PLAVA LAGUNA

HOTELS & TOURIST COMPANY d.d.

FOR THE YEAR 2015

ANNUAL REPORT

Poreč, May 2016

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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 2015

In the course of business year 2015, 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 2015, 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
Đenio Radić, Member of the Supervisory Board (until 2 February 2015)
Borislav Škegro, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Board
Boris Šavorić, Member of the Supervisory Board (from 14 August 2015)

The Supervisory Board used its counsel and recommendations to influence the Company's activities that marked the business year 2015.

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 in a meeting on 8 April 2016, and in the presence of the management and the representatives of the auditing company PricewaterhouseCoopers d.o.o. of Zagreb, the Supervisory Board reviewed the submitted financial reports for 2015, the report on the situation in the Company as well as the proposed decision on the use of profit, while the decision on the consolidated financial statements was made outside the meeting by means of electronic communication on 29 April 2016 and verified at the next meeting held on 6 May 2016 with the participation of the Board and representatives of the auditors and 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 2015 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 2015 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 2015 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 2015, 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 2015 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'S SHAREHOLDERS

Dear shareholders,

It is my pleasure to be able to report on successful business results of Plava laguna in year 2015 at the end of another fiscal year.

According to the World Tourism Organization (UNWTO), tourism on a global scale for the sixth consecutive year records a significant growth rate of international arrivals which in 2015 was 4.4%. Europe, as the most visited region of the world with 609 million foreign tourists (51.4% of total tourist traffic), also recorded the highest increase in absolute figures, hosting additional 28 million guests in 2015 which represents growth of 4.9%.

The area of southern (Mediterranean) Europe which with 19% of total international tourist arrivals represents the most visited subregion in the world, including Croatia too, recorded the increase of tourist traffic of 4.7% in 2015.

In addition to the above data – in order to view the impact of tourism on global economy more clearly – it is good to know that, according to statistical data of the UNWTO, tourism directly and indirectly accounts for 10% of the world GDP, creates one of 11 jobs and represents 30% of all exported services on a worldwide basis.

In line with global trends, in year 2015, Croatia recorded an increase in the physical volume of tourist traffic of 7.7% and the number of commercial overnights increased from last year's 66.5 million to 71.6 million. In the observed year, the growing trend of individual tourist arrivals continued and their share increased to a 66.1%, while in organized arrangements, Croatia was visited by 33.9% out of all guests. In the structure of foreign tourists who, with the increase of 7.4%, realized 92% of total overnight stays, tourists from Germany realized the most (23.9%), followed by guests from Slovenia (10.1%), Austria (9.0%), Czech Republic (7.3%) and Italy (7.3%). It is important to emphasize that in times of global terrorist threats and consequent instability in competitive markets, it is a favorable circumstance that Croatia is perceived as a safe country for foreigners and that certainly contributed to the creation of positive results presented.

Mentioned tourist traffic in the Republic of Croatia is mostly concentrated in seven coastal counties whose share in total overnight stays is 95.4%. Thus, the highest tourist traffic was realized in the Istria County with increase of 7.3% in overnight stays and a share of 29.3% in total overnights stays in Croatia.

In fiscal year 2015, Plava laguna d.d. recorded an increase in physical volume of the tourist traffic of 6.7% by realizing 2.4 million overnight stays in all types of accommodation capacity which represents an increase of 150 thousand overnights in nominal terms compared to the previous year. At the level of the Istrian County that makes 11.3% of total overnights realization or 3.3% at the level of Croatia.

The increase was realized in all types of accommodation, in hotels and apartments the increase of 9.2% or 105.7 thousand overnights in nominal terms that should be reviewed through the following typical structures. In the analysis of physical volume according to channels of arrivals, then the increase of the individual channel is evidenced, with the share in total overnight stays in built objects increasing from 25.2% in 2014 to 30.2%. The continuing trend of decline of demand from the Russian market reflected itself on the decrease of the allotment segment. Further generator of increase is a reflection of major activity in the field of group arrangements, especially in the pre- and post-season, whose share increased from last year's 16.7% to a 19.1%.

