EXCELSA NEKRETNINE d.d., DUBROVNIK

ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT FOR 2017

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MANAGEMENT REPORT FOR 2017

This Annual Report of Excelsa nekretnine d.d. is submitted in accordance with Article 21 of the Accounting Act.

Considering the fact that this Annual Report is being submitted as part of the Company's audited financial statements for 2017, it only provides summarized accounts of the relevant risks and the financial instruments the Company uses to avoid unnecessary repetition.
To fully understand the risks the Company faces in its business, which risks should be taken into account by any diligent investor, reference is also made to Note 3 of the Audit Report in addition to this entire Report.

1) Significant business events in 2017

The Company's core business and, until such time the Dubrovnik-Srđ Hill cable-car is put into service, its only business is the exploitation of real properties the Company operates in different parts of coastal Croatia, purchasing of undervalued properties it believes may become much more valuable than they presently are, and property development by making properties fit for a new purpose or improved for the present purpose.

As regards the leasing of its own properties in 2017, the Company was focused on finding a new lessee for the Pucić Palace in Dubrovnik at Brsalje 17 (Pile Plateau), the most valuable property in the Company's portfolio, as the ten-year contract with the former lessee was about to expire in late October of 2017. Consequently, in August of 2017, a new lease was signed with a new lessee for a term of 10 years. The lessee committed to invest their own funds in refurbishing the entire property, which is why a grace period was agreed upon with respect to rent payments until such time the relevant works are completed, which is expected to occur in April of 2018. At the time of preparing this Annual Report, these works were in progress. In addition to entering into contract for this property, a 2-year lease was also signed for the property in Pula in 2017. The property in Poreč was not leased in 2017 as demand for such commercial properties at the location concerned is very low.

In 2017, the Cable-car Department continued to work on reaching its fair market share, where the market would to a visitor to Dubrovnik be the City Walls, the Old Town, the Island of Lokrum, etc. In 2017, the cable-car carried 9.5% more passengers than the year before and exceeded the plan set for that year.

In 2017, the Company used intensive efforts to resolve the cable-car concession issue as the decision of the City of Dubrovnik regarding the grant of the concession taken and the concession agreement offered in January 2017 were unacceptable to the Company, primarily but not exclusively for the concession term of only 10 years. In December of 2017, the City Council of Dubrovnik canceled its decision taken in January of the same year and reached a conclusion whereby it established new concession terms where the only difference in relation to the decision taken in January is a 50-year concession term, as insisted upon by the Company while resolving the concession issue for all these years. The City Council of Dubrovnik took its new concession granting decision in April of 2018, reference to which is made in the next section of this Report ("Significant business events after 31 December 2017").

All Company's activities undertaken in 2017, continued implementation of strategic activities launched in earlier years, and a very good tourist season in 2017 resulted in a strong increase in Company's revenue last year – total revenue increased by 15.8% compared to the preceding year.

As regards costs, the Company underscores that it decided to create a provision of HRK 7.04 million charged to income obtained in 2017 pursuant to the Customs Administration's Record of March 2018 which finds the Company to be required to pay a "concession-like fee" in accordance with the Concession Act. The Company submitted a complaint regarding such Record and did not receive any resolution from the Customs Administration up to the preparation date of this Annual Report. This provision is not recognized for tax purposes under the Income Tax Act. i.e. it increases the tax base. On the other hand, this provision not recognized for tax purposes creates a deferred tax asset equaling 18% of the amount concerned, i.e. HRK 1.27 million. This deferred tax asset will continue to exist until the year in which the amount of the provision is actually settled and, if that does ever happen, the income tax obligation will be reduced by HRK 1.27 million. This provision was created for the purpose of consistently applying the International Financial Reporting Standards the Company is required to apply under Article 17, paragraph 3 in conjunction with Article 3, paragraph 1 of the Accounting Act, i.e. the Company would not otherwise recognize the obligation stated in the Customs Administration's Record as a valid one.

Consequently, the Company obtained net income of HRK 32 million in 2017.

To provide a clearer view of the Company's performance in 2017 vs. 2016, provided below is a comparison between profit before taxation levels. Comparison between net income levels is less purposeful considering the significant taxation differences between these two years as a result of that fact that (i) the Company reinvested HRK 3.56 million of the income obtained in 2016, which reduced the tax base, and did not repeat this with respect to the income obtained in 2017; and (ii) the income tax rate was 20% in 2016 and 18% in 2017. Therefore, profit before taxation was HRK 39.09 million in 2017 compared to HRK 28.34 million in 2016, which is an increase by 37.9%. If the cost of the provisions created from income in the amount of HRK 7.04 million in 2017 and HRK 9.82 million in 2016 were to be isolated to allow for a more accurate performance comparison between these two years, profit before taxation in 2017 would be 20.9% higher than in 2016.

In 2017, the Company paid its shareholders dividend from the income obtained in 2016. Such gross dividend amounted to HRK 5 per share. The dividend distributed represents a dividend yield of 3.3% in relation to the average market value of the shares in 2017. In the past five years, the Company paid dividend totaling HRK 19.41 per share (gross amount).

On the end of 2017 the Company began to scrutinize effect of the GDPR (general data protection regulations) decree on the internal business processes and eventual changes in the same.

2) Significant business events after 31 December 2017

In January of 2018, the majority shareholder of the Company changed - Adriatic Investment Group of Luxembourg now holds 85.83% of the shares. The sole shareholder in Adriatic Investment Group is Sutivan Investments Anstalt of Liechtenstein, which had held 85.83% of the Company’s shares until they were transferred. This change in majority shareholder did not result in a change of ultimate control of the Company.

At its meeting held on 9 April 2018, the City Council of Dubrovnik took its decision to grant a cable-car concession to the Company. This concession granting decision and the concession agreement being its integral part essentially define that (i) the variable concession fee equals 15% of the cable-car’s revenue; (ii) the fixed concession fee is HRK 1,000 (one thousand kunas) per month; (iii) the term of the concession is 50 years; and (iv) in case of any market disruption that would result in a decrease of cable-car revenue by 50% compared to the average revenue recorded in the three years preceding the year of such decrease, the concession fee payable for that year in which such decrease is recorded would equal 10% of the cable-car revenue. Up to the preparation date of this Annual Report, the Company did not receive such concession granting decision or the appended concession agreement.

