PLAVA LAGUNA
HOTELS & TOURIST COMPANY d.d.

1957 - 2017

FOR THE YEAR 2016

ANNUAL REPORT

Poreč, May 2017

PLAVA LAGUNA

HOTELS & TOURIST COMPANY d.d.

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THE SUPERVISORY BOARD REPORT

ON SUPERVISION OVER THE MANAGEMENT OF THE COMPANY'S OPERATIONS, ON THE RESULTS FOLLOWING THE REVIEW OF THE FINANCIAL REPORTS, THE REPORT ON THE SITUATION IN THE COMPANY AND THE PROPOSED DECISION ON THE USE OF PLAVA LAGUNA D.D.'S PROFIT FOR 2016

In the course of business year 2016, the Supervisory Board of the Company continuously supervised the conduct of business and held 12 meetings, pursuant to the powers conferred by the provisions of the Companies Act and the Articles. In 2016, the Supervisory Board functioned composed as follows:

Davor Luksic Lederer, Chairman of the Supervisory Board
Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board
Davor Domitrovic Grubisic, Member of the Supervisory Board
José Ignacio Bulnes León, Member of the Supervisory Board
Borislav Škegro, Member of the Supervisory Board
Boris Šavorić, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Board

The Supervisory Board used its counsel and recommendations to influence the Company's activities that marked the business year 2016.

On the basis of Article 300b paragraphs 1 and 2 of the Companies Act, the Management of the joint stock company Plava laguna submitted to the Supervisory Board annual financial reports, the report on the situation in the Company as well as the proposed decision on the use of profit.

Pursuant to its authorities under Article 300c paragraph 2 of the Companies Act the Supervisory Board reviewed the submitted financial reports for 2016 for the Company and Group, the report on the situation in the Company as well as the proposed decision on the use of profit, and decided on them outside the meeting on 27 April 2017, and verified in the presence of the Board and representatives of the auditors PricewaterhouseCoopers d.o.o. of Zagreb, at the next meeting held on 28 April 2017 in accordance with Company's Articles of Incorporation.Supervisory Board submits the results of this review to the Board and General Assembly to conduct a further procedure.

The reviews carried out undoubtedly show that in 2016 the Company's Management, according to its statutory obligations, informed the Supervisory Board in writing and orally of the operational policy and of the other principal issue related to future management of the business operations, of the profitability of operations and profitability of the use of shareholdings' equity, of the course of business operations, revenues and expenses and the situation in the Company, and in particular of the operations affecting the profitability and liquidity, as well as of other matters that the Supervisory Board considered important.

The results of our review as well as the opinion of the authorized auditor on the reality and objectivity of data shown in the financial reports for 2016 demonstrate that the Company acts in accordance with the law and regulations in force, the Company's general legal instruments and the decisions by the General Assembly.

The Supervisory Board established, after the review of financial reports for 2016 which the management is accountable for, that they are drafted in accordance with the provisions of the Accountancy Act and other pertinent laws and regulations, and they realistically reflect the situation in the company books and fairly reveal the assets and operational state of the Company.

The Supervisory Board supports the management's proposal on the use of profit. The Supervisory Board is of the opinion that the proposal is aligned with the Company's business policy and adopted development guidelines and plans and the same is submitted to the General Assembly for adoption.

The Supervisory Board fully supports the auditing report which confirms that the Company's financial reports for the year that ended on 31 December 2016, in all aspects realistically and objectively show the financial situation in the Company.

The Supervisory Board expresses its absolute approval of the submitted financial reports for 2016 and the report on the situation in the Company, as well as their affirming, and leaves their rendering to the Company' General Assembly.

PRESIDENT

Davor Luksic Lederer v.r.

BOARD OF MANAGERS' REPORT TO THE COMPANY SHAREHOLDERS

Dear shareholders,

It is my pleasure to be able to report on successful business results of Plava laguna in year 2016 at the end of another fiscal year. Before that, it is worth reflecting on recent macro trends in tourism.

According to the World Tourism Organization's (UNWTO) statistical data, tourism on a global scale for the seventh consecutive year records a significant growth rate, a trend that has not been recorded since 1960s, therefore rightly deserves the epithet of the golden period of modern tourism. Global growth, although slowing down, was 3.9% in 2016 i.e. 46 million foreign arrivals more than in the previous year or even 300 million more than in the pre-crisis year 2008. Increasing availability of travel and actual global trends, such as growing tendency of people to enjoy relaxed vacations and seek new experiences, point to the robustness of this field of economy in spite of the present fear of terrorism and geopolitical tension in certain parts of the world. The highest percentage increase of 8.4% was recorded in Asia and the Pacific while in Africa it was 8.1%. Europe, the most visited region of the world with 620 million foreign arrivals, recorded an increase of 2% and decrease of physical volume in Western Europe of 0.4%, while in other subregions there was an increase of foreign arrivals. Consequently, the biggest growth was realized in the subregion of Northern Europe of 5.7% while the Southern (Mediterranean) Europe grew by 1.4%.

In direction of global trends but above expected, Croatia in 2016 recorded an increase in physical volume of 9% and with last year's 71.6 million, commercial overnight stays increased to 78 million. Growing tendencies were positively impacted also by extremely good results in the pre and post season that also affected the changes in the ratios between individual and organized tourist arrival, so that 62.7% decided in favour of the individual and 37.3% in favour of organized arrivals. In the structure of foreign tourists who, with the growth of 9.6% realized 92.5% of total overnight stays, tourists from Germany realized the most (23.7%), followed by guests from Slovenia (9.9%), Austria (9%) and Italy and Poland (each 6.9%). It should be noted that along with the traditional markets which record stable numbers in arrivals and overnight stays year after year, the double-digit percentage of growth in 2016 was recorded by the markets of Great Britain (25.1%), Poland (14.8%) and Hungary (11.5%) which indicates an increase in demand due to the impact of global trends but also of a better quality approach to tourism in Croatia.

Due to a significant increase in capacity, growth rate of overnight stays in private accommodation was 15.9% in 2016, overnight stays in hotels increased by 5%, maintaining the existing average length of stay at 3.6 days, and in campsites the rate was 1.9% with average length of stay of 6.7 days.

Mentioned tourist traffic in the Republic of Croatia is mostly concentrated in seven coastal counties whose share in total overnight stays is 95.3%. Thus, the highest tourist traffic was realized in the Istria County with increase of 10.3% in overnight stays and a share of 29.6% in total overnight stays in Croatia.

In fiscal year 2016, Plava laguna j.s.c. recorded an increase in physical volume of the tourist traffic of 3.5% by realizing 2.5 million overnight stays in own accommodation capacity which represents an increase of 84 thousand overnights in nominal terms compared to the previous year. At the level of the Istrian County that makes 10.6% of total overnights realization or 3.2% at the level of Croatia.

By systematic improvements of the offer, investments in renovation of plots, infrastructure, beaches and the surroundings, and favourable weather conditions in the post season, Plava laguna's campsites achieved growth of 4.9% while in built objects (hotels and apartments), there was an increase of 2.3%. In the analysis of physical volume according to channels of arrivals, the increase of the group channel is evidenced, with the share in total overnight stays in built objects increasing from 19.1% in 2015 to 19.7% in 2016. Despite the slower growth, the allotment channel with the share of 50.2% is still the most present sales channel in built objects.

Following the above explained movement of physical volume, in the reporting year, the Company realized an income of 533.5 million HRK which represents an increase of 3.4% or 17.8 million in nominal terms. In accordance with that, the level of operational performance expressed with EBITDA indicator is 222.9 million HRK, with an increase of 16.8 million HRK compared to the previous year and EBITDA margin of 42.1% which is considered an extraordinary achievement considering the industry benchmark on local market but also in the international setting.

Generating an enviable level of cash flow and overall profitability of the core business that has been achieved over the past few years at the EBITDA margin level of cca 40%, represents one of the core strengths of the company.

In accordance with the above mentioned, the Company recorded a profit before tax in the amount of 113.7 million HRK which represents an increase by 38.2 million compared to the previous year. Company's Management Board will propose to the Company's General Assembly to use tax relief for business year 2016 on a basis of reinvesting earnings which can still be utilized for the year in question, based on recent amendments to the Profit Tax Act.

Balance sheet value of the Company as at 31 December 2016 amounted to 2,259 million HRK which compared to the same day of the previous year represented a nominal decrease of 36 million HRK. The mentioned, besides generated profits in the period, is the effect of regular partial long-term loan repayment to the bank in the total amount of 18.75 million EUR which positioned the level of total credit indebtedness of the Company on the last day of the reporting period at 61.25 million EUR. Company's stability is manifested in the size of the capital and reserves in the amount of 1,691 million HRK and the amount of highly liquid forms of financial assets, foreign currency deposits, amounting to 152 million HRK that exceed current liabilities on the last day of the reporting period.

In 2016 the Company continued to invest in own accommodation facilities in order to provide quality service to each and every guest in line with company's vision and mission, all aiming at keeping current business stability and sustainability. Also, with constant efforts and investments in the beaches, coastline and horticulture, the Company recognizes the importance of the protection of the environment and preservation of the existing natural resources. Accordingly, total investments primarily directed towards raising the quality of services and the improvement of work processes, and maintenance of the existing level of business processes, amounted to 54.6 million HRK.

In the observed year, the consolidated business level of operation includes also the subsidiary company Istraturist Umag j.s.c. and associated company Jadranski luksuzni hoteli d.d./Adriatic Luxury Hotels j.s.c., by applying the equity method. Excluding the associated company, hotels, apartments and campsites with basic capacity exceeding 42 thousand beds on year level, the Group achieved 4.5 million overnight stays which represents an increase of 2.5% compared to the previous year. This resulted in business revenues of almost 1 billion HRK, profit at the level of 212.8 million HRK and achieved level of EBITDA of 394 million HRK which represents an increase of 40.2 million HRK compared to the previous year with a shift of the EBITDA margin from 36.2% to 39.9%. Successful business operation on the consolidated level creates the prerequisites for further growth and development.

On this journey, the contribution and work of our loyal employees is of utmost importance, and I hereby would like to thank them for all the efforts invested and the achieved level of mutual trust and respect.

Finally, I would like to thank all our customers and business partners for their trust and loyalty, as well as all the shareholders and the members of the Supervisory Board for valuable cooperation and support.

Company Director

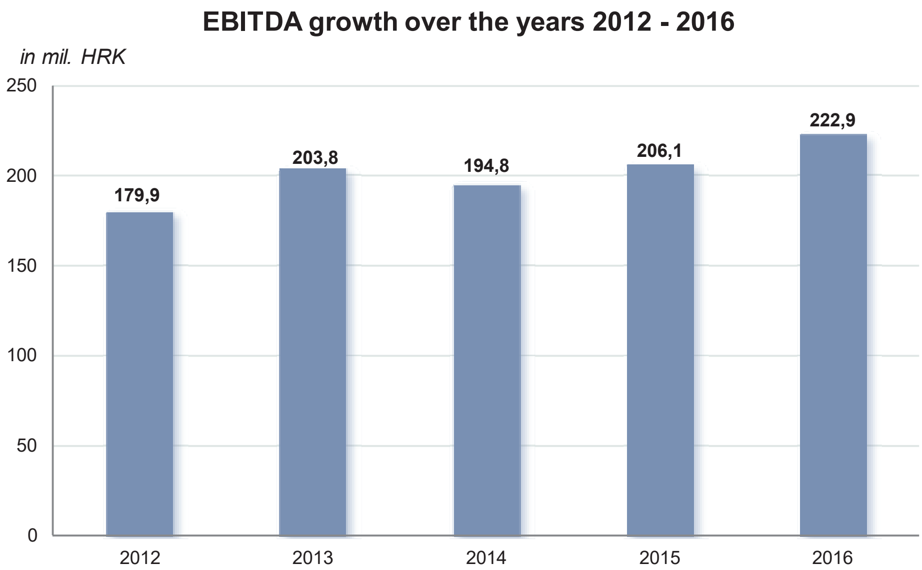
Neven Staver

REVIEW OF THE MOST SIGNIFICANT INDICATORS

	2016	2015
Realized overnight stays	2.481.312	2.396.971
Operating revenue per overnight stay in HRK*	213,1	213,5
Net income in 000 HRK	100.717	67.865
Total shareholders equity in 000 HRK	1.691.483	1.590.050
Total assets in 000 HRK	2.259.153	2.295.521
Liquidity ratio (short-term assets / short-term liabilities)	1,3	1,3
Financial stability in % (long-term assets / equity and long-term liabilities)	98,2	98,1
Net profit and depreciation / total revenues in %	36,2	32,8
EBITDA (earnings from business activity and depreciation) in 000 HRK**	222.871	206.098
EBITDA margin in % (EBITDA / operating revenue)	42,1	40,3
Net debt (total loan borrowings - cash – investment in securities – loans, deposits and similar) in 000 HRK	305.815	448.261
Net debt / EBITDA ratio	1,4	2,2
Debt ratio (borrowings / equity) in %	27,8	38,9
Net working capital in 000 HRK	37.347	41.242
Market value of shares on 31 Dec 2016 in HRK	5.500	4.438

*adjusted (without category other revenues)

**adjusted (without category other revenues and other expenses)



INTRODUCTION OF THE COMPANY

Historical development of the Company

Plava laguna is a company backed by nearly 60 years of successful operation and development, based on ecological principles and sustainable development, during which it continuously occupied leadership position in the Croatian tourism, and by permanent enrichment of its overall offer and adjustment to the needs of ever more demanding tourist market, achieves remarkable physical and especially financial results.

The core business of the company is hospitality and tourism and in addition to that, the Company is registered to carry out other activities as well.

Plava laguna is a company which realizes more than half a billion HRK in revenues and has an average of thousand employees on an annual basis. In its accommodation capacities, refined and adapted to the guests through ongoing investments, it can daily accommodate over 21 thousand guests of whom more than 9 thousand in hotels and apartments and over 12 thousand in camps, with which it annually realizes about 2.5 million overnight stays. Also, it has 360 berths in two marinas and a number of restaurants and bars, sports and other facilities that are complementing the basic accommodation offer.

Joint stock company Plava laguna was founded in 1957 as a company for hospitality and tourism and it is one of the first tourist companies in Croatia. Plava laguna began its own development path on the camp established on the peninsula Molindrio by the French club for nature lovers "Polynesia", as "Plava laguna – Camp Hotel" with a capacity for 800 persons.

At the very beginning, due to lack of funding, building projects were modest and the first investment was building of bungalows on the site of today's hotel Laguna Galijot, and then the tourist resort Bellevue. A lot of attention was paid to the development of sports and such offer and therefore first sports centers and tennis courts were built.

From 1966 all the way until 1971, a very intense investment period lasted during which most of the Plava laguna's fixed accommodation facilities were built and the foundations laid for the Zelena laguna campsite.

In the period that follows, from 1971 until 1976, upgrading of existing facilities continues and campsite Ulika was built. The main characteristics of this period is the beginning of the construction of the marina Červar Porat and the marina Parentium, construction of the campsite Bijela Uvala and many service facilities.

In the same period, horizontal integration with smaller hotel and catering organizations in former municipality of Poreč was completed, as well as with the hotel and tourism company from Novigrad, and a significant step in the development was the business expansion beyond the regional framework, which was accomplished through the construction of hotel Laguna in Zagreb. Overall activity was consolidated in a work organization for hospitality and tourism Lagunaturist.

In 1987, bigger economic systems in Poreč are being joint in the SOUR Plava laguna (autonomous cooperative work organization) and already in 1990, pursuant to the Company Law, there was a disassociation of SOUR and founding of new independent companies, one of which was Laguna Poreč, company for hospitality and tourism.

