
Income from provision release	2,423	1,730	67	974
Reimbursed costs	3,045	1,563	2,935	1,480
Income from insurance and legal claims	1,457	1,519	1,196	1,251
Income from own consumption	5,211	446	5,192	329
Dividend income	75	87	579	6,153
Other income	7,916	9,485	7,665	8,192
	24,948	**21,701**	**22,181**	**24,712**

NOTE 7 – COST OF MATERIALS AND SERVICES

	GROUP		COMPANY	
(In thousand HRK)	2017	2018	2017	2018
Raw materials and supplies				
Raw materials and supplies used /i/	172,795	195,910	158,401	175,696
Energy and water used	87,338	97,892	79,257	86,427
Small inventory	23,858	21,320	22,476	18,837
	283,991	**315,122**	**260,134**	**280,960**
External services				
Maintenance	60,741	53,866	56,675	48,616
Marketing, promotion and fairs	37,948	40,649	36,418	39,647
Commission fees (agencies and credit cards)	38,489	40,489	35,351	35,984
Communal fees	22,975	27,733	21,857	26,207
Telecommunication and transport	14,449	15,182	13,626	14,036
Rent /ii/	14,029	13,745	42,862	13,846
Recreation services	12,560	13,190	11,316	11,446
Laundry services	6,485	7,740	6,485	7,622
Services of arrangement and other contents	9,985	4,612	9,484	4,205
Other services	18,102	19,425	17,577	18,834
	235,763	**236,631**	**251,651**	**220,443**
	519,754	**551,753**	**511,785**	**501,403**

/i/ Cost of materials and services of the Company is comprised of raw materials and supplies used of HRK 24,856 thousand, food and beverage costs of HRK 141,486 thousand and other materials and supplies used of HRK 9,354 thousand (2017: cost of raw materials and supplies used of HRK 22,018 thousand, food and beverage costs of HRK 127,280 thousand and other materials and services costs of HRK 9,104 thousand).

/ii/ Company rental costs in 2017 mainly relate to the lease contract for the hotel Lacroma of HRK 28,642 thousand from subsidiary Elafiti Babin kuk d.o.o. until the merger on 29 December 2017.

NOTE 8 – STAFF COSTS

	GROUP		COMPANY	
(In thousand HRK)	**2017**	**2018**	**2017**	**2018**
Net salaries	292,865	331,594	269,924	297,438
Pension contributions	88,335	96,155	74,921	83,908
Health insurance contributions	61,753	75,074	61,697	67,621
Other (contributions and taxes)	37,209	38,791	37,209	38,790
Termination benefits	600	823	273	580
Other staff costs /i/	62,321	80,110	58,776	72,500
	543,083	**622,547**	**502,800**	**560,837**
Number of employees at 31 December	**2,854**	**3,242**	**2,565**	**2,749**

/i/ Other staff costs comprise remunerations for temporary services in the amount of HRK 14.3 mil. for the Company (2017: HRK 16 mil.) and HRK 15.1 mil. for the Group (2017: HRK 16.5 mil.), fees and transportation costs, jubilee awards and similar.

NOTE 9 – OTHER OPERATING EXPENSES

	GROUP		COMPANY	
(In thousand HRK)	**2017**	**2018**	**2017**	**2018**
Municipal and similar charges and contributions	51,804	55,186	47,798	50,773
Professional services	18,398	23,384	16,863	21,012
Write-off of property, plant and equipment /i/	12,008	9,436	11,635	7,903
Entertainment	7,212	7,674	7,058	7,168
Insurance premiums	5,452	6,543	4,785	6,061
Bank charges	2,508	3,392	2,117	2,853
Provisions	4,041	2,716	421	2,039
Impairment of assets	126	385	112	297
Collection of receivables previously written-off	(300)	(351)	(300)	(341)
Other	8,095	6,950	7,380	5,757
	109,344	**115,315**	**97,869**	**103,522**

/i/ Write-off of property, plant and equipment of the Group relates to demolition of parts of buildings as a part of new investments. Demolition of buildings amounts to HRK 7,859 thousand, and HRK 1,577 thousand relates to other write-offs.

NOTE 10 – OTHER GAINS/(LOSSES) – NET

	GROUP		COMPANY	
(In thousand HRK)	2017	2018	2017	2018
Net foreign exchange gains/(losses)	3,795	(168)	3,294	226
Net gains on sale of property, plant and equipment	1,307	3,593	1,142	3,455
Changes in fair value of forwards and interest rate swaps	749	(3,687)	749	(3,687)
Gains on disposal of financial assets	212	-	212	-
Realised net gains/(losses) from changes in value of forwards and interest rate swaps	10	(2,375)	10	(2,375)
Share fair value adjustment	-	-	(5,629)	-
Net loss from share sold	-	(1,119)	-	(1,440)
	6,073	**(3,756)**	**(222)**	**(3,821)**

NOTE 11 – FINANCE INCOME/(EXPENSE) – NET

	GROUP		COMPANY	
(In thousand HRK)	2017	2018	2017	2018
Interest income	625	274	437	205
	625	**274**	**437**	**205**
Interest expense	(43,870)	(50,071)	(38,531)	(46,213)
Net foreign exchange gains from financing activities	14,199	28,785	13,101	27,175
	(29,671)	**(21,286)**	**(25,430)**	**(19,038)**
Financial expense - net	**(29,046)**	**(21,012)**	**(24,993)**	**(18,833)**

During 2018 the Company capitalised borrowing costs of HRK 220 thousand with a capitalisation rate from 0.97% to 1.81%, while the Group capitalised the borrowing costs of HRK 255 thousand with a capitalisation rate from 0.97% to 2.01%.

NOTE 12 – INCOME TAX

Income tax comprise:

	GROUP		COMPANY	
(In thousand HRK)	2017	2018	2017	2018
Current tax	6,111	4,128	-	-
Deferred tax	(12,555)	14,766	(14,269)	20,928
Tax (income)/expense	**(6,444)**	**18,894**	**(14,269)**	**20,928**

Reconciliation of the effective tax rate:

	GROUP		COMPANY	
(In thousand HRK)	2017	2018	2017	2018
Profit before tax	238,643	258,082	217,710	260,207
Income tax	43,009	46,218	39,188	46,837
Tax exempt income	(385)	(4,051)	(357)	(1,446)
Non-deductible expenses	1,384	2,612	1,087	1,308
Investment tax credits	(54,123)	(25,771)	(54,123)	(25,771)
Recognition of deferred tax assets previously not recognised	(63)	(114)	(64)	-
Recognition of other deferred tax assets	3,734	-	-	-
Tax (income)/expense	**(6,444)**	**18,894**	**(14,269)**	**20,928**
Effective tax rate	-	7.32%	-	8.04%

Croatian tax legislation does not allow tax losses to be transferred among group companies. In accordance with the regulations of the Republic of Croatia, the Tax Authority may at any time inspect the Group Company's books and records within three years following the year in which the tax liability was reported, and may impose additional tax assessments and penalties.

The Tax Administration has issued a ruling concerning the tax audit for the year 2010 for the company Rabac d.d., which was merged with the company Valamar Riviera d.d. on 1 September 2011. According to this ruling, there is an increase in the tax liabilities of HRK 4,428 thousand. The Company has lodged an appeal against the aforementioned ruling. The appeal was accepted. In the repeated proceedings, the Tax Authority issued a ruling, which stated that the tax liability should be reduced to the amount of HRK 1,201 thousand. The Company has lodged an appeal against the aforementioned ruling. As the appeal was rejected in 2017, the Company initiated an administrative dispute.

The Tax Administration has issued a ruling concerning the tax audit for the year 2011 for the company Dubrovnik Babin kuk d.d., which was merged to Valamar Riviera d.d. on 31 October 2013. According to this ruling, the tax liability should be increased by HRK 1,304 thousand. The

NOTE 12 – INCOME TAX / CONTINUED

Company has lodged an appeal against the aforementioned decision. As the appeal was rejected by the second instance court, the Company initiated an administrative dispute in 2017.

The Company Management believes that the outcome of this matter shall not have a material effect on the financial position and performance of the Company. During 2014, in accordance with the Act on Investment Incentives, the Company became entitled to a tax incentive. Under the Act on Investment Incentives from 2014, the Company has achieved total investment tax credit incentives of HRK 178,831 thousand based on the investments into the Valamar Isabella Resort and destination Rabac from 2014 until 31 December 2017.

The Company has fulfilled the requirements of preserving the properties and of additional employment in the period 2016-2017, and for the year ended 31 December 2017 utilised HRK 81,899 thousand of tax incentives and recognised remaining tax incentives of HRK 96,932 thousand as deferred tax asset.