3) Future development of the Company

The Company is taking preparatory actions to develop a real estate project of a combined commercial and residential purpose on land within the business center of the City of Dubrovnik which it purchased in the preceding period.

In addition, the Company constantly considers opportunities arising on the real estate market for the purpose of taking advantage of its strong cash flow to acquire properties having substantial development potential or properties that have no substantial development potential but provide or may be reasonably expected to provide substantial returns. In that regard Company empowered its team on the beginning of year 2018 with new employee with significant experience on real estate market. In 2017, the local real estate market saw intensified arrival of foreign real estate investors coming from markets offering relatively low returns on real estate investments which results, in addition to a more favorable economic situation on the local market than it was in earlier years and continued pursuing of a cheap and available cash policy, in a growth in real estate prices exceeding the growth of their respective return rates, and thus adversely affects the financial feasibility of projects offered on the market.

The Company has intensively developed its present cable-car business since the very beginning of its operation, constantly investing in raising its quality, which justifies the incremental increase in ticket prices. Accordingly, as of 1 May 2018, the prices of the most popular ticket classes will be increased – the price of by far the most popular ticket class will be increased by 7.14%.

4.) Miscellaneous

- The Company did not invest in research in 2017.
- The Company did not trade its own shares in 2017.
- Due to the nature of its business, the Company’s environmental impact is insignificant.
- The Company does not operate any branch offices.

5.) Risks

To protect its rights under leases as much as possible, the Company normally enters into leases in the form of enforceable documents. The Company is guaranteed the payment of rent, other costs and any contractual penalty by accepting bank guarantees or promissory notes, and

sometimes also a cash deposit (equaling several month's rent) from lessees. In such lease contracts, rent and contractual penalty is denominated in a foreign currency (EUR) and payable in HRK, which is why any variations in the exchange rate between these two currencies affect Company's performance.
Under numerous business cooperation contracts with travel agencies bringing organized groups to the cable-car, the Company is guaranteed the payment for its services by promissory notes or credit cards provided in advance, while business with some of its partners is conducted exclusively on a prepayment basis.

As the Company did not have any borrowings recorded at the end of 2017, it is not exposed to interest rate risk, i.e. the risk of negative interest.

At the same time, the Company is exposed to interest rate risk in relation to positive interest due to a constant and significant decrease in interest rates on deposits, which reduces the income obtained by managing cash surplus.

6) Application of the Code of Corporate Governance

The Company complies with the Code of Corporate Governance developed by the Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange Inc. and published in April of 2015 with certain deviations the Company finds to be justified. The Company has completed the annual questionnaire provided as part of the Code and published on the website of Zagreb Stock Exchange and the Company's website.

Such deviations from the Code are as follows:

1) The Company does not publish a calendar of significant events because it finds it unnecessary for its business purposes.
2) The Agenda of the General Meeting is not published in English because the Company finds it unnecessary for its business purposes.
3) The Company does not allow shareholders to participate in General Meeting sessions using communication technologies because it finds it unnecessary for its business purposes, because it does not use appropriate communication technologies that would allow for the unambiguous identification of a person who would thus participate in the proceedings of the General Meeting, and because no shareholder ever expressed an intention to take part in a General Meeting this way.
4) The Supervisory Board has not established its internal operating rules.
5) The Supervisory Board does not comprise independent members because the General Meeting clearly believes the present system has the knowledge and skill necessary for the effective supervision of the Management Board as well as the required degree of autonomy.
6) The Company does not have a long-term succession plan in place as it only employs 15 persons on a permanent basis, with up to 4 seasonal employees hired during the year.
7) The Supervisory Board has not organized an appointment committee because it finds it unnecessary for its business purposes.
8) The Supervisory Board has not organized its rewarding committee because it finds it unnecessary for its business purposes.
9) The Supervisory Board has not assessed its performance in the preceding period.

10) The Company does not publicly disclose the fee paid to its external auditors for auditing its financial statements; however, this amount is consistent with the Tariff of the Chamber of Auditors.

Regarding the basic characteristic of internal audits conducted in the Company and risk management in relation to financial reporting, the Management Board personally conducts the necessary controls by regularly monitoring the levels of trade receivables, regularly communicating with Accounting and regularly reviewing how the established operating processes are implemented. As the Company's revenues and expenses are of a medium level and it employs few people, such conduct of the Management Board allows for the effective supervision of Company's operation and risk management in relation to financial reporting. Although the number of Company's business partners has increased constantly and significantly and they are no longer few in number primarily in terms of purchasers of cable-car services, they are classified in different categories based on the volume of mutual business, the history of mutual business and their sizes, and each category is assigned an appropriate operating model (regarding payment terms, exposure levels, guarantees provided, etc.) and internal procedures applicable to the monitoring of debt collection. The relatively few vendors are controlled through an established process of invoice settlement and operational monitoring of the performance of their services or supply of their products. Particular attention is given to controlling the daily cash revenues at the cable-car cash desk because cash operations are by their nature risky on multiple levels.

The Management Board is not aware of any defects or weaknesses in the designing or implementation of internal controls that may have an adverse impact on our ability to state, process, present in summarized form and report the relevant financial information.

EXCELSA NEKRETNINE d.d.
MANAGEMENT BOARD
Anto Rusković

Dubrovnik, 12 April 2018

STATEMENT OF THE MANAGEMENT BOARD’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 cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. The Management Board 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 to 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.

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare an Annual Report comprising the financial statements, Management Report and the Corporate Governance Statement. The Management Report was prepared in line with the requirements of Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

The Management Board is responsible for submitting the Company's Annual Report, including the Company's annual financial statements, to the Supervisory Board. The Management Board and the Supervisory Board then jointly propose to the General Assembly to issue a decision on profit distribution.

The financial statements of the Company set out on pages 14 to 41 and the Management Report including the Statement of Corporate Governance set out on pages 1 to 5 were approved by the Management Board on 12 April 2018 and are signed below to signify this.