New changes with the beginning of 1991 were provoked with the entry into force of the Transformation of Socially Owned Enterprises Act, which started the process of privatization in Croatia and thus in Laguna Poreč. On 3rd of September, 1992 pursuant to the Decision of the Agency for Restructuring and Development and the decision of the Constituent Assembly, Laguna Poreč was transformed into a joint stock company, and on the 26th of January, 1993 it was officially registered with the Commercial Court in Rijeka. Plava laguna finally rounds up its legal constitution in February 1996 by the adjustment of the fundamental documents of the Company with the Companies Act and with the act of registration in the register of the Commercial Court in Rijeka as Plava laguna, joint stock company for hospitality and tourism, the company also returned to its historical name.

Plava laguna, as a joint-stock company, all until year 2000 had quite a diversified ownership structure but already in year 2001, the Luksic Group in the acquisition of 80.34% interest in ordinary shares, became the majority shareholder.

During the same year, several acquisitions of corporations were made. Plava laguna j.s.c. acquired 89.40% shares in the company Hoteli Croatia j.s.c. Cavtat, and with the recapitalization of that company in 2003, the Company increases its ownership share in the same to a 92.28%. In year 2001, by an acquisition, the ownership share was increased in the company Adriatic j.s.c. Poreč to 90.48%, given the share in the equity capital, the same ultimately merged with Plava laguna j.s.c. on 1 October 2002. Pursuant to the Agreement on the merger with legal effect on 1 January 2014 company Hoteli Croatia j.s.c. Cavtat was merged to the company Jadranski luksuzni hoteli d.d./ Adriatic Luxury Hotels j.s.c., with what Plava laguna j.s.c. becomes the single largest shareholder in the said company with a share of 32.48%.

Significant investment activity that characterizes the period from 2003 until today is primarily directed towards restructuring of one part of portfolio of accommodation facilities in a 4-star category in part of built objects as well as in campsites.

Particularly significant investments represent the reconstruction of hotel Laguna Albatros (2006) from 2-star into 4-star category „all inclusive“ type of offer, with which the tourist product of the Company is enriched with the new quality and content while the most significant investment from 2008 is the reconstruction of the hotel Laguna Molindrio (ex Galeb) from 2-star to a new level of 4-star quality category. The investment activity in 2012 is marked with an especially demanding project of a complete reconstruction of hotel Laguna Parentium to a 4-star category with very highly set criteria for the creation of an excellent product, given the importance and a traditional role of the hotel. With the mentioned investment, the offer of the Company is enriched by an exclusive hotel that thanks to its unique location offers an atmosphere of relaxation and rest, enriched by the experience of water and gastronomic delights.

In 2011 we reorganized the brand architecture of Plava laguna in order to build a focused, modern and clear visual identity of the company. For the umbrella brand name we chose „Laguna Poreč“ and accordingly, the new corporate logo has been created with the colors that accentuate the beautiful nature, sun and the clear sea and also suggests quality, modernity, uniqueness and attractiveness of the company's offer.

With merger of Hotel Bonavia j.s.c. Rijeka from 1 January 2013 Plava laguna j.s.c. expanded its portfolio with a 4-star hotel outside the destination and of different type of business operation.

The business year 2014 was marked by the acquisition of a majority stake in the company Istraturist Umag j.s.c., business event which is among the largest transactions in the history of Croatian tourism. By concluding the purchase of Istraturist Plava laguna expanded its portfolio with a hotel company with more than 50 years of tradition whose accommodation with long-term oriented investments became an unavoidable destination for guests who spend their holidays in Umag and surroundings. With this aquisition Group Plava laguna becomes one of the largest companies in the Croatian tourism sector with the capacity of hosting over 42,000 guests per day and accommodation structure of 20 hotels, 10 apartment villages and 9 campsites. After two years of alignment of business policies and corporate cultures and enviable achievements in physical volume and operational efficiency, with the decisions of the two Supervisory boards in April 2017, started the process of merging Istraturist Umag j.s.c. with Plava laguna j.s.c.

Capacity of the Group Plava laguna		
DESCRIPTION	**NUMBER OF UNITS**	**NUMBER OF BEDS**
HOTELS	5.488	10.410
APARTMENTS	2.007	6.288
BUILT OBJECTS	**7.495**	**16.698**
CAMPS	8.482	26.092
TOTAL	**15.977**	**42.790**

Upon completion of the merger process with the date 1 January 2018, this will be the largest Istrian company, aiming to create one of the best Croatian tourist companies. Prerequisites already lie in the current development of the Company, its ability to change and adapt to market demands while preserving historically recognizable core values.

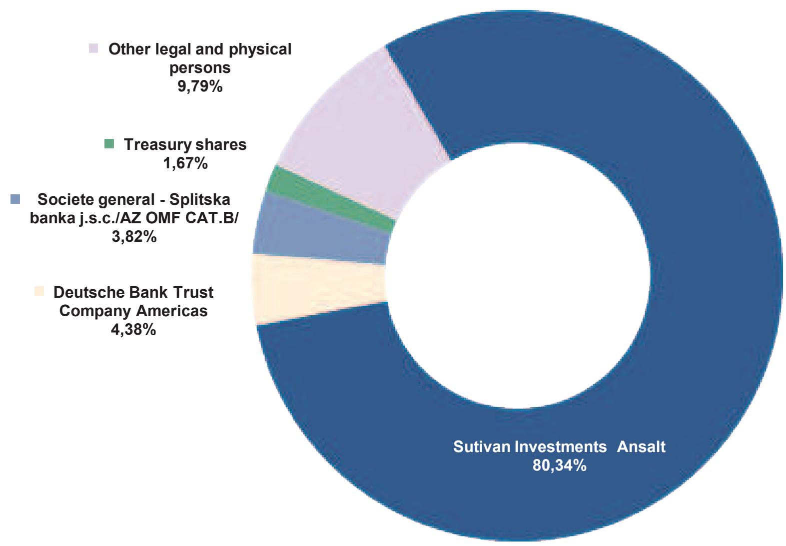
Ownership structure and organizational chart

Follows the company's ownership structure as of 31.12.2016.

Ordinary shares owned

Owner	NUMBER OF SHARES	%
Sutivan Investments Anstalt	438.899	80,34
Deutsche Bank Trust Company Americas	23.939	4,38
Societe general - Splitska banka j.s.c/AZ OMF CAT.B/	20.877	3,82
Treasury shares	9.142	1,67
Other legal and physical persons	53.461	9,79
TOTAL	**546.318**	**100,0**

The ownership structure of the Company as of 31.12.2016.

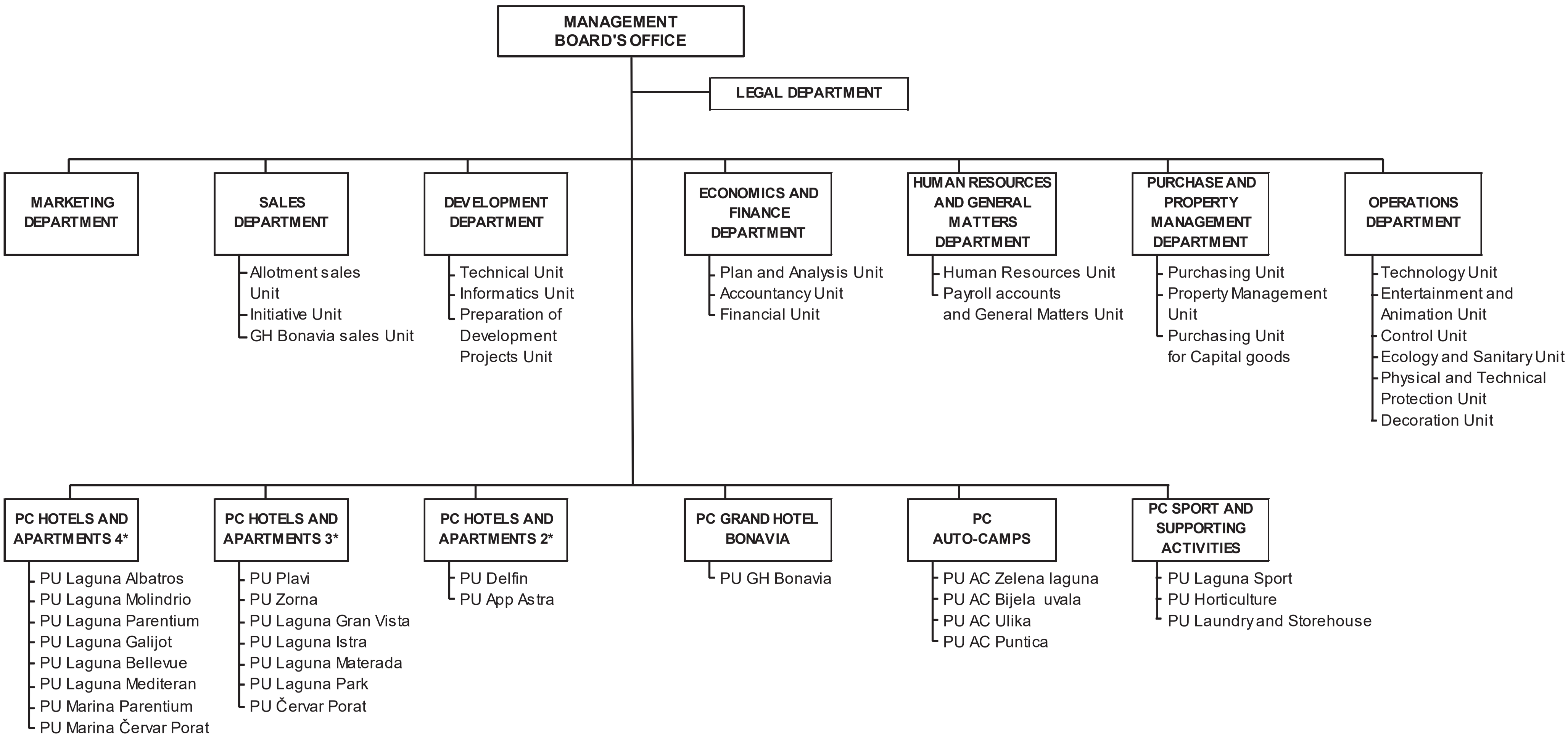


Preferred shares owned

Owner	NUMBER OF SHARES	%
Sutivan Investments Anstalt	105.000	100,0
TOTAL	**105.000**	**100,0**

The organization chart
of the Joint Stock Company

PLAVA LAGUNA
HOTELS & TOURIST COMPANY d.d.



COMPANY’S BUSINESS ACTIVITY IN 2016

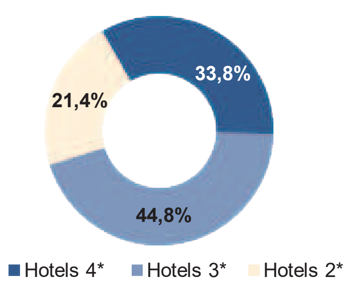
Tourist turnover

Review of Accommodation Capacities and Realized Overnight stays

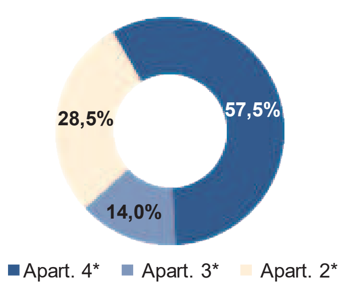
DESCRIPTION	CAPACITY 2016	CAPACITY 2015	OVERNIGHT STAYS 2016	OVERNIGHT STAYS 2015	INDEX '16 / '15	DAYS OF OCCUPANCY 2016	DAYS OF OCCUPANCY 2015
LAGUNA ALBATROS	608	608	96.138	89.734	107,1	158,1	147,6
LAGUNA MOLINDRIO	482	482	103.830	92.098	112,7	215,4	191,1
LAGUNA PARENTIUM	538	538	99.997	100.025	100,0	185,9	185,9
VILA LAGUNA GALIJOT	174	174	29.040	28.658	101,3	166,9	164,7
VILLAGE LAGUNA GALIJOT	94	94	14.931	13.834	107,9	158,8	147,2
HOTEL LAGUNA PARK	202	202	41.182	37.294	110,4	203,9	184,6
GRAND HOTEL BONAVIA	231	231	29.382	36.513	80,5	127,2	158,1
HOTELS 4*	**2.329**	**2.329**	**414.500**	**398.156**	**104,1**	**178,0**	**171,0**
LAGUNA MEDITERAN	645	645	95.480	93.498	102,1	148,0	145,0
PLAVI	392	392	61.250	68.151	89,9	156,3	173,9
ZORNA	412	412	56.397	54.961	102,6	136,9	133,4
LAGUNA GRAN VISTA	336	336	40.871	36.288	112,6	121,6	108,0
LAGUNA ISTRA	376	376	53.639	50.641	105,9	142,7	134,7
LAGUNA MATERADA	774	774	120.887	119.564	101,1	156,2	154,5
VILLAGE LAGUNA PARK	152	152	20.287	20.327	99,8	133,5	133,7
HOTELS 3*	**3.087**	**3.087**	**448.811**	**443.430**	**101,2**	**145,4**	**143,6**
DELFIN	1.478	1.478	226.439	217.284	104,2	153,2	147,0
HOTELS 2*	**1.478**	**1.478**	**226.439**	**217.284**	**104,2**	**153,2**	**147,0**
TOTAL: HOTELS	**6.894**	**6.894**	**1.089.750**	**1.058.870**	**102,9**	**158,1**	**153,6**
APP LAGUNA GALIJOT	332	332	35.267	37.307	94,5	106,2	112,4
VILLE LAGUNA BELLEVUE	76	76	8.610	9.088	94,7	113,3	119,6
APP LAGUNA BELLEVUE	365	365	37.849	40.311	93,9	103,7	110,4
STUDIO APP LAGUNA BELLEVUE	246	246	34.160	36.528	93,5	138,9	148,5
APARTMENTS 4*	**1.019**	**1.019**	**115.886**	**123.234**	**94,0**	**113,7**	**120,9**
VILLE LAGUNA PARK	80	80	8.027	8.199	97,9	100,3	102,5
APP LAGUNA PARK	168	168	18.990	18.380	103,3	113,0	109,4
APARTMENTS 3*	**248**	**248**	**27.017**	**26.579**	**101,6**	**108,9**	**107,2**
APP ASTRA	504	504	47.285	43.073	109,8	93,8	85,5
APARTMENTS 2*	**504**	**504**	**47.285**	**43.073**	**109,8**	**93,8**	**85,5**
TOTAL: APARTMENTS	**1.771**	**1.771**	**190.188**	**192.886**	**98,6**	**107,4**	**108,9**
TOTAL: BUILT OBJECTS	**8.665**	**8.665**	**1.279.938**	**1.251.756**	**102,3**	**147,7**	**144,5**
AC ZELENA LAGUNA	2.700	2.700	253.686	256.575	98,9	94,0	95,0
AC BIJELA UVALA	6.390	6.000	580.995	537.716	108,0	90,9	89,6
AC ULIKA	3.000	3.000	294.564	283.814	103,8	98,2	94,6
CAMPS 4*	**12.090**	**11.700**	**1.129.245**	**1.078.105**	**104,7**	**93,4**	**92,1**
AC PUNTICA*	700	700	72.129	67.110	107,5	103,0	95,9
CAMPS 3*	**700**	**700**	**72.129**	**67.110**	**107,5**	**103,0**	**95,9**
TOTAL: CAMPS	**12.790**	**12.400**	**1.201.374**	**1.145.215**	**104,9**	**93,9**	**92,4**
TOTAL	**21.455**	**21.065**	**2.481.312**	**2.396.971**	**103,5**	**115,7**	**113,8**

