

**FTB TURIZAM d.d.**

**ANNUAL REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2018**

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

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**FTB TURIZAM d.d.**

## **Management Report to the shareholders of FTB TURIZAM d.d. for the year 2018**

The Annual Report of the Management Board has been prepared on the basis of Article 250.a of the Companies Act and Article 21, 22 and 24 of the Accounting Act.

The report relates to FTB Turizam Group composed of the companies Hoteli Cavtat d.d. Cavtat, Hoteli Metropol d.o.o. Portorož, Remisens Hotel Group d.o.o. Zagreb and FTB Turizam d.d. Zagreb, with the aim of presenting the most important achievements in the year 2018 as well as an overview of future expectations.

### **Review of operations in 2018 with a focus on the most important financial indicators of business operations**

The consolidated results of the FTB Turizam Group for the year 2018 show that the Group's companies (Hoteli Cavtat d.d., Hoteli Metropol d.o.o., Remisens Hotel Group d.o.o. Zagreb and FTB TURIZAM d.d.) achieved 1% fewer overnight stays than last year. Operating income is about 8% higher than last year and GOP (gross operating profit) is about 5% lower than last year.

In 2018, FTB TURIZAM d.d. (Company) achieved profit before tax in the amount of about HRK 30.2 million which in comparison to the profit achieved in 2017 (in the amount of around HRK 92 thousand) is HRK 30.1 million higher. The Group realised profit before tax of HRK 22,907 thousand (2017: HRK 16,640 thousand).

In June 2018, the General Assembly passed a decision for the amount of HRK 40.3 million to be paid out to the sole shareholder, FTB TURIZAM d.d., which was retained earnings from previous years of Hoteli Cavtat d.d. Additionally, in June 2018, Hoteli Metropol d.o.o. paid out from retained earnings (100%) in the amount of HRK 4,074 thousand (EUR 552 thousand) to the owner, Hoteli Cavtat d.d.

FTB TURIZAM d.d., in the period from June to September 2018, on the basis of a Decision of the Company's General Assembly, carried out the repurchase of its own shares.

On 3 July 2018, the Director of the Company and the Supervisory Board of FTB TURIZAM concluded Annex I to the Agreement on the Performance of the role of Director of the Company from 23 December 2015. The Annex determines that the Supervisory Board of the Group can make decisions about the due date of the payment of the Special Bonus and / or the Advance payment of a Special Bonus stipulated by the Contract from 23 December 2015, by which they may decide that instead of payment in cash, the Special Bonus and/ or Advance payment of the Special Bonus may be settled in kind with treasury shares, provided the Company has a sufficient number of treasury shares on the date of the decision.

On 3 September 2018, on the basis of the Agreement on the Performance of the role of Director of the Company, the Supervisory Board of the Group brought a decision on the payment of a Special Bonus to a member of the Management Board of the Company in the net amount of HRK 22,618 thousand, paid in kind by the Company in own shares. After the release of its own shares, the Company owns 969 own shares in the total nominal amount of HRK 649 thousand, representing 0.3202% of the Company's share capital. After the above-mentioned, the Company purchased an additional 3,516 shares and thus concluded the year 2018 with a total of 4,485 own shares, which makes a total of 1.481954% of the Company's share capital.

In September 2018, FTB TURIZAM d.d., based on the payment of the Special Bonus Advance, calculated tax and income surtax on the amount of distributed own shares from capital in the total amount of HRK 7,620 thousand.

Since the Company did not record provision for the payment of the Special Bonus and/or the Special Bonus Advance in 2016 and 2017, based on the previously mentioned Contract on the Performance of the role of Director of the Company of 23 December 2015, on 31 December 2018 a correction of the entry was made in order to restate and present the expense in the correct period reducing the expense of the distributed bonus for the year 2018 in the amount of HRK 20,706 thousand and recorded an accumulated loss in the amount of HRK 20,706 thousand as of 1 January 2018.

**FTB TURIZAM d.d.**

## **Management Report to the shareholders of FTB TURIZAM d.d. for the year 2018 (continued)**

Indicators of liquidity and solvency and the ratio of debt to equity and cash flows are at required level.

On 21 September 2018, the Company entered into an Agreement on Termination of the Contract with the existing Director, and as of 22 September 2018 the Company is represented by a new Director, Mrs Jasnica Juroš.

### **Key events after the year end**

Hoteli Cavtat d.d. as a company in the Group, after the date of the report, and in January 2019, realized a loan in the amount of HRK 12 million with a term of repayment until 30 September 2022. Other companies in the Group did not have significant events which would affect the past business year after the reporting date.

### **Research and development activities**

Within the framework of activities that the Group and its related companies perform, there are opportunities for significant investment in research and development of new products and technologies.

### **Expected development in the future**

At the end of 2017, reconstruction of the Remisens Albatros Hotel began, valued at HRK 39.8 million. The investment was completed at the beginning of 2018.

The future development of the Group is based on the development of hotel companies and their planned investments.

If the investment studies that are currently being analyzed by the Group and its companies will show an acceptable ratio of return and investment risk, in the future period, and according to the business plan until the year 2020, the Group will continue with an intensive investment cycle.

For the period up to the year 2019, investment in the Remisens Metropol Hotel in the amount of over EUR 6 million is being considered.

In order to realize the planned future investments for the Group, key information includes that on 29 November 2018 at its session the Municipal Council of the Municipality of Konavle issued a Decision on the modification of the Spatial Plan of the Municipality of Konavle, with which restrictions have been removed in respect of the number of beds in the T1 zone, a restriction which prevented the extension of the Albatros Hotel; therefore, further to the above-mentioned, extension of the existing Albatros Hotel in Cavtat is now permissible.

The goal of the all future investments is to increase the quality and, consequently, to strengthen market position and recognition, as well as continuation of the positive trends with respect to financial results.

### **Financial instruments**

The Group's financial instrument management policy defines underlying principles to ensure short-term and long-term liquidity, as well as investment security together with the realization of maximum possible income with minimum risk.

## **Management Report to the shareholders of FTB TURIZAM d.d. for the year 2018 (continued)**

The financial assets of the Group entities consist of cash funds, receivables for short-term borrowings within the Group, receivables from customers and other receivables. Of the total financial assets, the largest portion relates to cash, thus ensuring both short-term and long-term liquidity at the level of the entire Group.

Financial liabilities consist of long-term loans, as well as liabilities to suppliers and other liabilities that are settled within the Group within maturity. The financial instrument management policy determines the Group's exposure to risk as well as measures to hedge these risks.

### **Group risk exposure**

The Group is exposed to financial risk through the operations of its members, particularly market risk (including currency risk, interest rate cash flow and fair value and price risk), credit risk and liquidity risk.

### **Exchange rate risk**

The Group is exposed to foreign exchange rate risk since credit liabilities, trade payables and trade receivables from the companies in the Group are expressed in EUR.

### **Interest rate risk**

The Group is exposed to interest rate risk because debts and deposits are contracted at variable interest rates.

### **Credit risk**

Group is not significantly exposed to this risk.

### **Liquidity risk**

At the Group level, liquidity risk is managed by maintaining adequate reserves, bank assets and provisions for borrowed funds, continuous monitoring of forecast and actual cash flows, as well as comparing the maturity of financial assets and liabilities.

## **Corporate Governance Code Compliance Statement**

Pursuant to Article 272 of the Companies Act (NN 111/93, 34/99, 52/00, 118/03, 107/07 and 148/08, hereinafter referred to as the CA) and Article 22 of the Accounting Act (NN 120/16), the Management Board of **FTB TURIZAM d.d. Zagreb**, Miramarska 24 ("the Company") on 21.03.2019, brings the following

### **Corporate Governance Code Compliance Statement**

1. The Company voluntarily applies the Corporate Governance Code prescribed by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d., Zagreb.
2. In 2018, the Company followed and applied the recommendations set out in the Code, publishing all the information whose publishing is anticipated by positive regulations as well as information that is in the best interests of the Company's shareholders. The Company does not deviate from the Corporate Governance Code.
3. In accordance with a requirement of the Code and with the directives of the CA, the Supervisory Board conducts internal control of the Company through regular audits of the presented reports. The members of the Supervisory Board are regularly (at least once a month) provided with detailed information on the management and operation of the Company. At the Supervisory Boards meetings, all the matters within the competence of that body, prescribed by the CA and the Company's Articles of Association, are discussed and decisions are made. The Supervisory Board's report on the conducted supervision of the management of business activities is a part of the Company's Annual Report submitted to the General Assembly. The Management Board is responsible for monitoring whether the Company maintains business and other books and documentation, compiles accounting documents, accurately evaluates assets and liabilities and prepares financial and other reports in accordance with accounting regulations and standards, as well as applicable laws and regulations.

The Company does not have a formal diversity policy in place with respect to gender, age, education or education for its executive, management and supervisory bodies. The Company's policy of appointment to executive bodies is carried out in accordance with the needs of specific business activities in terms of knowledge, qualifications and competence on the part of potential executives, without taking into account gender or age. The Company's management and oversight bodies also require certain knowledge, education and competence on the part of potential executives in these bodies, in accordance with the criteria and decisions of the Supervisory Board and the Company's Assembly.

**Corporate Governance Code Compliance Statement (continued)**

4. The ten largest shareholders as at 31 December 2018 were as follows:

| <b>Nr.</b> | <b>Shareholder</b>                                | <b>Number of shares</b> | <b>Share in ownership %</b> |
|------------|---|-------------------------|-----------------------------|
| 1.         | SNH GAMA d.d.                                     | 184,782                 | 61.0565                     |
| 2.         | SN PECTINATUS d.d.                                | 75,660                  | 24.9999                     |
| 3.         | CERP  | 11,289                  | 3.7302                      |
| 4.         | FTB TURIZAM d.d.                                  | 4,485                   | 1.482                       |
| 5.         | CROATIA BANKA d.d. /CRBA0033                      | 1,060                   | 0.3502                      |
| 6.         | HPB d.d.- custodial account                       | 1,041                   | 0.344                       |
| 7.         | ADDIKO BANK D.D./ PBZ CO OMF - KATEGORIJA A (1/1) | 1,000                   | 0.3304                      |
| 8.         | HPB d.d./HPBS-6                                   | 739                     | 0.2442                      |
| 9.         | OTP BANKA d.d.- custodial account                 | 664                     | 0.2194                      |
| 10.        | OTP BANKA d.d./ KD VICTORIA FOND (1/1)            | 587                     | 0.194                       |

In accordance with the Company's Articles of Association, the voting right of a shareholder is not limited to a certain percentage or number of votes, nor are there time constraints to realise voting rights. Each regular share entitles the shareholder to one vote at the General Assembly.

The Company's rights and obligations arising from the acquisition of its own shares are achieved in accordance with the directives of the CA.

5. The Management Board of the Company is composed of one member:

- Jasnica Juroš, Member of the Management Board

The Management Board manages the Company's business in accordance with the Company's Articles of Association and legal regulations.

The Management Board appoints and revokes the Supervisory Board in accordance with the Company's Articles of Association and the CA. The Supervisory Board is composed of the following members:

- Tin Dolički, President
- Darko Ostoja, Vice president
- Joško Marić, Member

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

## Statements of the Management's responsibilities

The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and its cash flows, in accordance with International Financial Reporting standards as adopted by European Union, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management is also responsible for the preparation and content of the Management Report and the Statement of the implementation of corporate governance code, as required by the Croatian Accounting Act. The Management Report and the Corporate governance statement set out on pages 1 to 5, were authorised for issuance by the Management Board. The Management Board is responsible for submitting the Annual Report to the Supervisory Board, including financial statements, and the Supervisory Board is required to approve the financial statements for submission to the General Assembly of Shareholders for adoption.

The Annual report was approved by the Management Board on 21 March 2019 for submission to the Supervisory Board and was signed below by:



Jasnica Juroš

Member of the Management Board





## **Independent Auditors' Report to the shareholders of FTB Turizam d.d.**

### **Report on the Audit of the Separate and Consolidated Financial Statements**

#### ***Opinion***

We have audited the separate financial statements of FTB Turizam d.d. ("the Company") and consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of, respectively, the Company and the Group as at 31 December 2018, and their respective statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

#### ***Basis for Opinion***

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

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## Independent Auditors' Report to the shareholders of FTB Turizam d.d. (continued)

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

#### 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.

#### ***Impairment and useful lives of tourism properties (consolidated financial statements)***

The carrying amount of *property, plant and equipment* of the Group as at 31 December 2018 was HRK 391,502 thousand (2017: HRK 394,978 thousand).

Refer to Note 2.4 of *Accounting policies*, Note 4(a) of *Critical accounting estimates*, and Note 12 on *Property, plant and equipment* of the financial statements.

#### Key audit matter

#### How our audit addressed the matter

As at 31 December 2018, the carrying amount of *property, plant and equipment* represented approximately 87% of the total assets of the Group. These assets, carried at cost less accumulated depreciation and any accumulated impairment losses, consist primarily of tourism properties and related assets, and are subject to annual review to assess whether or not they may be impaired.

In the process, the Group first identifies its tourism properties where there is an indication of impairment. These properties are then subjected to a detailed impairment review through analysis of their value-in-use (based on an internal discounted cash flow model) or the estimate of their fair value less costs to sell. Any such impairment would be recognized in the amount by which the carrying amount of the asset (or its cash-generating unit, CGU) exceeds the recoverable amount.

The Group's assessment relies on significant judgments and assumptions about tourism flows in the future, including: discount rates, growth rates, occupancy rates, asset useful lives, terminal values and revenue per available room.