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Anto Rusković
Member of the Management Board
Excelsa nekretnine d.d.

Independent Auditor's Report

To the Shareholders and Management Board of Excelsa nekretnine d.d.:

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Excelsa nekretnine d.d. (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Company's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2017;
- the statement of financial position as at 31 December 2017;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

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

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Company in the period from 1 January 2017 through 31 December 2017.

Our audit approach

Overview

Materiality	• Overall materiality for financial statements as a whole: HRK 3.1 million, which represents 8% of profit before tax.
Key audit matters	• Valuation and impairment of investment property • Risk of fraud regarding revenue from the sale of cable car tickets

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality for financial statements as a whole	HRK 3.1 million
How we determined it	8% of profit before tax.
Rationale for the materiality benchmark applied	We consider profit before tax to be the key metric in the industry of the Company, and it is the benchmark against which the performance of the Company is most commonly measured by shareholders.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Valuation and impairment of investment property *See Notes 2.4 and 2.7 to the financial statements entitled "Investment property" and "Financial assets" (accounting policies), Note 4 (Critical accounting estimates) and Note 12 (Investment property).* The Company recorded investment property in the amount of HRK 112,152 thousand at the balance sheet date (2016: HRK 115,149 thousand), which is measured using the cost method. Some properties are under lease and some (mainly land) are not under lease and the Company holds them in order to increase their value or to realise future projects. Management annually assesses the existence of indicators of impairment of land recorded in investment property, since it is not depreciated. We focused on this area because of the likely material effects on the financial statements if impairment indicators are not identified in a timely manner.	We obtained and gained an understanding of the accounting policies of the Management Board regarding the valuation of investment property and impairment indicators. We obtained the analytical records of land recorded in investment property and determined the average carrying amount per m2 of land. We investigated the average market price per m2 taking into account the location and size of land and compared it with the carrying amount. We agree with the Management Board's assessment that based on available information there are no indicators of or need for impairment of land. We also believe that the disclosures in Notes 2.4, 2.7, 4 and 11 are appropriate.

Key audit matter	How our audit addressed the Key audit matter
Risk of fraud regarding revenue from the sale of cable car tickets *See Note 2.20 (b) to the financial statements entitled "Revenue recognition – Income from ticket sales" (accounting policies) and Note 5.* During the year, the Company realised revenue from the sale of cable car tickets in the amount of HRK 51,311 thousand (2016: HRK 43,226 thousand), which is generally settled in cash or by credit card. We focused on this area due to the fact that cash collection causes a higher fraud risk compared to the non-cash collection of recorded sales (collection via bank account).	We performed the following audit procedures: - since the cable car can be entered only with a purchased ticket, we reviewed a sample of daily cash register reports during the entire period of ticket sales and confirmed that the received cash is counted on a daily basis and that credit card collection is checked; - we compared daily ticket collection proceeds with the amounts deposited on the Company's bank account; - we compared the amounts reported in the cash register application with the amounts recognised in income for all 12 months of the year; - we compared the amount on the bank account recorded in the financial statements with the confirmation obtained from the bank; - we compared the amount receivable from the credit card company recorded in the financial statements with the confirmation obtained from the credit card company; - we checked whether there were any manual entries on the accounts of income from ticket sales, i.e. whether total revenues are recorded solely on the basis of cash register reports. We have not identified any deviations or material errors in the reported income from ticket sales.

Reporting on other information including the Management Report and Corporate Governance Statement

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

Our opinion on the financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

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

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

Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

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

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

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and true and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Company since its establishment and we were auditors of the legal predecessors of the Company, which represents an uninterrupted period of more than 14 years. . Our appointment has been renewed annually by shareholder resolution, with the last renewal by the General Assembly as of 27 June 2017.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Marija Mihaljević.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
26 April 2018

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

EXCELSA NEKRETNINE d.d., DUBROVNIK

FINANCIAL STATEMENTS
31 DECEMBER 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**2017**	**2016**
Income	5	62,889	53,374
Other income		290	1,144
Depreciation and amortisation		(5,465)	(5,389)
Staff costs	6	(3,675)	(3,496)
Other operating expenses	7	(14,463)	(16,709)
Other losses – net		(61)	(94)
Operating profit		**39,515**	**28,830**
Finance income		-	167
Finance costs		(424)	(654)
Finance costs - net	8	(424)	(487)
Profit before tax		**39,091**	**28,343**
Income tax	9	(7,095)	(5,230)
Net profit for the year		**31,996**	**23,113**
Other comprehensive income		-	-
Total comprehensive income for the year		**31,996**	**23,113**
Basic and diluted earnings per share in HRK	10	9.59	6.93