AC Puntica 2 categorization in 2015

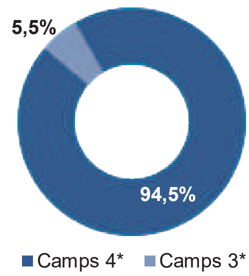
The structure capacity in hotels 2016



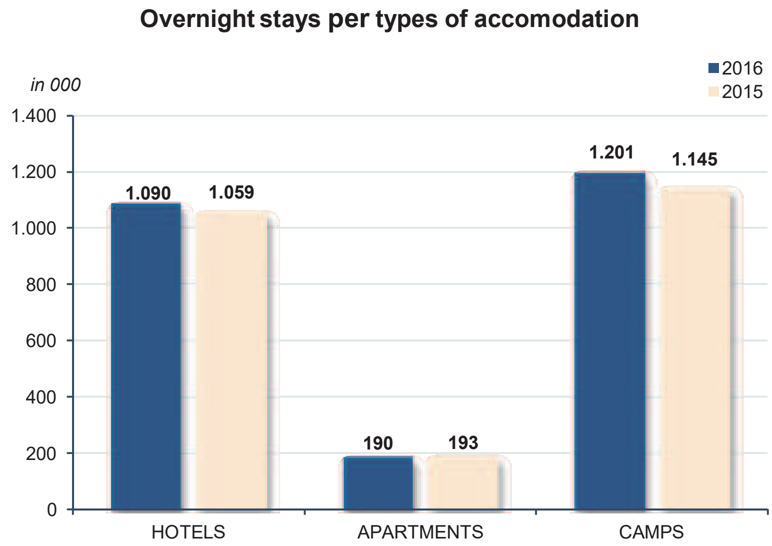
The structure capacity in apartments 2016



The structure capacity in camps 2016

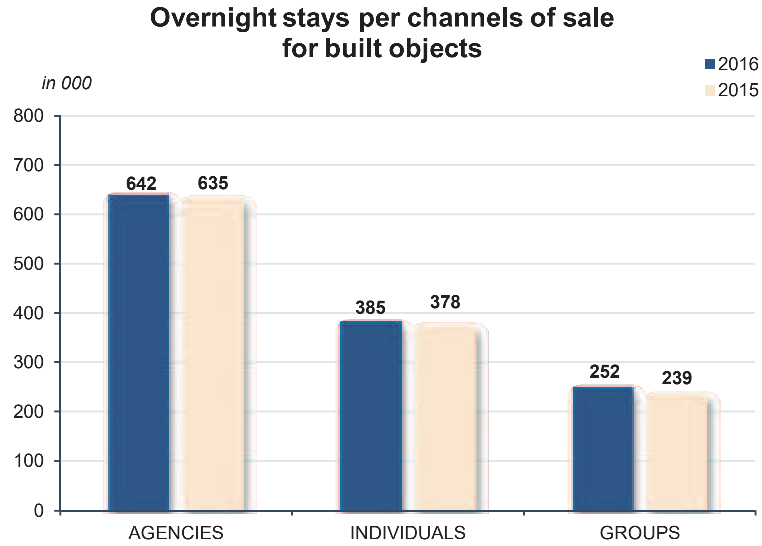


Plava laguna j.s.c. concluded the year 2016 with a realization of 2,481,312 overnight stays which, compared to previous year, represents a growth of 3.5%. In the year of interest, the Company had 8,665 beds in built objects (hotels and apartments) and 12,790 beds in campsites.



The structure of realized overnight stays in the current year indicates an increased volume of business in built objects with 1,279,938 overnight stays that generated a growth of 2.3% compared to the previous year. Changes in the national structure in built objects are primarily caused by the growth on the British market by 23%, and gradual recovery of the Russian market with an increase in the number of overnight stays by 13% compared to the previous year.

Review of overnight stays in BUILT OBJECTS per emissive markets					
COUNTRY	**2016**	**%**	**2015**	**%**	**INDEX**
Germany	310.362	24,2	332.650	26,6	93,3
Austria	200.520	15,7	193.812	15,5	103,5
Russia	116.687	9,1	103.239	8,2	113,0
Italy	95.848	7,5	104.760	8,4	91,5
Slovenia	87.927	6,9	93.228	7,4	94,3
Czech Republic	78.221	6,1	73.867	5,9	105,9
Great Britain	53.480	4,2	43.376	3,5	123,3
The Netherlands	42.456	3,3	38.934	3,1	109,0
Other countries	247.652	19,3	219.996	17,6	112,6
Croatia	46.785	3,7	47.894	3,8	97,7
TOTAL	**1.279.938**	**100,0**	**1.251.756**	**100,0**	**102,3**



In recent years and in accordance with global trends the share of the individual segment increased and in 2016 it was identified at 30.1% share in overnight stays in built objects, while still the most present was allotment segment with 50.2%. To the significant growth of occupancy of the Company in the pre and the post seasons, contributed the increase in group travels motivated by the organization of sports, entertainment, cultural and other events and available infrastructure adjusted to the demands of specific manifestations.

Review of overnight stays in CAMPS per emissive markets

COUNTRY	2016	%	2015	%	INDEX
Germany	450.478	37,5	438.807	38,3	102,7
The Netherlands	278.487	23,2	267.025	23,3	104,3
Slovenia	128.693	10,7	124.016	10,8	103,8
Austria	98.890	8,2	91.470	8,0	108,1
Italy	77.903	6,5	82.134	7,2	94,8
Czech Republic	36.626	3,0	35.800	3,1	102,3
Other countries	122.962	10,2	100.402	8,8	122,5
Croatia	7.335	0,6	5.561	0,5	131,9
TOTAL	**1.201.374**	**100,0**	**1.145.215**	**100,0**	**104,9**

In 2016, campsites, as an important accommodation segment of the Company, recorded an increase in overnight stays of 4.9% or nominally 56 thousand, primarily due to the increase of the number of guests from the German, Dutch, Austrian and Slovenian markets and favourable weather conditions. The increase in the number of guests is a result of the improvement of the offer and investments in renovation of plots, infrastructure, beaches and the surroundings, which has been systematically done for several years. During year 2016, also as an effect of the investments, the capacity of campsites increased by 3.1%.

Profit and Loss Account

in 000 HRK

	DESCRIPTION	2016	2015	INDEX '16 / '15	STRUCTURE IN % 2016	STRUCTURE IN % 2015
I	SALES REVENUES	504.912	489.241	103,2	94,6	94,9
1.	Accommodation	447.723	441.290	101,5	83,9	85,6
2.	Food	67.539	65.398	103,3	12,7	12,7
3.	Bars	21.883	21.407	102,2	4,1	4,2
4.	Merchandise	160	163	98,2	-	-
5.	Sports	1.288	1.174	109,7	0,2	0,2
6.	Mooring	7.464	7.457	100,1	1,4	1,4
7.	Granted discount and commissions	-48.439	-54.476	88,9	-9,1	-10,6
8.	Other revenues	7.294	6.828	106,8	1,4	1,3
II	REVENUES FROM SALE OF COMP. GOODS, MERCH. AND SERVICES	-	-	-	-	-
III	OTHER REVENUES FROM OPERATIONS	23.811	22.440	106,1	4,5	4,4
	Revenues from the lease of business space	23.216	22.181	104,7	4,4	4,3
	Revenues from elimination of long-term reserves	387	259	149,4	0,1	0,1
	Other business revenues	208	-	-	-	-
IV	OTHER REVENUES	4.788	4.072	117,6	0,9	0,8
A)	**TOTAL OPERATING REVENUES (I to IV)**	**533.511**	**515.753**	**103,4**	**100,0**	**100,0**
V	CHANGES IN THE STOCK VALUE OF INTER. AND FINISHED GOODS	-	-	-	-	-
VI	MATERIAL EXPENSES	140.784	136.918	102,8	26,4	26,5
VII	EMPLOYEES EXPENSES	115.681	118.240	97,8	21,7	22,9
VIII	DEPRECIATION	96.464	104.320	92,5	18,1	20,2
IX	VALUE ADJUSTMENT OF LONG-TERM ASSETS	-	-	-	-	-
X	VALUE ADJUSTMENT OF SHORT-TERM ASSETS	401	500	80,2	0,1	0,1
XI	PROVISIONS FOR EXPENSES AND AGAINST RISK	704	1.802	39,1	0,1	0,3
XII	OTHER BUSINESS EXPENSES	48.282	48.123	100,3	9,1	9,3
XIII	OTHER EXPENSES	365	651	56,1	0,1	0,1
B)	**TOTAL OPERATING EXPENSES (V to XIII)**	**402.681**	**410.554**	**98,1**	**75,5**	**79,6**
	PROFIT FROM OPERATING ACTIVITY (A-B)	130.830	105.199	124,4	24,5	20,4
C)	**TOTAL FINANCIAL REVENUES**	**11.076**	**8.408**	**131,7**	**2,1**	**1,6**
D)	**TOTAL FINANCIAL EXPENSES**	**28.249**	**38.115**	**74,1**	**5,3**	**7,4**
	PROFIT FROM FINANCIAL ACTIVITIES (C-D)	-17.173	-29.707	-	-3,2	-5,8
	T O T A L R E V E N U E S	**544.587**	**524.161**	**103,9**	**102,1**	**101,6**
	T O T A L E X P E N S E S	**430.930**	**448.669**	**96,0**	**80,8**	**87,0**
G)	**EARNINGS BEFORE TAXES**	**113.657**	**75.492**	**150,6**	**-**	**-**
H)	**CORPORATE INCOME TAX AND OTHER TAXES**	**12.940**	**7.627**	**169,7**	**-**	**-**
I)	**N E T I N C O M E**	**100.717**	**67.865**	**148,4**	**-**	**-**

EBITDA (adjusted)	**222.871**	**206.098**	**108,1**	**42,1**	**40,3**

The Company concluded business year 2016 by achieving 533.5 million HRK in operating income which represents 3.4% increase or nominally 17.8 million HRK compared to previous year. This was mainly generated by an increase in board revenue of 14.5 million HRK due to the growth of physical indicators.

Operating expenses amount to 402.7 million HRK and when depreciation is excluded, they are almost unchanged compared to the previous year, which indicates a high level of efficiency of business processes. Reduction in the costs of depreciation of 7.9 million HRK is the effect of the total depreciation of certain types of assets during year 2016.

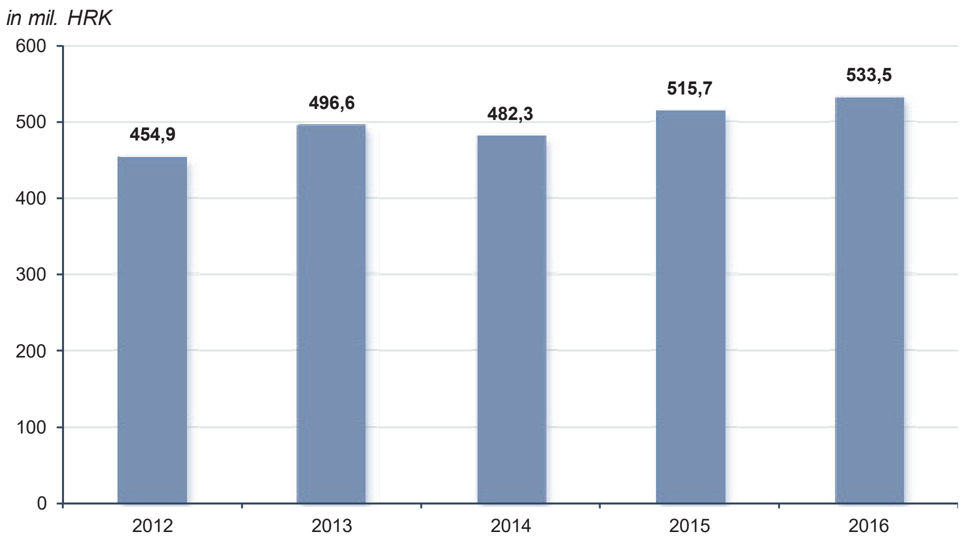
Financial activity has a negative effect of 17.2 million HRK which is by 12.5 million smaller loss than in the previous year, mostly due to lower level of credit indebtedness and somewhat lower costs of financing, which determined a reduction in the interest rate related cost by 9.4 million HRK. The above stated movements also benefited from the increase of a positive exchange rate on the basis of foreign loans, and additionally, from the payment of default interest rate by the dismissal of a court dispute in the amount of 2.3 million HRK.

Ultimately, in the context of above movements, in the observed year the Company realized a profit before tax of 113.7 million HRK, representing an increase of 38.2 million compared to year 2015.

In accordance with the legislation in the field of profit tax, the Company uses the tax relief for 2016 based on reinvesting profits and therefore the net profit for the period mentioned amounts to 100.7 million HRK which represents an increase of 32.9 million compared to the previous year.

It is important to point out further increase in operational efficiency of the Company measured by the EBITDA indicator that recorded growth of 8.1% or 16.8 million HRK in nominal terms and the achieved level of profitability of the core business, EBITDA margin of 42.1%, representing one of the core strengths of the company.

Operating Revenues movement over the years 2012 - 2016

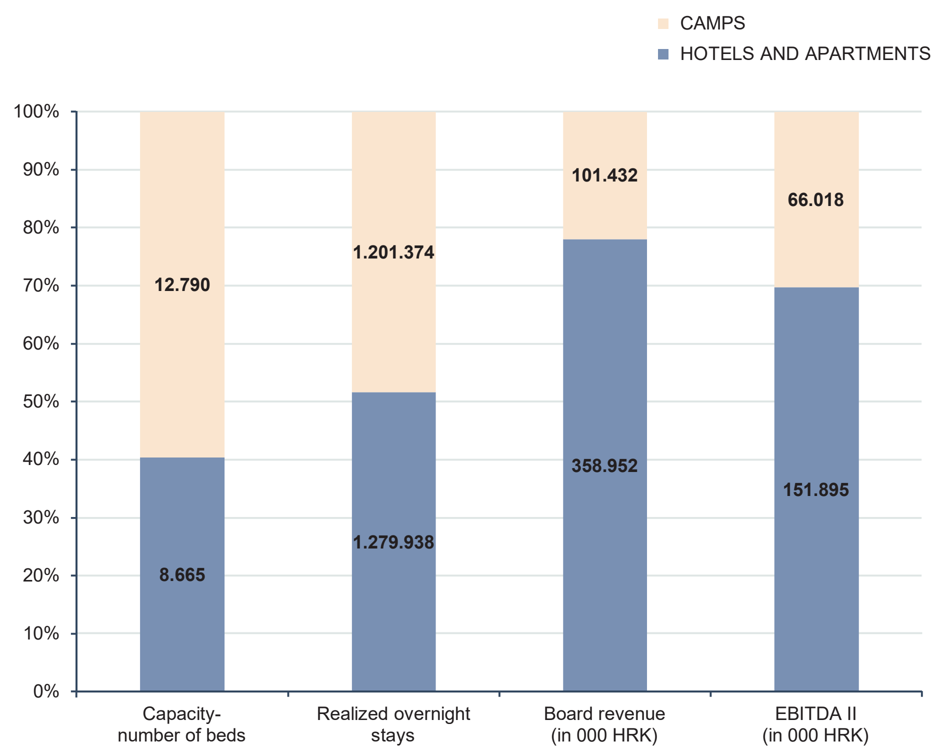


Essential operational indicators by segments

In the context of physical and financial achievements of the Company in the year concerned, the following are the reported effects obtained at the level of basic business segments.