Following the above explained movement of physical volume, in the reporting year, the Company realized operating revenue of 515.7 million HRK which represents an increase of 6.9% or 33.5 million HRK in nominal terms. In accordance with that, the level of operational performance expressed with EBITDA indicator is 206.1 million HRK, with an increase of 11.3 million HRK compared to the previous year and EBITDA margin at 40%.

Also, in terms of better understanding the profit gained, it is important to review the financial activities of the Company in the observed period which, because of credit indebtedness, resulted in a negative effect of 29.7 million HRK primarily conditioned by the accrued interests in the amount of 37.4 million HRK, and on the other hand, net foreign exchange gains in the amount of 4.5 million HRK and interest on term deposits in the amount of 2.8 million HRK. The increase of financing costs in current year is a result of a difference in the period of indebtedness, whereas the loans were received by the end of November 2014.

In accordance with the above mentioned, the Company recorded a profit before tax in the amount of 75.5 million HRK which represents a decrease by 15.4 million HRK. Company's Management Board will propose to the Company's General Assembly to use tax relief for business year 2015 on a basis of reinvesting earnings.

Balance sheet value of the Company as at 31 December 2015 amounted to 2.296 billion HRK which compared to the same day of the previous year represented a nominal decrease of 76 million HRK. The mentioned, besides generated profits in the period, is the effect of a partial loan repayment to the subsidiary in the amount of 20 million EUR at the end of August, which positioned the level of total credit indebtedness of the Company on the last day of the reporting period at 80 million EUR. Company's stability is manifested in the size of the capital and reserves in the amount of 1.590 billion HRK and the amount of highly liquid forms of financial assets, foreign currency deposits, amounting to 160 million HRK that exceed current liabilities on the last day of the reporting period.

The Company, also in year 2015, continued to invest in own accommodation facilities in order to meet the trends articulated by the market demand and the requirements of the modern guest. 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 46.2 million HRK.

The observed year is also the first fiscal year in which, within the consolidated business operation on annual level, participated the company Istraturist Umag d.d. Significant increase of successful business performances at all levels contributed to the positioning of Group's business revenues at the level that exceeds 980 million HRK, EBITDA at the level of 354 million HRK and debt / EBITDA ratio of 2.7. This represents a stable basis for the realization of further development cycle taking into account the preservation of financial stability, as basic strategic guideline.

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.

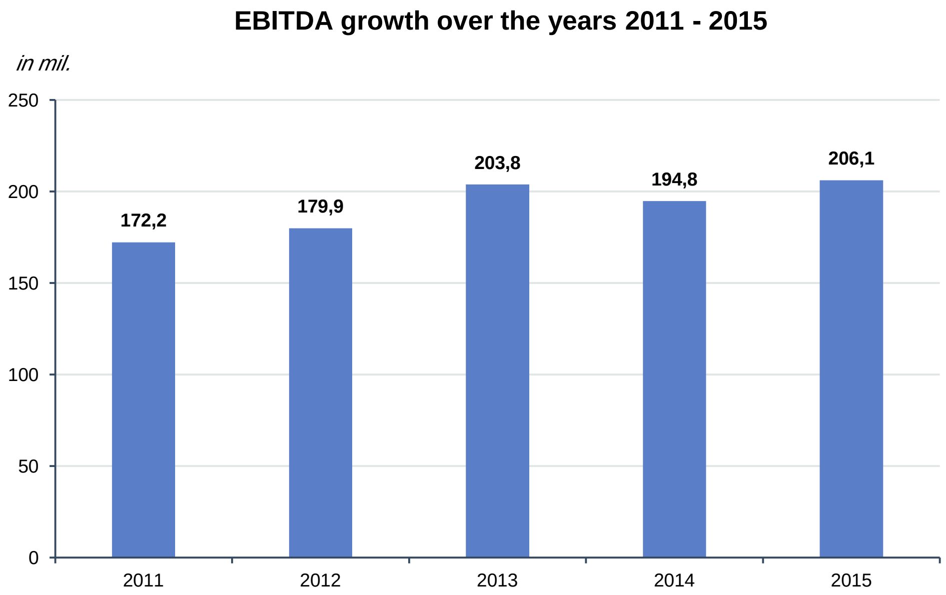
President of the Company

Neven Staver

Neven S.