Application of significant judgement is also required in assessing the continued relevance of the assets' useful lives. In conjunction with its year end reporting, the Group has assessed

Our audit procedures in this area included, among others:

- Evaluating the appropriateness of allocation of assets to CGUs, based on our understanding of the Group's operations and business units;
- Evaluating the appropriateness of the Group's judgments regarding identification of tourist properties or related CGUs which may require further impairment testing. This included, but was not limited to, comparing of the assets' (or CGUs') actual performance to previous forecasts;
- For the assets or CGUs that required further impairment testing, challenging the key assumptions used in determining their recoverable amounts. This included a comparison of occupancy rates, revenue per available room and market growth rates to externally derived data including external hotel industry reports and quoted prices for similar assets. We also analysed other key inputs such as estimated future costs, discount rates, asset useful life estimates and terminal multipliers, and considered the historical performance of the properties;
- Analysing the methodology used in determining the remaining useful lives of the tourism properties and challenging the key assumptions used in the area by making enquiries of the Management Board, the Group's technical experts and its finance team members, and also by



## Independent Auditors' Report to the shareholders of FTB Turizam d.d. (continued)

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

#### Key Audit Matters (continued)

| Key audit matter   | How our audit addressed the matter   |
|--|--|
| <p>the remaining useful lives for tourism properties based on the detailed analysis performed for each component of the property, by applying inputs from the Group's technical experts as well as the analysis provided by an independent appraiser engaged by the Group.</p> <p>Due to the above factors, accounting for impairment and useful lives of tourism properties were determined to be a key audit matter.</p> | <p>reference to our understanding of the future utilisation of assets by the Group and the depreciation policies applied by other market participants operating similar assets;</p> <ul style="list-style-type: none"><li>• Evaluating the Group's analysis of the sensitivity of the impairment test's results, in particular in respect of the assumptions with the greatest potential effect on the test results.</li></ul> |

#### Other Information

Management is responsible for the other information. The other information comprises the Management Report and the Corporate Governance Statement included in the Annual Report of the Company and the Group, but does not include 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 and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the 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 the Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the specific information in the Corporate Governance Statement required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Corporate Governance Statement") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.



## **Independent Auditors' Report to the shareholders of FTB Turizam d.d. (continued)**

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

#### ***Other Information (continued)***

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

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the separate and consolidated financial statements are prepared, is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

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

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the 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 the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and/or the Group or to cease operations, or has no realistic alternative but to do so.

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



## **Independent Auditors' Report to the shareholders of FTB Turizam d.d. (continued)**

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

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

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

- Identify and assess the risks of material misstatement of the 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 controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



## **Independent Auditors' Report to the shareholders of FTB Turizam d.d. (continued)**

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

#### ***Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements (continued)***

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

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

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

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

We were appointed by those charged with governance on 11 May 2018 to audit the separate and consolidated financial statements of the Company and the Group for the year ended 31 December 2018. Our total uninterrupted period of engagement is three years, covering the periods ending 31 December 2016 to 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 21 March 2019;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit;

The engagement partner on the audit resulting in this independent auditors' report is Domagoj Hrkać.

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

**21 March 2019**

  
Domagoj Hrkać  
Director, Croatian Certified Auditor

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**CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018**

|   | Note | 2018             | 2017             | 2018            | 2017           |
|---|------|------------------|------------------|-----------------|----------------|
|   |      | Group            | Restated*        | Company         | Restated*      |
| <i>(in thousands of HRK)</i>                              |      |                  |                  |                 |                |
| Revenue   | 6    | 180,269          | 167,145          | -               | -              |
| Other income  |      | 2,501            | 4,038            | -               | 1              |
|   |      | <u>182,770</u>   | <u>171,183</u>   | <u>-</u>        | <u>1</u>       |
| Cost of materials and services                            | 7    | (44,311)         | (40,170)         | (443)           | (237)          |
| Staff costs   | 8    | (45,765)         | (40,753)         | (9,532)         | (7,441)        |
| Depreciation and amortisation                             |      | (44,777)         | (44,968)         | -               | -              |
| Impairment loss on trade receivables                      | **   | (764)            | (1,162)          | -               | -              |
| Other operating expenses                                  | 9    | (22,611)         | (21,943)         | (176)           | (11)           |
|   |      | <u>(158,228)</u> | <u>(148,996)</u> | <u>(10,151)</u> | <u>(7,689)</u> |
| <b>Operating profit/(loss)</b>                            |      | <u>24,542</u>    | <u>22,187</u>    | <u>(10,151)</u> | <u>(7,688)</u> |
| Finance income  |      | 2,275            | 1,451            | 40,429          | 339            |
| Finance costs   |      | (3,910)          | (6,998)          | (72)            | (1,206)        |
| <b>Net finance income / (costs)</b>                       | 10   | <u>(1,635)</u>   | <u>(5,547)</u>   | <u>40,357</u>   | <u>(867)</u>   |
| <b>Profit/(loss) before tax</b>                           |      | <u>22,907</u>    | <u>16,640</u>    | <u>30,206</u>   | <u>(8,555)</u> |
| Income tax expense  | 11   | (6,058)          | (3,799)          | -               | (11)           |
| <b>Profit/(loss) for the year</b>                         |      | <u>16,849</u>    | <u>12,841</u>    | <u>30,206</u>   | <u>(8,566)</u> |
| <b>Other comprehensive income</b>                         |      |                  |                  |                 |                |
| <i>Items that may be reclassified to profit or loss</i>   |      |                  |                  |                 |                |
| Foreign currency translation difference                   |      | (6,127)          | 359              | -               | -              |
| <b>Other comprehensive income for the period</b>          |      | <u>(6,127)</u>   | <u>359</u>       | <u>-</u>        | <u>-</u>       |
| <b>Total comprehensive income/(loss) for the period</b>   |      | <u>10,722</u>    | <u>13,200</u>    | <u>30,206</u>   | <u>(8,566)</u> |
| <b>Profit attributable to:</b>                            |      |                  |                  |                 |                |
| Owners of the parent                                      |      | 16,734           | 12,749           | -               | -              |
| Non-controlling interests                                 |      | 115              | 92               | -               | -              |
|   |      | <u>16,849</u>    | <u>12,841</u>    | <u>-</u>        | <u>-</u>       |
| <b>Total comprehensive income/(loss) attributable to:</b> |      |                  |                  |                 |                |
| Owners of the parent                                      |      | 10,607           | 13,108           | -               | -              |
| Non-controlling interests                                 |      | 115              | 92               | -               | -              |
|   |      | <u>10,722</u>    | <u>13,200</u>    | <u>30,206</u>   | <u>(8,566)</u> |
| <b>Earnings per share basic and diluted (in HRK)</b>      |      | <u>55.29</u>     | <u>42.13</u>     |                 |                |

\* See note 2.1.1 and 2.1.2

\*\* The Company has initially applied IFRS 15 and IFRS 9 as at 1 January 2018. Under the transition methods chosen, comparative information has not been restated except for separately presenting impairment losses on trade receivables.

Accompanying notes form an integral part of these financial statements.

**CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 31 DECEMBER 2018**

|   | Note | 31 December    | Restated*      | Restated*      | 31 December    | Restated*      | Restated*      |
|---|------|----------------|----------------|----------------|----------------|----------------|----------------|
|   |      | 2018           | 31 December    | 1 January 2017 | 2018           | 31 December    | 1 January 2017 |
| (in thousands of HRK)                                 |      | Group          | Group          | Group          | Company        | Company        | Company        |
| <b>ASSETS</b>   |      |                |                |                |                |                |                |
| <b>Non-current assets</b>                             |      |                |                |                |                |                |                |
| Intangible assets                                     | 14   | 7,117          | 6,393          | 6,727          | -              | -              | -              |
| Property, plant and equipment and investment property | 13   | 391,502        | 394,978        | 362,060        | -              | -              | -              |
| Investments in subsidiary                             | 15   | -              | -              | -              | 202,962        | 188,962        | 188,962        |
| Deferred tax assets                                   | 11   | 786            | 789            | 789            | -              | -              | -              |
| Other assets  |      | 143            | 143            | 144            | -              | -              | -              |
|   |      | <u>399,548</u> | <u>402,303</u> | <u>369,720</u> | <u>202,962</u> | <u>188,962</u> | <u>188,962</u> |
| <b>Current assets</b>                                 |      |                |                |                |                |                |                |
| Loans given to related parties                        | 25   | 33,000         | -              | -              | 5,000          | -              | 12,070         |
| Inventories   |      | 1,871          | 1,523          | 1,655          | -              | -              | -              |
| Income tax receivable                                 |      | -              | 1              | 21             | -              | -              | 21             |
| Trade and other receivables                           | 16   | 7,899          | 5,843          | 7,467          | 73             | 1              | 156            |
| Cash and cash equivalents                             | 17   | 9,920          | 52,762         | 42,370         | 493            | 13,975         | 1,653          |
|   |      | <u>52,690</u>  | <u>60,129</u>  | <u>51,513</u>  | <u>5,566</u>   | <u>13,976</u>  | <u>13,900</u>  |
|   |      | -              | -              | -              | -              | -              | -              |
| <b>Total assets</b>                                   |      | <u>452,238</u> | <u>462,432</u> | <u>421,233</u> | <u>208,528</u> | <u>202,938</u> | <u>202,861</u> |
| <b>EQUITY</b>   |      |                |                |                |                |                |                |
| Share capital   | 18   | 202,769        | 202,769        | 202,769        | 202,769        | 202,769        | 202,769        |
| Legal reserves  |      | 7              | 3              | 2              | 7              | 3              | 2              |
| Treasury shares                                       |      | (8,963)        | -              | -              | (8,963)        | -              | -              |
| Reserve for own shares                                |      | 8,963          | -              | -              | 8,963          | -              | -              |
| Other reserves  | 18   | 33,892         | 39,134         | 37,541         | -              | -              | -              |
| Retained earnings/(accumulated loss)                  |      | 3,417          | (3,465)        | (14,979)       | 670            | (20,569)       | (12,002)       |
| Non-controlling interests                             | 18   | 780            | 665            | 573            | -              | -              | -              |
|   |      | <u>240,865</u> | <u>239,106</u> | <u>225,906</u> | <u>203,446</u> | <u>182,203</u> | <u>190,769</u> |
| <b>Non-current liabilities</b>                        |      |                |                |                |                |                |                |
| Borrowings  | 19   | 113,062        | 135,246        | 119,035        | -              | -              | -              |
| Deferred tax liabilities                              | 11   | 11,219         | 12,235         | 13,082         | -              | -              | -              |
| Government grants                                     | 22   | 11,772         | 12,295         | 13,083         | -              | -              | -              |
| Provisions  | 20   | 1,132          | 21,812         | 14,120         | -              | 20,706         | 12,059         |
|   |      | <u>137,185</u> | <u>181,588</u> | <u>159,320</u> | <u>-</u>       | <u>20,706</u>  | <u>12,859</u>  |
| <b>Current liabilities</b>                            |      |                |                |                |                |                |                |
| Borrowings  | 19   | 59,089         | 22,011         | 21,895         | 5,000          | -              | -              |
| Income tax liabilities                                |      | 3,011          | 1,745          | 825            | -              | -              | -              |
| Trade and other payables                              | 21   | 12,088         | 17,982         | 13,287         | 82             | 29             | 34             |
|   |      | <u>74,188</u>  | <u>41,738</u>  | <u>36,007</u>  | <u>5,082</u>   | <u>29</u>      | <u>34</u>      |
| <b>Total liabilities and equity</b>                   |      | <u>452,238</u> | <u>462,432</u> | <u>421,233</u> | <u>208,528</u> | <u>202,938</u> | <u>202,861</u> |

\* See note 2.1.1 and 2.1.2

Accompanying notes form an integral part of these financial statements.



FTB TURIZAM d.d.

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

GROUP

|  |   | Share capital | Legal reserves | Treasury shares | Reserves for treasury shares | Other reserves | Retained earnings / (accumulated loss) | Non-controlling interest | Total equity |
|--|---|---------------|----------------|-----------------|------------------------------|----------------|--|--------------------------|--------------|
|  |   | 202,769       | 2              | -               | -                            | 37,541         | (2,920)                                | 573                      | 237,965      |
|  |   | 202,769       | 2              | -               | -                            | 37,541         | (12,059)                               | 573                      | 225,906      |
|  | 2.1.2   |               |                |                 |                              |                |  |                          |              |
|  | Impact of correction of errors                    |               |                |                 |                              |                | (12,059)                               |                          | (12,059)     |
|  | Restated balance at 1 January 2017                | 202,769       | 2              | -               | -                            | 37,541         | (14,979)                               | 573                      | 225,906      |
|  | Profit for the year, restated                     | -             | -              | -               | -                            | -              | 12,749                                 | 92                       | 12,841       |
|  | Other comprehensive income                        | -             | -              | -               | -                            | 359            | -                                      | -                        | 359          |
|  | Foreign currency translation difference           | -             | -              | -               | -                            | -              | -                                      | -                        | -            |
|  | Total other comprehensive income (Restated)       | -             | -              | -               | -                            | 359            | 12,749                                 | 92                       | 13,200       |
|  | Transactions with owners directly in equity       |               |                |                 |                              |                |  |                          |              |
|  | Transfer to reserves                              | -             | 1              | -               | -                            | 1,234          | (1,235)                                | -                        | -            |
|  | Total transactions with owners directly in equity | -             | 1              | -               | -                            | 1,234          | (1,235)                                | -                        | -            |
|  | Balance at 31 December 2017 (restated)            | 202,769       | 3              | -               | -                            | 39,134         | (3,465)                                | 665                      | 239,106      |
|  | Profit for the year                               | -             | -              | -               | -                            | -              | 16,734                                 | 115                      | 16,849       |
|  | Other comprehensive income                        | -             | -              | -               | -                            | (6,127)        | -                                      | -                        | (6,127)      |
|  | Foreign currency translation difference           | -             | -              | -               | -                            | -              | -                                      | -                        | -            |
|  | Total comprehensive income                        | -             | -              | -               | -                            | (6,127)        | 16,734                                 | 115                      | 10,722       |
|  | Transactions with owners directly in equity       |               |                |                 |                              |                |  |                          |              |
|  | Acquisition of own shares                         | -             | -              | (8,963)         | -                            | -              | -                                      | -                        | (8,963)      |
|  | Transfer to reserves                              | -             | 4              | -               | 8,963                        | 885            | (9,852)                                | -                        | -            |
|  | Total transactions with owners directly in equity | -             | 4              | (8,963)         | 8,963                        | 885            | (9,852)                                | -                        | (8,963)      |
|  | Balance at 31 December 2018                       | 202,769       | 7              | (8,963)         | 8,963                        | 33,892         | 3,417                                  | 780                      | 240,865      |

Accompanying notes form an integral part of these financial statements.