	HOTELS AND APARTMENTS			CAMPS		
DESCRIPTION	2016	2015	INDEX	2016	2015	INDEX
Capacity - number of beds	8.665	8.665	100,0	12.790	12.400	103,1
Realized overnight stays	1.279.938	1.251.756	102,3	1.201.374	1.145.215	104,9
Days of occupancy	148	144	102,8	94	92	102,2
Annual occupancy in % (beds)	40,5	39,6	102,3	25,7	25,3	101,6
Board revenue in 000 HRK	358.952	349.758	102,6	101.432	96.084	105,6
Average net price per overnight stay in EUR	37,4	36,9	101,4	11,1	10,9	102,0
Average net price per unit (ADR) in EUR	81,9	80,3	102,0	32,0	31,3	102,2
Board revenue per accommodation unit in HRK	86.474	84.259	102,6	23.794	23.248	102,3
EBITDA I (direct) in 000 HRK	187.053	181.096	103,3	76.129	71.651	106,2
EBITDA II (after overhead) in 000 HRK	151.895	141.422	107,4	66.018	60.026	110,0
EBITDA II margins in %	37,9	36,1	104,7	59,0	56,9	103,7

Indicators by segments for 2016



Balance sheet

Assets structure in the Balance sheet

in 000 HRK

ITEM	31.12.2016.	%	31.12.2015.	%	INDEX
RECEIVABLES FOR SUBSCRIBED BUT UNPAID CAPITAL	-	-	-	-	
LONG-TERM ASSETS	2.088.707	92,4	2.112.430	92,0	98,9
Intangible assets	540	-	781	-	69,1
Tangible assets	956.345	42,3	997.809	43,5	95,8
Financial assets	1.131.822	50,1	1.113.840	48,5	101,6
Receivables	-	-	-	-	-
SHORT-TERM ASSETS	166.262	7,4	182.099	8,0	91,3
Inventory	2.574	0,1	2.385	0,1	107,9
Accounts receivables	7.734	0,4	16.187	0,7	47,8
Financial assets	152.063	6,7	159.771	7,0	95,2
Cash in register and upon account	3.891	0,2	3.756	0,2	103,6
ADVANCED PAYMENTS OF THE FUTURE EXPENSES AND UNDUE COLL. OF REV.	4.184	0,2	992	-	421,8
TOTAL ASSETS	**2.259.153**	**100,0**	**2.295.521**	**100,0**	**98,4**

Liabilities structure in the Balance sheet

in 000 HRK

ITEM	31.12.2016.	%	31.12.2015.	%	INDEX
CAPITAL AND RESERVES	1.691.483	74,9	1.590.050	69,3	106,4
LONG-TERM P. FOR RISKS AND EXP.	-	-	537	-	-
LONG-TERM LIABILITIES	434.573	19,2	563.085	24,5	77,2
SHORT-TERM LIABILITIES	100.893	4,5	112.533	4,9	89,7
DEF. PAY. OF EXPEN. AND FUT. REV.	32.204	1,4	29.316	1,3	109,9
TOTAL LIABILITIES	**2.259.153**	**100,0**	**2.295.521**	**100,0**	**98,4**

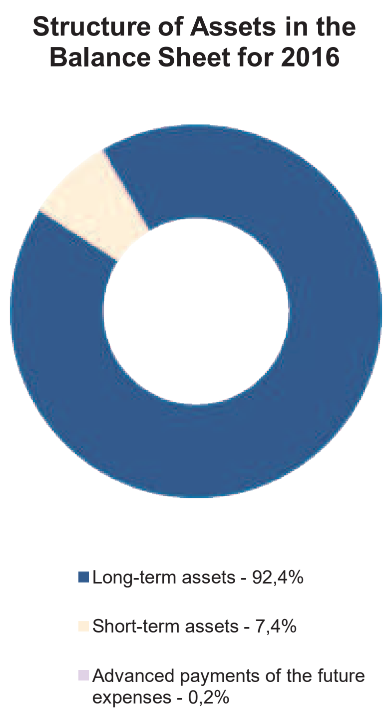
Total balance sheet value of the Company on 31 December 2016 amounts to 2,259 million HRK which compared to the situation at the end of the previous year represents a nominal decrease of 36 million HRK.

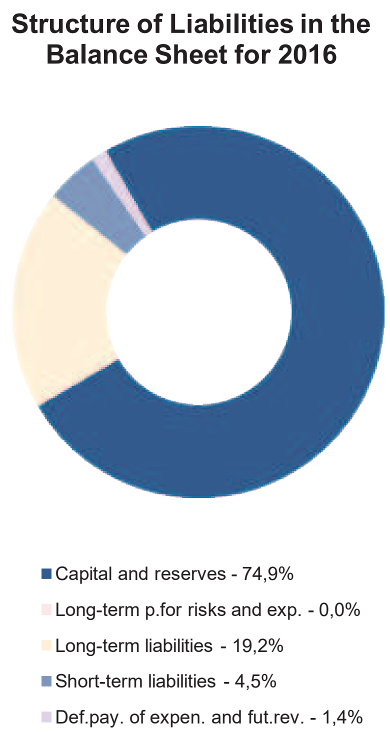
Given the emerging forms, in the structure of assets position, the mentioned is mostly a result of decrease in value of fixed assets due to higher depreciation (96.5 million HRK) compared to capital investments executed (54.6 million HRK) in the observed year. Current assets also decreased in value. Consequently, lower level of short-term receivables is the effect of lower amounts of receivables on the basis of paid advances of profit tax compared to the established liability for 2016 and lower value of short-term financial assets is conditioned by a lower level of term free funds due to repayment of a part of long-term loan to the commercial bank.

Within the passive balance sheet positions, it should be pointed out the growth of capital value and reserves as the effect of the generating profit of the period and the General Assembly´s decision which allocated the profit realized in year 2015 to the statutory reserves, retained earnings and part used as reinvested earnings for increasing capital value from the Company funds.

Total liabilities of the Company as at 31 December 2016 amount to 567.7 million HRK and record a decrease of 137.8 million HRK. During fiscal year 2016, regular repayment and partial early repayment of the long-term loan was executed towards the commercial bank in total amount of 18.75 million EUR with which total lending position of the Company is positioned at the level of 61.25 million EUR.

Stability of the Company is manifested through the size of capital and reserves in the amount of 1,691 million HRK and highly liquid assets in the form of foreign currency deposits in the amount of 152 million HRK that exceed the short-term liabilities on the balance sheet date.



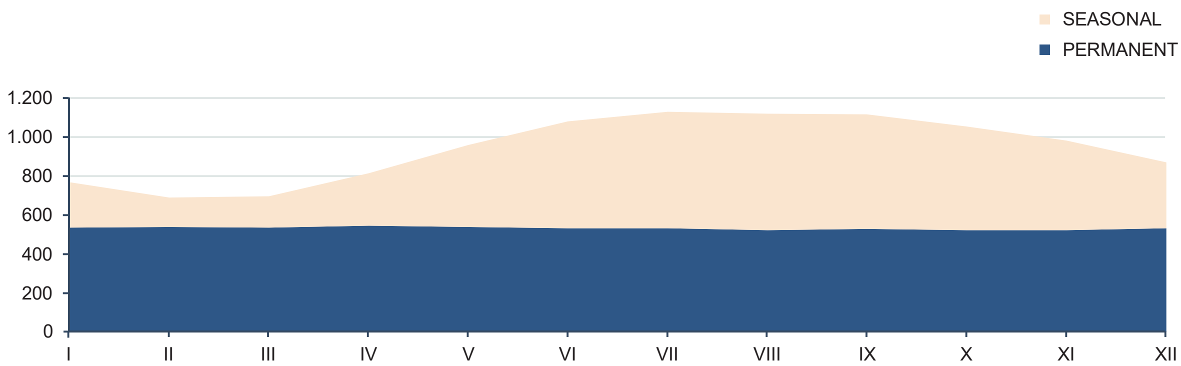


Employment

DESCRIPTION	2016	%	2015	%	INDEX
PERMANENT	533	56,6	547	59,8	97,4
SEASONAL	409	43,4	368	40,2	111,1
TOTAL	**942**	**100,0**	**915**	**100,0**	**103,0**

In fiscal year 2016 in line with the volume and structure of realized overnight stays, Plava laguna j.s.c. recorded an increase in total employment by 3% compared to 2015. A significant effect on this increase had the growth of the number of seasonal workers by 11%, thus following last year's trend in employing new seasonal staff. During the year, 26 new employment contracts were concluded for an indefinite period which is useful in ensuring business stability as that is what offers such employment structure with the predominant number of permanent employees.

Average number of employees in 2016 (based on the hours paid)



In 2016, the increase in the employment of workers on the basis of student contracts continues and therefore, the number of students engaged in the observed year increased to more than 170 compared to 140 in the previous year.

At the same time, the program of „permanent seasonal staff" continues as well and 180 contracts for permanent seasonal jobs were concluded during 2016.

The focus of human resource management still remains on finding and especially the development of staff in deficit to which already initiated trainee programs for young chefs and the internal academy for waiters, together with other training programs, greatly contribute.

Investments

Based on investments during year 2016, long-term assets of the Company increased by 54.6 million HRK with a predominant part of investments aimed at raising the quality of services and the improvement of work processes.

In the observed year, intensive capital investment continued in the important segment of the Company – campsites, with the goal to enrich the offer and invest in renovation of plots, infrastructure, horticulture and beaches, and consequently, capacity was increased by 3.1%. Also, requirements for upgrading the category of the campsite AC Puntica to a 3* were met successfully.

As part of the investment in raising the quality of services at hotel Delfin, renovation of bathrooms in part of accommodation units continued and besides that, newly refurbished bowling alley came as refreshment to the hotel.

The investment in the renovation of the existing pastry shop enriched the Resort Zelena laguna with a new concept in terms of a lounge bar with an exclusive offer.

Among other significant investments, it is worth noting the following:

- addition to the cooling system in apartments L. Bellevue and renovation of two villas,
- interior decoration of common areas in hotel Plavi,
- improving the coverage and bandwidth of the WI-FI system in multiple facilities,
- other investments in order to achieve more favourable business conditions and to improve business processes of the Company.

The ongoing efforts of the Company towards raising the quality and high standards of services provided have been recognized by reputable awards for our hotels, apartments and campsites, and among the most recent in 2016 are: HolidayCheck 2016 (L. Parentium), TUI Top Quality 2016 (L. Parentium), Tripadvisor Certificate Of Excellence 2016 (L. Parentium, L. Albatros, L. Materada, L. Mediteran, L. Galijot, L. Bellevue, Zorna, L. Gran Vista), ANWB Erkende Camping 2016 (AC Bijela uvala, AC Zelena laguna and Ulika) and other.

ECOLOGY AND SUSTAINABLE DEVELOPMENT

Environmental issues and environmental responsibility are among the most current challenges for the future. As an activity that is based on the quality of the environment and which affects it greatly, tourism will be much more intensive in applying the use of environmentally responsible, „green“ concepts at the level of individual service providers and entire destinations. Activity in relation to environmental protection brings benefits in the form of economic growth, employment and competitiveness.

For further development of tourism, we must respect the basic resource within which we act and that is space and we must not endanger future generations. According to surveys in Germany, 28% of tourists want to travel environmentally sustainable and socially responsible and 86% of tourist destinations expect that the sustainability of destination is going to be a more significant factor in their competitiveness. Ecology and sustainable development are the framework for designing a strategy according to which the Company can develop without damaging consequences on the environment and natural resources that are essential for further human activity.

On one hand, healthy and attractive environment is among basic resources for most types of tourism and its preservation is one of the essential prerequisites for their competitiveness and sustainability. Moreover, tourism, if properly managed, may represent an activity which in the existing economy is one of the most sustainable ways of using a natural resource. Namely, it has the potential to use the preserved nature and environment as economic value and in that way has a direct interest in preserving and enhancing that value.

Preservation of water, as one of the most important natural resources, and rational use of water is achieved by the remote control system, control and optimization of water consumption, installation of perlators, installation of push valves on the beach showers, use of practical systems for watering green areas and by informing the guests about the importance of rational use and preservation of water. Energy saving is achieved by using various energy saving devices, highly energy efficient equipment and heat pump systems. Solar panels, heat pump systems and natural gas are used for water heating.

With the selection of non-hazardous from hazardous waste, at the place of its generation, increases the amount of secondary raw material that can be recycled and therefore reduces the amount of waste to be permanently disposed of in a landfill. Disposal of waste is carried out by companies authorized for the disposal of certain types of waste and act in accordance with the principles of environmental protection.

The preservation of sea water quality is achieved by regular maintenance of beaches managed by the Company and the quality of sea water is monitored through regular sea water analyses conducted from May until October. Quality of the sea water and maintenance of the beaches is recognized by obtaining the international Blue flag label for the ecological program of the protection of environment, sea and coastline whose primary goal is sustainable management of the sea and coastal zone.

Integral coastal zone management in which tourism is an important economic sector represents the framework for balanced development of the coastal area and an incentive for the development of sustainable tourism that aims to preserve coastal ecosystems and landscapes as well as natural and cultural resources.

EXPECTED FUTURE DEVELOPMENT OF THE COMPANY

We are trying to plan our development in Plava laguna on long-term foundations that go hand in hand with sustainable business operation. We strive to think strategically and decide on the development guidelines in accordance with the area in which we work and then, as until now, to successfully implement that based on economic principles.

After the transaction with which in 2014 Plava laguna j.s.c. had acquired 93.04% share in the equity capital of Istraturist Umag j.s.c., during 2015 and 2016, two-year alignment of business policies and corporate cultures took place, with both Istraturist and Plava laguna continuing to grow in all segments of business operation. Thus, on consolidated level, there was a growth in overnight stays of 12%, growth in income of 8% and growth in EBITDA of almost 23%, but also growth in the number of permanent employees, salaries and other material rights for employees.

The plan is to complete the merger of the company Istraturist j.s.c. Umag with the company Plava laguna j.s.c. and to create potentially the most successful Istrian and Croatian tourist company. The merger will create the biggest hotel company in Istria with the opportunities for growth and development measured also in the investment potential but in the employment potential as well, together with the improvement of conditions for existing employees. Also, the plan for year 2018 includes the building of the joint administrative building in the business area of Facinka in Poreč.

The total capital investments of Plava laguna in destination Poreč in 2017 are planned in the amount of 94.9 million HRK. Part of investments relates to the construction and renovation of models of accommodation units of hotels, villas, apartments and villages of the hotel Laguna Park as preparation for future thorough reconstruction. Accommodation capacity within the tourist resort will consist, as until now, of a hotel, village – suites in the very resort, apartments and villas intended for family segment of demand. Besides, the set concept should mitigate the weaknesses of the micro destination in terms of access to and quality of the beach, through the construction of water surfaces that exceed the existing standard per guest in the surrounding area as well as other facilities for children and sports activities. Concerning the mentioned water surfaces, swimming pool complex is also planned to be built in the centre of the resort with a variety water surfaces (central pool with a part for the entertainment of teenagers, pool for children, baby pool, etc.) and other accompanying amenities (food and beverages facilities, areas intended for animation programs per age groups of children and similar.). Besides the above mentioned, in the area of the villas, an additional pool is planned to be built.

In addition, Plava laguna will invest in raising the quality of facilities in campsites in 2017, for example, in the renovation of 44 new plots in the AC Ulika, renovation of 14 new plots in the AC Bijela uvala and 21 plots in the AC Zelena laguna. The biggest intervention will be building of the new pool in the AC Bijela uvala and this will be the first camp in Croatia to have four arranged pools while in the centre of the tourist resort Zelena laguna, we are planning a thorough renovation of the commercial street with setting up of new sales points.