Under the 2015 Act on Investment Incentives and the 2016 Regulation on Investment Incentives, the Company achieved total tax incentives of HRK 25,771 thousand based on reported new investments in reconstruction and repositioning of accommodation facilities (Camp Istra 5*, Valamar Collection Marea Suites 5* and Valamar Collection Pical Resort (4*/5*)) realised until 31 December 2018. The Company utilised HRK 49,154 thousand of tax incentives in 2018 (Note 25).

NOTE 13 – EARNINGS PER SHARE

Basic
Basic earnings per share are calculated by dividing the profit/(loss) for the year of the Group by the weighted average number of shares ordinary in issue during the year, excluding the ordinary shares purchased by the Company and held as treasury shares.

Diluted
Diluted earnings per share are equal to basic, since the Group/Company did not have any convertible instruments and share options outstanding during both years.

GROUP

	2017	2018
Profit attributable to equity holders (in thousands of HRK)	243,596	235,337
Weighted average number of shares	124,207,204	123,968,146
Basic/diluted earnings per share (in HRK)	**1.96**	**1.90**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

GROUP

(In thousand HRK)	Land	Buildings	Plant and equipment	Furniture, tools and horticulture	Assets under construction	Total
As at 1 January 2017						
Cost	873,211	5,082,912	597,573	313,477	200,353	7,067,526
Accumulated depreciation and impairment	-	(2,559,921)	(371,628)	(205,077)	-	(3,136,626)
Carrying amount	**873,211**	**2,522,991**	**225,945**	**108,400**	**200,353**	**3,930,900**
Year ended 31 December 2017						
Opening carrying amount	873,211	2,522,991	225,945	108,400	200,353	3,930,900
Reclassification from investment property and intangible assets	-	(993)	5,796	(4,805)	-	(2)
Additions	1,497	609,363	198,373	66,124	(26,153)	849,204
Disposals and write-offs	-	(10,404)	(493)	(797)	-	(11,694)
Depreciation	-	(249,244)	(62,363)	(26,795)	-	(338,402)
Carrying amount at year end	**874,708**	**2,871,713**	**367,258**	**142,127**	**174,200**	**4,430,006**
As at 31 December 2017						
Cost	874,708	5,651,533	794,679	346,819	174,200	7,841,939
Accumulated depreciation and impairment	-	(2,779,820)	(427,421)	(204,692)	-	(3,411,933)
Carrying amount	**874,708**	**2,871,713**	**367,258**	**142,127**	**174,200**	**4,430,006**
Year ended 31 December 2018						
Opening carrying amount	874,708	2,871,713	367,258	142,127	174,200	4,430,006
Hoteli Makarska d.d. acquisition at fair value (Note 37a)	83,458	231,715	14,832	5,981	635	336,621
Valamar Obertauern GmbH acquisition at fair value (Note 37b)	3,692	56,367	1,516	-	19	61,594
Transfer within the assets	-	(416)	1,659	(1,465)	17	(205)
Additions	11,851	464,312	140,694	67,799	(2,144)	682,512
Disposals and write-offs	(692)	(8,146)	(2,748)	(498)	(18)	(12,102)
Depreciation	-	(283,569)	(79,238)	(34,022)	-	(396,829)
Carrying amount at year end	**973,017**	**3,331,976**	**443,973**	**179,922**	**172,709**	**5,101,597**
As at 31 December 2018						
Cost	973,017	6,339,931	918,040	397,370	172,709	8,801,067
Accumulated depreciation and impairment	-	(3,007,955)	(474,067)	(217,448)	-	(3,699,470)
Carrying amount	**973,017**	**3,331,976**	**443,973**	**179,922**	**172,709**	**5,101,597**

As at 31 December 2018, the carrying amount of land and buildings of the Group pledged as collateral for borrowings amounted to HRK 2,105,236 thousand (2017: HRK 1,746,280 thousand).

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT / CONTINUED

COMPANY

(In thousand HRK)	Land	Buildings	Plant and equipment	Furniture, tools and horticulture	Assets under construction	Total
As at 1 January 2017						
Cost	595,575	4,238,985	576,947	290,639	197,568	5,899,714
Accumulated depreciation and impairment	-	(2,433,005)	(369,935)	(200,849)	-	(3,003,789)
Carrying amount	**595,575**	**1,805,980**	**207,012**	**89,790**	**197,568**	**2,895,925**
Year ended 31 December 2017						
Opening carrying amount	595,575	1,805,980	207,012	89,790	197,568	2,895,925
Effect of merger of subsidiary (Note 36a)	36,855	219,307	776	133	1,723	258,794
Additions	1,497	595,283	196,196	65,300	(38,915)	819,361
Disposals and write-offs	-	(10,359)	(230)	(727)	-	(11,316)
Depreciation	-	(193,593)	(57,910)	(24,076)	-	(275,579)
Carrying amount at year end	**633,927**	**2,416,618**	**345,844**	**130,420**	**160,376**	**3,687,185**
As at 31 December 2017						
Cost	633,927	5,318,739	793,484	346,607	160,376	7,253,133
Accumulated depreciation and impairment	-	(2,902,121)	(447,640)	(216,187)	-	(3,565,948)
Carrying amount	**633,927**	**2,416,618**	**345,844**	**130,420**	**160,376**	**3,687,185**
Year ended 31 December 2018						
Opening carrying amount	633,927	2,416,618	345,844	130,420	160,376	3,687,185
Transfer within the assets	-	(416)	1,659	(1,465)	17	(205)
Additions	11,631	408,501	126,305	61,739	(6,496)	601,680
Disposals and write-offs	(692)	(6,871)	(2,515)	(462)	-	(10,540)
Depreciation	-	(227,961)	(72,939)	(30,435)	-	(331,335)
Carrying amount at year end	**644,866**	**2,589,871**	**398,354**	**159,797**	**153,897**	**3,946,785**
As at 31 December 2018						
Cost	644,866	5,500,575	862,578	383,079	153,897	7,544,995
Accumulated depreciation and impairment	-	(2,910,704)	(464,224)	(223,282)	-	(3,598,210)
Carrying amount	**644,866**	**2,589,871**	**398,354**	**159,797**	**153,897**	**3,946,785**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT / CONTINUED

Assets under construction of the Group in the amount of HRK 172,708 thousand mainly refer to the investment in hotels and apartments of HRK 70,084 thousand, investment in camping of HRK 56,106 thousand, the reconstruction, extension and adaptation of commercial buildings of HRK 29,844 thousand, advances paid to suppliers for investments of HRK 12,351 thousand and other investments of HRK 4,323 thousand.

Of the Group's total value of equipment, leased equipment under operating leases is as follows:

(in thousands of HRK)	2017	2018
Cost	133,356	134,047
Accumulated depreciation as at 1 January	(101,237)	(100,943)
Depreciation charge for the year	(3,796)	(3,948)
Carrying amount	**28,323**	**29,156**

The operating lease relates to the lease of hospitality facilities and shops to third parties. During 2018, the Group realised rental income of HRK 43,537 thousand (2017: HRK 40,953 thousand). All lease agreements are renewable, usually for period of 1 to 3 years and there is no purchase option.

NOTE 15 – INVESTMENT PROPERTY

(in thousands of HRK)	GROUP	COMPANY
As at 31 December 2017		
Cost	17,111	17,111
Accumulated depreciation	(6,857)	(6,857)
Carrying amount	**10,254**	**10,254**
Year ended 31 December 2018		
Opening carrying amount	10,254	10,254
Depreciation	(614)	(614)
Carrying amount at year end	**9,640**	**9,640**
As at 31 December 2018		
Cost	17,111	17,111
Accumulated depreciation	(7,471)	(7,471)
Carrying amount	**9,640**	**9,640**

As at 31 December 2018, the fair value of investment property (office space) approximates the carrying value. As at 31 December 2018, properties pledged as collateral for loans amounted to HRK 6,782 thousand (2017: HRK 7,252 thousand).