REVIEW OF THE MOST SIGNIFICANT INDICATORS

	2015	2014
Realized overnight stays	2.396.971	2.246.538
Operating revenue per overnight stay in HRK	213,5	213,1
Net income in 000 HRK	67.865	88.618
Total shareholdings' equity in 000 HRK	1.590.050	1.521.763
Total assets in 000 HRK	2.295.521	2.371.405
Liquidity ratio (short-term assets / short-term liabilities)	1,3	2,5
Financial stability in % (long-term assets / equity and long-term liabilities)	98,1	94,8
Net profit and depreciation / total revenues in %	32,8	39,7
EBITDA (earnings from business activity and depreciation) in 000 HRK	206.098	194.769
EBITDA margin in % (EBITDA / operating revenue)	40,3	40,7
Net debt (total loan borrowings - cash – investment in securities – loans, deposits and similar) in 000 HRK	448.261	593.299
Net debt / EBITDA ratio	2,2	3,0
Total (borrowings / equity) in %	38,9	50,5
Net working capital in 000 HRK	41.242	119.983
Market value of shares on 31 Dec 2015 in HRK	4.438	4.100



INTRODUCTION OF THE COMPANY

Historical development of the Company

Plava laguna is a company backed by more than half a century 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 500 million HRK total revenues and employs an average of more than 900 employees. 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 2.4 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 d.d. acquired 89.40% shares in the company Hoteli Croatia d.d. 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 d.d. Poreč to 90.48%, given the share in the equity capital, the same ultimately merged with Plava laguna d.d. on 1 October 2002. Pursuant to the Agreement on the merger with legal effect on 1 January 2014 company Hoteli Croatia d.d. Cavtat was merged to the company Jadranski luksuzni hoteli d.d./ Adriatic Luxury Hotels, with what Plava laguna d.d. 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 d.d. Rijeka from 1 January 2013 Plava laguna d.d. 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 d.d., 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 43,000 guests per day and accommodation structure of 21 hotels, 10 apartment villages and 9 campsites. Reporting year 2015 was the first complete business year in which Istraturist d.d. operated within the Group Plava Laguna, and with achieved business performance, increase in physical volume and operational efficiency, contributed to the success of the Group as a whole.

Capacity of the Group Plava laguna		
DESCRIPTION	**NUMBER OF UNITS**	**NUMBER OF BEDS**
HOTELS	5.488	11.064
APARTMENTS	2.007	7.726
BUILT OBJECTS	**7.495**	**18.790**
CAMPS	8.149	24.655
TOTAL	**15.644**	**43.445**

Energy and effort invested in the development so far, point to the ability of the Company to continuously change and adjust to market demands, while preserving the historically distinctive core values, which provides the conditions for maintaining the leading position in the Croatian hospitality.