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**31 December 2017**	**31 December 2016**
ASSETS			
Non-current assets			
Intangible assets		26	40
Tangible assets	11	35,904	37,323
Investment property	12	112,152	115,149
Available-for-sale financial assets	13	31,090	31,090
Receivables		-	-
Deferred tax assets	16/ii/	3,036	1,769
		182,208	185,371
Current assets			
Inventories of spare parts		584	562
Trade and other receivables	14	75,936	51,993
Cash at bank and on hand		7,414	5,406
		83,934	57,961
Total assets		**266,142**	**243,332**
EQUITY			
Capital and reserves			
Share capital	15	128,078	124,521
Capital reserves	15	61,353	61,353
Legal reserves	15	2,290	2,290
Retained earnings		52,860	41,099
		244,581	**229,263**
LIABILITIES			
Non-current liabilities			
Trade and other payables	16	461	465
Provisions		547	-
		1,008	**465**
Current liabilities			
Trade and other payables	16	18,503	12,570
Income tax payable	9	2,050	1,034
		20,553	**13,604**
Total liabilities		**21,561**	**14,069**
Total equity and liabilities		**266,142**	**243,332**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**Share capital**	**Capital reserves**	**Legal reserves**	**Retained earnings**	**Total**
Year ended 31 December 2016						
At 1 January 2016		124,521	61,353	2,290	31,663	219,827
Total comprehensive income for the year		-	-	-	23,113	23,113
Transactions with owners:						
Dividends paid	15	-	-	-	(13,677)	(13,677)
Total transactions with owners		-	-	-	(13,677)	(13,677)
At 31 December 2016		**124,521**	**61,353**	**2,290**	**41,099**	**229,263**
Year ended 31 December 2017						
At 1 January 2017		**124,521**	**61,353**	**2,290**	**41,099**	**229,263**
Total comprehensive income for the year		-	-	-	31,996	31,996
Transactions with owners:						
Increase of share capital	15	3,557	-	-	(3,557)	-
Dividends paid	15	-	-	-	(16,679)	(16,679)
Total transactions with owners		3,557	-	-	(20,236)	(16,679)
At 31 December 2017		**128,078**	**61,353**	**2,290**	**52,860**	**244,581**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**2017**	**2016**
Profit before tax		**39,091**	**28,343**
Adjustments for:			
Amortisation of intangible assets		13	14
Depreciation of tangible assets	11	2,303	2,226
Depreciation of investment property	12	3,149	3,149
Finance costs - net	8	424	487
Interest income on deposits		(90)	(475)
Provisions		547	-
Changes in working capital:			
Inventories		(22)	(195)
Trade and other receivables		163	1,262
Trade and other payables		7,134	10,089
Cash generated from operations		**52,712**	**44,900**
Interest paid		-	(313)
Income tax paid		(7,346)	(7,944)
Net cash from operating activities		**45,366**	**36,643**
Cash flows from investing activities			
Purchase of tangible assets	11	(335)	(3,557)
Investment property	12	(701)	(140)
Interest received on deposits		90	475
Deposits received		(1,432)	(18)
Bank deposits		(24,301)	(10,586)
Net cash used in investing activities		**(26,679)**	**(13,826)**
Cash flows from financing activities			
Dividends paid	15	(16,679)	(13,677)
Repayment of borrowings		-	(9,996)
Cash flow used in financing activities		**(16,679)**	**(23,673)**
Net increase /(decrease) in cash and cash equivalents		**2,008**	**(856)**
Cash and cash equivalents at beginning of year		5,406	6,262
Cash and cash equivalents at end of year		**7,414**	**5,406**

NOTE 1 – GENERAL INFORMATION

Excelsa Nekretnine d.d., Dubrovnik (the Company) is a public limited liability company incorporated and domiciled in Croatia. The registered office of the Company is in Dubrovnik, Sv. Đurđa 1.

The Company's principal activity is property operations.

The majority owner of the Company is Sutivan Investments Anstalt, Vaduz (registered in Liechtenstein), and the ultimate parent company and controlling party is Vallum Foundation, registered in Vaduz, Liechtenstein. As of 11 January 2018, the majority owner of the Company (with 85.83% of issued shares) is Adriatic Investment Group with its registered office in the Grand Duchy of Luxembourg, which is wholly owned by Sutivan Investment Anstalt, Vaduz.

As at 31 December 2017 and 2016, the Company's shares are listed on the regular market of the Zagreb Stock Exchange.

Management of the Company comprises one member, Mr. Anto Rusković.

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

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and under the historical cost convention.

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

Changes in accounting policies and disclosures

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

The Company has adopted the following new and amended standards for their annual reporting period commencing 01 January 2017 which were endorsed by the European Union and which are relevant for the Company's financial statements:

- *Recognition of Deferred Tax Assets for Unrealised Losses* - *Amendments to IAS 12*
- *Disclosure Initiative* - *Amendments to IAS 7*

The adoption of the amendments did not lead to additional disclosures of changes in liabilities arising from financing activities, as the Company does not have any loan liabilities, nor did it have any impact on the current period or any prior period.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Standards and interpretations not yet adopted:

Certain new standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below:

- *IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*
  IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new model for impairment of financial assets.
  The majority of the financial instruments of the Company comprise bank deposits classified as held-to-maturity financial assets and equity securities classified as available for sale assets at fair value. Accordingly, the Company does not expect the new guidance to affect the classification and measurement of these financial assets.
  There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement have not been changed.*
  The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39 and applies to financial assets of the Company classified at amortised cost. Based on the assessments undertaken to date, the Company does not expect a significant increase in the loss on impairment of trade receivables and bank deposits.
  The new standard also introduces expanded disclosure requirements and changes in presentation. This standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.

- *IFRS 15 Revenue from contracts with customers and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*
  The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.
  The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.
  Management has assessed that the effects of applying the new standard on the Company's financial statements will not be significant.
  The application of IFRS 15 may further result in the identification of separate performance obligations which could affect the timing of the recognition of revenue going forward.
  This standard must be applied for financial years commencing on or after 1 January 2018. The Company intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- *IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, early adoption is permitted only if IFRS 15 is adopted at the same time)*

IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The standard will affect primarily the accounting for the Company's operating leases. As at the reporting date, the Company has no non-cancellable operating lease commitments.

Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At this stage, the Company is not able to estimate the total impact of the new standard on the Company's financial statements, it will make more detailed assessments of the impact over the next twelve months. The Company plans to adopt this standard on its effective date. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2.2 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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of the Company that makes strategic decisions.

2.3 Foreign currencies

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Investment property

Investment property, principally comprising office buildings and land, is held for long-term rental yields or appreciation and is not occupied by the Company. 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.

Land and assets under construction are not depreciated. Depreciation of buildings is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 31 years. The estimation of useful lives is described in Note 4. The Company determined nil as residual value.

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

2.5 Intangible assets

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

2.6 Tangible assets

Tangible assets comprise land, buildings and equipment and are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of an item of tangible assets includes its purchase price and any direct attributable costs. Cost includes the cost of replacing part of an existing item of tangible assets at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an item of tangible assets.

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

Land is not depreciated. Depreciation of tangible assets items is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Annual depreciation rates based on the useful life of assets are as follows:

Buildings	17 - 31 years
Equipment	2 - 20 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Tangible assets

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in 'other gains/(losses) – net' in the statement of comprehensive income.

2.7 Impairment of non-financial assets

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

2.8 Financial instruments

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Management Board determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Receivables are carried at amortised cost using the effective interest method. Impairment testing of receivables is described in Note 2.7.