The investments will also include the renovation of 11 villas in the tourist resort Laguna Bellevue and the expansion of terraces and renovation of the park located in front of terraces of ground floor apartments, as well as the interior of common areas at hotel Zorna. Hotel Delfin will have 124 newly refurbished bathrooms with which the program of the reconstruction of all 800 bathrooms in this hotel is completed.

For the following year, a plan of activities has been set up to find and prepare the concept solution for the tourist resort Laguna Galijot which during the last 10 years has mostly been directed to Russian guests whose demand determined the achieved levels of occupancy and business results. The factors of the position and natural surroundings in which the resort is located will be very important and represent a starting point for defining the whole product.

In the future, there is also work to be done on the preparation of the new solution for the renovation of four hotels of the former prefix in the name of Lotos (Zorna, Plavi, Laguna Gran Vista and Laguna Istra).

Within the structure of apartment capacities, in addition to more than half share of four-star accommodation units, a challenge is represented in finding and developing an optimal product for apartment Villas Astra 2* category with 504 beds.

Furthermore, in the forthcoming period, it is necessary to accelerate the implementation of the Master Plan for the tourist resort Zelena Laguna whose purpose is to improve the offer and content outside the services provided in the associated facilities with the aim to improve the overall offer of the site.

At the level of the Plava laguna Group for year 2017, there has been set up a plan of investment activities with the intention to invest 130 million HRK in accommodation capacity in Umag, and the investments relate to a total reconstruction of hotel Sol Sipar, which is also the largest investment, then the renovation of the hotel Sol Umag's terrace, hotel Melia Coral's beach, new glamping zone and 30 mobile homes in the AC Park Umag, as well as horticultural investments.

An important component of the company's products makes carefully preserved and nurtured environment. The said commitment is translated into a development policy through which for many years, an aliquot part of funds have been directed to landscaping and beach development. In future, the Company is going to intensify the activities of development and implementation of energy efficiency projects and projects of renewable energy. Thus, we will focus on renovation of beaches, walkways and horticulture and necessary reconstructions of a part of power stations.

In addition to the above mentioned, the opportunities for growth and qualitative changes in the structure of capacity through external growth or acquisition will still be reviewed and evaluated.

BUSINESS RISKS

The Company, as well as a Group, is within own activities exposed to various financial risks: currency risk, cash flow and fair value interest rate risk, price risk, credit risk and liquidity risk. The position of the Company in relation to mentioned risks is permanently analyzed in order to define timely measures, to reduce the risks to acceptable levels.

Currency risk arises from the implementation of the core business of the Company, considering the sale of capacity takes place on foreign markets, sales policy is defined in EURO currency (prices, inflows), while, on the other hand, the inputs and other obligatory payments are defined in local currency, as viewed from the perspective of short-term coverage. Therefore, the ratio between foreign and local currency can significantly affect future operations and cash flows i.e. cause significant deviations from the planned figures and goals.

All the Company's loans are contracted in the currency EUR while for the subsidiary Istraturist Umag j.s.c., for loans in CHF currency, there was agreed EURCHF inter-currency interest rate swap whereby total cash flows (principal and interest) in CHF currency are converted in cash flows in EUR currency until loan expiry at the end of 2017. Given that the sales policy defines inflow in EUR currency, currency balance has been established and therefore also hedging against currency risk.

The Company was exposed to the interest rate risk at the balance sheet date of 31 December 2016, given that almost half of the loan liabilities are contracted with the variable interest rate, and it is exposed to the fair value interest rate risk for loans contracted with fixed interest rate.

In relation to the above, it is important to point out the procedure of refinancing the existing loans of the Company after the date of the balance sheet, in total amount of 60.0 million EUR with fixed interest rate and under more favourable terms.

The Company owns equity securities listed on the Zagreb Stock Exchange and classified as financial assets available for sale. At the same time, the Company is exposed to price risk although possible change in the price of securities would not significantly affect the financial statements of the Company.

Plava laguna with its business policy, rooted in the tourism sector as a whole, reduces the concentration of credit risk regarding receivables given that the predominant part of the sale is ensured by received advances. In the segment of property management and lease of the same, the contracted amount is secured by collateral payments. Collection of accounts receivables is monitored through weekly reports on individual balances of receivables. Available funds are placed in time deposits in high quality banks in Croatia which limits exposure to credit risk with respect to individual financial institution.

Liquidity risk management implies projecting cash flow with the possibility to meet all of our obligations which includes regular business cycle, the repayment of loan liabilities and capital investments. The above assumes ensuring timely availability of external sources of funding that would be adapted to the purpose, with their conditions, guided by the principles of responsible businessman and care about preservation of financial stability.

STATEMENT ON APPLICATION OF THE CORPORATE MANAGEMENT CODEX

In accordance with the provisions of Article 272p of the Companies Act, the Management of the Company declares that they voluntarily apply the Corporate Management Codex (hereinafter: the Codex) which was jointly made by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange. Once a year, the Company fills-in the Annual Questionnaire which makes an integral part of the Codex for the period the annual financial reports relates to and submits it to the Zagreb Stock Exchange for the purpose of its publication. This questionnaire reflects the situation and practice of corporate governance accompanied by explanations of a certain divergence from the recommendations contained in the Codex. The Management and the Supervisory Board make permanent efforts aimed at establishing an adequate and transparent corporate governance system and pay due care to efficient system of responsibilities and risk management.

During 2016, the Company did not fully apply the recommendations from the Codex, and the divergences relate to publication of detailed data on awarding the Management and the Supervisory Board, i.e. the statement on the policy of awarding. Furthermore, given that the Supervisory Board of the Company consists of seven members, it did not establish the committee for awarding and appointing but performs these duties itself. In accordance with the Audit Act, the Audit Committee also operates in the Company.

The Company publishes quarterly, semi-annual and annual financial statements on its own web site, and all documentation regarding the convocation of the General Assembly is also available to the public on the said media.

The Company applies the Rules on the application of accounting policies which regulates the application of procedures and techniques in disclosure of the Company's assets, liabilities, principal, income, expense and financial results in financial statements. The description of main characteristics of risk management and information on shareholders on 31 December 2016 are included in this Annual Report.

The first ten shareholders of the Company on 31 December 2016 are:

PLAVA LAGUNA J.S.C./ORDINARY SHARE PLAG-R-A
1. SUTIVAN INVESTMENTS ANSTALT
2. PRIVREDNA BANKA ZAGREB J.S.C.
3. SPLITSKA BANKA J.S.C../AZ OMF CATEGORY B
4. PLAVA LAGUNA J.S.C. POREČ
5. ADDIKO BANK J.S.C./PBZ CO OMF - CATEGORY B
6. BOGDANOVIĆ ZORAN
7. RAIFFEISENBANK AUSTRIA J.S.C.
8. ZAGREBAČKA BANKA J.S.C./AZ PROFIT DMF
9. SPLITSKA BANKA J.S.C./AZ OMF CATEGORY A
10. SPLITSKA BANKA J.S.C./ ERSTE PLAVI EXPERT – DMF

The voting right of the Company's shareholder is not limited to a certain percentage or number of votes nor are there time constraints for the exercise of voting rights, except in accordance with the Companies Act in the sense of applying for participation at the General Assembly. Each regular share entitles to one vote at the General Assembly. In 2002, the Company issued preferred shares which do not give the right to vote at the General Assembly. The sole shareholder of preferred PLAG-P-A shares is SUTIVAN INVESTMENTS ANSTALT.

Rules on appointing and recalling Management Board members are contained in the Company's Articles of Association.

The powers of the Management Board are determined by the Articles of Association and the Companies Act so that the Company can acquire its own shares pursuant to Article 233 of the Companies Act, based on the authorization by the General Assembly. Currently, the Management Board has no authorization for share buybacks.

Amendment to the Company's Articles of Association is regulated in a manner prescribed by the law which is contained in Article 40 of the Articles of Association.

The Company is organized according to the dualistic model. The Management Board of the Company conducts the affairs independently and for certain tasks specified in Article 26 of the Articles of Association (such as founding of the company, purchase and sale of shares in other companies, purchase and sale of real estate above 1% of the value of equity capital, borrowing more than 2% of the value of the equity capital and other), it is authorized to conduct only with prior consent of the Supervisory Board. The Management Board consists of one member, Mr. Neven Staver, who conducts the affairs and represents the Company independently and individually.

The Supervisory Board oversees the conduct of business affairs in the Company. Members of the Supervisory Board are regularly informed by the Management Board on the Company's management and operations in order to be able to effectively fulfil their supervisory roles. The report of the Supervisory Board on completed supervision of business conduct in the Company is part of the Annual Report of the Company submitted to the General Assembly. In accordance with the Articles of Association and the decision of the General Assembly, the Supervisory Board has seven members who among them elect the chairman and his deputy. The election of members is carried out in accordance with the Companies Act, Articles of Association, Rules of Procedure of the general Assembly and unless specifically provided by a special regulation, employees through the Workers' Council have a right to appoint one member. The mandate of the members of the Supervisory Board is four years. The Supervisory Board acts on sessions that take place once a month and discusses and decides on all matters within its competence prescribed by the Companies Act and Company's Articles of Association.

In 2016, the Supervisory Board acted in the following composition:

Davor Luksic Lederer, Chairman of the Supervisory Board
Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Board
Davor Domitrovic Grubisic, Member of the Supervisory Board
José Ignacio Bulnes León, Member of the Supervisory Board
Borislav Škegro, Member of the Supervisory Board
Boris Šavorić, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Board.

The General Assembly decides in accordance with the Companies Act and Articles of Association of the Company.

The Company does not implement the diversity policy of the members of the Management Board, given that it consists of one member. The rules on appointing members of the Management Board and members of the Supervisory Board do not contain any limitations on diversity in terms of gender, age, education, profession and similar limitations.

Pursuant to the provisions of Article 250.a paragraph 4 and Article 272.p paragraph 1 of the Companies Act, this Statement is a separate section and integral part of the Annual Report on the Company's status for year 2016.

Company Director

Neven Staver

REPORT OF THE AUDITING COMMITTEE

The Auditing Committee of the Company representing Mr. Davor Luksic Lederer, Ms. Danira Rančić and Ms. Suzana Kocijančić drafted this report in line with the provisions set forth below:

- Plava laguna j.s.c. Poreč in accordance with the positive legislation of the Republic of Croatia has the obligation at the end of the business year to make an unconsolidated and consolidated financial reports,
- The Company's General Assembly appointed the company PricewaterhouseCoopers d.o.o. Zagreb as the auditor of its annual financial statements,
- The Supervisory Board of the Company appointed the Auditing Committee pursuant to the Audit Act.

In accordance with the Companies Act, auditor of the Company was appointed on the General Assembly's meeting held on 19 August 2016, and on 27 October 2016 an agreement was concluded concerning performance of audit and issuance of unconsolidated and consolidated financial statements.

Audit of the Company was completed in two parts, as follows:

- preliminary proceedings (examination of the internal control system and work on temporary balance sheets),
- final audit (control of data reported in ledgers and financial statements).

Members of the Auditing Committee met on several occasions, during the year 2016 and until the issuance of the report in the first half of 2017, with the representatives of the authorized auditor and the responsible executors with the aim to discuss the applied accounting policies, the recording of important business events and other observations of the auditor.

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

- the preparation of financial statements passed without any difficulty,
- the Company and the auditors were consistent in the interpretation of international accounting standards as well as local regulations and requirements governing the preparation of financial statements,
- in terms of the effectiveness of internal control system and risk management, there were no irregularities with material consequences observed,
- there were no circumstances that would lead to questioning the independence of the auditor,
- regarding the key auditing issues related to estimates of useful life of real estate, machinery and equipment and impairment indicators, auditors' estimates are in line with the estimates of the Management Board, and that is that there are no circumstances indicating impairment of assets value.

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

THE AUDITING COMMITTEE

SUPERVISORY BOARD

Davor Luksic Lederer	President
Patricio Tomas Balmaceda Tafra	Vice president
Davor Domitrovic Grubisic	Member
José Ignacio Bulnes León	Member
Borislav Škegro	Member
Boris Šavorić	Member
Stipe Liović	Member

COMPANY MANAGEMENT

MANAGEMENT BOARD

Neven Staver	Member of the Management Board

THE COMPANY EXECUTIVES

Dragan Pujas	Operations Department Manager
Orieta Valković	Sales Department Manager
Damir Mendica	Development Department Manager
Sandra Elisa Touma Massu	Marketing Department Manager
Danira Rančić	Economics and Finance Department Manager
Goran Kukurin	Human resources and general matters Department Manager
Luciano Daris	Purchase and Property Management Department Manager
Siniša Jelavić	PC Hotels and Apartments 4* Manager
Ivan Stojnić	PC Hotels and Apartments 3* Manager
Franko Beaković	PC Hotels and Apartments 2* Manager
Igor Vidas	PC Auto-camps Manager
Vlatka Stanić	PC GH Bonavia Manager
Saša Pilat	PC Sport and supporting activities

INDEPENDENT AUDITOR'S REPORT

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 judgments 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 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 were approved by the Management Board on 26 April 2017 and are signed below to signify this.

Neven Staver
Member of the Management Board
Plava laguna d.d.

Independent Auditor's Report

To the Shareholders and Management Board of Plava laguna d.d.:

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Plava laguna d.d. (the "Company") as at 31 December 2016, 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").

What we have audited

The Company's separate financial statements comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- 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 and other explanatory information.

Basis for opinion

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

Emphasis of matter

We draw attention to Note 21 to these financial statements that describes the Company's contingencies with respect to ownership of land not evaluated in the transformation and privatisation process. Problems with respect to land ownership disputes are common for the majority of tourism companies in the Republic of Croatia. Their resolution is expected in the future upon completion of the process of obtaining concessions and establishing ownership rights in accordance with and pursuant to the provisions of the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, which entered into force on 1 August 2010. Our opinion is not qualified in this respect.

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Our audit approach

Overview

Materiality	• Overall materiality for separate financial statements as a whole: HRK 9 million, which represents 8% of profit before tax.
Key audit matters	• Estimated useful life of property, plant and equipment and impairment indicators

How we tailored our audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the separate 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 separate 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 separate 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 separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the separate 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 separate financial statements as a whole.

Overall materiality for separate financial statements as a whole	HRK 9 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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
Estimated useful life of property, plant and equipment and impairment indicators *See Note 2.6 to the financial statements entitled "Property, Plant and Equipment" (Accounting policies), Note 4 (Key accounting estimates) and Note 13.* At the balance sheet date, the Company recorded property, plant and equipment in the amount of HRK 956,345 thousand (2015: HRK 997,809 thousand) at cost less accumulated depreciation and impairment, if any. Management assesses annually whether there are any circumstances due to which the estimated useful lives of property, plant and equipment should change compared to those previously determined and whether there are any impairment indicators. We focused on this area due to possible significant effects on the financial statements if the circumstances affecting the estimation of useful life and/or impairment indicators are not identified on time.	We have obtained and gained an understanding of the accounting policies of Management in relation to the measurement of property, plant and equipment. We have verified that at the time of the disposal of the assets their net book value is not significant. We have compared the value of fully depreciated assets that are still in use with total assets. We have also discussed with Management the frequency of adaptation and reconstruction of assets to confirm that it is in line with the estimated useful life. We have considered the data available from the Central Bureau of Statistics and the Ministry of Tourism on market trends, the results of the tourist season and announcements for the coming season, as well as changes in laws that have a direct impact on the Company's business. We have also reviewed the Company's internal reports, which present an overview of the realised financial result by profit units, i.e. hotels, tourist resorts, campsites, apartments and marinas. For each profit unit, we have compared the operating revenues generated in 2016 with the budget and revenues realised in 2015. We have determined that the earnings before tax, interest, depreciation and amortisation (EBITDA) realised in 2016 is positive, and we have compared it with the budget and EBITDA realised in 2015. We have compared the EBITDA margin realised in 2016 with the budget and with year 2015. We agree with the Management's estimate that, on the basis of available information, there are no circumstances that significantly affect the estimation of the useful life of property, plant and equipment and the impairment indicators of assets. We also believe that the disclosures in Notes 2.6, 4 and 13 are appropriate.