NOTE 16 – INTANGIBLE ASSETS

GROUP

(in thousands of HRK)	Goodwill /i/	Software	Total
As at 1 January 2017			
Cost	6,568	42,958	49,526
Accumulated amortisation	-	(25,446)	(25,446)
Carrying amount	**6,568**	**17,512**	**24,080**
Year ended 31 December 2017			
Opening carrying amount	6,568	17,512	24,080
Reclassification to property, plant and equipment	-	2	2
Additions	-	28,539	28,539
Amortisation	-	(7,396)	(7,396)
Carrying amount at year end	**6,568**	**38,657**	**45,225**
As at 31 December 2017			
Cost	6,568	72,181	78,749
Accumulated amortization	-	(33,524)	(33,524)
Carrying amount	**6,568**	**38,657**	**45,225**
Year ended 31 December 2018			
Opening carrying amount	6,568	38,657	45,225
Valamar Obertauern GmbH acquisition at fair value (Note 37b)	-	313	313
Hoteli Makarska d.d. acquisition at fair value (Note 37a)	-	16	16
Transfer within the assets	-	205	205
Additions	-	21,047	21,047
Amortisation	-	(13,078)	(13,078)
Disposals and write-offs	-	(1)	(1)
Carrying amount at year end	**6,568**	**47,159**	**53,727**
As at 31 December 2018			
Cost	6,568	93,690	100,258
Accumulated amortisation	-	(46,531)	(46,531)
Carrying amount	**6,568**	**47,159**	**53,727**

NOTE 16 – INTANGIBLE ASSETS / CONTINUED

COMPANY

(in thousands of HRK)	Goodwill /i/	Software	Total
As at 1 January 2017			
Cost	-	42,952	42,952
Accumulated amortisation	-	(25,609)	(25,609)
Carrying amount	**-**	**17,343**	**17,343**
Year ended 31 December 2017			
Opening carrying amount	-	17,343	17,343
Effect of merger of subsidiary (Note 36a)	6,568	32	6,600
Additions	-	27,865	27,865
Amortisation	-	(7,274)	(7,274)
Carrying amount at year end	**6,568**	**37,966**	**44,534**
As at 31 December 2017			
Cost	6,568	71,151	77,719
Accumulated amortisation	-	(33,185)	(33,185)
Carrying amount	**6,568**	**37,966**	**44,534**
Year ended 31 December 2018			
Opening carrying amount	6,568	37,966	44,534
Transfer within the assets	-	205	205
Additions	-	20,121	20,121
Amortisation	-	(12,743)	(12,743)
Carrying amount at year end	**6,568**	**45,549**	**52,117**
As at 31 December 2018			
Cost	6,568	91,427	97,995
Accumulated amortisation	-	(45,878)	(45,878)
Carrying amount	**6,568**	**45,549**	**52,117**

/i/ Impairment tests for goodwill

Goodwill is allocated to the cash-generating unit (CGUs) for the transferred subsidiary Puntižela d.o.o., Pula that was merged to the parent company on 31 March 2017. The recoverable amount of the cash-generating unit is determined based on the value-in-use calculations. These calculations use cash flow projections based on 5-year financial projections approved by the Management.

NOTE 17 – INVESTMENT IN SUBSIDIARIES

COMPANY

(in thousands of HRK)	2017	2018
At beginning of the year	668,830	450,905
Acquisition of subsidiaries /i/	6,208	165,485
Valamar Hotels & Resorts GmbH liquidation /ii/	-	(189)
Merger of subsidiaries /iii/	(218,502)	-
Decrease in share value	(5,629)	-
At year end	**450,905**	**616,201**

(in thousands of HRK)	OWNERSHIP	2017	2018
Palme turizam d.o.o., Dubrovnik	100.00%	115,448	115,448
Magične stijene d.o.o., Dubrovnik	100.00%	5,577	5,577
Bugenvilia d.o.o., Dubrovnik	100.00%	38,542	38,542
Valamar Hotels & Resorts GmbH, Frankfurt am Main /ii/	100.00%	189	-
Imperial d.d., Rab /i/	56.21%	291,149	292,709
Hoteli Makarska d.d., Makarska /i/	46.93%	-	146,064
Valamar A GmbH, Tamsweg /i/	100.00%	-	16,105
Valamar Obertauern GmbH, Obertauern /i/	10.00%	-	1,756
		450,905	**616,201**

The subsidiaries Bugenvilia d.o.o., Elafiti Babin kuk d.o.o. until merger and Palme turizam d.o.o. generate revenue from rent of property to the Company, while Magične stijene d.o.o., Valamar Hotels & Resorts GmbH until liquidation and Valamar A GmbH do not have business activity. Until the merger, Puntižela d.o.o. generated revenue from performing hospitality activities (camping and hostel accommodation). Imperial d.d. and Hoteli Makarska d.d. generate revenues from performing their registered activities, primarily from hospitality activities (services of accommodation, food and drinks in hotels and campings). Valamar Obertauern GmbH performs seasonal hospitality activity in its only hotel (during winter).

/i/ During 2018 the Company acquired an additional 0.30% of shares of Imperial d.d., Rab. 46.93% shares of Hoteli Makarska d.d., 100% stake in Valamar A GmbH and a 10% direct plus 90% indirect stake in Valamar Obertauern GmbH

/ii/ The process of Valamar Hotels & Resorts GmbH liquidation ended in 2018.

/iii/ In 2017, two subsidiaries were merged to the parent company, Puntižela d.o.o. on 31 March and Elafiti Babin kuk d.o.o. on 29 December.

NOTE 18 – INTEREST IN JOINT VENTURE

According to the agreement, the Group controlled 33.33% of Pogača Babin kuk d.o.o. At the moment of incorporating the Company, the Group invested 49.67% of share capital or HRK 1,490 thousand, but has the right to 1/3 of realised profit or loss. On 26 October 2018, the Company sold its share in Pogača Babin kuk d.o.o.

GROUP

(in thousands of HRK)	2017	2018
At beginning of year on equity basis	1,366	1,247
Dividends paid	(95)	-
Share in net profit/(loss)	(24)	(128)
Share sold (26 October 2018)	-	(1,119)
At end of year on equity basis	**1,247**	**-**

COMPANY

(in thousands of HRK)	2017	2018
At beginning of year at acquisition cost	1,490	1,490
Share sold (26 October 2018)	-	(1,490)
At end of year at acquisition cost	**1,490**	**-**

Adjustment of share in joint venture with share in net assets of Pogača Babin kuk d.o.o.

GROUP

(in thousands of HRK)	2017	2018
At beginning of year	4,477	4,403
Net profit/(loss) for the year	(72)	(385)
At end of year (26 October 2018)	**4,405**	**4,018**
Share in net assets from joint venture (33.33%)	1,468	1,340
Dividends paid related to previous years	(126)	(221)
Dividends paid related to current year	(95)	-
Carrying amount	**1,247**	**1,119**

NOTE 18 – INTEREST IN JOINT VENTURE / CONTINUED

POGAČA BABIN KUK d.o.o. (100%)

(in thousands of HRK)	2017	2018
Assets:		
Non-current assets	459	370
Current assets	3,370	2,895
	3,829	**3,265**
Liabilities:		
Short-term liabilities	901	222
	901	**222**
Net assets	**2,928**	**3,043**
Income	8,945	6,911
Expenses	(9,017)	(7,296)
Profit /(loss) before tax	**(72)**	**(385)**
Share in profit /(loss) of joint venture (33.33%)	**(24)**	**(128)**

NOTE 19A – FINANCIAL INSTRUMENTS BY CATEGORY

GROUP

(in thousands of HRK)	**Cash, loans and receivables**	**Financial assets**	**Financial assets through comprehensive income**	**Total**
31 December 2017				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables	18,579	-	-	18,579
Loans and deposits	1,409	-	-	1,409
Cash and cash equivalents	287,837	-	-	287,837
Financial assets measured at fair value				
Financial assets	-	3,791	-	3,791
Derivative financial instruments	-	-	104	104
Total	**307,825**	**3,791**	**104**	**311,720**

(in thousands of HRK)	**Cash, loans and receivables**	**Financial assets**	**Financial assets through comprehensive income**	**Total**
31 December 2018				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables	40,312	-	-	40,312
Loans and deposits	16,147	-	-	16,147
Cash and cash equivalents	261,842	-	-	261,842
Financial assets measured at fair value				
Financial assets	-	4,484	-	4,484
Total	**318,301**	**4,484**	**-**	**322,785**

NOTE 19A – FINANCIAL INSTRUMENTS BY CATEGORY / CONTINUED

COMPANY

(in thousands of HRK)	Cash, loans and receivables	Financial assets	Financial assets through comprehensive income	Total
31 December 2017				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables	19,643	-	-	19,643
Loans and deposits	1,348	-	-	1,348
Cash and cash equivalents	237,401	-	-	237,401
Financial assets measured at fair value				
Financial assets	-	3,761	-	3,761
Derivative financial instruments	-	-	104	104
Total	**258,392**	**3,761**	**104**	**262,257**

(in thousands of HRK)	Cash, loans and receivables	Financial assets	Financial assets through comprehensive income	Total
31 December 2018				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables	36,407	-	-	36,407
Loans and deposits	16,099	-	-	16,099
Cash and cash equivalents	168,533	-	-	168,533
Financial assets measured at fair value				
Financial assets	-	4,100	-	4,100
Total	**221,039**	**4,100**	**-**	**225,139**

The above-mentioned amounts of financial assets represent the Group's maximum exposure to credit risk at the reporting date. The carrying values approximate their fair value due to their short-term maturity.