(b) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories and relate to shares that are not listed in an active market. These assets are initially recognised at fair value plus transaction costs. At each subsequent balance sheet date, investment securities whose price is not listed in an active market and whose fair value cannot be reliably determined are carried at cost.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence of impairment, the entrepreneur has to record the impairment loss as an expense in the income statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

(c) Financial liabilities
Financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. Financial liabilities include trade payables, borrowings and other liabilities. They are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method (see Note 2.15 for the accounting policy on borrowings). The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

A financial liability is derecognised when the liability is discharged or cancelled or expires.

2.9 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivables are impaired. The impairment amount is the difference between the receivable’s carrying amount and recoverable amount; more precisely, it is the present value of estimated future cash flows, discounted at the effective interest rate. The impairment of trade receivables, as well as subsequent recoveries of amounts previously written off, is recognised in the statement of comprehensive income within ‘Other operating expenses’.

2.10 Inventories

Inventories of spare parts are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method.

2.11 Cash and cash equivalents

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

2.12 Share capital

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

2.13 Trade payables

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 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. Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are charged to the statement of comprehensive income. Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Value added tax

The Tax Administration requires the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where receivables have been impaired, impairment loss is recorded for the gross amount of the debtor, including VAT. As at 31 December 2017, the VAT rate was 25% (2016: 25%).

2.16 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax act enacted at the balance sheet date in Croatia. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and considers establishing provisions where appropriate on the basis of amounts expected to be paid to the Tax Administration.

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

Deferred income tax is 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 asset is realised or liability is settled. Deferred income 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.

2.17 Employee benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

(b) Short-term employee benefits
The Company recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Company recognises a liability for accumulated compensated absences based on unused vacation days at the balance sheet date.

2.18 Provisions

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.19 Leases

The Company is the lessor
Assets under an operating lease are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term, unless there is an alternative basis better representing the time frame in which the benefits of the lease and the depreciation of the leased property are matched.

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

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for services provided in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, rebates and discounts. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

(a) Rental income
Rental income is determined based on fixed-price contracts concluded with the lessees and with contract terms generally ranging from 1 to 15 years.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Revenue recognition (continued)

(b) Income from ticket sales
The Company provides cable car transport services. Revenues are recognised when the Company sells a ticket to the customer, mainly individuals and travel agencies. Income from ticket sales are usually settled in cash or by credit card.

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

2.21 Dividend distribution

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

2.22 Earnings per share

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow 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 Company's Management Board.

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to the risk of fluctuation of foreign exchange rates, which is the risk that the value of a financial instrument will vary due to changes in the underlying foreign exchange rate. The Company is exposed to foreign exchange risk through bank deposits. The Company earns its revenues on the domestic market and expresses them in Croatian Kuna. However, although invoicing is performed in HRK, all contracts are linked to the Euro. Therefore, movements in exchange rates between EUR and HRK may have an impact on the results of future operations. The Company does not use derivative instruments to actively hedge foreign exchange risk exposure.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

The Company's financial assets and liabilities within the scope of IAS 39 as at 31 December 2017 and 2016 are denominated in the following currencies:

2017	EUR	HRK	Total
Financial assets			
Cash at bank and on hand	573	6,841	7,414
Bank deposits	75,136	-	75,136
Available-for-sale financial assets	-	31,090	31,090
Trade and other receivables	47	603	650
	75,756	**38,534**	**114,290**
Financial liabilities			
Deposits	476	-	476
Trade and other payables	-	710	710
	476	**710**	**1,186**
2016			
Financial assets			
Cash at bank and on hand	738	4,668	5,406
Bank deposits	51,030	-	51,030
Available-for-sale financial assets	-	31,090	31,090
Trade and other receivables	142	601	743
	51,910	**36,359**	**88,269**
Financial liabilities			
Deposits	1,908	-	1,908
Trade and other payables	-	506	506
	1,908	**506**	**2,414**

The Company's primary method of managing foreign currency risk is to match the Company's principal cash outflows to the currency in which the principal cash inflows (such as rental revenue) are denominated.

As at 31 December 2017, if HRK had weakened/strengthened by 1% (2016: 1%) against EUR, with all other variables held constant, post-tax profit for the year would have been HRK 617 thousand lower/higher (2016: HRK 400 thousand lower/higher), mainly as a result of foreign exchange losses/gains on the translation of EUR denominated bank deposits and borrowings.

(ii) Cash flow and fair value interest rate risk

Interest income is realised from bank deposits. Trade receivables and payables are interest-free. Financial instruments issued at fixed interest rates expose the Company to fair value interest rate risk, and those issued at variable rates expose the Company to cash flow interest rate risk. Interest rates are presented as follows:

	Interest rate	Fixed rate
2017:		
Bank deposits	0.05% - 0.08%	75,136
2016:		
Bank deposits	0.20% - 0.40%	51,030

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

In accordance with the agreed repricing dates, the Company is exposed to changes in interest rates on bank deposits within a period up to one year.

The Company does not analyse its interest rate risk exposure. The Company does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

(iii) Price risk

The Company is exposed to changes in equity prices since it has investments in shares classified as available-for-sale financial assets. Since these shares are not listed, the Company is unable to reliably determine the fair value of investments at the balance sheet date. Therefore, they are stated at cost. The nature of Company's operations and the non-existence of commodity contracts, significantly limit the exposure to commodity price risk.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company has no significant concentrations of credit risk. Credit risk arises from bank deposits, cash and trade and other receivables.

The maximum exposure to credit risk at the balance sheet date is as follows:

	2017	**2016**
Trade and other receivables	650	743
Bank deposits	75,136	51,030
Cash and cash equivalents	7,414	5,406
	83,200	**57,179**

As at 31 December 2017 and 2016, the Company had no impaired receivables. The credit quality was as follows:

(in thousands of HRK)	**Trade receivables**	**Bank deposits**	**Cash and cash equivalents**	**Total**
2017				
Neither past due nor impaired	165	75,136	7,414	**82,715**
Past due but not impaired	485	-	-	**485**
	650	75,136	7,414	**83,200**
2016				
Neither past due nor impaired	51	51,030	5,406	**56,487**
Past due but not impaired	692	-	-	**692**
	743	51,030	5,406	**57,179**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

Receivables past due are as follows:

	2017	2016
	(in thousands of HRK)	
Up to 30 days	131	398
30 to 60 days	150	146
60 to 90 days	173	104
90 to 180 days	31	9
Over 180 days	-	35
At 31 December	**485**	**692**

Receivables past due are not impaired because the Management Board considers them to be fully recoverable. The Company has policies in place to ensure that premises are leased to customers with an appropriate credit history. The collection of trade receivables is partially secured by deposits and bank guarantees. Customers are not divided into groups according to credit quality; all have an 8 day deferred payment period and have no credit limits. During 2017, The Company does not have any trade receivables written off (2016: HRK 37 thousand. For other receivables, collection is generally performed according to contractual terms.