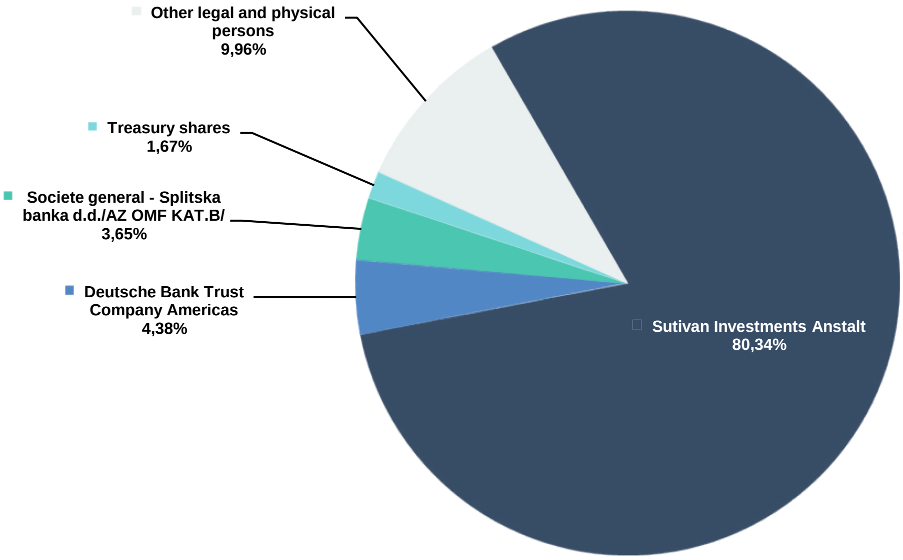
Ownership structure and organizational chart

Follows the company's ownership structure as of 31.12.2015.

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 d.d./AZ OMF KAT.B/	19.949	3,65
Treasury shares	9.142	1,67
Other legal and physical persons	54.389	9,96
TOTAL	**546.318**	**100,0**

The ownership structure of the Company as of 31.12.2015



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.

- **MANAGEMENT BOARD'S OFFICE**
  - **LEGAL DEPARTMENT**
  - **MARKETING DEPARTMENT**
  - **SALES DEPARTMENT**
    - Allotment sales Unit
    - Initiative Unit
    - GH Bonavia sales Unit
  - **DEVELOPMENT DEPARTMENT**
    - Technical Unit
    - Informatics Unit
    - Preparation of Development Projects Unit
  - **ECONOMICS AND FINANCE DEPARTMENT**
    - Plan and Analysis Unit
    - Accountancy Unit
    - Financial Unit
  - **HUMAN RESOURCES AND GENERAL MATTERS DEPARTMENT**
    - Human Resources Unit
    - Payroll accounts and General Matters Unit
  - **PURCHASE AND PROPERTY MANAGEMENT DEPARTMENT**
    - Purchasing Unit
    - Property Management Unit
    - Purchasing Unit for Capital goods
  - **OPERATIONS DEPARTMENT**
    - Technology Unit
    - Entertainment and Animation Unit
    - Control Unit
    - Ecology and Sanitary Unit
    - Physical and Technical Protection Unit
    - Decoration Unit
  - **PC HOTELS AND APARTMENTS 4***
    - PU Laguna Albatros
    - PU Laguna Molindrio
    - PU Laguna Parentium
    - PU Laguna Galijot
    - PU Laguna Bellevue
    - PU Laguna Mediteran
    - PU Marina Parentium
    - PU Marina Červar Porat
  - **PC HOTELS AND APARTMENTS 3***
    - PU Plavi
    - PU Zorna
    - PU Laguna Gran Vista
    - PU Laguna Istra
    - PU Laguna Materada
    - PU Laguna Park
    - PU Červar Porat
  - **PC HOTELS AND APARTMENTS 2***
    - PU Delfin
    - PU App Astra
  - **PC GRAND HOTEL BONAVIA**
    - PU GH Bonavia
  - **PC AUTO-CAMPS**
    - PU AC Zelena laguna
    - PU AC Bijela uvala
    - PU AC Ulika
    - PU AC Puntica
  - **PC SPORT AND SUPPORTING ACTIVITIES**
    - PU Laguna Sport
    - PU Horticulture
    - PU Laundry and Storehouse