FTB TURIZAM d.d.

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

| COMPANY   |       |               |                |                 |                              |                   |              |  |  |
|---|-------|---------------|----------------|-----------------|------------------------------|-------------------|--------------|--|--|
| (in thousands of HRK)                             | Note  | Share capital | Legal reserves | Treasury shares | Reserves for treasury shares | Retained earnings | Total equity |  |  |
| Balance at 1 January 2017, as previously reported |       | 202,769       | 2              | -               | -                            | 57                | 202,828      |  |  |
| Impact of correction of errors                    | 2.1.2 | -             | -              | -               | -                            | (12,059)          | (12,059)     |  |  |
| Restated balance at 1 January 2017                |       | 202,769       | 2              | -               | -                            | (12,002)          | 190,769      |  |  |
| Transfer from retained earnings                   |       | -             | 1              | -               | -                            | (1)               | -            |  |  |
| Loss for the year, restated                       |       | -             | -              | -               | -                            | (8,566)           | (8,566)      |  |  |
| Balance at 31 December 2017                       |       | 202,769       | 3              | -               | -                            | (20,569)          | 182,203      |  |  |
| Profit for the year                               |       | -             | -              | -               | -                            | 30,206            | 30,206       |  |  |
| Total other comprehensive income                  |       | -             | -              | -               | -                            | 30,206            | 30,206       |  |  |
| Transactions with owners directly in equity       |       | -             | -              | -               | -                            | -                 | -            |  |  |
| Transfer from retained earnings                   |       | -             | 4              | -               | 8,963                        | (8,967)           | -            |  |  |
| Acquisition of own shares                         | 18    | -             | -              | (8,963)         | -                            | -                 | (8,963)      |  |  |
| Total transactions with owners directly in equity |       | -             | 4              | (8,963)         | 8,963                        | (8,967)           | (8,963)      |  |  |
| Balance at 31 December 2018                       | 18    | 202,769       | 7              | (8,963)         | 8,963                        | 670               | 203,446      |  |  |

Accompanying notes form an integral part of these financial statements.

**CASH FLOW  
FOR THE YEAR ENDED 31 DECEMBER 2018**

| <i>(in thousands of HRK)</i>                                |    | <b>2018</b>      | <b>2017</b>     | <b>2018</b>     | <b>2017</b>     |
|---|----|------------------|-----------------|-----------------|-----------------|
|   |    | <b>Group</b>     | <b>Group*</b>   | <b>Company</b>  | <b>Company*</b> |
| <b>Cash flow from operating activities</b>                  |    |                  |                 |                 |                 |
| Cash generated from operations                              | 22 | 66,125           | 79,581          | (8,258)         | 1,449           |
| Income tax paid   | 11 | (5,804)          | (3,706)         | -               | 9               |
| Interest paid   |    | (3,557)          | (4,646)         | (72)            | -               |
| <b>Net cash flow from operating activities</b>              |    | <b>56,764</b>    | <b>71,229</b>   | <b>(8,330)</b>  | <b>1,458</b>    |
| <b>Cash flow from investing activities</b>                  |    |                  |                 |                 |                 |
| Purchase of property, plant and equipment                   |    | (50,851)         | (77,592)        | -               | -               |
| Purchase of intangible assets                               |    | (1,037)          | (9)             | -               | -               |
| Proceeds from disposal of property, plant and equipment     |    | 156              | 288             | -               | -               |
| Dividends   |    | -                | -               | 40,338          | -               |
| Investment in subsidiaries                                  |    | -                | -               | (14,000)        | -               |
| Treasury shares purchase                                    |    | (31,581)         | -               | (31,581)        | -               |
| Loans granted   |    | (33,000)         | -               | (5,000)         | -               |
| Loans collected   |    | -                | -               | -               | 12,070          |
| Interest received   |    | 463              | -               | 91              | -               |
| <b>Net cash from/(used) in investing activities</b>         |    | <b>(115,850)</b> | <b>(77,313)</b> | <b>(10,152)</b> | <b>12,070</b>   |
| <b>Cash flow from financing activities</b>                  |    |                  |                 |                 |                 |
| Proceeds from borrowings                                    |    | 63,500           | 33,750          | 5,000           | -               |
| Repayments of borrowings                                    |    | (47,256)         | (17,274)        | -               | -               |
| <b>Net cash from/(used) in financing activities</b>         |    | <b>16,244</b>    | <b>16,476</b>   | <b>5,000</b>    | <b>-</b>        |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |    | <b>(42,842)</b>  | <b>10,392</b>   | <b>(13,482)</b> | <b>13,528</b>   |
| Cash and cash equivalents at beginning of year              |    | 52,762           | 42,370          | 13,975          | 1,653           |
| Cash and cash equivalents at end of year                    | 17 | <b>9,920</b>     | <b>52,762</b>   | <b>493</b>      | <b>15,181</b>   |

\* Restated, see Note 2.1.2

FTB TURIZAM d.d.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**NOTE 1 – GENERAL INFORMATION**

FTB Turizam Group consists of FTB Tourism d.d. (parent company) and subsidiaries. The headquarters of subsidiaries, the shares of the parent company in ownership and businesses are as follows:

| <b>Name</b>            | <b>Share</b> | <b>Headquarters</b> | <b>Business</b>                    |
|------------------------|--------------|---------------------|------------------------------------|
| Hoteli Cavtat d.d.     | 100%         | Cavtat, Croatia     | hotels and hospitality             |
| Hoteli Metropol d.o.o. | 100%         | Portorož, Slovenia  | hotels and hospitality             |
| Remisens d.o.o.        | 67%          | Opatija, Croatia    | business consulting and management |

**Management Board and Supervisory Board**

*Management Board*

Jasnica Juroš                      Member of the Management Board (since 22 September 2018)  
Dr. sc. Igor Šehanović            President (since 22 September 2015 up to 21 September 2018)

The President of the Management Board represent the Company solely and independently.

*Supervisory Board*

Tin Dolički, President of the Supervisory Board  
Joško Marić, Member  
Darko Ostoja, Member

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

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

**2.1 Basis of preparation**

Financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”).

The financial statements have been prepared under the historical cost convention. These financial statements have been prepared under the assumption that the Company will be able to continue as a going concern.

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

These financial statements represent the unconsolidated and consolidated financial position and results of the Company or the Group. Where the information in the financial statements is relevant and applicable both for the Group and the Company we refer to the Group. If the information for Group and the Company are different, then both information for Group and the Company are separately presented.

This is the first set of the Company's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described below.

**2.1.1 Changes in accounting policies and disclosures**

The Group has initially applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards except as explained below.

**A. IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group analysed the impact of IFRS 15 application on Group's revenue streams and based on disclosure of comparable under both standards, the Group did not identify any impact neither to the opening balance of equity nor on the Group's financial statements. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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

2.1.1 Changes in accounting policies and disclosures (*continued*)

**B. IFRS 9 *Financial Instruments***

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Previously, the Company's approach was to include the impairment of trade receivables in other expenses. Consequently, the Group reclassified impairment losses amounting to HRK 1,162 thousand, recognised under IAS 39, from "other operating expenses" to impairment loss on trade receivables in the statement of comprehensive income for the year ended 31 December 2017. Impairment losses on other financial assets are presented under finance costs, similar to the presentation under IAS 39, and not presented separately in the statement of comprehensive income due to materiality considerations.

The Group has adopted IFRS 9 using the cumulative effect method (under this method the cumulative effect of initially applying the new standard is recorded as an adjustment to the opening balance of equity at the date of initial application and comparative period amounts were not restated). The Group analyzed the impact of IFRS 9 application and the Group did not identified any material impact to the opening balance of equity except for restatement of comparative information for separately presenting impairment losses on trade receivables.

***Classification and measurement of financial assets and financial liabilities***

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*2.1.1 Changes in accounting policies and disclosures *(continued)*B. IFRS 9 *Financial Instruments (continued)*

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's and Company's financial assets and financial liabilities as at 1 January 2018.

## Group

| <i>(in thousands of HRK)</i>       | Original clasification<br>under IAS 39 | New clasification<br>under IFRS 9 | Original<br>carrying amount<br>under IAS 39 | New carrying<br>amount under<br>IFRS 9 |
|------------------------------------|--|-----------------------------------|---|--|
| <b>Financial assets</b>            |  |                                   |   |  |
| Trade and other receivables        | Loans and receivables                  | Amortised cost                    | 5,843                                       | 5,843                                  |
| Cash and cash equivalents          | Loans and receivables                  | Amortised cost                    | 52,762                                      | 52,762                                 |
| <b>Total financial assets</b>      |  |                                   | <b>58,605</b>                               | <b>58,605</b>                          |
| <b>Financial liabilities</b>       |  |                                   |   |  |
| Borrowings                         | Other financial<br>liabilities         | Other financial<br>liabilities    | 157,257                                     | 157,257                                |
| Trade and other payables           | Other financial<br>liabilities         | Other financial<br>liabilities    | 17,982                                      | 17,982                                 |
| <b>Total financial liabilities</b> |  |                                   | <b>175,239</b>                              | <b>175,239</b>                         |

## Company

| <i>(in thousands of HRK)</i>       | Original clasification<br>under IAS 39 | New clasification<br>under IFRS 9 | Original<br>carrying amount<br>under IAS 39 | New carrying<br>amount under<br>IFRS 9 |
|------------------------------------|--|-----------------------------------|---|--|
| <b>Financial assets</b>            |  |                                   |   |  |
| Trade and other receivables        | Loans and receivables                  | Amortised cost                    | 1   | 1                                      |
| Cash and cash equivalents          | Loans and receivables                  | Amortised cost                    | 13,975                                      | 13,975                                 |
| <b>Total financial assets</b>      |  |                                   | <b>13,976</b>                               | <b>13,976</b>                          |
| <b>Financial liabilities</b>       |  |                                   |   |  |
| Trade and other payables           | Other financial<br>liabilities         | Other financial<br>liabilities    | 29  | 29                                     |
| <b>Total financial liabilities</b> |  |                                   | <b>29</b>                                   | <b>29</b>                              |

The financial assets as at 31 December 2018 include: trade and other receivables and cash and cash equivalents. These were classified as loans and receivables under IAS 39 and are now classified at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)2.1.1 Changes in accounting policies and disclosures (*continued*)*Impairment of financial assets*

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. Initial effect was immaterial for the Group, therefore no effects were recognized on retained earnings and reserves as of 1 January 2018. Additional information about how the Group measures the allowance for impairment is described in Note 2.7.

## 2.1.2 Correction of errors

In 2015, the Company has concluded the agreement with the Director according to which the Director is entitled to reward bonus. Due to the error, the Group and the Company have not recorded required provision and expense in prior periods. The Group and the Company have corrected error by restating each of the affected financial statements line items for prior periods.

The change in the financial information is recorded in the statement of financial position and the statement of changes in equity as at 1 January and 31 December 2017 and the statement of comprehensive income for the year 2017.

The effects of the error to the Group and the Company's comparative information on the statement of financial position and statement of changes in equity are presented below:

## Group

## Consolidated statement of financial position

| At 1 January 2017                    | Impact of correction of error |                 |                |
|--------------------------------------|-------------------------------|-----------------|----------------|
|                                      | As previously reported        | Adjustments     | As restated    |
| <i>(in thousands of HRK)</i>         |                               |                 |                |
| <b>Total assets</b>                  | <b>421,233</b>                | -               | <b>421,233</b> |
| Retained earnings/(accumulated loss) | (2,920)                       | (12,059)        | (14,979)       |
| Other equity and reserves            | 228,826                       | -               | 228,826        |
| <b>Total equity and reserves</b>     | <b>225,906</b>                | <b>(12,059)</b> | <b>213,847</b> |
| Provisions                           | 2,061                         | 12,059          | 14,120         |
| Other liabilities                    | 193,266                       | -               | 193,266        |
| <b>Total liabilities</b>             | <b>195,327</b>                | <b>12,059</b>   | <b>207,386</b> |
| <hr/>                                |                               |                 |                |
| At 31 December 2017                  | Impact of correction of error |                 |                |
|                                      | As previously reported        | Adjustments     | As restated    |
| <i>(in thousands of HRK)</i>         |                               |                 |                |
| <b>Total assets</b>                  | <b>462,432</b>                | -               | <b>462,432</b> |
| Retained earnings/(accumulated loss) | 17,242                        | (20,706)        | (3,464)        |
| Other equity and reserves            | 242,571                       | -               | 242,571        |
| <b>Total equity and reserves</b>     | <b>259,813</b>                | <b>(20,706)</b> | <b>239,107</b> |
| Provisions                           | 1,106                         | 20,706          | 21,812         |
| Other liabilities                    | 201,513                       | -               | 201,513        |
| <b>Total liabilities</b>             | <b>202,619</b>                | <b>20,706</b>   | <b>223,325</b> |



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*2.1.2 Correction of errors *(continued)*Group *(continued)*

## Consolidated statement of comprehensive income

| For 2017                          | Impact of correction of error |                |               |
|-----------------------------------|-------------------------------|----------------|---------------|
|                                   | As previously reported        | Adjustments    | As restated   |
| <i>(in thousands of HRK)</i>      |                               |                |               |
| Staff costs                       | (33,312)                      | (7,441)        | (40,753)      |
| Finance costs                     | (5,792)                       | (1,206)        | (6,998)       |
| Others                            | 60,593                        | -              | 60,593        |
| <b>Profit</b>                     | <b>21,489</b>                 | <b>(8,647)</b> | <b>12,842</b> |
| <b>Total comprehensive income</b> | <b>13,200</b>                 | <b>(8,647)</b> | <b>4,553</b>  |