Customers are generally late up to 30 days after the maturity date. Although these receivables are overdue, they are considered not impaired. The Management Board does not expect any losses from non-performance by these counterparties.

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

Deposits are placed with banks without a credit rating, but whose parent banks are rated by Standard & Poor’s as follows:

	2017	2016
	(in thousands of HRK)	
BBB	59,718	-
BBB-	-	37,789
Without rating	15,418	13,241
	75,136	**51,030**

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Company aims to maintain flexibility in funding by keeping committed credit lines available. The Management Board monitors inflow and outflow daily on the basis of monthly cash flow projections. The Company pays all liabilities on maturity.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

The Company's total financial assets mature within a period up to one year. The table below presents the contractual undiscounted cash flows of financial liabilities.

(in thousands of HRK)	**Up to 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Total**
At 31 December 2017				
Trade and other payables	725	461	-	1,186
	725	461	-	1,186
At 31 December 2016				
Trade and other payables	1,949	465	-	2,414
	1,949	**465**	**-**	**2,414**

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to decrease or adjust the capital structure, the Company may adjust the amount of retained profit paid to the owner, return capital to the owner, increase share capital or sell assets to reduce debt.

The Company monitors capital only on the basis of Croatian laws and regulations which require a minimum paid-up capital of HRK 200 thousand and building up legal reserves from profit until the total reserves reach 5% of the Company's share capital. Legal reserves are not distributable. There are no specific objectives required by the owners in managing capital.

3.3 Fair value estimation

The carrying amount of trade receivables, bank deposits, cash, trade payables approximate their fair values due to their short-term nature. The fair value of long-term interest-free deposits is estimated by discounting future cash flows using weighted monthly average interest rate on deposits with non-financial companies in the amount of HRK 460 thousand (2016: HRK 356 thousand).

The fair value of available-for-sale financial assets is measured at cost since these are investments in unlisted shares whose fair value cannot be measured reliably.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated useful life of investment property

The process of determining the useful life of an asset considers specific microeconomic conditions of the area where the property is situated. Most properties are very old. They are mainly made of stone and located in the old city of Dubrovnik and the surrounding areas. Taking into account the current capacity utilisation and the assessment of assets used in future periods, and based on the experience with similar properties and market practice, the useful life of the property was estimated at 31 years.

If the estimated useful life of investment property in 2017 had been 10% longer (2016: 10% longer), with all other variables held constant, post-tax profit for the year and the net carrying value of investment property would have been HRK 229 thousand higher (2016: HRK 229 thousand. If the estimated useful life of investment property in 2017 had been 10% shorter (2016: 10% shorter), with all other variables held constant, post-tax profit for the year and the net carrying value of investment property would have been HRK 280 thousand lower (2016: HRK 280 thousand).

NOTE 5 – INCOME

	2017	**2016**
	(in thousands of HRK)	
Rental income	9,578	10,148
Income from ticket sales	53,311	43,226
	62,889	**53,374**

NOTE 6 – STAFF COSTS

	2017	**2016**
	(in thousands of HRK)	
Gross salaries	3,136	2,983
Contributions on salaries	539	513
	3,675	**3,496**

At 31 December 2016, the Company had 15 employees (2016: 15).

Gross salaries include HRK 562 thousand (2016: HRK 536 thousand) of contributions paid to the mandatory state pension funds.

NOTE 7 – OTHER OPERATING EXPENSES

	2017	2016
	(in thousands of HRK)	
Accrued concession cost (Note 16)	7,040	9,825
Contributions not related to income	267	263
Intellectual services	1,202	542
Business trips and other employee benefits	290	262
Bank charges	174	382
Insurance premiums	276	284
Maintenance	581	1,603
Security services	269	260
Cancellable leases /i/	287	289
Cost of materials and other external services	1,133	1,043
Costs of agency commissions for ticket sales	1,585	1,123
Other operating expenses	1,359	833
	14,463	**16,709**

/i/ Cancellable lease costs relate to the lease of business premises on the basis of an agreement concluded for an indefinite period of time with a renewal option.

NOTE 8 – FINANCE COSTS - NET

	2017	2016
	(in thousands of HRK)	
Finance income		
Foreign exchange gains	-	167
	-	167
Finance costs		
Foreign exchange losses	(424)	(341)
Interest expense	-	(313)
	(424)	(654)
Finance costs – net	**(424)**	**(487)**

NOTE 9 – INCOME TAX

	2017	2016
	(in thousands of HRK)	
Current tax expense	8,362	6,999
Deferred tax income (Note 16/ii/)	(1,267)	(1,769)
Income tax	**7,095**	**5,230**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 18% (2016: 20%) as follows:

	2017	2016
	(in thousands of HRK)	
Profit before tax	**39,091**	**28,343**
Income tax at 18% (2016: 20%)	7,036	5,669
Effect of non-deductible expenses	59	272
Reinvested profit /i/	-	(711)
Income tax	**7,095**	**5,230**
Effective tax rate	**18.19%**	**18.45%**

/i/ In accordance with article 6, paragraph 1, item 6 of the Income Tax Act, Management decided to reinvest the profit for 2016 in the amount of HRK 3,556 thousand and increase its share capital in 2017 in accordance with special regulations.

As at 31 December 2017, the tax liability amounted to HRK 2,050 thousand (2016: HRK 1,034 thousand.