Other information

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

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

In connection with our audit of the separate 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 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 separate financial statements are prepared is consistent, in all material respects, with the separate 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 separate financial statements

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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 separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 could be identified 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 separate 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.

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

PricewaterhouseCoopers d.o.o.
Ulica kneza Ljudevita Posavskog 31, Zagreb
27 April 2017
except for the 'Other information' paragraph for which the date of our opinion is 14 June 2017

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.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts are expressed in thousands of HRK)	**Note**	**2016**	**2015**
Sales of services	5	529,957	513,575
Other income		3,515	1,620
Cost of materials and services	6	(146,463)	(142,924)
Staff costs	7	(124,215)	(127,139)
Depreciation and amortisation		(96,464)	(104,320)
Other operating expenses	8	(33,053)	(35,266)
Other gains – net		420	455
Operating profit		**133,697**	**106,000**
Finance income	9	8,163	7,033
Finance costs	9	(28,202)	(37,541)
Finance income/(costs) – net	9	(20,039)	(30,508)
Profit before tax		**113,657**	**75,492**
Income tax	10	(12,940)	(7,627)
Profit for the year		**100,717**	**67,865**
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets	18	821	527
Total comprehensive income for the year		**101,538**	**68,392**
Basic and diluted earnings per share (in HRK):			
- ordinary shares	11	156.67	105.52
- preference shares		157.67	106.52

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

BALANCE SHEET

AS AT 31 DECEMBER 2016

(all amounts are expressed in thousands of HRK)	**Note**	**31 December 2016**	**31 December 2015**
ASSETS			
Non-current assets			
Property, plant and equipment	13	956,345	997,809
Intangible assets		540	781
Investments in subsidiaries and associate	14	1,123,781	1,106,863
Available-for-sale financial assets	15	8,041	6,977
		2.088.707	2,112,430
Current assets			
Inventories		2,574	2,386
Trade and other receivables	16	8,636	6,197
Income tax prepayments receivable	10	3,282	10,982
Bank deposits		152,063	159,770
Cash and cash equivalents		3,891	3,756
		170.446	183,091
Total assets		**2,259,153**	**2,295,521**
EQUITY			
Capital and reserves			
Share capital	17	1,385,151	1,347,327
Capital reserves	17	9,937	9,304
Treasury shares	17	(21,422)	(20,789)
Reserves	18	79,303	75,089
Retained earnings		238,514	179,119
Total equity		1,691,483	1,590,050
LIABILITIES			
Non-current liabilities			
Borrowings	19	434,573	563,085
Provisions for other liabilities and expenses		-	537
		434,573	563,622
Current liabilities			
Current portion of borrowings	19	35,237	55,680
Trade and other payables	20	97,860	86,169
		133,097	141,849
Total liabilities		567,670	705,471
Total equity and liabilities		**2,259,153**	**2,295,521**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts are expressed in thousands of HRK)	Note	Share capital	Capital reserves	Treasury shares	Reserves	Retained earnings	Total
At 1 January 2015		1,263,194	7,896	(19,381)	70,131	199,923	1,521,763
Profit for the year		-	-	-	-	67,865	67,865
Other comprehensive income		-	-	-	527	-	527
Total comprehensive income for 2015		**-**	**-**	**-**	**527**	**67,865**	**68,392**
Share capital increase	17	84,133	1,408	(1,408)	-	(84,133)	-
Distribution of profit from 2014		-	-	-	4,431	(4,431)	-
Dividend relating to 2014	11	-	-	-	-	(105)	(105)
Total transactions with owners of the Company, recognised in equity		**84,133**	**1,408**	**(1,408)**	**4,431**	**(88,669)**	**(105)**
At 31 December 2015		**1,347,327**	**9,304**	**(20,789)**	**75,089**	**179,119**	**1,590,050**
Profit for the year		-	-	-	-	100,717	100,717
Other comprehensive income		-	-	-	821	-	821
Total comprehensive income for 2016		-	-	-	821	100,717	101,538
Share capital increase		37,824	633	(633)	-	(37,824)	-
Distribution of profit from 2015		-		-	3,393	(3,393)	-
Dividend relating to 2015		-	-	-	-	(105)	(105)
Total transactions with owners of the Company, recognised in equity		37,824	633	(633)	3,393	(41,322)	(105)
At 31 December 2016		**1,385,151**	**9,937**	**(21,422)**	**79,303**	**238,514**	**1,691,483**

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

PLAVA LAGUNA d.d., POREČ

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts expressed in thousands of HRK)	Note	2016	2015
Profit before tax		**113,657**	**75,492**
Adjustments for:			
Depreciation and amortisation		96,464	104,320
Provision for impairment of receivables - net	8	(1,235)	15
Provisions for legal disputes - net	8	(387)	278
Dividend income		(157)	(401)
Other gains – net		(420)	(455)
Interest income	9	(1,524)	(2,798)
Interest expense	9	28,202	37,541
Finance income and costs - other	9	(6,639)	(4,235)
Other adjustments		(205)	1
Changes in working capital:			
Trade and other receivables		(959)	(1,638)
Inventories		(187)	138
Trade and other payables		11,926	5,248
Cash flows from operating activities		**238,536**	**213,506**
Interest and fees paid		(29,028)	(31,936)
Return/(payment) of income tax		(5,240)	554
Net cash flow from operating activities		**204,268**	**182,124**
Cash flows from investing activities			
Purchase of intangible assets		(81)	(313)
Purchase of tangible assets	13	(54,727)	(45,890)
Acquisition of subsidiary	14	-	6,918
Purchase of shares from the non-controlling interests	14	(16.918)	-
Acquisition of available-for-sale financial assets		(38)	-
Proceeds from sale of tangible assets		83	41
Deposits given		7,667	3,754
Dividends received		157	401
Interest received		1,527	2,801
Net cash used in investing activities		**(62,330)**	**(32,288)**
Cash flows from financing activities			
Repayment of borrowings		(141,698)	(150,997)
Dividends paid		(105)	(105)
Net cash (used in)/from financing activities		**(141,803)**	**(151,102)**
Net (decrease)/increase in cash and cash equivalents		**135**	**(1,266)**
Cash and cash equivalents at beginning of year		3,756	5,022
Cash and cash equivalents at end of year		3,891	3,756

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

NOTE 1 – GENERAL INFORMATION

Plava laguna d.d., Poreč (the Company), a public limited liability company for hospitality and tourism, is incorporated in the Republic of Croatia. The Company's principal activities are hotel and hospitality services. In accordance with the laws of the Republic of Croatia and with the approval of the Croatian Privatisation Fund, the Company was transformed from a state-owned into a public limited liability company in 1993. The Company is registered at the Commercial Court in Pazin.

Plava laguna d.d., Poreč is controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is Vallum Foundation, registered in Vaduz Liechtenstein. The equity ownership structure as at 31 December 2016 and 2015 is presented in Note 17.

The Company’s registered address is in Poreč, Rade Končara 12, Croatia.

At 31 December 2016 and 2015, the Company’s shares were listed on the regular public limited liability company listing on the Zagreb Stock Exchange.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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). The separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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.

The Company also prepares consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group). In the consolidated financial statements, subsidiaries - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2016 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

The European Union has adopted new and amended standards for the reporting periods commencing 1 January 2016, but they do have an impact on the Company's current period or previous periods and probably will not have an impact on future periods.

(b) New standards and interpretations not yet adopted:

Certain new standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted Company. None of these is expected to have a significant effect on the Company's financial statements, except for the following standards:

- *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. In December 2014, IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

The Management Board believes that these amendments will not have any significant impact on its financial statements. The Management Board plans to adopt the standard on its effective date and when endorsed by the European Union.

- *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 – so the notion of control replaces the existing notion of risks and rewards.

The Management Board believes that these amendments will not have any significant impact on its financial statements. The Management Board plans to adopt the standard on its effective date and when endorsed by the European Union.

- *IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)*

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Management Board believes that these amendments will not have any significant impact on its financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Investments in subsidiaries

Subsidiaries are those entities in which Plava laguna d.d., directly or indirectly, has an interest of more than one half of the voting rights or otherwise has control over its operations. The Company's subsidiaries are disclosed in Note 17 and are accounted for at cost. The Company does not control any other enterprises.

2.3 Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are carried at cost.

2.4 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 Company's 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/(costs) – net'. All other foreign exchange losses and gains are recorded in the statement of comprehensive income within 'other gains – net'.

2.5 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 Company determined the Management Board as the chief operating decision-maker for business segments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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 written off.

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

Buildings	10 – 25 years
Plant and equipment	3 – 10 years
Other assets	4 – 10 years

Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant. The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 (Note 2.8). Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income within 'other gains – net'.

2.7 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of up to 4 years.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life 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 (11 hotels, 2 tourist resorts, 2 apartment resorts, 4 campsites, 2 marinas as cash-generating units). Non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

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 quoted 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. Loans and receivables comprise trade, deposit, loan and other receivables and cash and cash equivalents.

(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. They are included in non-current assets unless the Management Board intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value.

2.9.2 Measurement and recognition

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Loans, deposits and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the statement of comprehensive income, and other changes in carrying amount are recognised in other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

2.9.2 Measurement and recognition (continued)

Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income in ‘gains and losses on investment securities’ within ‘other gains - net’.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income within other income.

Dividends on available-for-sale securities are recognised in the statement of comprehensive income within other income when the right to receive payment is established.

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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 amount of the provision is the difference between the receivables’ carrying amount and recoverable amount; more precisely, it is the present value of estimated future cash inflows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income within ‘other operating expenses’. Subsequent recoveries of amounts previously written off are credited against ‘other operating expenses’ in the statement of comprehensive income as a deductive item.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of financial assets (continued)

(b) Assets classified as available for sale

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income – is removed from equity and recognised in the income statement. Impairment losses which are recognised in the income statement for equity instruments are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income and recorded within ‘other gains-net’.

2.11 Derivative financial instruments

Derivative financial instruments, including foreign exchange forward contracts for the purpose of cash flow hedging, are initially recognised in the balance sheet at cost and subsequently measured at fair value. Gains and losses arising from the forecast transaction are recognised in the statement of comprehensive income in the period in which the effect of the forecast transaction is reflected in the statement of comprehensive income.

2.12 Leases

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.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company retains all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments.

Each lease payment is allocated between liabilities and finance costs so as to achieve a constant rate on the balance outstanding. The corresponding rental obligations, net of finance costs, are included in other non-current liabilities. The interest element of finance costs is charged to the statement of comprehensive income over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade, deposit and loan receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. Deposits are amounts held with banks with original maturities over three months. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade, deposit and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

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

2.15 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated sales price in the ordinary course of business, less applicable variable selling expenses. Small inventory and tools are fully written off when put into use.

2.16 Share capital

Ordinary and preference shares are classified as equity. Preference shares bear a fixed dividend of HRK 1.00 per share per annum, in addition to ordinary dividends in the amount equal to the dividend paid on each ordinary share. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable transaction costs, is included in equity attributable to the Company's equity holders.

2.17 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.
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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

2.19 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 tax is also recognised in equity.

The current income tax charge is calculated at a rate of 20% 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 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, 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 measured 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 income tax asset is realised or the deferred income 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. Deferred income tax is provided on temporary differences arising on investment in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.20 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.

(b) Termination benefits
Termination benefits are payable when employment is terminated by the Company before the normal retirement date. The Company recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal. Termination benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits (continued)

(c) 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.

2.21 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. 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. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in hotels, campsites and hospitality facilities in the ordinary course of the Company's activities. Revenue is shown net of value added tax.

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) Sales of services

Revenues from hotel and tourism services are recognised when the services are provided.

Revenue from fixed-price contracts for services is generally recognised in the period the services are provided. Revenue from individual guests who pay by credit cards – commission is recognised as a decrease in income.

(b) Rental services

Revenue from rental services is generally recognised in the period the services are provided, using a straight-line basis over the contracts terms with lessors.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue recognition (continued)

(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 flow discounted at the original effective interest rate of the instrument. The unwinding of the discount in future periods is recognised as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Dividend income

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

2.23 Dividend distribution

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

2.24 Earnings per share

Earnings per share is 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.

2.25 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.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

The accounting policies are applied to financial instruments as follows:

- *Assets*

(in thousands of HRK)	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
31 December 2016			
Investments in shares of domestic companies	-	8,041	8,041
Trade and other receivables	4,308	-	4,308
Deposits and loans given	152,063	-	152,063
Cash and cash equivalents	3,891	-	3,891
Total	**160,262**	**8,041**	**168,303**
31 December 2015			
Investments in shares of domestic companies	-	6,977	6,977
Trade and other receivables	2,745	-	2,745
Deposits and loans given	159,770	-	159,770
Cash and cash equivalents	3,756	-	3,756
Total	**166,271**	**6,977**	**173,248**

- *Liabilities - at amortised cost*

	2016	**2015**
	(in thousands of HRK)	
Borrowings	469,810	618,765
Trade and other payables	52,362	43,888
	522,172	**662,653**

(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. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The majority of foreign sales revenue, cash deposits and borrowings are denominated in Euro. Therefore, movements in exchange rates between the Euro and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow. The Company uses derivative instruments on an occasional basis.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2016 and 2015, the currency structure of the Company's financial instruments within the scope of IAS 39 is as follows:

2016	**EUR**	**HRK**	**Other**	**Total**
Financial assets				
Trade and other receivables	808	3,479	21	4,308
Loans and deposits given	152,063	-	-	152,063
Available-for-sale financial assets	-	8,041	-	8,041
Cash and cash equivalents	713	2,764	414	3,891
	153,584	**14,284**	**435**	**168,303**
Financial liabilities – at amortised cost				
Borrowings	469,810	-	-	469,810
Trade and other payables	1,395	50,885	82	52,362
	471.205	**50,885**	**82**	**522.172**
2015				
Financial assets				
Trade and other receivables	2,067	678	-	2,745
Loans and deposits given	159,770	-	-	159,770
Available-for-sale financial assets	-	6,977	-	6,977
Cash and cash equivalents	2,023	1,409	324	3,756
	163,860	**9,064**	**324**	**173,248**
Financial liabilities – at amortised cost				
Borrowings	618,765	-	-	618,765
Trade and other payables	211	43,672	5	43,888
	618,976	**43,672**	**5**	**662,653**

As at 31 December 2016, if the EUR had weakened/strengthened by 1% (2015: 1%) against the HRK, with all other variables held constant, the net profit for the reporting period would have been HRK 2,541 thousand higher/lower (2015: HRK 3,641 thousand higher/lower), mainly as a result of foreign exchange losses/gains on translation of EUR-denominated borrowings and bank deposits.

(ii) Cash flow and fair value interest rate risk

The Company has interest-bearing assets and it has borrowings from which it generates interest expense. The Company's net result and operating cash flows are dependent on changes in market interest rates since bank deposits and 49% of the borrowings have been contracted at variable interest rates. Borrowings were contracted at fixed interest rates and expose the Company to fair value interest rate risk Borrowings contracted at variable rates expose the Company to interest rate changes in the period up to one year. Interest rates on borrowings are set at 12m EURIBOR + 4.34% to 4.30% p.a.

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(ii) Cash flow and fair value interest rate risk (continued)

The carrying amount of borrowings approximates their fair values due to the amount of their contractual interest rates and maturities.