NOTE 19A – FINANCIAL INSTRUMENTS BY CATEGORY / CONTINUED

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Liabilities at reporting date				
Financial liabilities – at amortised cost:				
Trade and other payables	184,128	169,145	170,741	156,469
Borrowings	2,064,016	2,435,132	1,906,465	2,182,117
	2,248,144	**2,604,277**	**2,077,206**	**2,338,586**
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	1,658	7,616	1,658	7,616
	2,249,802	**2,611,893**	**2,078,864**	**2,346,202**

NOTE 19 B - CREDIT QUALITY OF FINANCIAL ASSETS

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Loans and deposits				
Loans and deposits	516	588	428	512
	516	**588**	**428**	**512**

The credit quality of other financial assets is stated in the following notes.

NOTE 20 – FINANCIAL ASSETS

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Listed equity securities /i/	3,621	4,290	3,621	3,960
Other	170	194	140	140
	3,791	**4,484**	**3,761**	**4,100**

/i/ Investments in securities represent less than 1% ownership interests and are presented at fair value.

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
At beginning of year	4,936	3,791	4,906	3,761
Change in fair value recognised in other comprehensive income	446	339	446	339
Disposal	(1,591)	-	(1,591)	-
Subsidiaries acquisition	-	354	-	-
At end of year	**3,791**	**4,484**	**3,761**	**4,100**

NOTE 21 – LOANS AND DEPOSITS

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Loans	1,169	269	1,108	254
Deposits	240	15,878	240	15,845
Total	**1,409**	**16,147**	**1,348**	**16,099**
Less: non-current portion	(423)	(15,706)	(379)	(15,706)
Current portion	**986**	**441**	**969**	**393**

Loans include the amount of HRK 147 thousand (2017: HRK 188 thousand) due from employees for housing loans at an interest rate of 1% payable by 2025. The loans are not secured with any collateral. Loans include the amount of HRK 78 thousand, which refer to a long-term loan due in 2019. This long-term loan has been secured by a pledge right over the property. Most of the deposits are term deposits securing the bank receivables in a total amount of HRK 15.5 mil.

All given loans and deposits are denominated in HRK.

The carrying amounts of short-term loans and deposits approximate their fair value. The fair value of non-current loans and deposits of Group is HRK 15,703 thousand (2017: HRK 413 thousand) and the fair value of non-current loans and deposits of the Company is HRK 15,703 thousand (2017: HRK 370 thousand). The fair value is calculated based on the cash flows discounted at a rate of 1.68% (2017: 2.13%), which presents the yield to maturity on the bond of the Republic of Croatia with maturity in 2025.

NOTE 22 – INVENTORIES

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Raw materials and supplies	12,861	15,503	11,609	13,096
Trade goods, small inventory and packaging material	11,636	9,944	12,304	9,804
	24,497	**25,447**	**23,913**	**22,900**

NOTE 23 – TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Domestic receivables	15,007	24,305	12,981	18,887
Foreign receivables	8,190	20,266	6,941	17,881
Related parties receivables	-	-	3,393	1,853
Provision for impairment of trade receivables	(8,851)	(9,262)	(7,701)	(7,010)
Trade receivables – net	14,346	35,309	15,614	31,611
Accrued income	4,005	4,938	3,801	4,731
Interest receivables	228	65	228	65
	18,579	40,312	19,643	36,407
Less: non-current portion	(603)	-	-	-
Current portion	**17,976**	**40,312**	**19,643**	**36,407**
Prepaid expenses	11,749	12,924	10,987	12,175
VAT receivable	13,006	4,645	10,592	2,596
Advances to suppliers	5,272	5,479	5,270	5,313
Receivables from employees	1,226	1,391	1,172	1,367
Receivables from state institutions	299	707	158	320
Other receivables	942	2,989	697	2,985
Total current receivables	**50,470**	**68,447**	**48,519**	**61,163**
Total trade and other receivables	**51,073**	**68,447**	**48,519**	**61,163**

NOTE 23 – TRADE AND OTHER RECEIVABLES / CONTINUED

Movements in the provisions for impairment of trade and other receivables:

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
At 1 January	11,813	8,851	9,500	7,701
Increase of impairment	314	1,485	376	297
Collected receivables	(1,695)	(458)	(1,686)	(444)
Receivables written-off	(1,581)	(616)	(489)	(544)
At 31 December	**8,851**	**9,262**	**7,701**	**7,010**

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Trade receivables:				
Neither past due nor impaired	4,935	20,131	7,975	21,428
Past due, but not impaired	9,411	15,178	7,639	10,183
	14,346	**35,309**	**15,614**	**31,611**

Trade and other receivables are carried at amortised cost.

As at 31 December 2018, the maturities of the trade receivables, which are past due, but not impaired are as follows:

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Up to one month	1,877	4,962	1,814	4,229
One to two months	2,244	3,087	2,136	1,913
Two to three months	1,645	3,182	1,568	1,721
Over three months up to 1 year	3,645	3,947	2,121	2,320
	9,411	**15,178**	**7,639**	**10,183**

NOTE 23 – TRADE AND OTHER RECEIVABLES / CONTINUED

The carrying amounts of trade and other receivables are denominated in the following currencies:

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
EUR	8,142	20,690	6,896	18,313
HRK	6,204	14,619	8,718	13,298
	14,346	**35,309**	**15,614**	**31,611**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group holds advances, bills of exchange and promissory notes, and periodically mortgage as collection security. The carrying amounts of trade and other receivables approximate their fair value since they are short-term.

NOTE 24 – DERIVATIVE FINANCIAL INSTRUMENTS

GROUP AND COMPANY

	2017		2018	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Fair value of the interest rate swap	104	1,586	-	7,616
Market value of foreign currency forward contracts	-	72	-	-
Total	**104**	**1,658**	**-**	**7,616**
Less the non-current portion:	(91)	(952)	-	(5,162)
Fair value of interest rate swap	13	634	-	2,454
Market value of foreign currency forward contracts	-	72	-	-
Current portion	**13**	**706**	**-**	**2,454**

Interest rate swaps and foreign currency forwards

As at 31 December 2018, the contracted value of outstanding interest rate swaps amounts to HRK 690,807 thousand (2017: HRK 207,067 thousand).

There are no contracted foreign currency forwards as at 31 December 2018 (2017: HRK 37,891 thousand).

As at 31 December 2018, the weighted average base interest rate fixed by the interest rate swap contract for a loan in EUR is 0.47%, while the base variable interest rate (EURIBOR) is -0.31%. Fair value gains and losses on interest rate swaps are recognised directly in the Statement of comprehensive income within the finance costs until the repayment of borrowings with a final maturity as at 29 December 2027.

NOTE 25 – DEFERRED TAX ASSET / LIABILITY

DEFERRED TAX ASSET

GROUP

(in thousands of HRK)	Property, plant and equipment	Financial assets	Trade receivables and inventories	Provisions	Tax losses	Tax incentive for investment	Total
As at 1 January 2017	37,336	2,474	3,709	4,451	-	83,668	131,638
Credited to the income	-	-	-	1,296	128	54,123	55,547
Debited to the income	(3,813)	(1,703)	(13)	(5)	(128)	(40,859)	(46,521)
As at 31 December 2017	**33,523**	**771**	**3,696**	**5,742**	**-**	**96,932**	**140,664**
Increase – Hoteli Makarska d.d. acquisition (37a)	-	-	-	824	-	-	824
Increase – Valamar Obertauern GmbH acquisition (37b)	227	-	-	-	3,101	-	3,328
Credited to the income	72	1,120	-	940	2,766	25,771	30,669
Debited to the income	(79)	(34)	(10)	(502)	-	(49,154)	(49,779)
As at 31 December 2018	**33,743**	**1,857**	**3,686**	**7,004**	**5,867**	**73,549**	**125,706**

COMPANY

(in thousands of HRK)	Property, plant and equipment	Financial assets	Trade receivables and inventories	Provisions	Tax losses	Tax incentive for investment	Total
As at 1 January 2017	-	2,473	3,708	3,766	-	83,668	93,615
Increase of tax assets – merger effect (Note 36a)	15,474	-	-	-	128	-	15,602
Credited to the income	-	1,013	-	915	-	54,123	56,051
Debited to the income	-	(1,703)	(13)	(5)	(128)	(40,859)	(42,708)
As at 31 December 2017	**15,474**	**1,783**	**3,695**	**4,676**	**-**	**96,932**	**122,560**
Credited to the income	-	1,120	-	799	-	25,771	27,690
Debited to the income	(79)	(34)	(10)	(263)	-	(49,154)	(49,540)
As at 31 December 2018	**15,395**	**2,869**	**3,685**	**5,212**	**-**	**73,549**	**100,710**

NOTE 25 – DEFERRED TAX ASSET / LIABILITY / CONTINUED

DEFERRED TAX LIABILITY

GROUP

(in thousands of HRK)	Financial assets	Fair value of land and buildings	Total
As at 1 January 2018	89	52,670	52,759
Increase – Hoteli Makarska d.d.acquisition (Note 37a)	-	17,755	17,755
Increase – Valamar Obertauern GmbH acquisition (Note 37b)	-	2,323	2,323
Debited to the income	-	(4,344)	(4,344)
Credited to the other comprehensive income	68	-	68
As at 31 December 2018	**157**	**68,404**	**68,561**

COMPANY

(in thousands of HRK)	Financial assets	Fair value of land and buildings	Total
As at 1 January 2018	89	15,993	16,082
Debited to the income	-	(923)	(923)
Credited to the other comprehensive income	68	-	68
As at 31 December 2018	**157**	**15,070**	**15,227**

NOTE 26 – CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Giro-accounts and current accounts	105,793	149,323	104,529	143,324
Cash in hand	50	393	-	-
Foreign currency accounts	12,268	63,155	9,731	10,374
Time deposits up to one month	169,726	48,971	123,141	14,835
	287,837	**261,842**	**237,401**	**168,533**

The interest rate on cash and cash equivalents is up to 0.30% (2017: up to 0.80%).