In accordance with regulations of the Republic of Croatia, the Tax Administration may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported and may impose additional tax liabilities and penalties. The Company's Management Board is not aware of any circumstances, which may give rise to a potential material liability in this respect. During 2011 and 2015, the Tax Administration performed an audit and established additional tax liabilities that were immaterial.

NOTE 10 – BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share in the amount of HRK 9.59 (2016: HRK 6.93) are calculated on the basis of the Company's net profit of HRK 31,996 thousand (2016: HRK 23,113 thousand) and the weighted average number of issued ordinary shares which was 3,335,801 (2016: 3,335,801).

NOTE 11 – TANGIBLE ASSETS

(in thousands of HRK)	**Land and buildings**	**Equipment**	**Other tangible assets**	**Total**
At 1 January 2016				
Cost	24,947	21,334	-	46,281
Accumulated depreciation	(4,209)	(6,080)	-	(10,289)
Net book amount	**20,738**	**15,254**	**-**	**35,992**
Year ended 31 December 2016				
Opening balance	20,738	15,254	-	35,992
Additions	337	3,220	-	3,557
Depreciation	(1,071)	(1,155)	-	(2,226)
At 31 December	20,004	17,319	-	37,323
At 31 December 2016				
Cost	25,282	24,407	-	49,689
Accumulated depreciation	(5,278)	(7,088)	-	(12,366)
Net book amount	**20,004**	**17,319**	**-**	**37,323**
Year ended 31 December 2017				
Opening balance	20,004	17,319	-	37,323
Additions	-	234	101	335
Transfer to investment property (Note 12)	549	-	-	549
Depreciation	(1,094)	(1,209)	-	(2,303)
At 31 December	**19,459**	**16,344**	**101**	**35,904**
At 31 December 2017				
Cost	25,831	24,640	101	50,572
Accumulated depreciation	(6,372)	(8,296)	-	(14,668)
Net book amount	**19,459**	**16,344**	**101**	**35,904**

NOTE 12 – INVESTMENT PROPERTY

(in thousands of HRK)	Land and buildings	Assets under construction	Total
At 1 January 2016			
Cost	136,213	15,072	151,285
Accumulated depreciation	(33,127)	-	(33,127)
Net book amount	**103,086**	**15,072**	**118,158**
Year ended 31 December 2016			
Opening balance	103,086	15,072	118,158
Additions	-	140	140
Depreciation	(3,149)	-	(3,149)
At 31 December	99,937	15,212	115,149
At 31 December 2016			
Cost	136,213	15,212	151,425
Accumulated depreciation	(36,276)	-	(36,276)
Net book amount	**99,937**	**15,212**	**115,149**
Year ended 31 December 2017			
Opening balance	99,937	15,212	115,149
Additions	-	701	701
Transfer to tangible assets (Note 11)	-	(549)	(549)
Depreciation	(3,149)	-	(3,149)
At 31 December	**96,788**	**15,364**	**112,152**
At 31 December 2017			
Cost	136,213	15,364	151,577
Accumulated depreciation	(39,425)	-	(39,425)
Net carrying amount	**96,788**	**15,364**	**112,152**

Based on the evidence obtained on the market regarding the frequency of transactions of similar properties in terms of age, structure, location, condition and prices, the Management Board believes that the fair values of investment property are not materially different from the respective carrying values. There are no recent valuations of property performed by independent valuers.

Leased assets (land and buildings) where the Company is the lessor under operating lease agreements include the following:

	2017	**2016**
	(in thousands of HRK)	
Cost	116,984	102,017
Accumulated depreciation	(37,062)	(34,167)
Net book amount	**79,922**	**67,850**

The Company leases premises under various lease agreements, which include an extension option. In 2017, the Company realised HRK 9,578 thousand (2016: HRK 10,148 thousand) of rental income.

NOTE 12 – INVESTMENT PROPERTY (continued)

Future minimum lease payments under the lease agreements existing as at 31 December are as follows:

	2017	2016
	(in thousands of HRK)	
Up to 1 year	8,988	8,445
Between 1 and 5 years	34,817	19,818
Over 5 years	36,177	20,174
	79,982	**48,437**

NOTE 13 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise the investment in the shares of Jadranski luksuzni hoteli d.d., Dubrovnik in the amount of HRK 31,090 thousand.

NOTE 14 – TRADE AND OTHER RECEIVABLES

	2017	2016
	(in thousands of HRK)	
Trade receivables	650	743
Bank deposits	75,136	51,030
Other receivables	150	220
	75,936	**51,993**

Bank deposits have a maturity longer than 3 months and are not considered cash equivalents.

NOTE 15 – EQUITY

As at 31 December 2017 and 2016, the Company's share capital is distributed among 3,335,801 ordinary shares without nominal value.

In 2017, the Company increased its share capital by reinvesting profit in the amount of HRK 3,557 thousand. As at 31 December 2017, the share capital amounted to HRK 128,078 thousand (2016: HRK 124,521 thousand.

Capital reserves incurred in prior periods due to the increase of share capital and they represent the share premium on issued shares, net of costs directly attributable to the issue of new shares.

The structure of shareholders as at 31 December 2017 and 2016 was as follows:

	Equity share
Sutivan Investments Anstalt, Vaduz /i/	85.83%
CERP/Republic of Croatia	1.61%
Small shareholders	12.56%
	100.00%

In June 2016, the Company's General Assembly approved a dividend payment in the amount of HRK 16,679 thousand from the 2016 net profit.

In May 2016, the Company's General Assembly approved a dividend payment in the amount of HRK 13,677 thousand, of which HRK 13,343 thousand relates to the dividend from the 2015 profit and the remaining amount relates to the dividend from retained earnings.

/I/ In 2018, Adriatic Investment Group, registered in Luxembourg, became the majority shareholder of the Company (Note 20 /i/).

Legal reserves

Legal reserves are required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserves together with capital reserves reach 5% of the Company's share capital. This reserve is not distributable.