As at 31 December 2016, if interest rates on borrowings and given deposits had been 1 p.p. higher/lower (2015: 1 p.p. higher/lower), with all other variables held constant, the net profit for the year would have been HRK 597 thousand lower/higher (2015: HRK 554 thousand lower/higher), mainly as a result of higher/lower interest expense on variable-rate borrowings.

(iii) Price risk

The Company has no significant exposure to price risk. The Company owns equity securities and is exposed to price risk of listed equity securities, classified as available-for-sale financial assets. The Company is not exposed to commodity price risk (e.g. oil or gold) due to the nature of its operations. The Company invests in securities listed on the Zagreb Stock Exchange (ZSE). Changes in the index at the stock exchange would not significantly affect the financial statements of the Company.

(b) Credit risk

The Company has no significant concentrations of credit risk. Credit risk arises from cash, time deposits and trade receivables.

The maximum exposure to credit risk at the reporting date arises from financial assets classified as loans and receivables in accordance with IAS 39 and is equal to the carrying value of each item, as follows:

	2016	**2015**
	(in thousands of HRK)	
Trade and other receivables	4,308	2,745
Deposits and loans given	152,063	159,770
Cash and cash equivalents	3,891	3,756
Total	**160,262**	**166,271**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Company's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Receivables are mainly secured by advances received and mortgages over property in the business premises lease segment. The provisions for impairment of trade, loan and other receivables have been made based on credit risk assessment. The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. 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 the receivables. The amount of all trade and other receivables has been written down to their recoverable amount. The Company has policies that limit the amount of credit risk exposure to any financial institution. Cash transactions are carried out through high quality Croatian banks. The Company has only short-term highly liquid instruments with maturity periods of 3 to 12 months.

The credit quality of financial assets:

	2016	**2015**
	(in thousands of HRK)	
Neither past due nor impaired	159,350	163,874
Past due but not impaired	912	2,397
Impaired	1,295	1,301
Impairment	(1,295)	(1,301)
	160,262	**166,271**

The credit quality of financial assets that is neither past due nor impaired

	2016	**2015**
	(in thousands of HRK)	
Trade and other receivables	3,395	348
Deposits given – financial institutions	152,063	159,770
Cash at bank	3,891	3,756
	159,349	**163,874**

None of the financial assets that are fully recoverable has been renegotiated in the last year.

Financial institutions comprise domestic banks without a credit rating. However, their foreign parent banks have the following ratings: BBB-, BBB+ (S&P).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)
As at 31 December 2016, trade receivables were past due but not impaired. The ageing analysis of these receivables is as follows:

	2016	2015
	(in thousands of HRK)	
Up to 1 month	320	512
1 to 2 months	44	215
2 to 3 months	54	154
Over 3 months up to 1 year	494	1,516
	912	**2,397**

Receivables are mainly secured by advances received.

Impaired receivables relate to trade receivables in the amount of HRK 1,295 thousand (2015: HRK 1,301 thousand). The majority of impaired trade receivables is subject to legal disputes. Both the outcome of the disputes related to disputed receivables or the extent to which they will be collected cannot be anticipated with certainty.

The carrying amounts of trade and other receivables approximate their fair value.

(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 available cash resources based on reports on the balance of cash and liabilities on a daily basis.

The table below analyses the Company'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.

	Up to 1 years	Between 1 and 5 years	Over 5 years	Total
At 31 December 2016				
Borrowings	51,682	321,407	194,264	567,353
Trade payables	52,362	-	-	52,362
Total liabilities	**104,044**	**321,407**	**194,264**	**619.715**
At 31 December 2015				
Borrowings	77,334	396,116	286,876	760,326
Trade payables	43,888	-	-	43,888
Total liabilities	**121,222**	**396,116**	**286,876**	**804,214**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

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 for the owner and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to the owner, return capital to the owner, increase share capital or sell assets to reduce debt. 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 liability companies.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for determining the fair value of financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

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

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

As at 31 December 2016, assets carried at fair value in the amount of HRK 7,921 thousand (2015: HRK 6,857 thousand) were allocated into level 1.

Available-for-sale investment securities in the amount of HRK 120 thousand (2015: HRK 120 thousand) are not listed and are recorded at cost or according to the latest available price parameters for shares delisted from a regulated market. All available-for-sale financial assets are denominated in HRK.

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 the circumstances. 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.

(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. Based on historical information, and in line with the technical department, the useful life of buildings was assessed by Management Board to be 10-25 years. The useful lives of equipment and other assets have also been reassessed as disclosed in Note 2.6.

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

If the useful lives of property, plant and equipment had been 10% longer, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 6,992 thousand higher (2015: HRK 7,566 thousand higher).

If the useful lives of property, plant and equipment had been 10% shorter, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 8,546 thousand lower (2015: HRK 9,247 thousand higher).

(b) Land ownership

Problems with respect to land ownership are common in other tourist companies in the Republic of Croatia. On 1 August 2010, the Act on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures for submitting requests for concessions and other prescribed requests. In the period since the adoption of legal regulations, in the procedures initiated, and in line with requirements of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land, etc. Up to 31 December 2016, the Company settled all liabilities arising from the invoices received, issued by governing authorities on the basis of the provisions of the Regulations.

NOTE 5 – SEGMENT INFORMATION

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

The Company monitors its operations according to the types of services rendered by distinguishing three reporting segments: hotels and apartments, campsites and other business segments. Other business segments comprise marina services, rental services, sports and supporting services and other similar services.

The segment information provided to the Company's Management Board for the year ended 31 December 2016 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	403,728	112,041	46,919	562,688
Inter-segment revenue	(1,807)	-	(30,924)	(32,731)
Revenue from external customers	401,921	112,041	15,995	529,957
EBITDA	**151,895**	**66,018**	**4,958**	**222,871**
Depreciation	75,154	11,751	9,559	96,464
Income tax				12,940
Total assets	**700,546**	**175,236**	**59,117**	**934,899**
Total liabilities	**13,502**	**3,931**	**2,393**	**19,826**

The segment information for the year ended 31 December 2015 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	393,783	105,666	45,225	544,675
Inter-segment revenue	(1,750)	-	(29,350)	(31,100)
Revenue from external customers	392,033	105,666	15,875	513,575
EBITDA	**141,422**	**60,026**	**4,650**	**206,098**
Depreciation	81,707	12,820	9,793	104,320
Income tax				7,627
Total assets	**746,457**	**173,001**	**61,145**	**980,603**
Total liabilities	**9,495**	**4,779**	**2,265**	**16,539**

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of EBITDA with profit before tax is as follows:

	2016	2015
	(in thousands of HRK)	
EBITDA by segments	217,913	197,000
EBITDA by other segments	4,958	9,098
Total segments	**222,871**	**206,098**
Depreciation	(96,464)	(104,320)
Penalty interest income (Other income)	2,332	48
Dividend income	157	401
Other expenses	(7)	(101)
Net other income/(expenses)	4,423	3,421
Net foreign exchange gains – other	384	453
Impairment of non-current financial assets/loan receivable	-	-
Gains on sale of available-for-sale financial assets	-	-
Finance income – net	(20,039)	(30,508)
Profit before tax	**113,657**	**75,492**

The Company uses internal managerial reporting by activities/products where the indicator of successful performance is represented by EBITDA (earnings before interest, taxes, depreciation and amortisation).

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

	2016		2015	
(in thousands of HRK)	Assets	Liabilities	Assets	Liabilities
Segment assets/liabilities	875,782	17,433	919,458	14,274
Other segment assets/liabilities	59,117	2,393	61,145	2,265
Unallocated:	1,324,254	547,844	1,314,918	688,932
Investments in subsidiaries and associate	1,123,781	-	1,106,863	-
Available-for-sale financial assets	8,041	-	6,977	-
Loans and deposits given	152,063	-	159,770	-
Cash and cash equivalents	3,891	-	3,756	-
Other assets	36,478	-	37,552	-
Provisions	-	-	-	537
Borrowings	-	469,810	-	618,765
Other liabilities	-	78,034	-	69,630
Total	**2,259,153**	**567,670**	**2,295,521**	**705,471**

All assets and capital expenditures are located in the Republic of Croatia.

NOTE 5 – SEGMENT INFORMATION (continued)

All the Company's services and sales are provided to customers in the Republic of Croatia. The Company's sales revenues can be classified according to the customers' origin.

	2016	2015
	(in thousands of HRK)	
Sales of services:		
Domestic sales	87,021	84,056
Foreign sales	442,936	429,519
	529,957	**513,575**

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

Foreign sales	**2016**	**%**	**2015**	**%**
Germany	122,016	27.55	127,317	29.64
Austria	65,317	14.75	62,379	14.52
Russia	33,907	7.66	29,747	6.93
Slovenia	34,631	7.82	35,749	8.32
Italy	33,430	7.55	36,114	8.41
Netherlands	32,178	7.25	30,638	7.13
Czech Republic	25,153	5.68	23,691	5.52
Other countries	96,304	21.74	83,884	19.53
	442.936	**100.00**	**429,519**	**100.00**

NOTE 6 – COST OF MATERIALS AND SERVICES

	2016	2015
	(in thousands of HRK)	
Raw materials and supplies		
Raw materials and supplies used	48,478	47,457
Energy and water used	35,714	37,497
Small inventories	3,112	3,163
	87,304	88,117
External services		
Maintenance services	18,976	18,947
Laundry and cleaning services	10,821	10,531
Entertainment and animation	6,111	6,219
Transportation and telecommunication	1,655	1,791
Advertising and promotion	5,673	5,428
Utility services	4,642	4,346
Rentals	760	789
Student employment agency services	1,950	2,096
Security services for assets and individuals	5,745	2,427
Other services	2,826	2,233
	59,159	54,807
	146,463	**142,924**

NOTE 7 – STAFF COSTS

	2016	2015
	(in thousands of HRK)	
Salaries	67,624	68,702
Pension insurance contributions	19,314	19,483
Health insurance contributions	14,399	15,003
Other contributions and taxes on salaries	14,344	15,052
Other staff costs /i/	8,534	8,899
	124.215	**127,139**
Number of employees as at 31 December	833	863

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

NOTE 8 – OTHER OPERATING EXPENSES

	2016	2015
	(in thousands of HRK)	
Utility and similar charges, taxes and contributions	21,415	21,488
Professional services	2,671	3,259
Insurance premiums	2,412	2,455
Travel and entertainment	654	623
Bank charges and membership fees	1,311	1,352
Provisions for legal disputes	-	537
Reversal of provisions for legal disputes	(387)	(259)
Provision for impairment of trade and other receivables (Note 16)	379	500
Collection of receivables previously written-off (Note 16)	(1,614)	(485)
Other	6,212	5,796
	33,053	**35,266**

NOTE 9 – FINANCE INCOME AND COSTS

	2016	2015
	(in thousands of HRK)	
Finance income		
Interest income on cash deposits and loans	1,524	2,798
Net foreign exchange gains from financing activities	6,391	4,003
Other finance income	248	232
	8,163	7,033
Finance costs		
Interest expense	(28,202)	(37,541)
	(28,202)	(37,541)
Finance income/(costs) - net	**(20,039)**	**(30,508)**

NOTE 10 - INCOME TAX

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 20% (2015: 20%) as follows:

	2016	2015
	(in thousands of HRK)	
Profit before tax	**113,657**	**75,492**
Income tax (20%)	22,731	15,098
Effect of non-taxable income	(762)	(1,355)
Effect of reinvested profit /i/	(10,352)	(7,565)
Effect of non-deductible expenses	1,323	1,449
Income tax expense	**12,940**	**7,627**
Income tax prepayments	(16,222)	(18,609)
Income tax prepayments receivable	3,282	10,982
Effective tax rate	11.38%	10.10%

/i/ In accordance with article 6, paragraph 1, item 6 of the Income Tax Act, which is effective for the business year 2016, the Company decided to reinvest the profit for the period in the amount of HRK 52 million (2015: HRK 38 million) and increase its share capital.

In accordance with local regulations, 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.

To date, the Tax Administration carried out a full scope tax audit of the Company's income tax and VAT returns for 2003, 2004, 2005, 2008, 2013 and 2014. In March 2015, the Company filed an appeal to the second instance body regarding the administrative procedure relating to the tax audit from 2014.

NOTE 11 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated as follows:

	2016		
	(in thousands of HRK)		
	Preference shares	**Ordinary shares**	**Total**
Dividends declared and paid in the year	105	-	105
Undistributed earnings	16,451	84,161	100,612
Profit for the year	**16,556**	**84,161**	**100,717**
Weighted average number of shares in issue excluding treasury shares	105,000	537,176	
Distributed earnings	1	-	
Undistributed earnings	156.67	156.67	
Basic earnings per share *(in HRK)*	**157.67**	**156.67**	

	2015		
	(in thousands of HRK)		
	Preference shares	**Ordinary shares**	**Total**
Dividends declared and paid in the year	105	-	105
Undistributed earnings	11,079	56,681	67,760
Profit for the year	**11,184**	**56,681**	**67,865**
Weighted average number of shares in issue excluding treasury shares	105,000	537,176	
Distributed earnings	1.00	-	
Undistributed earnings	105.52	105.52	
Basic earnings per share *(in HRK)*	**106.52**	**105.52**	

Diluted earnings per share

Diluted earnings per share for 2016 and 2015 are equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either years.

NOTE 12 – DIVIDEND PER SHARE

Up to the date of this report, the Management Board and Supervisory Board of the Company have not proposed a dividend. Dividends will be accounted for after being approved by the Annual General Assembly.

Unpaid dividends in respect of 2005 through 2016 of HRK 5,362 thousand (2014: HRK 5,365 thousand) are disclosed as dividends payable in 'trade and other payables' (Note 20).

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Plant and equipment**	**Other assets**	**Assets under construction**	**Total**
At 1 January 2015					
Cost	2,413,538	293,702	34,832	983	2,743,055
Accumulated depreciation and impairment	(1,407,659)	(249,796)	(29,616)	-	(1,687,071)
Net book amount	**1,005,879**	**43,906**	**5,216**	**983**	**1,055,984**
Year ended 31 December 2015					
Opening net book amount	1,005,879	43,906	5,216	983	1,055,984
Additions	36,585	5,809	674	2,822	45,890
Transfer	(486)	486	-	-	-
Disposal and impairment	-	(39)	-	-	(39)
Depreciation	(88,559)	(13,923)	(1,544)	-	(104,026)
Closing net book amount	**953,419**	**36,239**	**4,346**	**3,805**	**997,809**
At 31 December 2015					
Cost	2,449,624	295,977	36,689	3,805	2,786,095
Accumulated depreciation and impairment	(1,496,205)	(259,738)	(32,343)	-	(1,788,286)
Net book amount	**953,419**	**36,239**	**4,346**	**3,805**	**997,809**
Year ended 31 December 2016					
Opening net book amount	953,419	36,239	4,346	3,805	997,809
Additions	41,479	9,679	401	3,168	54,727
Transfer	138	(138)	-	-	-
Disposal and impairment	-	(48)	-	-	(48)
Depreciation	(82,503)	(12,573)	(1,067)	-	(96,143)
Closing net book amount	**912,533**	**33,159**	**3,680**	**6,973**	**956,345**
At 31 December 2016					
Cost	2,491,551	300,475	37,090	6,973	2,836,089
Accumulated depreciation and impairment	(1,579,018)	(267,316)	(33,410)	-	(1,879,744)
Net book amount	**912,533**	**33,159**	**3,680**	**6,973**	**956,345**

Additions under ‘Land and buildings’ relate to various construction works in hotels and campsites which were completed in 2016 and 2015, respectively, and to the purchase of land.