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
HRK	124,076	166,462	122,769	160,308
EUR	162,751	94,141	113,858	7,310
CHF	247	687	101	465
Other	763	552	673	450
	287,837	**261,842**	**237,401**	**168,533**

NOTE 27 – SHARE CAPITAL

The authorised and registered share capital of the Company in 2018 amounts to HRK 1,672,021 thousand (2017: HRK 1,672,021 thousand) and comprises 126,027,542 ordinary shares (2017: 126,027,542) with no prescribed nominal value. All the shares are fully paid.

The ownership structure as at 31 December is as follows:

2017	**Number of shares**	**%**
Epic, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H., Wien	55,594,884	44.11
Satis d.o.o., Zagreb	6,500,564	5.16
Enitor d.o.o., Zagreb	2,720,950	2.16
Zagrebačka banka d.d./Skrbnik, Zagreb	1,889,067	1.50
Hrvatska poštanska banka/Skrbnik, Zagreb	1,846,184	1.46
PBZ d.d./The Bank of New York as custodian/Skrbnik, Zagreb	1,742,413	1.38
Societe Generale-Splitska banka d.d./Skrbnik, Split	1,067,013	0.85
PBZ d.d./State street client account/Skrbnik, Zagreb	1,020,957	0.81
Bilbija Igor	974,250	0.77
Bogdanović Zoran	690,711	0.55
Treasury shares	1,794,451	1.42
Other shareholders - free float	50,186,098	39.82
Total	**126,027,542**	**100.00**

2018	**Number of shares**	**%**
Goldscheider Keramik Gesellschaft m.b.H., Wien	25,017,698	19.85
Wurmböck Beteiligungs GmbH, Wien	25,017,698	19.85
Satis d.o.o., Zagreb	6,524,904	5.18
Lanschutzer Franz	5,587,788	4.43
Enitor d.o.o., Zagreb	2,720,950	2.16
Hrvatska poštanska banka/Skrbnik, Zagreb	1,856,036	1.47
PBZ d.d./The Bank of New York as custodian/Skrbnik, Zagreb	1,348,216	1.07
Zagrebačka banka d.d./Skrbnik, Zagreb	1,117,027	0.89
OTP banka d.d./Skrbnik, Split	1,067,013	0.85
PBZ d.d./State street client account/Skrbnik, Zagreb	1,008,110	0.80
Treasury shares	3,122,604	2.48
Other shareholders - free float	51,639,498	40.97
Total	**126,027,542**	**100.00**

NOTE 27 – SHARE CAPITAL / CONTINUED

In 2018, there were no changes in share/equity capital of the Company.

As previously reported, based on the decision adopted by the Company's General Assembly held on 24 July 2013, the registered capital was increased by a conversion of the reinvested profit of the year 2012 by HRK 52,200 thousand. The distribution of the reinvested profit of HRK 52,200 thousand in future periods may result in tax obligations given it is based on a tax incentive.

The Company has acquired and released treasury shares during 2018. The Company has acquired 1,397,932 treasury shares, accounting for 1.11% of the share capital in the total amount of HRK 51,706 thousand and effectively disposed 69,779 treasury shares, accounting for 0.05% of the share capital in the total amount of HRK 1,476 thousand, of which 17,800 shares on paid-out dividends in accordance with the resolution adopted by the General Assembly on 8 May 2018, as explained in Note 28b.

As at 31 December 2018, the Company owned 3,122,604 of their treasury shares (2017: 1,794,451), which represents 2.48% (2017: 1.42%) of the Company's registered capital.

NOTE 28 – RESERVES AND RETAINED EARNINGS

a) Capital reserves

The capital reserves of the Group increased during the year in the amount of HRK 1,701 thousand and at 31 December 2018 amount to HRK 4,817 thousand (2017: HRK 3,116 thousand).

As at 31 December 2018, the capital reserves of the Company amounted to HRK 5,304 thousand (2017: HRK 3,603 thousand).

NOTE 28 – RESERVES AND RETAINED EARNINGS / CONTINUED

b) Reserves and retained earnings

GROUP

(in thousands of HRK)	2017	2018
Legal reserves	83,601	83,601
Fair value reserves	634	905
Other reserves	68,851	120,851
Retained earnings	492,716	560,463
	645,803	**765,820**
Changes in reserves:		
Legal reserves		
At beginning of the year	67,199	83,601
Transfer from retained earnings	16,402	-
At year end	**83,601**	**83,601**
Fair value reserves		
At beginning of the year	273	634
Change in fair value financial assets	357	271
Effect of selling financial assets	4	-
At year end	**634**	**905**
Other reserves		
At beginning of the year	68,851	68,851
Transfer to treasury shares reserve	-	52,000
At year end	**68,851**	**120,851**
Retained earnings		
At beginning of the year	364,874	492,716
Result for the year	243,596	235,337
Transfer to legal reserves	(16,402)	-
Transfer to other reserves	-	(52,000)
Dividends	(99,352)	(111,730)
Subsidiary acquisition	-	(3,860)
At year end	**492,716**	**560,463**

NOTE 28 – RESERVES AND RETAINED EARNINGS / CONTINUED

b) Reserves and retained earnings / CONTINUED

COMPANY

(in thousands of HRK)	2017	2018
Legal reserves	83,601	83,601
Fair value reserve	634	905
Other reserves	22,451	135,334
Retained earnings	649,047	663,714
	755,733	**883,554**
Changes in reserves:		
Legal reserves		
At beginning of the year	67,199	83,601
Transfer from retained earnings	16,402	-
At year end	**83,601**	**83,601**
Fair value reserves		
At beginning of the year	273	634
Change in fair value of financial assets	357	271
Effect of selling financial assets	4	-
At year end	**634**	**905**
Other reserves		
At beginning of the year	124,614	22,451
Merger of subsidiaries (Note 36a)	(64,252)	-
Transfer to treasury shares reserve	-	52,000
Dividends	(37,911)	-
Loss coverage - subsidiaries merger	-	60,883
At year end	**22,451**	**135,334**
Retained earnings		
At beginning of the year	494,911	649,047
Result for the year	231,979	239,279
Transfer to legal reserves	(16,402)	-
Transfer to other reserves	-	(52,000)
Dividends	(61,441)	(111,730)
Transfer to other reserves	-	(60,883)
At year end	**649,047**	**663,714**

NOTE 28 – RESERVES AND RETAINED EARNINGS / CONTINUED

b) Reserves and retained earnings / CONTINUED

Legal reserves
The legal reserve is required under Croatian law and shall be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. As at 31 December 2018, the legal reserves of the Group and the Company amounted to HRK 83,601thousand or 5.00% of the share capital (2017: HRK 83,601 thousand or 5.00% of the share capital). This reserve is not distributable.

Other reserves
On the basis of a decision of the General Assembly and in accordance with the regulations, the Company creates treasury share reserves. As at 31 December 2018, treasury share reserves amounted to HRK 96,815 thousand.

As at 31 December 2018, other reserves of the Group amounted to HRK 120,851 thousand. As at 31 December 2018, other reserves of the Company amounted to HRK 135,334 thousand.

On the basis of a decision adopted by the General Assembly held on 8 May 2018, the Company paid out a dividend of HRK 0.90 per share, which amounted to HRK 111,730 thousand, from which HRK 110,980 thousand was paid in cash, and the remaining part by assigning 17,800 shares of the Company.

Fair value reserves
As at 31 December 2018, the fair value reserves of the Company and the Group amounted to HRK 905 thousand. This reserves are not distributable and relate to the fair value of financial assets.

NOTE 29 – BORROWINGS

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Current				
Bank borrowings	202,703	227,218	184,702	203,359
Finance lease	-	29	-	-
	202,703	**227,247**	**184,702**	**203,359**
Non-current				
Bank borrowings	1,861,314	2,207,874	1,721,764	1,978,758
Finance lease	-	11	-	-
	1,861,314	**2,207,885**	**1,721,764**	**1,978,758**
Total borrowings	**2,064,017**	**2,435,132**	**1,906,466**	**2,182,117**

All banks have secured their borrowed funds with a pledge over Group's hotel facilities with a net book value of HRK 2,112,018 thousand (2017: HRK 1,753,532 thousand) (Note 14 and 15).