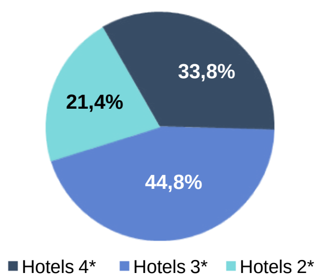
COMPANY'S BUSINESS ACTIVITY IN 2015

Tourist turnover

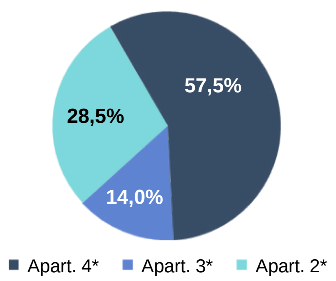
Review of Accommodation Capacities and Realized Overnight stays

DESCRIPTION	CAPACITY 2015	CAPACITY 2014	OVERNIGHT STAYS 2015	OVERNIGHT STAYS 2014	INDEX '15 / '14	DAYS OF OCCUPANCY 2015	DAYS OF OCCUPANCY 2014
LAGUNA ALBATROS	608	608	89.734	77.802	115,3	147,6	128,0
LAGUNA MOLINDRIO	482	482	92.098	88.609	103,9	191,1	183,8
LAGUNA PARENTIUM	538	538	100.025	89.199	112,1	185,9	165,8
VILA LAGUNA GALIJOT	174	174	28.658	27.957	102,5	164,7	160,7
VILLAGE LAGUNA GALIJOT	94	94	13.834	13.177	105,0	147,2	140,2
HOTEL LAGUNA PARK	202	202	37.294	34.873	106,9	184,6	172,6
GRAND HOTEL BONAVIA	231	231	36.513	26.648	137,0	158,1	115,4
HOTELS 4*	**2.329**	**2.329**	**398.156**	**358.265**	**111,1**	**171,0**	**153,8**
LAGUNA MEDITERAN	645	645	93.498	92.066	101,6	145,0	142,7
PLAVI	392	392	68.151	61.994	109,9	173,9	158,1
ZORNA	412	412	54.961	51.458	106,8	133,4	124,9
LAGUNA GRAN VISTA	336	336	36.288	39.901	90,9	108,0	118,8
LAGUNA ISTRA	376	376	50.641	45.775	110,6	134,7	121,7
LAGUNA MATERADA	774	774	119.564	113.919	105,0	154,5	147,2
VILLAGE LAGUNA PARK	152	152	20.327	17.888	113,6	133,7	117,7
HOTELS 3*	**3.087**	**3.087**	**443.430**	**423.001**	**104,8**	**143,6**	**137,0**
DELFIN	1.478	1.478	217.284	178.334	121,8	147,0	120,7
HOTELS 2*	**1.478**	**1.478**	**217.284**	**178.334**	**121,8**	**147,0**	**120,7**
TOTAL: HOTELS	**6.894**	**6.894**	**1.058.870**	**959.600**	**110,3**	**153,6**	**139,2**
APP LAGUNA GALIJOT	332	332	37.307	36.458	102,3	112,4	109,8
VILLE LAGUNA BELLEVUE	76	76	9.088	7.889	115,2	119,6	103,8
APP LAGUNA BELLEVUE	365	365	40.311	39.245	102,7	110,4	107,5
STUDIO APP LAGUNA BELLEVUE	246	246	36.528	33.206	110,0	148,5	135,0
APARTMENTS 4*	**1.019**	**1.019**	**123.234**	**116.798**	**105,5**	**120,9**	**114,6**
VILLE LAGUNA PARK	80	80	8.199	8.179	100,2	102,5	102,2
APP LAGUNA PARK	168	168	18.380	17.767	103,5	109,4	105,8
APARTMENTS 3*	**248**	**248**	**26.579**	**25.946**	**102,4**	**107,2**	**104,6**
APP ASTRA	504	504	43.073	43.708	98,5	85,5	86,7
APARTMENTS 2*	**504**	**504**	**43.073**	**43.708**	**98,5**	**85,5**	**86,7**
TOTAL: APARTMENTS	**1.771**	**1.771**	**192.886**	**186.452**	**103,5**	**108,9**	**105,3**
TOTAL: BUILT OBJECTS	**8.665**	**8.665**	**1.251.756**	**1.146.052**	**109,2**	**144,5**	**132,3**
AC ZELENA LAGUNA	2.700	2.700	256.575	245.613	104,5	95,0	91,0
AC BIJELA UVALA	6.000	6.000	537.716	511.910	105,0	89,6	85,3
AC ULIKA	3.000	3.000	283.814	278.502	101,9	94,6	92,8
CAMPS 4*	**11.700**	**11.700**	**1.078.105**	**1.036.025**	**104,1**	**92,1**	**88,5**
AC PUNTICA	700	700	67.110	64.461	104,1	95,9	92,1
CAMPS 2*	**700**	**700**	**67.110**	**64.461**	**104,1**	**95,9**	**92,1**
TOTAL: CAMPS	**12.400**	**12.400**	**1.145.215**	**1.100.486**	**104,1**	**92,4**	**88,7**
T O T A L	**21.065**	**21.065**	**2.396.971**	**2.246.538**	**106,7**	**113,8**	**106,6**