As at 31 December 2016, the net carrying amount of assets pledged as security for the repayment of borrowings is HRK 184,514 thousand (2015: HRK 201,513 thousand).

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying value of property, plant and equipment of the Company leased out under operating leases is as follows:

	2016	2015
	(in thousands of HRK)	
Cost	118,903	118,585
Accumulated depreciation	(86,938)	(82,958)
Depreciation charge for the year	(3,860)	(3,979)
Net book amount	**28.105**	**31,648**

Operating leases relate to leases of business premises and hospitality facilities. During 2016, the Company realised rental income in the amount of HRK 23,216 thousand (2015: HRK 22,181 thousand). During the year, there were no direct operating expenses arising from the utilisation of these assets except for the depreciation charge.

Operating lease commitments - where the Company is the lessor. The future aggregate proceeds from operating leases are as follows:

	2016	2015
	(in thousands of HRK)	
Up to 1 year	19,475	18,511
From 2 to 5 years	77,828	74,044
	97,303	**92,555**

In 2016 and 2015, there were no contingent rents recognised as income in the statement of comprehensive income. There is no purchase option.

NOTE 14 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	2016	2015
	(in thousands of HRK)	
Subsidiaries	933,049	916,131
Associates	190,732	190,732
	1,123,781	**1,106,863**

Changes in investments in subsidiaries are as follows:

	2016	2015
	(in thousands of HRK)	
At the beginning of the year	916,131	916,131
	16,918	-
	933,049	**916,131**

In November 2014, the Company acquired 93.04% shares in the company Istraturist Umag d.d. based on a purchase agreement from August 2014. In line with the purchase agreement, the Company has a claim against the seller at 31 December 2014 in the amount of HRK 6,918 thousand, which was settled in February 2015.

	Country	Ownership %	
		2016	2015
Subsidiaries			
Laguna invest d.o.o., Poreč	Croatia	100.00	100.00
Istraturist Umag d.d., Umag	Croatia	94.74	93.04
Associates			
Jadranski luksuzni hoteli d.d.	Croatia	32.48	32.48

The subsidiary Laguna invest d.o.o., Poreč did not have any business activities in 2016 or 2015.

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Ownership	2016	2015
		(in thousands of HRK)	
Investments in banks	3.63 %	5,647	5,324
Investments in companies	/i/	2,395	1,653
		8,041	**6,977**

/i/ Investments represent less than 1% ownership interest in the shareholders' equity of these companies, except for the investment in IRTA d.o.o. of 11.1%.

	2016	2015
	(in thousands of HRK)	
At the beginning of the year	6,977	6,318
Acquisition	38	-
Revaluation gains	1,026	659
At the end of the year	**8,041**	**6,977**

Available-for-sale investments are as follows:

	2016	2015
	(in thousands of HRK)	
Equity securities		
- listed	7,921	6,857
- unlisted	120	120
	8,041	**6,977**

The fair values of unlisted available-for-sale securities are stated at cost or according to the latest available price parameters for shares delisted from a regulated market. All available-for-sale financial assets are denominated in HRK.

NOTE 16 – TRADE AND OTHER RECEIVABLES

	2016	2015
	(in thousands of HRK)	
Domestic trade receivables	1,810	1,795
Foreign trade receivables	825	1,951
Due from brokers – agencies	18	297
Impairment of trade receivables	(1,294)	(1,301)
Trade receivables – net	1,359	2,742
Interest receivable	-	3
Accrued income not yet invoiced	2,949	-
Total financial assets	4,308	2,745
Due from state institutions	322	2,414
VAT prepayments	3,308	2,126
Advances to suppliers	603	852
Other current receivables	125	253
Provisions for impairment of other receivables	(30)	(2,193)
	8,636	**6,197**

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

	2016	2015
	(in thousands of HRK)	
At 1 January	3,494	3,862
Increase (Note 8)	379	500
Collection (Note 8)	(1,614)	(485)
Write-off	(935)	(383)
At 31 December	**1,324**	**3,494**

The majority of impaired trade receivables is subject to legal disputes. Both the outcome of the disputes related to disputed receivables or the extent to which they will be collected cannot be anticipated with certainty.

NOTE 17 – SHAREHOLDERS' EQUITY

The equity ownership structure as at 31 December 2016 was as follows:

Shareholder	Total number of shares	Total amount (HRK)	Holding in share capital %
Ownership of ordinary shares:			
Sutivan Investments Anstalt, Liechtenstein	438,899	1,028,443,509	80.34
Deutsche Bank Trust Company Americas	23,939	56,094,703	4.38
Treasury shares /i/	9,142	21,421,855	1.67
Other legal entities and natural persons	74,338	174,191,404	13.61
	546,318	**1,280,151,471**	**100,00**
Ownership of preference shares:			
Sutivan Investments Anstalt, Liechtenstein	105,000	105,000,000	100.00
Total	**105,000**	**105,000,000**	**100,00**
		1,385,151,471	

The equity ownership structure as at 31 December 2015 was as follows:

Shareholder	Total number of shares	Total amount (HRK)	Holding in share capital %
Ownership of ordinary shares:			
Sutivan Investments Anstalt, Liechtenstein	438,899	998,056,326	80.34
Deutsche Bank Trust Company Americas	23,939	54,437,286	4.38
Treasury shares /i/	9,142	20,788,908	1.67
Other legal entities and natural persons	74,338	169,044,612	13.61
	546,318	**1,242,327,132**	**100,00**
Ownership of preference shares:			
Sutivan Investments Anstalt, Liechtenstein	105,000	105,000,000	100.00
Total	**105,000**	**105,000,000**	**100,00**
		1,347,327,132	

Following the decision of the Company's General Assembly of 19 August 2016 (2015: 14 August 2015), the Company's share capital was increased by reinvesting a portion of its profit in the amount of HRK 37,824 thousand (2015: HRK 84,133 thousand). The share capital is distributed among 546,318 ordinary shares, without nominal value, and 105,000 preference series B shares, registered, with a nominal value of HRK 1,000.00.

All shares are fully paid. Preference shares carry a right to a fixed annual preferred dividend of HRK 1 per share, in addition to ordinary dividends, declared and paid on ordinary shares and are non-voting. Preference shares have priority right of settlement in the liquidation process of the Company. Based on the decision of the General Assembly of 19 August 2016, a preference fixed dividend was paid to holders of eligible capital in the amount of HRK 105 thousand.

/i/ As at 31 December 2016 and 2015, treasury shares comprise 9,142 own shares redeemed in the period from 1997 to 2002 at prices ranging from HRK 718.70 to HRK 1,516.50 per share through a commission house broker, and the total average price of HRK 1,256.27. Gains and losses on the purchase and sale of treasury shares are recorded within capital reserves and amount to HRK 9,937 thousand (2015: HRK 9,304 thousand).

NOTE 18 – RESERVES

	2016	2015
	(in thousands of HRK)	
Legal reserves	46,823	43,430
Other reserves	32,480	31,659
	79,303	**75,089**
Changes in reserves:		
Legal reserves /i/		
At the beginning of the year	43,430	38,999
Transfer from retained earnings	3,393	4,431
At the end of the year	**46,823**	**43,430**
Other reserves /ii/		
At the beginning of the year	31,659	31,132
Revaluation of available-for-sale financial assets	821	527
At the end of the year	**32,480**	**31,659**

/i/ 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 Company's share capital. This reserve is not distributable. Based on the Decision of the General Assembly of 19 August 2016, the Company transferred an amount of HRK 3,393 thousand from current profit to legal reserves. As at 31 December 2016 and 2015, legal reserves amounted to HRK 46,823 thousand (2015: HRK 43,430 thousand) or 3.38% of the share capital (2015: 3.22%), while the share of legal reserves together with capital reserves which are not distributable (HRK 18,824 thousand) and which were formed by denominating the share value in 2001 (from HRK 1,860 to HRK 1,800 per share), form a share of 4.74% (2015: 4.62%) in the Company's share capital.

/ii/ As at 31 December 2016, other reserves amounted to HRK 32,480 thousand (2015: HRK 31,659 thousand) and comprise treasury shares reserves of HRK 11,485 thousand (2015: HRK 11,485 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 2,171 thousand (2015: HRK 1,350 thousand). These other reserves are not distributable. The remaining other reserves in the amount of HRK 18,824 thousand relate to the above stated capital reserves formed by denominating the nominal value of shares in HRK. During 2013, they were increased based on the above stated decrease in reserves by treasury shares in the amount of the released treasury shares as a result of the merger (HRK 412 thousand), since treasury share reserves are generated in the amount of the purchased treasury shares. Following the Supervisory Board's decision, these reserves were used to cover the negative effect of the merger in 2013 in the amount of HRK 2,470 thousand.

NOTE 19 – BORROWINGS

	2016	2015
	(in thousands of HRK)	
Long-term:		
Bank borrowings	236,181	334,034
Borrowings from major shareholder	198,392	229,051
	434,573	**563,085**
Short-term:		
Current portion of bank borrowings	-	47,719
Current portion of borrowings from major shareholder	28,342	-
Accrued interest and fees	6,895	7,961
	35,237	**55,680**
	469,810	**618,765**

Bank borrowings are secured by properties (Note 13). Borrowings from the major shareholder were contracted without registering a lien on properties.
Long-term borrowings mature as follows:

	2016	2015
	(in thousands of HRK)	
From 1 to 2 years	28,342	76,350
From 2 to 5 years	226,734	229,052
Over 5 years	179,497	257,683
	434,573	**563,085**

During 2016, the Company made a partial early repayment of the bank borrowing in the amount of EUR 12.5 million.

NOTE 20 – TRADE AND OTHER PAYABLES

	2016	2015
	(in thousands of HRK)	
Trade payables	22,105	17,576
Due to related parties (Note 22)	129	132
Dividends payable (Note 12)	5,362	5,365
Accrued costs not yet invoiced	5,998	5,148
Concession payable /i/	18,768	15,667
Total financial liabilities	52,362	43,888
Net salaries payable	16,158	16,432
Taxes and contributions payable	12,273	12,306
Advances payable	12,776	8,585
Other current liabilities	4,291	4,958
	97,860	**86,169**

/i/ The concession payable is calculated on the basis of the submitted relevant requirements to the governing authorities for concessions on tourist land in campsites, hotels and tourist resorts in accordance with the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process and the Regulations which elaborate in more detail the manner of complying with the stated Act.

NOTE 21 – CONTINGENCIES AND COMMITMENTS

Transformation and privatisation audit. On 22 May 2003, the State Audit Office (Regional office in Pazin) issued a Report on the audit of the transformation and privatisation of the state-owned company Plava laguna, Poreč. The Report states that the transformation and privatisation procedure has not entirely been executed in accordance with the law, especially with respect to gaining ownership over the land by the Company. Subsequently, the Company was sued to determine the ownership of part of the land used by the Company and over which the Company is registered as the owner. On 20 May 2003, the Company expressed an opinion on the State Audit Office's Report.

Up to the date of this report, the legal dispute has not been finalised, i.e. there has been no reply from the State Audit Office on the Company's complaint, so that neither the outcome of this legal dispute or audit findings nor their effect (if any) on the Company's financial or operating position can be reliably anticipated.

The stated problems with respect to land ownership are common in other tourist companies in the Republic of Croatia. On 1 August 2010, the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process, entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures for submitting requests for concessions and other prescribed requests. In the period since the adoption of legal regulations, in the procedures initiated, and in line with requirements of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land, etc. Up to 31 December 2016, the Company settled all liabilities arising from the invoices received, issued by governing authorities on the basis of the provisions of the Regulations.

Provisions for other contingent liabilities. In the financial statements for the year ended 31 December 2016, the Company does not have any provisions for the payment of other contingent liabilities (2015: HRK 537 thousand).

Capital commitments Future commitments contracted for investments in tourist facilities, for which provisions were not made, as at 31 December 2016 amounted to HRK 28 million (2015: HRK 16 million).

Operating lease commitments – where the Company is the lessee (Note 6). The future aggregate payments are as follows:

	2016	2015
	(in thousands of HRK)	
Up to 1 year	616	375
From 2 to 5 years	918	897
	1,534	**1,272**

The lease terms are mainly between 1 and 5 years and the majority of the lease agreements for land and business premises are renewable at the end of the lease term at market prices.

NOTE 21 – CONTINGENCIES AND COMMITMENTS (continued)

Legal disputes of subsidiary Istraturist Umag d.d., Umag. At the beginning of the 1990s, the company Istraturist Umag d.d. contracted loans and other financial arrangements approximating DEM 31 million (approximately EUR 16 million) with Ljubljanska banka d.d. In accordance with applicable legislation governing the resolution of deposits of Croatian citizens with banks registered outside of the Republic of Croatia, Zagrebačka banka d.d. kept a portion of its receivables from Ljubljanska banka d.d. in the amount of DEM 31 million, credited as 'old foreign currency savings' and sold it to its client Istraturist Umag d.d., Umag, obtaining in return a holding in the share capital of the company Istraturist Umag d.d. Istraturist Umag d.d. offset the (acquired) receivables from Ljubljanska banka d.d. in the amount of DEM 31 million through its financial liabilities of the same amount towards Ljubljanska banka d.d.

In a special Constitutional Act adopted after the above offsetting, the Republic of Slovenia established Nova Ljubljanska banka d.d. (NLB), transferring all of the claims, but not the liabilities, of Ljubljanska banka d.d., excluding in the transfer also liabilities of Ljubljanska banka towards Istraturist Umag d.d.

Since 1994, several legal disputes before Croatian and Slovenian courts have been initiated by NLB requesting the payment of liabilities of the company Istraturist Umag d.d. During October 2014, in proceedings initiated before the Commercial Court in Rijeka following an enforcement request, the Supreme Court of the Republic of Croatia rejected NLB's appeal on points of law and upheld all of the lower-instance judgements; thus, the highest appellate court of the Republic of Croatia confirmed that the above offsetting of the borrowings in question made by Istraturist Umag d.d. was completely valid and legal.

In the Agreement on Purchase and Sale of Shares of Istraturist Umag d.d. of 26 August 2014, Zagrebačka banka d.d., as the Seller, issued a so-called "NLJB guarantee", under the conditions and limitations set out in the provision thereof, that the legal proceedings with the bank in question will not produce any losses to the Plava laguna Group.

NOTE 22 – 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. Plava laguna d.d., Poreč is controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is Vallum Foundation, registered in Vaduz, Liechtenstein.

In the ordinary course of business, the Company enters into transactions with related parties. Related parties are subsidiaries, the owner, ultimate owner and companies under the common control of the ultimate owner. These transactions were carried out under commercial terms and conditions and at market rates.

1) Transactions with related companies within the Plava laguna Group are as follows:

	2016	2015
	(in thousands of HRK)	
Trade and other receivables	42	28
Other income	242	89
Trade and other payables	153	132
Other expenses	3	2
Non-current intangible assets	19	

2) Transactions with the major shareholder were as follows:

As at 31 December 2016, liabilities arising from a borrowing from the major shareholder and interest payable amounted to HRK 229,648 thousand (2015: HRK 232,138 thousand). In 2016, interest and fee expense amounted to HRK 12,071 thousand (2015: HRK 18,285 thousand).

3) Key management and Supervisory Board compensation

	2016	2015
	(in thousands of HRK)	
Net salaries	6,065	5,875
Pension insurance contributions	1,613	1,484
Health insurance contributions	1,578	1,534
Other costs (contributions and taxes)	3,074	3,091
	12.330	**11,984**
Supervisory Board compensation	597	1,433
	12,927	**13,417**

Key management comprises 15 persons (2015: 14 persons). The Supervisory Board has 7 members (2015: 7 members).