As at 31 December 2018, the Company had unused lines of credit contracted with financial institutions for 2019 in the total amount of HRK 370,879 thousand, and the Group in the total amount of HRK 373,104.

NOTE 29 – BORROWINGS / CONTINUED

The carrying amount of borrowings is denominated in EUR. Effective interest rates at the reporting date were as follows:

GROUP

	2017		2018	
	(in thousands of HRK)	%	(in thousands of HRK)	%
Borrowings:				
EUR	2,016,269	1.0%-6.0%	2,340,377	0.99%-6.0%
HRK	47,748	1.0%-2.0%	94,755	1.0%-2.0%
	2,064,017		**2,435,132**	

COMPANY

	2017		2018	
	(in thousands of HRK)	%	(in thousands of HRK)	%
Borrowings:				
EUR	1,893,004	1.0%-3.0%	2,169,732	0.99-3.0%
HRK	13,462	2.0%	12,385	2.0%
	1,906,466		**2,182,117**	

NOTE 29 – BORROWINGS / CONTINUED

Maturities of non-current borrowings are as follows:

	GROUP		COMPANY	
(in thousands of HRK)	2017	2018	2017	2018
1-3 years	352,218	475,194	319,357	421,480
3-6 years	514,212	672,301	476,565	603,585
Over 6 years	994,884	1,060,390	925,842	953,693
	1,861,314	**2,207,885**	**1,721,764**	**1,978,758**

The carrying amounts and fair value of non-current borrowings are as follows:

BORROWINGS

	CARRYING AMOUNTS		FAIR VALUE	
(in thousands of HRK)	2017	2018	2017	2018
Group	1,861,314	2,207,885	1,834,567	2,178,134
Company	1,721,764	1,978,758	1,710,223	1,963,536

The fair value is based on discounted cash flows discounted using a rate based on the weighted average interest rate on Group's borrowings of 2.05% (2017: 2.31%). The carrying amounts of current portion of non-current borrowings approximate their fair value due to short term maturity.

NOTE 30 – TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Trade payables	132,425	112,834	120,999	102,604
Trade payables – related parties	425	52	604	304
Interest payable	5,348	3,021	4,664	2,044
Concession fees payable	45,930	53,238	44,474	51,517
	184,128	169,145	170,741	156,469
Minus: non-current portion /i/	(43,436)	(50,476)	(41,980)	(48,755)
Current portion	**140,692**	**118,669**	**128,761**	**107,714**
Liabilities for dividend	230	251	72	10
Liabilities to employees	43,612	52,638	38,974	42,781
Liabilities for taxes and contributions and similar charges	10,553	11,815	9,724	10,037
Advances received	31,366	38,937	30,709	34,738
Other liabilities	8,499	19,983	6,218	12,561
Other current liabilities	**234,952**	**242,293**	**214,458**	**207,841**
Total trade payables and other liabilities	**278,388**	**292,769**	**256,438**	**256,596**

/i/ Separated long-term obligation part for a concession fee for tourist land.

The carrying amount of financial liabilities are denominated in the following currencies:

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
EUR	10,464	11,529	9,705	6,592
GBP	246	134	246	134
HRK	173,418	157,482	160,790	149,743
	184,128	**169,145**	**170,741**	**156,469**

NOTE 31 – PROVISIONS AND OTHER ACCRUED EXPENSES

GROUP

(in thousands of HRK)	Termination benefits and jubilee awards	Legal proceedings	Bonuses	Total
As at 1 January 2018	**5,602**	**52,909**	**24,057**	**82,568**
Additional provisions	4,926	2,749	27,052	34,727
Company acquisitions	1,529	19,622	345	21,496
Used during year	(125)	(6,429)	(22,883)	(29,437)
Reversed during year	(757)	(1,654)	(1,163)	(3,574)
As at 31 December 2018	**11,175**	**67,197**	**27,408**	**105,780**
2018				
Current portion	1,060	-	27,408	**28,468**
Non-current portion	10,115	67,197	-	**77,312**

COMPANY

(in thousands of HRK)	Termination benefits and jubilee awards	Legal proceedings	Bonuses	Total
As at 1 January 2018	**4,665**	**26,932**	**23,288**	**54,885**
Additional provisions	4,343	2,039	25,827	32,209
Used during year	-	-	(22,114)	(22,114)
Reversed during year	(709)	(1,167)	(1,163)	(3,039)
As at 31 December 2018	**8,299**	**27,804**	**25,838**	**61,941**
2018				
Current portion	404	-	25,838	**26,242**
Non-current portion	7,895	27,804	-	**35,699**

NOTE 31 – PROVISIONS AND OTHER ACCRUED EXPENSES / CONTINUED

Legal cases Company

The provisions for legal proceedings from previous years primarily refer to the land sold for construction purposes in Dubrovnik in 1995 with a total surface area of 11,239 m^2, which was not included in the share capital of subsidiary Dubrovnik – Babin kuk d.d. during the transformation and privatisation. A number of buyers were not able to register their ownership title over the stated land, and consequently initiated legal proceedings with the Municipal Court in Dubrovnik with the aim of terminating their sales contracts and on the basis of expectation of future payments recorded based on the value of the aforementioned land according to the sales contracts.

In the year 2018, the Company made new provisions for legal proceedings in the amount of HRK 2,039 thousand, mainly with regard to two disputes concerning land ownership on the island of Krk: first related to the sold land not partially estimated in the conversion process and the privatisation of Zlatni otok d.d., so the buyer regressively claims the amount that paid to the Republic of Croatia for the not estimated part; and second related to the property owners' request, whose small part of property is included in the Krk camping, for benefit payments from usufruct.

Legal cases Group

Legal cases of the Group include Company's land ownership disputes and legal proceedings of Imperial d.d. and Hoteli Makarska d.d.

The increase in the Group's legal cases provision during 2018 is the result of additional provisions made on the basis of legal advisers estimations regarding the land ownership disputes and outcomes of ongoing legal cases.

NOTE 32 – CONSOLIDATED SUBSIDIARIES

		OWNERSHIP AT 31 DECEMBER	
	Country	2017	2018
Palme turizam d.o.o.	Croatia	100.00%	100.00%
Magične stijene d.o.o.	Croatia	100.00%	100.00%
Bugenvilia d.o.o.	Croatia	100.00%	100.00%
Valamar hotels & resorts GmbH	Germany	100.00%	-
Imperial d.d. /i/	Croatia	55.91%	56.21%
Hoteli Makarska d.d. /i/	Croatia	-	46.93%
Valamar A GmbH	Austria	-	100.00%
Valamar Obertauern GmbH	Austria	-	100.00%

/i/ Non-controlling interest in Group's assets of HRK 401,993 thousand in 2018 (2017: HRK 231,125 thousand) refers to a non-controlling interest in Imperial d.d. of 43.79% or HRK 227,896 thousand (2017: 44.09%) and Hoteli Makarska d.d. of 53.07% or HRK 174,097 thousand.

NOTE 33 – CONTINGENCIES AND COMMITMENTS

Legal proceedings

In the ordinary course of business, the Company is plaintiff and defendant in various legal actions. In the financial statements for the year ended on 31 December 2018, provisions for certain legal proceedings have been made for which the Company anticipates outflows of HRK 27,804 thousand.

Transformation and privatisation audit and land ownership

A transformation and privatisation audit was carried out for the Company during 2002 and 2003, with a separate audit for Riviera Poreč d.d. (formerly Riviera Holding d.d., Riviera Adria d.d., now Valamar Riviera d.d.) and for companies merged into Valamar Riviera d.d.: Rabac d.d., Zlatni Otok d.d. and Dubrovnik Babin kuk d.d. The reports claim that the transformation and privatisation process had not been performed entirely in accordance with legal regulations, primarily in relation to properties that are not appraised in the Company's equity, but are owned by the Company and are partly recorded in the land records, as well as properties that are reported in the Company's equity, but have not yet been recorded in the land registry. The Company, as well as its legal predecessors, submitted timely objections to the transformation and privatisation audit reports to the State Audit Office, but at the date of issue of these financial statements, they had not received any response from the State Audit Office with respect to the objection of the Company and/or the legal predecessors of the Company.

The outcome of these proceedings is not expected to have a significant impact on the financial position or results of the Company or the Group.