NOTE 16 – TRADE AND OTHER PAYABLES

	2017	**2016**
	(in thousands of HRK)	
Non-current liabilities:		
Deposits /i/	461	465
	461	**465**
Current liabilities:		
Domestic trade payables	710	506
Short-term deposits	15	1,443
	725	1,949
VAT payable	129	134
Salaries payable	255	238
Accrued concession payable /ii/	16,865	9,825
Other liabilities	529	424
	18,503	**12,570**

/i/ Non-current payables are related to deposits received from lessees for leased premises. The deposits mature in 2021. The deposits are interest free.

/ii/ Pursuant to Act on Cable-car Designed to Carry Persons, and the agreement reached by the City Council of Dubrovnik as the concession grantor and the Company, in 2015 the Company submitted a Concession Request. In 2015, no final agreement on concessional terms was reached, and in September 2016 the City Council of Dubrovnik issued new concessional terms and at its session held on January 12, 2017 adopted the decision on granting the cable-car concession under these new terms. Taking into account the provisions of the City Council decision, in 2016, the Company accounted for a concession fee of HRK 9,825 thousand and recognized deferred tax assets of HRK 1,769 thousand for temporary tax differences resulting from concession payable (Note 9). In 2017, the Company accounted for a concession fee of HRK 7,040 thousand and recognized deferred tax assets of HRK 1,267 thousand (Note 9). In December 2017, the City Council of Dubrovnik repealed its decision from January 2017 stipulating that the duration of the concession would be ten years and adopted a decision on new concessionary terms, with the difference in relation to the January decision being that the duration of the concession was now 50 years, as has been requested by the Company ever since the question of concession was raised. In April 2018, the City Council of Dubrovnik adopted the decision on granting the concession to the Company in accordance with the terms laid down in December 2017 (Note 20 /ii/).

NOTE 17 – COMMITMENTS

As at 31 December 2017, contracted investments in tangible assets that are not recognised in the Company’s financial statements amounted to HRK 0.1 million (2016: HRK 0.3 million).

NOTE 18 – RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. In the ordinary course of business, the Company enters into transactions with related parties.

The Company realises business transactions with the parent company, the subsidiary and other related companies within the Vallum Foundation, parties under common control.

As at 31 December 2017 and 2016, the Company has no receivables from or liabilities to the parent company.

Balances of receivables and liabilities and business transactions with other related parties for the years ended 31 December 2017 and 2016 are as follows:

	2017	**2016**
	(in thousands of HRK)	
Rental income	405	402
Operating expenses	167	153
Trade receivables	28	1
Trade payables	30	12

Key management compensation

Key management compensation in the amount of HRK 1,730 thousand (2016: HRK 1,769 thousand) relates to salaries of key management that comprises 2 persons (2016: 2). Management compensation includes HRK 231 thousand (2016: HRK 242 thousand) of contributions paid to the mandatory state pension fund.

The Supervisory Board consists of 3 members (2016: 3) which have been receiving compensation as of June 2016. In 2017, Supervisory Board compensation amounted to HRK 137 thousand (2016: HRK 83 thousand).

NOTE 19 – SEGMENT INFORMATION

The Management Board defined its operating segments based on the types of services. The Management Board defined its operating segments based on the reports that it reviewed and that are used to make strategic decisions. The reportable segments are as follows: Property management and the Cable car.

The property management segment derives its revenues from renting property. The cable car generates revenues from the sale of tickets.

The Management Board assesses the performance of the operating segments based on a measure of net profit and EBITDA.

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

(in thousands of HRK)	**Property management**	**Cable car**	**Total**
Income	9,578	53,311	62,889
Other income	92	198	290
Staff costs	(379)	(3,296)	(3,675)
Depreciation and amortisation	(3,148)	(2,317)	(5,465)
Other operating expenses	(2,228)	(12,235)	(14,463)
Other gains/losses – net	(52)	(9)	(61)
Finance costs	(424)	-	(424)
Profit before tax	3,439	35,652	39,091
Income tax	(624)	(6,471)	(7,095)
Net profit	**2,815**	**29,181**	**31,996**
Total assets	**228,006**	**38,136**	**266,142**
Total liabilities	**4,303**	**17,258**	**21,561**
Capital expenditure	**701**	**335**	**1,036**

NOTE 19 – SEGMENT INFORMATION (continued)

The segment information for the reportable segments for the year ended 31 December 2016 is as follows:

(in thousands of HRK)	**Property management**	**Cable car**	**Total**
Income	10,148	43,226	53,374
Other income	488	656	1,144
Staff costs	(405)	(3,091)	(3,496)
Depreciation and amortisation	(3,163)	(2,226)	(5,389)
Other operating expenses	(1,123)	(15,586)	(16,709)
Other losses – net	-	(94)	(94)
Finance costs	(342)	(145)	(487)
Profit before tax	5,603	22,740	28,343
Income tax	(1,034)	(4,196)	(5,230)
Net profit	**4,569**	**18,544**	**23,113**
Total assets	**203,884**	**39,448**	**243,332**
Total liabilities	**3,883**	**10,186**	**14,069**
Capital expenditure	**140**	**3,557**	**3,697**

Assets are allocated based on the operations of the segment and physical location of the asset. The Company's assets are located entirely in the Republic of Croatia.

Liabilities are allocated based on the operations of the segment.

NOTE 20 – EVENTS AFTER THE BALANCE SHEET DATE

/i/ Change in majority shareholder

As at 10 January 2018, the Company registered a change in the majority shareholder at the CDCC, with the company Adriatic Investment Group, incorporated in Luxembourg, being registered as a holder of 85.83% of the Company's ordinary shares, thereby replacing the former Sutivan Investment Anstalt. The ultimate controlling company has remained unchanged.

/Ii/ Cable-car concession

At the session held on April 9, 2018, the City Council of Dubrovnik adopted a decision on granting the cable-car concession to the Company. The concession decision and the concession agreement which forms an integral part of that decision essentially provide that (i) the variable concession fee is 15% of the cable-car proceeds; (ii) the fixed concession fee amounts to HRK 1,000.00 per month; (iii) the concession period is 50 years, (iv) in case of market disturbances, which would result in a drop of the cable-car revenue by 50% in relation to the average revenue earned in the last three years prior to the year when there a drop in revenue was recorded, the concession fee for the year where a drop in the revenue was recorded would amount to 10% of the cable-car proceeds.