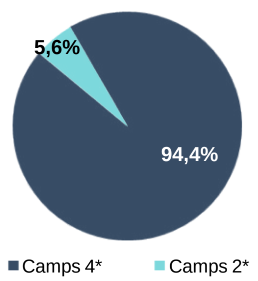
The structure capacity in hotels 2015



The structure capacity in apartments 2015

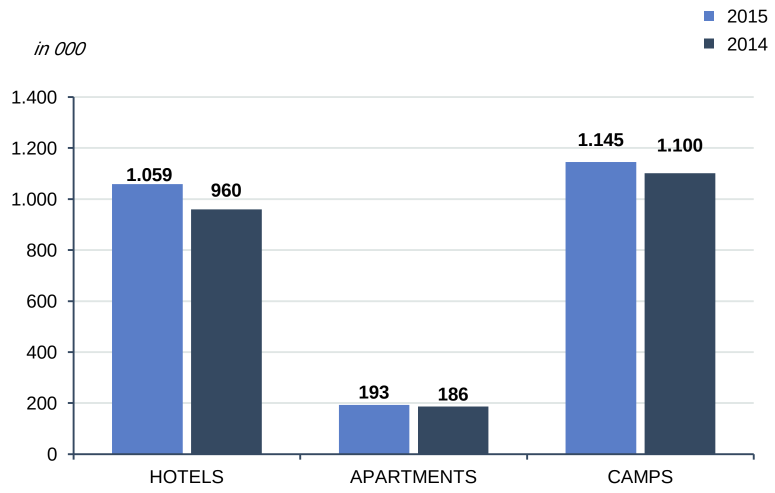


The structure capacity in camps 2015



Plava laguna d.d. concluded the year 2015 with a realization of 2,396,971 overnight stays which, compared to the previous year, represents an increase of 6.7%. In the year concerned, the Company disposed with 8,665 beds in built objects (hotels and apartments) and 12,400 beds in campsites.

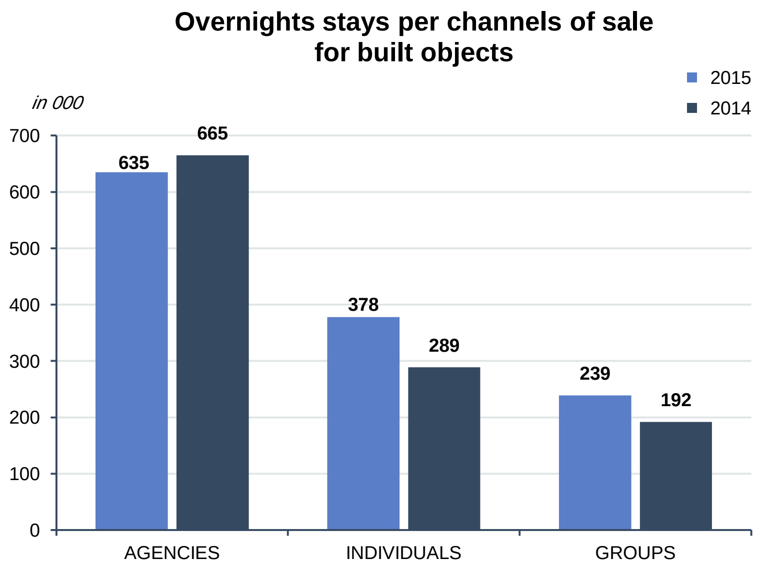
Overnight stays per types of accommodation