## Company

## Statement of financial position

| At 1 January 2017                    | Impact of correction of error |                 |                |
|--------------------------------------|-------------------------------|-----------------|----------------|
|                                      | As previously reported        | Adjustments     | As restated    |
| <i>(in thousands of HRK)</i>         |                               |                 |                |
| <b>Total assets</b>                  | <b>202,862</b>                | -               | <b>202,862</b> |
| Retained earnings/(accumulated loss) | 57                            | (12,059)        | (12,002)       |
| Other equity and reserves            | 202,771                       | -               | 202,771        |
| <b>Total equity and reserves</b>     | <b>202,828</b>                | <b>(12,059)</b> | <b>190,769</b> |
| Provisions                           | -                             | 12,059          | 12,059         |
| Other liabilities                    | 34                            | -               | 34             |
| <b>Total liabilities</b>             | <b>34</b>                     | <b>12,059</b>   | <b>12,093</b>  |

| At 31 December 2017                  | Impact of correction of error |                 |                |
|--------------------------------------|-------------------------------|-----------------|----------------|
|                                      | As previously reported        | Adjustments     | As restated    |
| <i>(in thousands of HRK)</i>         |                               |                 |                |
| <b>Total assets</b>                  | <b>202,938</b>                | -               | <b>202,938</b> |
| Retained earnings/(accumulated loss) | 137                           | (20,706)        | (20,569)       |
| Other equity and reserves            | 202,772                       | -               | 202,772        |
| <b>Total equity and reserves</b>     | <b>202,909</b>                | <b>(20,706)</b> | <b>182,203</b> |
| Provisions                           | -                             | 20,706          | 20,706         |
| Other liabilities                    | 29                            | -               | 29             |
| <b>Total liabilities</b>             | <b>29</b>                     | <b>20,706</b>   | <b>20,735</b>  |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.1.2 Correction of errors (continued)**

**Company (continued)**

**Statement of comprehensive income**

| For 2017                          | Impact of correction of error |                |                |
|-----------------------------------|-------------------------------|----------------|----------------|
|                                   | As previously reported        | Adjustments    | As restated    |
| <i>(in thousands of HRK)</i>      |                               |                |                |
| Staff costs                       | -                             | (7,441)        | (7,441)        |
| Finance costs                     | 339                           | (1,206)        | (867)          |
| Others                            | (258)                         | -              | (258)          |
| <b>Profit/(loss) for the year</b> | <b>81</b>                     | <b>(8,647)</b> | <b>(8,566)</b> |
| <b>Total comprehensive income</b> | <b>81</b>                     | <b>(8,647)</b> | <b>(8,566)</b> |

Correction of the error did not result in the change in the total cash flow from operating, investing and financing activities.

**2.2 Consolidation**

*(a) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

The purchase method is used to report the acquisition of subsidiaries. Acquired recognizable assets, liabilities and contingent liabilities in the business combination are initially measured at fair value at the date of acquisition, irrespective of the non-controlling interest. The Group recognizes non-controlling interest in the acquired company by proportional share of the non-controlling interest in the net assets of the acquired company.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.2 Consolidation** *(continued)*

*(a) Subsidiaries* *(continued)*

The transferred benefit for the acquired company is measured at the fair value of the transferred assets, issued equity instruments and liabilities incurred or assumed, including the fair value of the assets or liabilities from potential benefits, but excludes acquisition costs such as advisory, legal services, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuance of equity securities are deducted from equity; transaction costs incurred for the issue of debt as part of a business combination are deducted from the carrying amount of the debt and all other transaction costs related to the acquisition are recognized as an expense.

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as 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.

**2.3 Foreign currencies**

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Group's entities operate ("the 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*

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

Foreign exchange gains and losses relating to borrowings and cash and cash equivalents are recorded in the statement of comprehensive income within "Net finance costs". All other foreign exchange losses and gains are recorded in the statement of comprehensive income within "Finance income/costs".

*(c) Member of the Group*

The business results and the financial position of all the members of the Group whose functional currency differs from the reporting currency are translated into the reporting currency as follows:

- (i) assets and liabilities for each balance sheet are translated at the closing exchange rate at the balance sheet date;
- (ii) the income and expenses for each profit and loss account are translated at annual average rates; and
- (iii) all foreign exchange gains arising are recognized at a separate position within the equity.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.4 Property, plant and equipment and investment property**

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

Investment property include property that is held for long-term rental yields or appreciation or for both purposes. Built-in equipment is considered an integral part of investment property. The cost of the purchase includes all costs directly attributable to the acquisition of that property.

Buildings that are an integral part of investment property are valued at cost less accumulated depreciation and impairment. Land that form an integral part of the investment property is valued at cost less impairment losses.

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

Land, artwork 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:

|                            |             |
|----------------------------|-------------|
| Buildings (hotels)*        | 10-17 years |
| Plant and equipment        | 4 years     |
| Hotel and office furniture | 4-5 years   |

\* Average estimated useful lives are determined on the basis of the estimated useful lives of individual building components.

Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant. The assets' 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.

**2.4.1. Investment property**

Investment property, principally comprising business premises, is held for long-term rental yields or appreciation and is not occupied by 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 current assets.

Investment property is carried at historical cost less 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.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.5 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 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) Other intangible assets*

Intangible assets comprising investments in technical documentation and the value of computer software licences are stated at cost. These costs are amortised over their estimated useful lives of 5 years. Assets under construction are not amortised.

**2.6 Investments in subsidiaries - Company**

*Impairment of investments in subsidiaries*

The net carrying amount of investments in subsidiaries and associates is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income.

**2.7 Financial assets**

**2.7.1 Classification**

Trade and other receivables and loans granted that were classified as loans and receivables under IAS 39 are now in accordance with IFRS 9 classified at amortised cost.

*Interest income*

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.7 Financial assets (continued)**

**2.7.2 Measurement and recognition (continued)**

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are recognised initially at fair value, plus transaction costs incurred. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred all substantial risks and rewards of ownership. Available-for-sale financial assets are subsequently measured at fair value.

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

**2.7.3 Impairment of non derivative financial assets**

*Policy applicable from 1 January 2018*

*Financial instruments*

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost;

The Group measures loss allowances at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 360 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

*Measurement of ECLs*

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

ECLs are discounted at the effective interest rate of the financial assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.7 Financial assets (continued)**

**2.7.3 Impairment of non derivative financial assets (continued)**

*Policy applicable from 1 January 2018 (continued)*

*Credit-impaired financial assets*

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being significantly past due;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or

*Presentation of allowance for ECL in the statement of financial position*

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

*Write-off*

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 360 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due

**2.8 Inventories**

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

**2.9 Trade receivables**

Trade receivables are amounts due from customers for services performed 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 impairment.

**2.10 Cash and cash equivalents**

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.11 Leases**

Leases where the significant portion of risks and rewards of ownership are not retained by the Group are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Assets leased out under operating leases are included in 'Property, plant and equipment' and "Investment property" in the balance sheet. Assets are depreciated on the straight-line basis equal to other property and equipment. Lease income is recognised over the period of the lease using the straight-line method.

**2.12 Share capital**

Ordinary shares are classified as equity. Gains directly attributable to the issue of new shares are shown in equity as a deduction, net of transactions costs and income tax, from the proceeds.

**2.13 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired 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 payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2.14 Borrowings**

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Borrowings are classified as current liabilities, unless the Group and the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.15 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In that case the tax is recognised directly in equity. The current income tax charge is calculated at a rate of 18% according to Croatian laws and regulations. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions, where appropriate, on the basis of amounts expected to be paid to the Tax Administration.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets and liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**2.16 Employee benefits**

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

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

*(b) Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits falling due more than 12 months after the reporting date are discounted to their present value.

*(c) Short-term employee benefits*

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Group recognises liabilities for accumulated compensated absences based on unused vacation days at the reporting date, as well as labour hours realised from the reorganisation of working hours not utilised up to the balance sheet date.

*(d) Long-term employee benefits*

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.17 Provisions**

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

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

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

**2.18 Government grants**

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received. Consequently, the Group does not recognise government grants until there is reasonable assurance that the Group will comply either the conditions attaching to them, and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable. Grants related to tangible assets are recognised in profit or loss over the periods and in the proportions in which depreciation on those assets is recognised. In the statement of financial position, government grant is recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the assets.

**2.19 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of services in hotels and apartments, campsites and restaurants of the Group. Revenue is shown net of value-added tax.

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

*(a) Sales of services*

The Group sells hotel and tourism services. These services are provided based on fixed-price contracts. Revenues from hotel and tourism services are recognised over time when the services are provided.

*(b) Food and beverages*

The Group offers to its customers food and beverages in hotel rooms as well as in hotel restaurants. Revenues are recognized when services are provided at the point of time.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.20 Earnings per share**

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

**2.21 Value added tax**

Is recognised and disclosed in the balance sheet on a net basis. Where receivables have been impaired for the purpose of adjustment, impairment loss is recorded for the gross amount of the debtor, including VAT.

**2.22 Segment reporting**

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

**2.23 Standards issued but not yet effective**

***IFRS 16 Leases***

The Group has adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 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.

***i. Leases in which the Company is a lessee***

The Company recognised new assets and liabilities for its operating leases of maritime domain and cars. The nature of expenses related to those leases the Company is recognising as the depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Based on the information currently available, the Company estimates that it will recognise additional lease liabilities of HRK 1,175 thousand as at 1 January 2019. The Company does not expect the adoption of IFRS 16 to impact its ability to comply with the loan covenant.

***ii. Leases in which the Group is a lessor***

No significant impact is expected for leases in which the Group is a lessor.

***iii. Transition***

The Company applies IFRS 16 from 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 is recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**2.23 Standards issued but not yet effective (continued)**

*IFRS 16 Leases (continued)*

*iii. Transition (continued)*

The Company applied the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

*Other standards*

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

**NOTE 3 – FINANCIAL RISK MANAGEMENT**

**3.1 Financial risk factors**

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

The accounting policies for financial instruments have been applied to the line items below:

| <i>(in thousands HRK)</i>                                     | <b>31 December<br/>2018<br/>Group</b> | <b>31 December<br/>2017<br/>Group</b> | <b>31 December<br/>2018<br/>Company</b> | <b>31 December<br/>2017<br/>Company</b> |
|---|---------------------------------------|---------------------------------------|---|---|
| <b>Assets at the balance sheet date</b>                       |                                       |                                       |   |   |
| <i>Loans and receivables</i>                                  |                                       |                                       |   |   |
| Trade and other receivables                                   | 7,899                                 | 5,843                                 | 73                                      | 1                                       |
| Loans given to related parties                                | 33,000                                | -                                     | -                                       | -                                       |
| Cash and cash equivalents                                     | 9,920                                 | 52,762                                | 493                                     | 13,975                                  |
|   | <u>50,819</u>                         | <u>58,605</u>                         | <u>566</u>                              | <u>13,976</u>                           |
| Other long-term assets  | 143                                   | 143                                   | -                                       | -                                       |
|   | <u>50,962</u>                         | <u>58,748</u>                         | <u>566</u>                              | <u>13,976</u>                           |
| <b>Liabilities at the balance sheet date - at amort. cost</b> |                                       |                                       |   |   |
| Trade and other payables                                      | 12,088                                | 17,982                                | 82                                      | 29                                      |
| Borrowings  | 172,151                               | 157,257                               | 5,000                                   | -                                       |
|   | <u>184,239</u>                        | <u>175,239</u>                        | <u>5,082</u>                            | <u>29</u>                               |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 3 – FINANCIAL RISK MANAGEMENT**
**3.1 Financial risk factors (continued)**
**(a) Market risk**
**(i) Foreign exchange risk**

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro (EUR). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The majority of foreign sales revenues and long-term debt is denominated in EUR. Therefore, movements in exchange rates between the euro and kuna may have an impact on the results of future operations and future cash flow.

| Group<br><i>(in thousands of HRK)</i>          | 31 December 2018 |                 |                  | 31 December 2017 |               |                  |
|--|------------------|-----------------|------------------|------------------|---------------|------------------|
|  | EUR              | HRK             | Total            | EUR              | HRK           | Total            |
| <b>Financial assets</b>                        |                  |                 |                  |                  |               |                  |
| Trade and other receivables                    | 4,471            | 3,428           | 7,899            | 4,961            | 882           | 5,843            |
| Cash and cash equivalents                      | 7,882            | 2,038           | 9,920            | 37,956           | 14,806        | 52,762           |
| Other assets                                   | -                | 143             | 143              | -                | 143           | 143              |
| <b>Financial liabilities</b>                   |                  |                 |                  |                  |               |                  |
| Trade and other payables                       | 5,767            | 6,321           | 12,088           | 10,618           | 7,364         | 17,982           |
| Borrowings                                     | 134,651          | 37,500          | 172,151          | 157,257          | -             | 157,257          |
| <b>Net exposure</b>                            | <b>(128,065)</b> | <b>(38,212)</b> | <b>(166,277)</b> | <b>(124,958)</b> | <b>8,467</b>  | <b>(116,491)</b> |
| <b>Company</b><br><i>(in thousands of HRK)</i> |                  |                 |                  |                  |               |                  |
| <b>Financial assets</b>                        |                  |                 |                  |                  |               |                  |
| Trade and other receivables                    | -                | -               | -                | -                | -             | -                |
| Loans given to related parties                 | -                | 5,000           | 5,000            | -                | -             | -                |
| Cash and cash equivalents                      | -                | 493             | 493              | 282              | 13,693        | 13,975           |
| <b>Financial liabilities</b>                   |                  |                 |                  |                  |               |                  |
| Trade and other payables                       | -                | 57              | 57               | -                | 29            | 29               |
|  | -                | 5,000           | 5,000            | -                | -             | -                |
| <b>Net exposure</b>                            | <b>-</b>         | <b>436</b>      | <b>436</b>       | <b>282</b>       | <b>13,664</b> | <b>13,946</b>    |

As at 31 December 2018, if the euro had weakened/strengthened by 1% (2017: 1%), with all other variables held constant, the Group's net profit for the year would have been HRK 1,281 thousand higher/lower (2017: HRK 1,250 thousand higher/lower), mainly as a result of foreign exchange gains /losses on translation of EURO-denominated borrowings and foreign cash funds. EUR foreign exchange rate as at 31 December 2018 was HRK 7.417575 per 1 EURO (2017: 7.513648).