To protect their interests, the Company is conducting a number of legal and/or administrative procedures, which primarily refer to land excluded from the valuation in the process of transformation and privatisation, but partially registered by the Company and to a portion on which catering and other facilities have been built or are in function (in the Lanterna and Solaris resorts and the Lanterna, Solaris, Istra, Ježevac, Krk and Škrila camping grounds) as well as procedures in relation to land in Dubrovnik, which was appraised, but not registered, and land which has been sold, but was not appraised.
The outcome and the result of the legal and other proceedings cannot be predicted with any degree of certainty, but a resolution is expected in accordance with the Act on Tourist and Other Construction Land not Appraised in Transformation and Privatisation Processes, and in relation to land in the area of Dubrovnik, through settlement. On 1 August 2010, the Act on Tourist and Other Construction Land not Appraised in Transformation and Privatisation Processes ("the ZOTZ") entered into force, on the basis of the provisions of which the ownership and co-ownership over land not appraised in the transformation and privatisation processes should finally be determined, and in the spirit of the provisions of which all disputes that are ongoing in relation to unappraised tourist land, primarily the land in the area of Poreč, Rabac and Krk, shall be resolved. The Company initiated procedures in accordance with the provisions of the ZOTZ within the prescribed period, through submission of a request on 31 January 2011 for concessions on tourist land in camping grounds and tourist land in tourist resorts, as well as requests for verification of plots/land ground-plan surface area of appraised buildings (hotels, apartments and other appraised buildings) and other prescribed requests. The ownership and/or co-ownership by the Company of the portion of land not appraised in the transformation and privatisation procedures shall be determined by the outcome of these procedures. The aforementioned procedures have not been completed yet, however, the Company makes so-called advance payments of the concession fees for tourist land to the competent authorities.

The Company is in the process of harmonisation and negotiations with the CERP and the Croatian State Prosecution related to land in Dubrovnik.

The outcome of these procedures is not expected to have a significant impact on the financial statements or results of the Company or the Group.

NOTE 33 – CONTINGENCIES AND COMMITMENTS / CONTINUED

Capital commitments

The contracted capital commitments of the Company in respect to investments in tourism facilities as at 31 December 2018 amounted to HRK 382,492 thousand (2017: HRK 240,421 thousand).

The contracted capital commitments of the Group in respect to investments in tourism facilities as at 31 December 2018 amounted to HRK 522,808 thousand (2017: HRK 312,021 thousand).

Operating leases commitments - where the Group is the lessee.

The future minimum lease payments under non-cancellable leases are payable as follows:

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Up to 1 year	-	154	-	154
From 2 to 5 years	-	498	-	498
Total	**-**	**652**	**-**	**652**

The lease agreements represent operating lease for motor vehicles for the period between 1 and 5 years.

NOTE 34 – CASH GENERATED FROM OPERATIONS

Adjustment of profit with cash generated from operations:

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Profit before taxation	238,643	258,082	217,710	260,207
Adjustments for:				
Depreciation and amortisation	346,414	410,522	283,466	344,692
Net gains on sale of property, plant and equipment and intangible assets	(1,307)	(3,593)	(1,142)	(3,455)
Write-off of property, plant and equipment	12,008	9,436	11,635	7,903
Provision for impairment of trade and other receivables – net	(1,382)	1,027	(1,310)	(147)
Finance costs – net	29,046	21,012	24,993	18,833
Fair value gains from financial assets – net	(212)	1,119	(212)	1,440
Fair value gains from financial instruments – net and financial assets	(759)	6,062	(759)	6,062
Increase in provisions – net	10,682	23,211	6,708	7,050
Share of (profit)/loss in joint venture - net	24	128	-	-
Changes in:				
- Trade and other receivables	14,230	(37,601)	37,262	(27,162)
- Inventories	(5,251)	(951)	(5,660)	1,016
- Trade and other payables	(2,906)	6,472	1,434	4,209
Cash generated from operations	**639,230**	**694,926**	**574,125**	**620,648**

NOTE 35 – RELATED PARTY TRANSACTIONS

Related parties are those companies, which have the power to exercise control over the other party or are under common control or which have a significant influence on the other party in doing business or making financial decisions or is directly or indirectly involved in the management or supervision.

The related parties in the Valamar Group in 2017 and 2018 are: Puntižela d.o.o., Pula (merged 31 March 2017), Epic Goldscheider & Wurmböck Unternehmensberatungsgesellschaft m.b.H, Wien (until the demerger with takeover, based of the agreement from 20 December 2017), EPIC Hospitality Holding GmbH, Wien (until the demerger with takeover, based of the agreement from 20 December 2017 and merger 15 June 2018), Wurmböck Beteiligungs GmbH, Wien (since 16 June 2018), Bugenvillia d.o.o., Dubrovnik, Scapus d.o.o., Zagreb (until 5 April 2017), Satis d.o.o., Zagreb, Enitor d.o.o., Zagreb, Elafiti Babin kuk d.o.o. (merged 29 December 2017), Magične stijene d.o.o., Palme turizam d.o.o., Valamar Hotels and Resorts GmbH, Frankfurt am Main, in liquidation (until 15 June 2018), Imperial d.d., Rab, Valamar A GmbH (since 23 June 2018), Valamar Obertauern GmbH (since 18 August 2018), Hoteli Makarska (since 17 July 2018).

Valamar Riviera d.d., Poreč is the parent company of the subsidiaries:

- Elafiti Babin kuk d.o.o., Dubrovnik (merged 29 December 2017), Palme turizam d.o.o., Dubrovnik, Magične stijene d.o.o., Dubrovnik and Bugenvilia d.o.o., Dubrovnik
- Puntižela d.o.o., Pula (merged 31 March 2017)
- Valamar Hotels & Resorts GmbH, Frankfurt am Main, in the liquidation until the process ended on 15 June 2018
- Imperial d.d., Rab
- Hoteli Makarska d.d., Makarska (with the subsidiary Praona d.o.o.)
- Valamar A GmbH, Tamsweg and
- Valamar Obertauern GmbH, Obertauern

In 2017, the company EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H., headquartered in Vienna, Plösslgasse 8, Republic of Austria (hereinafter: EPIC) had final control, held 44.11% shares of Valamar Riviera d.d. EPIC and has reported the transfer of all 44.11% of shares to EPIC Hospitality Holding GmbH, headquartered in Vienna, Plösslgasse 8, Republic of Austria (hereinafter: Epic Hospitality), following the agreement of 20 December 2017 on the demerger and status changes - demerger with takeover. On 15 June 2018, Epic Hospitality was merged with the Company with legal effect as of 16 June 2018.

Management Agreement

As of 4 January 2017, the Agreement between Imperial d.d. and Valamar Riviera d.d. in relation to the management of the hotel and tourist facilities and amenities is valid, on the basis of the decision adopted by the General Assembly of Imperial d.d. of 12 December 2016. The subject of the Contract is the provision of management and business activities related to hotels, apartments, resorts and/or camping grounds, and other immovable or movable property. A common name for this type of contract is a hotel management agreement or hotel management contract. For the management services rendered, Valamar Riviera d.d. is entitled to compensation for management services consisting of basic and incentive fees, and fees for advisory in respect of the management and implementation of investments. The contract also stipulates reservation centre fees, which are determined as a specified amount (percentage) of the total value of realised reservations.
The contract was concluded for a period of 10 years with the possibility of termination or extension.

As of 30 July 2018, the Agreement between Hoteli Makarska d.d. and Valamar Riviera d.d. in relation to the management of the hotel and tourist facilities and amenities is valid, on the basis of the decision adopted by

NOTE 35 – RELATED PARTY TRANSACTIONS / CONTINUED

Management Agreement / CONTINUED

the General Assembly of Hoteli Makarska d.d. of 17 July 2018. The subject of the Contract is the provision of management and business activities concerning hotels, apartments and/or resorts and other immovable or movable property. A common name for this type of contract is a hotel management agreement or hotel management contract. For the management services rendered, Valamar Riviera d.d. is entitled to compensation for management services consisting of basic and incentive fees, and fees for advisory services in respect of the management and implementation of investments. The contract also stipulates reservation centre fees, which are determined as a specified amount (percentage) of the total value of realised reservations. Additionally, for the initial and "pre-opening" services executed before the opening of fully renovated and rebranded facilities, Valamar Riviera d.d. is entitled to a compensation the amount of which depends on the accommodation type and size.
The contract was concluded for a period of 25 years with the possibility of termination or extension.