**(ii) Interest rate risk**

The Group has interest-bearing short-term cash deposits which are contracted at variable rates and expose the Group to risk of changes in interest rates. This risk is not significant given the low interest rates. The interest rate for time deposits for the Group was set at 0.03%-0.85%. (2017: 0.2%-0.75%). The interest rate for time deposits for the Company was set at 0.60%-0.85%. (2017: 0.50%-0.75%).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 3 – FINANCIAL RISK MANAGEMENT**

**3.1 Financial risk factors (continued)**

**(a) Market risk (continued)**

*(ii) Interest rate risk (continued)*

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. As at 31 December 2018, the borrowings contracted at variable interest rates amount to HRK 134,651 thousand (2017: 157,257 thousand). The interest rates on borrowings from the banks are 3M EURIBOR plus 1.50% to 2.15%.

As at 31 December 2018, if interest rates on borrowings with variable interest rates had been 0.5 % lower/higher (2017: 0.5% lower/higher), with all other variables held constant, the Group's net profit for the year would have been HRK 673 thousand higher/lower (2017: HRK 745 thousand).

*(iii) Price risk*

As at 31 December 2018, the Group did not had investment in equity securities and was not exposed to price risk. The Group is not significantly exposed to commodity price risk.

**(b) Credit risk**

The maximum exposure of the Group to credit risk as at the reporting date:

| <i>As at 31 December 2018<br/>(in thousands HRK)</i> | Net<br>carrying<br>amount | Contractual<br>cash flows | Up to 1<br>year | 1-2 years | 2-5 years | Over 5<br>years |
|--|---------------------------|---------------------------|-----------------|-----------|-----------|-----------------|
| <b>Assets non-interest bearing</b>                   |                           |                           |                 |           |           |                 |
| Other receivables                                    | 3,033                     | 3,033                     | 3,033           | -         | -         | -               |
| Trade receivables                                    | 4,866                     | 4,866                     | 4,866           | -         | -         | -               |
|  | <b>7,899</b>              | <b>7,899</b>              | <b>7,899</b>    | <b>-</b>  | <b>-</b>  | <b>-</b>        |
| <b>Assets bearing interest</b>                       |                           |                           |                 |           |           |                 |
| Loans given and deposits                             | 33,000                    | 33,375                    | 33,375          | -         | -         | -               |
| Cash and cash equivalents                            | 9,920                     | 9,920                     | 9,920           | -         | -         | -               |
|  | <b>42,920</b>             | <b>43,295</b>             | <b>43,295</b>   | <b>-</b>  | <b>-</b>  | <b>-</b>        |
|  | <b>50,819</b>             | <b>51,194</b>             | <b>51,194</b>   | <b>-</b>  | <b>-</b>  | <b>-</b>        |
| <b>As at 31 December 2017<br/>(in thousands HRK)</b> |                           |                           |                 |           |           |                 |
| <b>Assets non-interest bearing</b>                   |                           |                           |                 |           |           |                 |
| Other receivables                                    | 1,477                     | 1,477                     | 1,477           | -         | -         | -               |
| Trade receivables                                    | 4,366                     | 4,366                     | 4,366           | -         | -         | -               |
|  | <b>5,843</b>              | <b>5,843</b>              | <b>5,843</b>    | <b>-</b>  | <b>-</b>  | <b>-</b>        |
| <b>Assets bearing interest</b>                       |                           |                           |                 |           |           |                 |
| Loans given and deposits                             | -                         | -                         | -               | -         | -         | -               |
| Cash and cash equivalents                            | 52,762                    | 52,762                    | 52,762          | -         | -         | -               |
|  | <b>52,762</b>             | <b>52,762</b>             | <b>52,762</b>   | <b>-</b>  | <b>-</b>  | <b>-</b>        |
|  | <b>58,605</b>             | <b>58,605</b>             | <b>58,605</b>   | <b>-</b>  | <b>-</b>  | <b>-</b>        |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)**
**3.1 Financial risk factors (continued)**
**(b) Credit risk (continued)**

The credit quality of the Group's and Company's exposure is as follows:

| <i>(in thousands of HRK)</i>  | Group             |                           |               | Company           |                           |               |
|-------------------------------|-------------------|---------------------------|---------------|-------------------|---------------------------|---------------|
|                               | Trade receivables | Cash and cash equivalents | Total         | Trade receivables | Cash and cash equivalents | Total         |
| <b>2018</b>                   |                   |                           |               |                   |                           |               |
| Neither past due nor impaired | 154               | 9,920                     | 10,074        | -                 | -                         | -             |
| Past due but not impaired     | 4,712             | -                         | 4,712         | -                 | -                         | -             |
| Past due and impaired         | 1,663             | -                         | 1,663         | -                 | -                         | -             |
| Impairment                    | (1,663)           | -                         | (1,663)       | -                 | -                         | -             |
|                               | <u>4,866</u>      | <u>9,920</u>              | <u>14,786</u> | <u>-</u>          | <u>-</u>                  | <u>-</u>      |
| <b>2017</b>                   |                   |                           |               |                   |                           |               |
| Neither past due nor impaired | 553               | 52,762                    | 53,315        | -                 | 13,975                    | 13,975        |
| Past due but not impaired     | 3,813             | -                         | 3,813         | -                 | -                         | -             |
| Past due and impaired         | 990               | -                         | 990           | -                 | -                         | -             |
| Impairment                    | (990)             | -                         | (990)         | -                 | -                         | -             |
|                               | <u>4,366</u>      | <u>52,762</u>             | <u>57,128</u> | <u>-</u>          | <u>13,975</u>             | <u>13,975</u> |

The Group deposits its cash at banks with the following credit ratings by Standard & Poor's:

| <i>(in thousands of HRK)</i> | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
|------------------------------|------------------|------------------|------------------|------------------|
|                              | Group            | Group            | Company          | Company          |
| <b>Cash at bank</b>          |                  |                  |                  |                  |
| BBB+                         | 9,826            | 52,255           | 493              | 13,683           |
| BBB-                         | 94               | 215              | -                | -                |
| Other or without rating      | -                | 292              | -                | 292              |
|                              | <u>9,920</u>     | <u>52,762</u>    | <u>493</u>       | <u>13,975</u>    |

The Group has policies that limit the amount of credit exposure to any financial institution.

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Group's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers, i.e. natural persons).

The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. Trade receivables are impaired when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been impaired to their recoverable amount.

The Group's trade and other receivables are mainly secured by collaterals. The majority of impaired trade receivables is subject to legal proceedings. Both the outcome of the proceedings related to disputed receivables or the extent to which they will be collected cannot be anticipated with certainty.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)**
**3.1 Financial risk factors (continued)**
**(b) Credit risk (continued)**

Receivables past due but not impaired as at the balance sheet date have the following maturities:

| <i>(in thousands of HRK)</i> | <b>31 December</b> | 31 December | <b>31 December</b> | 31 December |
|------------------------------|--------------------|-------------|--------------------|-------------|
|                              | <b>2018</b>        | 2017        | <b>2018</b>        | 2017        |
|                              | <b>Group</b>       | Group       | <b>Company</b>     | Company     |
| Up to one month              | 384                | 331         | -                  | -           |
| One to two months            | 204                | 179         | -                  | -           |
| Two to three months          | 808                | 777         | -                  | -           |
| Over three months            | 2,608              | 2,526       | -                  | -           |
|                              | <b>4,004</b>       | 3,813       | -                  | -           |

**(c) Liquidity risk**

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| <i>As at 31 December 2018</i><br><i>(in thousands HRK)</i> | <b>Net carrying amount</b> | <b>Contractual cash flows</b> | <b>Up to 1 year</b> | <b>1-2 years</b> | <b>2-5 years</b> | <b>Over 5 years</b> |
|--|----------------------------|-------------------------------|---------------------|------------------|------------------|---------------------|
| <b>Liabilities non-interest bearing</b>                    |                            |                               |                     |                  |                  |                     |
| Other liabilities  | 3,665                      | 3,665                         | 3,665               | -                | -                | -                   |
| Trade payables   | 8,423                      | 8,423                         | 8,423               | -                | -                | -                   |
|  | <b>12,088</b>              | <b>12,088</b>                 | <b>12,088</b>       | -                | -                | -                   |
| <b>Liabilities bearing interest</b>                        |                            |                               |                     |                  |                  |                     |
| Borrowings   | 172,151                    | 179,384                       | 61,346              | 23,007           | 66,711           | 28,320              |
|  | <b>172,151</b>             | <b>179,384</b>                | <b>61,346</b>       | <b>23,007</b>    | <b>66,711</b>    | <b>28,320</b>       |
|  | <b>184,239</b>             | <b>191,472</b>                | <b>73,434</b>       | <b>23,007</b>    | <b>66,711</b>    | <b>28,320</b>       |
| <b>As at 31 December 2017</b><br><i>(in thousands HRK)</i> |                            |                               |                     |                  |                  |                     |
|  | <b>Net carrying amount</b> | <b>Contractual cash flows</b> | <b>Up to 1 year</b> | <b>1-2 years</b> | <b>2-5 years</b> | <b>Over 5 years</b> |
| <b>Liabilities non-interest bearing</b>                    |                            |                               |                     |                  |                  |                     |
| Other liabilities  | 11,219                     | 11,219                        | 11,219              | -                | -                | -                   |
| Trade payables   | 6,763                      | 6,763                         | 6,763               | -                | -                | -                   |
|  | <b>17,982</b>              | <b>17,982</b>                 | <b>17,982</b>       | -                | -                | -                   |
| <b>Liabilities bearing interest</b>                        |                            |                               |                     |                  |                  |                     |
| Borrowings   | 157,257                    | 168,108                       | 25,030              | 23,672           | 68,681           | 50,725              |
|  | <b>157,257</b>             | <b>168,108</b>                | <b>25,030</b>       | <b>23,672</b>    | <b>68,681</b>    | <b>50,725</b>       |
|  | <b>175,239</b>             | <b>186,090</b>                | <b>43,012</b>       | <b>23,672</b>    | <b>68,681</b>    | <b>50,725</b>       |



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**3.2 Capital risk management**

The Group's and Company's objectives when managing capital are to safeguard the Group's and Company's ability to continue as a going concern in order to provide returns for the owner and to maintain an optimal capital structure to reduce the cost of capital. In accordance with the Companies Act, the Company is committed to maintain the level of capital above HRK 200 thousand as required for public limited companies.

**3.3 Fair value estimation**

Fair value represents the amount at which an asset could be exchanged or a liability settled between knowledgeable and willing parties acting in their best interest.

The carrying amounts of current trade and other receivables and trade payables approximate their fair value. The carrying amount of borrowings approximates their fair value due to market interest rates on borrowings.

**NOTE 4 – CRITICAL ACCOUNTING ESTIMATES**

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

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

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

The useful lives of property, plant and equipment will periodically be revised to reflect any changes in circumstances since the previous assessment. An analysis in prior periods performed determined that the existing depreciation rates do not reflect estimated useful life of these assets in the accounting records. Taking into account the current capacity utilisation and the assessment of assets used in future periods, and based on the experience with similar hotels and market practice, the remaining useful life of building components was changed to weighted average of 13 years.

The Group regularly assess useful lives of properties for new properties and significant reconstructions. Taking into consideration current capacity utilisation, estimation of property usage in the upcoming period, and based on experience with similar hotels and market practice, useful life of building components for renovated hotels was estimated at 17 years.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 4 – USE OF JUDGEMENTS AND ESTIMATES (continued)**
*(b) Land ownership*

Problems with respect to land ownership disputes are common for tourism entities in the Republic of Croatia. Their resolution is expected in accordance with and pursuant to the provisions of the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process, which entered into force on 1 August 2010 and which mandated companies to submit the relevant requirements under this Act within six months from the date of its entry into force (up to 1 February 2011). On 28 January 2011, regulations were issued elaborating in more detail the manner of complying with the above Act. On 31 January 2011, the Company submitted the relevant requirements to the relevant authorities in respect of the property on which the above-mentioned law can be applied. Until the date of this financial statements, nine disputes have been finalised, out of which eight are legally binding in favour of the Group.

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

**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-maker, which is responsible for allocating resources to the reportable segments and assessing its performance.

The Group records its operating revenue and costs by the type of services rendered in two basic segments: Croatia and Slovenia.

The segment information for the year ended 31 December 2018 is as follows:

**2018**

| <i>(in thousands of HRK)</i>    | <u>Croatia</u> | <u>Slovenia</u> | <u>Total</u>   |
|---------------------------------|----------------|-----------------|----------------|
| Total sales                     | 108,432        | 72,563          | 180,995        |
| Inter-segment revenue           | (726)          | -               | (726)          |
| Revenue from external customers | 107,706        | 72,563          | 180,269        |
| Gross operating profit ("GOP")  | 56,191         | 26,570          | 82,761         |
| Depreciation and amortisation   | 28,643         | 16,134          | 44,777         |
| Income tax                      | 4,318          | 1,740           | 6,058          |
| <b>Total assets</b>             | <b>211,766</b> | <b>229,766</b>  | <b>441,532</b> |
| <b>Total liabilities</b>        | <b>150,522</b> | <b>45,489</b>   | <b>196,011</b> |

**2017**

| <i>(in thousands of HRK)</i>    | <u>Croatia</u> | <u>Slovenia</u> | <u>Total</u>   |
|---------------------------------|----------------|-----------------|----------------|
| Total sales                     | 96,158         | 71,101          | 167,259        |
| Inter-segment revenue           | (114)          | -               | (114)          |
| Revenue from external customers | 96,044         | 71,101          | 167,145        |
| Gross operating profit ("GOP")  | 52,050         | 25,595          | 77,645         |
| Depreciation and amortisation   | 29,324         | 15,644          | 44,968         |
| Income tax                      | 3,104          | 695             | 3,799          |
| <b>Total assets</b>             | <b>186,424</b> | <b>222,456</b>  | <b>408,880</b> |
| <b>Total liabilities</b>        | <b>152,923</b> | <b>34,611</b>   | <b>187,534</b> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 5 – SEGMENT INFORMATION (continued)**
**Reconciliation of segment assets and liabilities:**

| <i>(in thousands of HRK)</i> | 31 December 2018 |                | 31 December 2017 |                |
|------------------------------|------------------|----------------|------------------|----------------|
|                              | Assets           | Liabilities    | Assets           | Liabilities    |
| Segment assets/liabilities   | 441,532          | 196,011        | 408,880          | 187,534        |
| Unallocated:                 | 10,706           | 15,362         | 53,552           | 35,792         |
| - cash and cash equivalents  | 9,920            | -              | 52,762           | -              |
| - income tax receivable      | -                | -              | 1                | -              |
| - deferred tax assets        | 786              | -              | 789              | -              |
| - income tax liabilities     | -                | 3,011          | -                | 1,745          |
| - deferred tax liabilities   | -                | 11,219         | -                | 12,235         |
| - provisions                 | -                | 1,132          | -                | 21,812         |
| <b>Total</b>                 | <b>452,238</b>   | <b>211,373</b> | <b>462,432</b>   | <b>223,326</b> |

**NOTE 6 – REVENUE**

There were no effects of initially applying IFRS 15 on the Company's revenue from contracts with customers as described in Note 2.1.1.

**Revenue streams**

The Company generates revenue primarily from the accommodation services, food and beverages sales and provision of ancillary hotel services to its customers.

| <i>(in thousands of HRK)</i>                   | 2018           | 2017           |
|--|----------------|----------------|
| <b>Revenue from hotel services</b>             |                |                |
| Individual guests                              | 43,657         | 45,041         |
| Groups   | 21,778         | 16,922         |
| Allotment                                      | 95,688         | 84,429         |
| MICE   | 2,421          | 1,982          |
|  | <b>163,544</b> | <b>148,374</b> |
| <b>Revenue from ancillary services</b>         |                |                |
| Food and beverages - other than hotel guests   | 6,375          | 6,921          |
| Revenue from services rendered to hotel guests | 3,612          | 3,614          |
| Other revenue                                  | 6,738          | 8,236          |
|  | <b>16,725</b>  | <b>18,771</b>  |
| <b>Total sales revenue</b>                     | <b>180,269</b> | <b>167,145</b> |

The Group's sales revenues can be classified according to the customers' origin.

| <i>(in thousands of HRK)</i> | 2018           | 2017           |
|------------------------------|----------------|----------------|
| Revenue from domestic sales  | 17,452         | 26,370         |
| Revenue from foreign sales   | 162,817        | 140,775        |
|                              | <b>180,269</b> | <b>167,145</b> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 6 – REVENUE (continued)**

| Foreign sales      | 2018           | %          | 2017           | %          |
|--------------------|----------------|------------|----------------|------------|
| Germany            | 12,975         | 8          | 12,670         | 9          |
| Austria            | 21,142         | 13         | 15,485         | 11         |
| Italy              | 15,068         | 9          | 14,078         | 10         |
| United Kingdom     | 36,385         | 22         | 33,786         | 24         |
| Russia             | 1,925          | 1          | 2,816          | 2          |
| France             | 21,701         | 13         | 23,932         | 17         |
| Other EU members * | 30,156         | 19         | 23,932         | 17         |
| Other*             | 23,464         | 13         | 14,078         | 10         |
|                    | <b>162,817</b> | <b>100</b> | <b>140,775</b> | <b>100</b> |

\*None of the individual customers' share in sales exceeds 10%.

***Performance obligations and revenue recognition policies***

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer. Details on revenue recognition are disclosed in Note 2.

**NOTE 7 – COST OF MATERIALS AND SERVICES**

| <i>(in thousands of HRK)</i>       | 2018          | 2017          | 2018       | 2017       |
|------------------------------------|---------------|---------------|------------|------------|
|                                    | Group         | Group         | Company    | Company    |
| Food, beverages and other supplies | 22,441        | 20,185        | -          | -          |
| Energy and water used              | 8,843         | 8,815         | -          | -          |
|                                    | <b>31,284</b> | <b>29,000</b> | -          | -          |
| Maintenance costs                  | 1,967         | 896           | 1          | 1          |
| Advertising and promotion          | 880           | 1,227         | -          | -          |
| Laundry services                   | 4,187         | 3,535         | -          | -          |
| Utility services                   | 2,481         | 2,549         | -          | -          |
| Rental expenses                    | 470           | 106           | 3          | 3          |
| Other expenses                     | 3,042         | 2,857         | 439        | 233        |
|                                    | <b>13,027</b> | <b>11,170</b> | <b>443</b> | <b>237</b> |
|                                    | <b>44,311</b> | <b>40,170</b> | <b>443</b> | <b>237</b> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 8 – STAFF COSTS**

| <i>(in thousands of HRK)</i>                | <b>2018</b>   | <b>2017</b>     | <b>2018.</b>   | <b>2017</b>     |
|---|---------------|-----------------|----------------|-----------------|
|   | <b>Group</b>  | <b>Restated</b> | <b>Company</b> | <b>Restated</b> |
|   |               | <b>Group</b>    |                | <b>Company</b>  |
| Net salaries and wages                      | 30,521        | 27,033          | 7,130          | 4,660           |
| Tax expense and contributions from salaries | 10,109        | 8,968           | 2,402          | 2,781           |
| Contributions on salaries                   | 5,135         | 4,752           | -              | -               |
|   | <u>45,765</u> | <u>40,753</u>   | <u>9,532</u>   | <u>7,441</u>    |
| Number of employees                         | <u>325</u>    | <u>260</u>      | <u>-</u>       | <u>-</u>        |

Staff costs of the Group and the Company include bonus to the management of HRK 9,693 thousand (2017: HRK 7,857 thousand), and to the Company HRK HRK 9,532 thousand (2017: HRK 7,441 thousand, note 2.1.2).

**NOTE 9 – OTHER OPERATING EXPENSES**

| <i>(in thousands of HRK)</i>                   | <b>2018</b>   | <b>2017</b>   | <b>2018</b>    | <b>2017</b>    |
|--|---------------|---------------|----------------|----------------|
|  | <b>Group</b>  | <b>Group</b>  | <b>Company</b> | <b>Company</b> |
| Bank charges and membership fees               | 534           | 744           | 111            | 8              |
| Utility and similar fees                       | 2,632         | 2,588         | 1              | 1              |
| Other staff costs /i/                          | 5,973         | 4,850         | -              | -              |
| Insurance premiums                             | 846           | 871           | -              | -              |
| Professional services                          | 2,158         | 2,334         | 64             | 2              |
| Write-off of property, plant and equipment and | 151           | 347           | -              | -              |
| Agency services                                | 5,217         | 5,145         | -              | -              |
| Other expenses                                 | 4,266         | 4,178         | -              | -              |
| Other  | 834           | 886           | -              | -              |
|  | <u>22,611</u> | <u>21,943</u> | <u>176</u>     | <u>11</u>      |

/i/ Other staff costs comprise termination benefits, compensations for transportation costs, remunerations for temporary services, jubilee awards, etc.

Other expenses mainly comprise of student costs, recharged costs, entertainment, etc.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 10 – NET FINANCE INCOME/ (COSTS)**

| <i>(in thousands of HRK)</i>        | 2018<br>Group  | 2017<br>Restated<br>Group | 2018<br>Company | 2017<br>Restated<br>Company |
|-------------------------------------|----------------|---------------------------|-----------------|-----------------------------|
| <b>Finance income</b>               |                |                           |                 |                             |
| Interest income                     | 463            | 122                       | 91              | 339                         |
| Dividend income                     | -              | -                         | 40,338          | -                           |
| Net foreign exchange gains          | 1,812          | 1,329                     | -               | -                           |
|                                     | <u>2,275</u>   | <u>1,451</u>              | <u>40,429</u>   | <u>339</u>                  |
| <b>Finance costs</b>                |                |                           |                 |                             |
| Interest expense                    | 3,557          | 6,492                     | 72              | 1,206                       |
| Net foreign exchange losses         | 353            | 506                       | -               | -                           |
|                                     | <u>3,910</u>   | <u>6,998</u>              | <u>72</u>       | <u>1,206</u>                |
| <b>Net finance income / (costs)</b> | <u>(1,635)</u> | <u>(5,547)</u>            | <u>40,357</u>   | <u>(867)</u>                |

Interest expense for 2017 for the Group and the Company, includes cost of unwinding of discount for provision for management bonuses of HRK 1,206 thousand (note 2.1.2).

**NOTE 11 – INCOME TAX**

| <i>(in thousands of HRK)</i>      | 2018<br>Group  | 2017<br>Group  | 2018<br>Company | 2017<br>Company |
|-----------------------------------|----------------|----------------|-----------------|-----------------|
| <b>Current tax expense</b>        | (7,071)        | (4,646)        | -               | (11)            |
| <b>Deferred tax income</b>        |                |                |                 |                 |
| Reversal of temporary differences | 1,013          | 847            | -               | -               |
| <b>Tax expense</b>                | <u>(6,058)</u> | <u>(3,799)</u> | <u>-</u>        | <u>(11)</u>     |

Deferred tax assets and liability is shown below:

| <i>(in thousands of HRK)</i>  | Assets              |                     | Liabilities         |                     | Net                 |                     |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                               | 31 December<br>2018 | 31 December<br>2017 | 31 December<br>2018 | 31 December<br>2017 | 31 December<br>2018 | 31 December<br>2017 |
| Property, plant and equipment | -                   | -                   | (11,219)            | (12,235)            | (11,219)            | (12,235)            |
| Other                         | 786                 | 789                 | -                   | -                   | 786                 | 789                 |
|                               | <u>786</u>          | <u>789</u>          | <u>(11,219)</u>     | <u>(12,235)</u>     | <u>(10,433)</u>     | <u>(11,446)</u>     |

The other relates to temporary differences arising from the impairment of equity securities and other assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 11 – INCOME TAX (continued)**

|                               | 31 December<br>2017 | Recognized in<br>profit or loss | 31 December<br>2018 |
|-------------------------------|---------------------|---------------------------------|---------------------|
| <i>(in thousands of HRK)</i>  |                     |                                 |                     |
| Property, plant and equipment | (12,235)            | 1,016                           | (11,219)            |
| Other                         | 789                 | (3)                             | 786                 |
| Total                         | <u>(11,446)</u>     | <u>1,013</u>                    | <u>(10,433)</u>     |

The tax on the Group's and Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 18%. The reconciliation of the tax expense per the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

|   | 2018<br>Group | 2017<br>Restated*<br>Group | 2018<br>Company | 2017<br>Restated*<br>Company |
|---|---------------|----------------------------|-----------------|------------------------------|
| <i>(in thousands of HRK)</i>                    |               |                            |                 |                              |
| Profit/(loss) before tax                        | 22,907        | 16,640                     | 30,206          | (8,555)                      |
| Tax rate of 18%                                 | 4,123         | 2,995                      | 5,437           | (1,027)                      |
| Non-deductible expenses                         | 83            | 51                         | -               | -                            |
| Tax exempt income                               | -             | (119)                      | (7,261)         | -                            |
| Effect of previously unrecognised tax losses    | (12)          | (743)                      | -               | -                            |
| Prior period restatement (Note 2.1.2)           | (3,727)       | 1,557                      | (3,727)         | 1,038                        |
| Tax losses not recognised as deferred tax asset | 5,551         | -                          | 5,551           | -                            |
| Tax relief                                      | (29)          | -                          | -               | -                            |
| Effect of different tax rates                   | 69            | 58                         | -               | -                            |
| <b>Income tax</b>                               | <u>6,058</u>  | <u>3,799</u>               | <u>-</u>        | <u>11</u>                    |
| <i>Effective tax rate</i>                       | 26.4%         | 22.8%                      | 0.0%            | n/a                          |

As of 31 December 2018, the Group and the Company have not recognised carried forward tax losses of HRK 5,551 thousand with expiry in 2023 (2017: nil) and have not been recognised as deferred tax assets since it is not probable that they will be utilised.

In accordance with local regulations, the Tax Administration may at any time inspect the Group's books and records within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's Management Board is not aware of any circumstances, which may give rise to a potential material liability in this respect.

**NOTE 12 – EARNINGS PER SHARE (basic and diluted)**
**Basic**

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares. Share capital of the Company as at 31 December 2018 comprises 302,641 ordinary shares (31 December 2017: 302,641).