Related party transactions were as follows:

GROUP

(in thousands of HRK)	2017	2018
Sale of services		
Other related parties to the owners and corporate governance bodies	21	1
	21	**1**
Purchase of services		
Other related parties to the owners and corporate governance bodies	1,474	966
	1,474	**966**
Liabilities		
Other related parties to the owners and corporate governance bodies	425	52
	425	**52**

NOTE 35 – RELATED PARTY TRANSACTIONS / CONTINUED

COMPANY

(in thousands of HRK)	2017	2018
Sale of services		
Subsidiaries	13,912	17,059
Other related parties to the owners and corporate governance bodies	21	1
	13,933	**17,060**
Purchase of services		
Subsidiaries	29,736	864
Other related parties to the owners and corporate governance bodies	1,474	966
	31,210	**1,830**
Dividend income		
Subsidiaries	95	6,051
	95	**6,051**
Trade and other receivables		
Subsidiaries	3,393	1,853
	3,393	**1,853**
Other receivables		
Subsidiaries	-	26
	-	**26**
Trade and other payables		
Subsidiaries	179	252
Other related parties to the owners and corporate governance bodies	425	52
	604	**304**
Loans given		
Subsidiaries	26	28
	26	**28**

Key management personnel compensation

	GROUP		COMPANY	
(in thousands of HRK)	**2017**	**2018**	**2017**	**2018**
Salaries	3,815	5,112	2,849	3,613
Pension contributions	677	872	337	381
Health insurance contribution	949	1,234	693	877
Other costs (contribution and taxes)	1,984	2,653	1,542	1,994
	7,425	**9,871**	**5,421**	**6,865**

The key management of the Group in 2018 consists of 17 members (2017: 10 members).

During 2018 the Company paid Supervisory Board fees in the amount of HRK 2,827 thousand (2017: HRK 2,155 thousand).

NOTE 36A – MERGER OF ENTITIES UNDER COMMON CONTROL

The merger of Puntižela d.o.o into Valamar Riviera d.d. was entered in the court register on March 31 2017. The legal effect of the merger started as of 1 April 2017. After the registration of the merger, Puntižela d.o.o. ceased to exist and Valamar Riviera d.d. became the universal legal successor of the merged company: all the assets, rights and liabilities of Puntižela d.o.o. were transferred to Valamar Riviera d.d.

The merger of Elafiti Babin kuk d.o.o. into Valamar Riviera d.d. was entered in the court register on 29 December 2017. The legal effect of the merger started as of 30 December 2017. After the registration of the merger, Elafiti Babin kuk d.o.o. ceased to exist and Valamar Riviera d.d. became the universal legal successor of the merged company: all the assets, rights and liabilities of Elafiti Babin kuk d.o.o. were transferred to Valamar Riviera d.d.

The statement of comprehensive income of the Group includes the results of the merged companies for the entire current year. The statement of comprehensive income of the Company includes the results of the merged companies from the merger date.

The assets and liabilities at the merger date in 2017 are:

	PUNTIŽELA d.o.o.	ELAFITI BABIN KUK d.o.o.	
(in thousands of HRK)	**31 March 2017**	**29 December 2017**	**Total**
Assets			
Property, plant and equipment (Note 14)	29,294	229,500	**258,794**
Intangible assets (Note 16)	6,600	-	**6,600**
Deferred tax assets (Note 25)	128	15,474	**15,602**
Trade and other receivables	143	220	**363**
Cash and cash equivalents	336	2	**338**
Liabilities			
Payables and other liabilities	(10,122)	(117,325)	(127,447)
Net assets acquired	**26,379**	**127,871**	**154,250**
Less: elimination of the Company's share in subsidiary (Note 17)	**(36,466)**	**(182,036)**	**(218,502)**
Net effect on equity at merger (Note 28)	**(10,087)**	**(54,165)**	**(64,252)**

NOTE 36B - MERGER OF THE PARENT COMPANY

The cross-border merger of EPIC Hospitality Holding GmbH, Vienna into Valamar Riviera d.d. was entered in the court register on 15 June 2018. The legal effect of the said merger started as of 16 June 2018. On the date of registration of the merger, the merged company ceased to exist, and Valamar Riviera d.d. became the universal legal successor of EPIC Hospitality Holding GmbH and took over all its assets and liabilities.

The assets and liabilities at the merger date in 2018 are:

	EPIC HOLDING HOSPITALITY GmbH 15 June 2018
Assets	
Cash and cash equivalents	333
Net assets acquired	**333**
Net effect on equity at merger (capital reserves)	**333**

NOTE 37A – BUSINESS COMBINATION HOTELI MAKARSKA D.D.

Valamar Riviera d.d., together with AZ, acquired control of HOTELI MAKARSKA d.d. on 31 July 2018 when all decisions, adopted at the General Meeting of Hoteli Makarska d.d. held on 17 July 2018, were entered in the court register. On the said meeting, the Statute was changed and the members of the Supervisory Board were replaced.

a) Acquisition cost
The acquisition cost was formed based on fair value of consideration transferred in the amount of HRK 172,577 thousand.

b) Other acquisition relating costs
The Company incurred acquisition relating cost of HRK 1,380 thousand of legal fees and due diligence costs. These cost have been included in other operating expenses.

NOTE 37A – BUSINESS COMBINATION HOTELI MAKARSKA D.D. / CONTINUED

c) Acquired assets and liabilities

(in thousands of HRK)	Fair value at acquisition date
Property, plant and equipment	336,621
Intangible assets	16
Deferred tax assets	824
Financial assets	296
Inventories	1,166
Trade and other receivables	20,957
Cash and cash equivalents	40,944
Assets acquired	**400,824**
Long term liabilities	(19,562)
Deferred tax liabilities	(17,755)
Provisions	(21,022)
Short term liabilities	(189)
Trade and other payables	(22,898)
Liabilities acquired	**(81,426)**
Total identifiable net assets acquired	**319,398**

The fair value of properties and land at the acquisition date differs from the carrying values. The fair value of properties and land was determined by value in use which is based on discounted cash flows for individual properties (cash-generating units). The fair value of other assets and liabilities at the acquisition date corresponds to the carrying value of these assets. On the day of acquisition, the share of non-controlling interests in the equity of the acquired company amounts to 44.55%, according to what is stated non-controlling interest in the amount of HRK 146,821 thousand.

NOTE 37A – BUSINESS COMBINATION HOTELI MAKARSKA D.D. / CONTINUED

(in thousands of HRK)	Fair value at acquisition date
Non-current assets	337,758
Current assets	63,066
Non-current liabilities	(58,340)
Current liabilities	(23,086)
Fair value of net assets acquired	**319,398**
Non-controlling interest (44.55%)	146,821
Fair value of net assets after non-controlling interest	**172,577**
Acquisition cost	172,577
Cash acquired Hoteli Makarska d.d.	(40,944)
Acquisition cost, net of cash acquired	**131,633**

NOTE 37B – BUSINESS COMBINATION VALAMAR OBERTAUERN GMBH

The Company has acquired directly a 10% stake and indirectly, via the company Valamar A GmbH, a 90% stake in Valamar Obertauern GmbH, based in Obertauern, Austria.

a) Acquisition cost

The acquisition cost was formed based on the fair value of consideration transferred in the amount of HRK 17,565 thousand.

b) Other acquisition relating costs

The Company incurred acquisition relating cost of HRK 809 thousand of legal fees and due diligence costs. These cost have been included in other operating expenses.

c) Acquired assets and liabilities

(in thousands of HRK)	Fair value at acquisition date
Property, plant and equipment	61,594
Intangible assets	313
Deferred tax assets	3,328
Trade and other receivables - long term assets	15
Financial assets	24
Inventories	184
Trade and other receivables - short term assets	133
Cash and cash equivalents	4,991
Assets acquired	**70,582**
Long term liabilities	(47,199)
Deferred tax liabilities	(2,323)
Provisions	(53)
Trade and other payables	(3,442)
Liabilities acquired	**(53,017)**
Total identifiable net assets acquired	**17,565**

NOTE 37B – BUSINESS COMBINATION VALAMAR OBERTAUERN GMBH / CONTINUED

(in thousands of HRK)	Fair value at acquisition date
Non-current assets	65,274
Current assets	5,308
Non-current liabilities	(49,575)
Current liabilities	(3,442)
Fair value of net assets acquired	**17,565**
Acquisition cost	17,565
Cash acquired Valamar Obertaurn GmbH	(4,991)
Acquisition cost, net of cash acquired	**12,574**

NOTE 38 – SUBSEQUENT EVENTS

The legal effect of the Decision adopted by the Commercial Court in Split dated 21 November 2018, which confirmed the Bankruptcy Plan (discussed at the bankruptcy creditors' hearing on 8 November 2018) of the company HELIOS FAROS d.d. u stečaju, from Stari Grad, is expected in the first quarter of 2019. The bankruptcy plan has been prepared following the Investment and recapitalisation offer made for the company HELIOS FAROS d.d., which was submitted on 15 May 2017 by Valamar Riviera d.d. together with PBZ Croatia osiguranje dioničko društvo za upravljanje obveznim mirovinskim fondovima, a mandatory pension fund company from Zagreb (hereinafter: PBZ CO). The Company and PBZ CO have established a cooperation to start their joint activity regarding the investment and recapitalisation of the company HELIOS FAROS d.d. u stečaju.

After the reporting date, the Company and the Group did not have any other significant events which would require adjustment or disclosure in these financial statements.

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