**Diluted**

Diluted earnings per share is equal to basic earnings per share, since the Group did not have any convertible instruments nor share options outstanding.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 12 – EARNINGS PER SHARE (basic and diluted) (continued)**

|   | 2018    | 2017<br>Restated |
|---|---------|------------------|
| Profit for year (in thousands of HRK)                 | 16,734  | 12,749           |
| Weighted average number of shares (basic and diluted) | 302,641 | 302,641          |
| Earnings per share (basic and diluted) (in HRK)       | 55.29   | 42.13            |

**NOTE 13 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY**

| <i>(in thousands of HRK)</i>               | Land          | Buildings      | Equipment     | Assets under construction | Investment property | Artwork   | Total          |
|--|---------------|----------------|---------------|---------------------------|---------------------|-----------|----------------|
| <b>As at 31 December 2016</b>              |               |                |               |                           |                     |           |                |
| Cost                                       | 99,562        | 752,381        | 104,673       | 26,200                    | 18,471              | 83        | 1,001,370      |
| Accumulated depreciation                   | -             | (536,620)      | (89,898)      | -                         | (12,792)            | -         | (639,310)      |
| <b>Net carrying amount</b>                 | <b>99,562</b> | <b>215,761</b> | <b>14,775</b> | <b>26,200</b>             | <b>5,679</b>        | <b>83</b> | <b>362,060</b> |
| <b>For the year ended 31 December 2017</b> |               |                |               |                           |                     |           |                |
| Opening net carrying amount                | 99,562        | 215,761        | 14,775        | 26,200                    | 5,679               | 83        | 362,060        |
| Additions                                  | -             | 23             | 17,101        | 60,468                    | -                   | -         | 77,592         |
| Disposals and write offs                   | -             | (2)            | (367)         | -                         | -                   | -         | (369)          |
| Transfer                                   | -             | 60,834         | 18,103        | (78,937)                  | -                   | -         | -              |
| Depreciation                               | -             | (32,832)       | (11,480)      | -                         | (313)               | -         | (44,625)       |
| Foreign exchange differences               | -             | 485            | 100           | (257)                     | (8)                 | -         | 320            |
| <b>Closing net carrying amount</b>         | <b>99,562</b> | <b>244,269</b> | <b>38,232</b> | <b>7,474</b>              | <b>5,358</b>        | <b>83</b> | <b>394,978</b> |
| <b>As at 31 December 2017</b>              |               |                |               |                           |                     |           |                |
| Cost                                       | 99,562        | 737,626        | 38,232        | 7,474                     | 18,463              | 83        | 901,440        |
| Accumulated depreciation                   | -             | (493,357)      | -             | -                         | (13,105)            | -         | (506,462)      |
| <b>Net carrying amount</b>                 | <b>99,562</b> | <b>244,269</b> | <b>38,232</b> | <b>7,474</b>              | <b>5,358</b>        | <b>83</b> | <b>394,978</b> |
| <b>For the year ended 31 December 2018</b> |               |                |               |                           |                     |           |                |
| Opening net carrying amount                | 99,562        | 244,269        | 38,232        | 7,474                     | 5,358               | 83        | 394,978        |
| Additions                                  | -             | 3,417          | 3,142         | 41,167                    | -                   | -         | 47,726         |
| Disposals and write offs                   | -             | (6)            | (142)         | -                         | -                   | -         | (148)          |
| Transfer                                   | -             | 21,477         | 19,843        | (41,320)                  | -                   | -         | -              |
| Depreciation                               | -             | (27,659)       | (16,743)      | -                         | (313)               | -         | (44,715)       |
| Foreign exchange differences               | (423)         | (4,364)        | (249)         | (1,149)                   | (153)               | (1)       | (6,339)        |
| <b>Closing net carrying amount</b>         | <b>99,139</b> | <b>237,134</b> | <b>44,083</b> | <b>6,172</b>              | <b>4,892</b>        | <b>82</b> | <b>391,502</b> |
| <b>As at 31 December 2018</b>              |               |                |               |                           |                     |           |                |
| Cost                                       | 99,139        | 769,183        | 131,707       | 6,172                     | 17,945              | 82        | 1,024,228      |
| Accumulated depreciation                   | -             | (532,049)      | (87,624)      | -                         | (13,053)            | -         | (632,726)      |
| <b>Net carrying amount</b>                 | <b>99,139</b> | <b>237,134</b> | <b>44,083</b> | <b>6,172</b>              | <b>4,892</b>        | <b>82</b> | <b>391,502</b> |

As at 31 December 2018, land and buildings in the amount of HRK 118,819 thousand (2017: HRK 107,918 thousand) have been pledged as collateral for the repayment of borrowings (Note 19).

The land surface included in the Group's records as at 31 December 2018 comprised 188,837 m<sup>2</sup> (2017: 188,837 m<sup>2</sup>) and together with the respective buildings has a net carrying value of HRK 344,618 thousand (2017: HRK 343,831 thousand).

Of the total land surface, a surface of 16,722 m<sup>2</sup> (2017: 16,722 m<sup>2</sup>) are not legally owned by the Company (according to land registry data; see Note 24), while 172,115 m<sup>2</sup> (2017: 172,115 m<sup>2</sup>) is legally owned by the Company.



**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 13 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY  
(continued)**

Asset under construction refers to investment in project documentation for Hotel Bel Moreto, part of Hotel Metropol, and project documentation and preparatory works for Hotel Albatros.

As at 31 December 2018, investment property is without pledge. The Group has estimated the value of investment property and considers that the carrying amounts are equal to their fair value.

The operating lease relates to the lease of hospitality facilities and stores. During 2018, the Group realised rental income in the amount of HRK 1,238 thousand (2017: HRK 1,444 thousand).

The aggregate lease payments receivable from operating leases is as follows:

| <i>(in thousands of HRK)</i> | <u>2018</u>  | <u>2017</u>  |
|------------------------------|--------------|--------------|
| Up to 1 year                 | 642          | 1,070        |
| Between 2 and 5 years        | 1,263        | 2,224        |
| Over 5 years                 | <u>872</u>   | <u>428</u>   |
|                              | <b>2,777</b> | <b>3,722</b> |

In 2018, there were no contingent rents recognised as income in the statement of comprehensive income. Lease agreements have been concluded for a period from 1 to 3 years (mainly 3 years) and are renewable at the end of the lease period at market prices, i.e. the best bidder is selected after publishing the invitation to tender.

**NOTE 14 – INTANGIBLE ASSETS**

| <i>(in thousands of HRK)</i>               | <b>Goodwill</b> | <b>Other<br/>intangible<br/>assets</b> | <b>Total</b> |
|--|-----------------|--|--------------|
|  | <hr/>           |  |              |
| <b>For the year ended 31 December 2017</b> |                 |  |              |
| Opening net carrying amount                | 4,708           | 2,019                                  | 6,727        |
| Additions                                  | -               | 9                                      | 9            |
| Depreciation                               | -               | (343)                                  | (343)        |
| <b>Closing net carrying amount</b>         | <b>4,708</b>    | <b>1,685</b>                           | <b>6,393</b> |
| <b>As at 31 December 2017</b>              |                 |  |              |
| Cost                                       | 5,136           | 2,485                                  | 7,621        |
| Accumulated depreciation and impairment    | (428)           | (799)                                  | (1,227)      |
| <b>Net carrying amount</b>                 | <b>4,708</b>    | <b>1,685</b>                           | <b>6,393</b> |
| <b>For the year ended 31 December 2018</b> |                 |  |              |
| Opening net carrying amount                | 4,708           | 1,685                                  | 6,393        |
| Additions                                  | -               | 1,037                                  | 1,037        |
| Smanjenja                                  | -               | (3)                                    | (3)          |
| Depreciation                               | -               | (62)                                   | (62)         |
| Foreign exchange differences               | -               | (248)                                  | (248)        |
| <b>Closing net carrying amount</b>         | <b>4,708</b>    | <b>2,409</b>                           | <b>7,117</b> |
| <b>As at 31 December 2018</b>              |                 |  |              |
| Cost                                       | 5,136           | 3,519                                  | 8,655        |
| Accumulated depreciation and impairment    | (428)           | (1,110)                                | (1,538)      |
| <b>Net carrying amount</b>                 | <b>4,708</b>    | <b>2,409</b>                           | <b>7,117</b> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 14 – INTANGIBLE ASSETS (continued)**

Goodwill refers to investment in Hoteli Metropol d.o.o. The Group annually tests the goodwill for impairment by using the discounted cash flow method of a related entity that generates cash flows. These calculations use cash flow projections based on financial projections. The pre-tax discount rate of 8.54% was used and growth rate of 1% which reflect specific risks relating to the relevant segment (hotels) as a result of impairment test performed, the Group did not incur goodwill impairment.

**NOTE 15 INVESTMENTS IN SUBSIDIARIES**

|                                  | 2018    | 2017    |
|----------------------------------|---------|---------|
| <i>(in thousands of HRK)</i>     | Company | Company |
| Investment in Hoteli Cavtat d.d. | 202,962 | 188,962 |

In 2018, the Company has increased investment in Hoteli Cavtat d.d. by HRK 14,000 thousand in cash into company's reserves. Hoteli Cavtat has 100% ownership in Hoteli Metropol d.o.o. and 33% in Remisens d.o.o. Hoteli Metropol d.o.o. has 33% share in Remisens d.o.o. The Group has effective interest of 66% in Remisens d.o.o.

**NOTE 16 – TRADE AND OTHER RECEIVABLES**

|   | 2018         | 2017         | 2018      | 2017     |
|---|--------------|--------------|-----------|----------|
| <i>(in thousands of HRK)</i>                          | Group        | Group        | Company   | Company  |
| Trade receivables                                     | 6,529        | 5,356        | -         | -        |
| Impairment of trade receivables                       | (1,663)      | (990)        | -         | -        |
| Trade receivables - net                               | 4,866        | 4,366        | -         | -        |
| Receivables from employees and members of the Company | 458          | 354          | -         | -        |
| State and other receivables                           | 1,923        | 602          | 73        | -        |
| Other receivables                                     | 652          | 521          | -         | 1        |
|   | <u>7,899</u> | <u>5,843</u> | <u>73</u> | <u>1</u> |

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

|                              | 2018         | 2017       | 2018     | 2017     |
|------------------------------|--------------|------------|----------|----------|
| <i>(in thousands of HRK)</i> | Group        | Group      | Company  | Company  |
| As at 1 January              | 990          | 542        | -        | -        |
| Increase                     | 758          | 1,162      | -        | -        |
| Write off                    | (85)         | (714)      | -        | -        |
| As at 31 December            | <u>1,663</u> | <u>990</u> | <u>-</u> | <u>-</u> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 17 – CASH AND CASH EQUIVALENTS**

|                              | 2018         | 2017          | 2018           | 2017           |
|------------------------------|--------------|---------------|----------------|----------------|
| <i>(in thousands of HRK)</i> | <u>Group</u> | <u>Group</u>  | <u>Company</u> | <u>Company</u> |
| Deposits up to 90 days       | 1,271        | 20,621        | -              | 13,660         |
| Foreign currency accounts    | 4,479        | 11,363        | -              | -              |
| Cash in hand                 | 52           | 145           | -              | 9              |
| Giro-accounts                | 4,118        | 20,633        | 493            | 306            |
|                              | <u>9,920</u> | <u>52,762</u> | <u>493</u>     | <u>13,975</u>  |

During the term of the deposit, the Group and the Company may call the funds with a prior notification of three days.

**NOTE 18 – SHARE CAPITAL AND RESERVES**
**Share capital**

As at 31 December 2018, the Company's share capital amounted to HRK 202,769 thousand (2017: HRK 202,769 thousand) and comprises 302,641 ordinary shares with a nominal value of HRK 670 per share (2017: HRK 670 per share). Ordinary shares have equal voting rights and rights to receive dividend.

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

|                          | <u>Number of shares</u> | <u>HRK</u>         | <u>%</u>    |
|--------------------------|-------------------------|--------------------|-------------|
| SNH Gama d.d.            | 184,782                 | 123,803,940        | 61.06%      |
| SN Pectinatus d.d.       | 75,660                  | 50,692,200         | 25.00%      |
| CERP Republic of Croatia | 11,289                  | 7,563,630          | 3.73%       |
| Others                   | 30,910                  | 20,709,700         | 10.21%      |
|                          | <u>302,641</u>          | <u>202,769,470</u> | <u>100%</u> |

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

|                          | <u>Number of shares</u> | <u>HRK</u>         | <u>%</u>    |
|--------------------------|-------------------------|--------------------|-------------|
| SNH Gama d.d.            | 187,189                 | 125,416,630        | 61.85%      |
| SN Pectinatus d.d.       | 75,660                  | 50,692,200         | 25.00%      |
| CERP Republic of Croatia | 11,289                  | 7,563,630          | 3.73%       |
| Small shareholders       | 28,503                  | 19,097,010         | 9.42%       |
|                          | <u>302,641</u>          | <u>202,769,470</u> | <u>100%</u> |

**Legal reserves**

Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until total reserves together with the capital reserves reach 5% of the Group's share capital. Legal reserves are not distributable.

**Other reserves**

Other reserves relate mainly to the reserves from the de-merger of the Liburnia Riviera Hoteli d.d. and FTB Turizam d.d. and transfers from retained earnings. The remainder refers to foreign exchange differences arising from the consolidation of a foreign subsidiary and amounts to HRK 5,707 thousand at 31 December 2018 (31 December 2017: HRK 420 thousand).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 18 – CAPITAL AND RESERVES (continued)**

**Treasury shares**

During the year the Company has acquired own shares in the amount of HRK 31,581 thousand. Subsequently, the Company granted shares in the amount of HRK 22,618 thousand to the Director as a reward bonus payment. As at 31 December 2018, the Company had 4,485 of own shares carried at cost in the amount of HRK 8,963 thousand (2017: nil). The Company created reserve for treasury shares from retained earnings in the same amount.

**Non-controlling interest**

The following table summarizes the information relating to the members of the Group's subsidiary that has non-controlling interests.

**Remisens d.o.o.**

| <i>(in thousands of HRK)</i>                        | <b>31 December 2018</b> | <b>31 December 2017</b> |
|---|-------------------------|-------------------------|
| % of non-controlling interest (%)                   | 33.3%                   | 33.3%                   |
| Current assets                                      | 1,421                   | 1,037                   |
| Non-current assets                                  | 990                     | 990                     |
| Current liabilities                                 | (55)                    | (31)                    |
| Net assets  | <b>2,356</b>            | <b>1,996</b>            |
| Net assets attributable to non-controlling interest | 785                     | 665                     |
| Profit for the year                                 | (350)                   | 278                     |
| Profit attributable to non-controlling interest     | (115)                   | 92                      |
| Cash flows from operating activities                | 347                     | 232                     |
| Cash flows from investment activities               | -                       | -                       |
| Cash flows from financing activities                | -                       | -                       |
| Net increase in cash and cash equivalents           | <b>347</b>              | <b>232</b>              |

**NOTE 19 – BORROWINGS**

| <i>(in thousands of HRK)</i>   | <b>31 December<br/>2018<br/>Group</b> | <b>31 December<br/>2017<br/>Group</b> | <b>31 December<br/>2018<br/>Company</b> | <b>31 December<br/>2017<br/>Company</b> |
|--------------------------------|---------------------------------------|---------------------------------------|---|---|
| <b>Non-current liabilities</b> |                                       |                                       |   |   |
| Secured bank loans             | 113,062                               | 135,246                               | -                                       | -                                       |
|                                | <b>113,062</b>                        | <b>135,246</b>                        | -                                       | -                                       |
| <b>Current liabilities</b>     |                                       |                                       |   |   |
| Secured bank loans             | 21,589                                | 22,011                                | -                                       | -                                       |
| Related party loans            | 37,500                                | -                                     | 5,000                                   | -                                       |
|                                | <b>59,089</b>                         | <b>22,011</b>                         | -                                       | -                                       |

Loans are payable as follows:

| <i>(in thousands of HRK)</i> | <b>31 December<br/>2018<br/>Group</b> | <b>31 December<br/>2017<br/>Group</b> | <b>31 December<br/>2018<br/>Company</b> | <b>31 December<br/>2017<br/>Company</b> |
|------------------------------|---------------------------------------|---------------------------------------|---|---|
| Up to 1 year                 | 59,089                                | 22,011                                | 5,000                                   | -                                       |
| Between 1 and 3 years        | 38,942                                | 21,414                                | -                                       | -                                       |
| Between 3 and 5 years        | 45,618                                | 64,241                                | -                                       | -                                       |
| Over 5 years                 | 28,502                                | 49,591                                | -                                       | -                                       |
| <b>Total</b>                 | <b>172,151</b>                        | <b>157,257</b>                        | <b>5,000</b>                            | <b>-</b>                                |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 19 – BORROWINGS (continued)**

Bank loans are denominated in EUR with effective interest rates at the reporting date are: 1.55% - 1.65% + 3m Euribor (2017: 1.55% - 2.55% + 3m Euribor). Related party loans are denominated in Croatian kuna with fixed interest rate of 4.55%. Bank loans are secured by a mortgage over land and a building (Note 13).

Reconciliation of movement in borrowings to cash flow from financing activities:

| <i>(in thousands of HRK)</i> | 2018<br>Group  | 2017<br>Group  | 2018<br>Company | 2017<br>Company |
|------------------------------|----------------|----------------|-----------------|-----------------|
| <b>Borrowings</b>            |                |                |                 |                 |
| As at 1 January              | 157,257        | 140,930        | -               | -               |
| Proceeds from borrowings     | 63,500         | 33,750         | 5,000           | -               |
| Repayments of borrowings     | (47,256)       | (17,274)       | -               | -               |
| Foreign exchange differences | (1,350)        | (149)          | -               | -               |
| <b>As at 31 December</b>     | <b>172,151</b> | <b>157,257</b> | <b>5,000</b>    | <b>-</b>        |

**NOTE 20 – PROVISIONS**

**Group**

*(in thousands of HRK)*

|                                | Termination<br>benefits and<br>jubilee awards | Bonuses  | Other<br>provisions | Total        |
|--------------------------------|---|----------|---------------------|--------------|
| As at 1 January 2018, restated | 860   | 20,706   | 246                 | 21,812       |
| Increase                       | -   | 9,532    | 363                 | 9,895        |
| Paid during the year           | (38)  | (30,238) | (299)               | (30,575)     |
| <b>As at 31 December 2018</b>  | <b>822</b>                                    | <b>-</b> | <b>310</b>          | <b>1,132</b> |

**Company**

|                                | Bonuses  |
|--------------------------------|----------|
| As at 1 January 2018, restated | 20,706   |
| Increase                       | 9,532    |
| Paid during the year           | (30,238) |
| Unused amounts reversed        | -        |
| <b>As at 31 December 2018</b>  | <b>-</b> |

As explained in Note 2.1.2 and according to the agreement, the Director is entitled to reward bonus after completion of the four year service. The bonus is based on the results achieved in the last period of service. For the year ended 31 December 2017, the Group has recorded a provision for bonuses of HRK 20,706 thousand which is based on the projected results for the year 2019. Provision for 2017, was determined under assumption that reward bonus will be paid in cash. As explained in Note 25, Other provisions relate to reward bonus to a consultant.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**
**NOTE 21 – TRADE AND OTHER PAYABLES**

| <i>(in thousands of HRK)</i>          | 31 December   | 31 December   | 31 December | 31 December |
|---------------------------------------|---------------|---------------|-------------|-------------|
|                                       | 2018          | 2017          | 2018        | 2017        |
|                                       | Group         | Group         | Company     | Company     |
| Domestic trade payables               | 3.050         | 6.134         | 57          | 4           |
| Foreign trade payables                | 615           | 629           | -           | -           |
| <b>Total trade payables</b>           | <b>3.665</b>  | <b>6.763</b>  | <b>57</b>   | <b>4</b>    |
| Due to employees                      | 2.296         | 2.443         | -           | -           |
| Taxes and contributions payable       | 684           | 785           | -           | -           |
| Advances payable                      | 3.734         | 5.987         | -           | -           |
| Other liabilities                     | 1.709         | 2.004         | 25          | 25          |
|                                       | <b>8.423</b>  | <b>11.219</b> | <b>25</b>   | <b>25</b>   |
| <b>Total trade and other payables</b> | <b>12.088</b> | <b>17.982</b> | <b>82</b>   | <b>29</b>   |

**NOTE 22 – GOVERNMENT GRANTS**

Grants relate to the financial resources which Hoteli Metropol d.d. acquired from Hotel Lucia in 2008. The grant is released annually in proportion to the amount of depreciation charged. Release of the entire grant is expected by the end of 2034.

Annual use of provisions in the statement of comprehensive income is recorded through the position of other operating income and in 2018 amounts to HRK 523 thousand (2017: HRK 790 thousand).

**NOTE 23 – CASH GENERATED FROM OPERATIONS**

Reconciliation of profit and cash generated from operations:

| <i>(in thousands of HRK)</i>                                  | 2018          | 2017          | 2018           | 2017         |
|---|---------------|---------------|----------------|--------------|
|   | Group         | Group         | Company        | Company      |
| Profit/(loss) before tax                                      | 16.849        | 12.841 *      | 30.206         | (8.566) *    |
| Adjustments for:  |               |               |                |              |
| Depreciation and amortisation                                 | 44.777        | 44.968        | -              | -            |
| Write-off of disposed property, plant and equipment           | -             | 347           | -              | -            |
| Gains on sale of property, plant and equipment                | (5)           | (344)         | -              | -            |
| Provision for impairment of trade receivables – net (note 16) | 673           | 448           | -              | -            |
| Net finance income/(costs) (note 10)                          | 1.635         | 4.341         | (40.357)       | 867          |
| Changes in provisions - net                                   | 26            | 7.692 *       | -              | 8.647 *      |
| Unrealized foreign exchange differences                       | (890)         | 359           | -              | -            |
| Income tax  | 6.058         | 3.799         | -              | 11           |
| <i>Changes in working capital:</i>                            |               |               |                |              |
| - trade and other receivables                                 | (1.270)       | 1.177         | (72)           | 495          |
| - inventories   | (348)         | 132           | -              | -            |
| - government grant  | (523)         | (788)         | -              | -            |
| - trade and other payables                                    | (857)         | 4.609         | 1.965          | (5)          |
| <b>Cash generated from operations</b>                         | <b>66.125</b> | <b>79.581</b> | <b>(8.258)</b> | <b>1.449</b> |

**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 24 – CONTINGENCIES AND COMMITMENTS**

**Legal disputes**

The Group is involved in a number of legal disputes, both as defendant and as plaintiff, arising from the ordinary course of business. The Group considers that disputes will not result in financial losses for the Group.

**Land ownership**

Cadastral plot no. 1902 k.o. Obod with area of 3.937 m<sup>2</sup> and no. 1903 k.o. Obod, with area of 14,639 m<sup>2</sup>, was incorporated into the Company's share capital of Hoteli Cavtat d.d., by decision of CFP no. 93-247/1 on 15 April 1996. The aforementioned land was taken away from large number of individuals in 1986 by the decision of the then Municipality of Dubrovnik and allocated for the right to use and dispose of or to build a tourist resort to the predecessor HTP Dubrovnik. During 1994, the Office for Property and Legal Affairs of the County Dubrovačko-neretvanska brought many decisions for returning confiscated properties to individuals. Likewise, a land registry procedure was conducted at the ordinary court for the registration of ownership rights and a decision was made to register ownership rights in favour of individuals, on the basis of which decision entry of the ownership rights is executed in favour of several individuals. Hoteli Cavtat d.d. initiated litigation in 2015 and filed 26 lawsuits to establish ownership rights in favour of Hoteli Cavtat d.d. against registered owners in land registers on the respective properties and on 1 March 2019 out of nine disputes, eight have been finalised in favour of the Group and are legally binding, and one is in favour of natural person.

**Capital commitments**

As at 31 December 2018, there were no capital commitments of the Group with respect to investments in tourist facilities (2017: HRK 32,181 thousand).

**Commitments**

In 2018, the subsidiary Hoteli Cavtat d.d. concluded a consultancy service contract for a period of four years, and in accordance with the contract it paid a fixed monthly fee of HRK 180 thousand. The expense of the above-mentioned consultancy services for two months, in the amount of HRK 360 thousand, is included in the costs of intellectual services in the current year.

In addition, a special compensation fee was agreed, which will be calculated and paid out after the expiration of the four-year period, in accordance with the planned (consolidated) results of the FTB Group for 2022.

As a result, on 31 December 2018, in addition to the aforementioned cost of HRK 360 thousand, the Company further recorded provision in the amount of HRK 310 thousand which relates to proportionate bi-monthly period in 2018. In the event of termination of the contract by the subsidiary, without any hidden behavior on the part of the service provider, prior to the end of the period for which it was concluded, the Company shall pay out to the provider a proportionate portion of the fee for the period for which the service provider has provided consultancy services and the entire reward bonus as defined in the contract, i.e. the calculated amount of the reward bonus will be reduced by the sum of all the previously paid monthly fees to the service provider.

**NOTE 25 – RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one of the parties has the power to exercise control over the other party or under common control or if it has significant influence over the other party in making financial or operational decisions. As of 31 December 2018, the Company is controlled by SNH Gama d.d., which is an ultimate parent and controlling company. There were no significant changes in ownership structure compared to 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS  
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NOTE 25 – RELATED PARTY TRANSACTIONS (continued)

Related party transactions at the year-end are as follows:

| <i>(u tisućama kuna)</i>            | Group         |              | Company      |           |
|-------------------------------------|---------------|--------------|--------------|-----------|
|                                     | 2018          | 2017         | 2018         | 2017      |
| <b>Sales of services:</b>           |               |              |              |           |
| Liburnia Riviera Hoteli             | <u>331</u>    | <u>248</u>   | <u>64</u>    | <u>-</u>  |
| <b>Other operating expenses:</b>    |               |              |              |           |
| Liburnia Riviera Hoteli             | 1,273         | 1,363        | 5            | 57        |
| Bogdanović&Dolički&Partneri         | 115           | 103          | 64           | -         |
| Other related parties               | -             | 2            | -            | 2         |
|                                     | <u>1,388</u>  | <u>1,468</u> | <u>69</u>    | <u>59</u> |
| <b>Trade and other payables:</b>    |               |              |              |           |
| Liburnia Riviera Hoteli             | 250           | 191          | 19           | 1         |
| Bogdanović&Dolički&Partneri         | 17            | -            | -            | -         |
|                                     | <u>267</u>    | <u>191</u>   | <u>19</u>    | <u>1</u>  |
| <b>Trade and other receivables:</b> |               |              |              |           |
| Liburnia Riviera Hoteli             | -             | 21           | -            | -         |
| <b>Loans receivables:</b>           |               |              |              |           |
| SN Pectinatus                       | <u>33,000</u> | <u>-</u>     | <u>5,000</u> | <u>-</u>  |
| <b>Liabilities for loans:</b>       |               |              |              |           |
| Liburnia Riviera Hoteli             | <u>37,500</u> | <u>-</u>     | <u>5,000</u> | <u>-</u>  |

In 2018, the Group has a total of 14 members of administrative, management and supervisory bodies (2017: 14 members). Fees for administrative, management and supervisory bodies in 2018 amount to HRK 10,499 thousand (2017: HRK 8,343 thousand) and relate to the gross salary, benefits and bonuses.

Additionally, for the year 2018, compensation to management, includes bonus to the Director of HRK 9,532 thousand, which was paid out based on the decision of the Supervisory board (2017: 8,647 thousand; 2016: HRK 12,059 thousand). Bonus was granted in shares and the total gross amount was HRK 30,238 thousand.



**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 26 – EVENTS AFTER THE REPORTING DATE**

In January 2019, the Group obtained a loan of HRK 12 million with a repayment period up to 30.09.2022.

With regard to the Consultancy Services Agreement concluded by the Group in 2018, on 28 February 2019 an Agreement on the Termination of the Consultancy Services Agreement was concluded, and on 1 March 2019 a new Advisory Services Agreement was concluded. Pursuant to the new contract, the Group will continue to pay a fixed monthly fee of HRK 180 thousand per month for business advisory services.

Furthermore, with the new contract the possibility has arisen for the Supervisory Board of the Company, the service recipient, to take a decision on the payment of a special incentive award to the service provider for the achieved results of the service recipient and its affiliated companies achieved during the term of the contract. This changes the contractual provision under the previous contract, which defines the obligation to pay out a special award fee that would have been settled and repaid after the expiration of a period of four years, in accordance with the planned (consolidated) results of the FTB Group for the year 2022.