The structure of overnight stays points to increased business volume in built objects which generated growth of 9.2%. Changes in the structure of nationality are caused by the continuing decline of the Russian market with the number of overnight stays, when compared to the previous year decreasing by 46% or 88 thousand overnights in nominal terms, and thus, the share of Russian overnight stays in built objects decreasing from the record breaking year 2012 with 26.3% to 8.2% in the observed year. With timely measures, the lack of demand from the Russian market was compensated by the sale of services to the traditional Western European markets (Germany, Austria, Italy and Slovenia) which increased by 21.3% in built objects.

Review of overnight stays in BUILT OBJECTS per emissive markets

COUNTRY	2015	%	2014	%	INDEX
Germany	332.650	26,6	263.108	22,9	126,4
Austria	193.812	15,5	169.414	14,8	114,4
Italy	104.760	8,4	84.732	7,4	123,6
Russia	103.239	8,2	191.057	16,7	54,0
Slovenia	93.228	7,4	79.983	7,0	116,6
Czech Republic	73.867	5,9	65.023	5,7	113,6
Other countries	302.306	24,2	249.443	21,7	121,2
Croatia	47.894	3,8	43.292	3,8	110,6
TOTAL	**1.251.756**	**100,0**	**1.146.052**	**100,0**	**109,2**



These relevant changes and growing modern trends in organized travel result with an increase of the individual sales channel in total overnight stays in built objects from 25.2% to 30.2% with simultaneous decrease of the allotment segment from 58.1% to 50.7%. The increase in the group travel segment contributed to the higher occupancy of Company's capacities in the pre- and post- season.

Review of overnight stays in CAMPS per emissive markets

COUNTRY	2015	%	2014	%	INDEX
Germany	438.807	38,3	430.492	39,1	101,9
The Netherlands	267.025	23,3	237.668	21,6	112,4
Slovenia	124.016	10,8	116.170	10,6	106,8
Austria	91.470	8,0	88.889	8,1	102,9
Italy	82.134	7,2	81.791	7,4	100,4
Czech Republic	35.800	3,1	33.619	3,0	106,5
Other countries	100.402	8,8	106.580	9,7	94,2
Croatia	5.561	0,5	5.277	0,5	105,4
TOTAL	**1.145.215**	**100,0**	**1.100.486**	**100,0**	**104,1**

Campsites, as an important accommodation segment of the Company, recorded in 2015 the increase of overnight stays by 4.1% or 45 thousand in nominal terms, primarily due to an increase of guests from the Dutch, German and Slovenian markets and favorable weather conditions.

Profit and Loss Account

in 000 HRK

	DESCRIPTION	2015	2014	INDEX '15 / '14	STRUCTURE IN % 2015	STRUCTURE IN % 2014
I	SALES REVENUES	489.241	455.062	107,5	94,9	94,4
1.	Accommodation	441.290	401.474	109,9	85,6	83,2
2.	Food	65.398	58.534	111,7	12,7	12,1
3.	Bars	21.407	17.990	119,0	4,2	3,7
4.	Merchandise	163	136	119,9	-	-
5.	Sports	1.174	1.210	97,0	0,2	0,3
6.	Mooring	7.457	7.337	101,6	1,4	1,5
7.	Granted discount and commissions	-54.476	-39.045	139,5	-10,6	-8,1
8.	Other revenues	6.828	7.426	91,9	1,3	1,5
II	REVENUES FROM SALE OF COMP. GOODS, MERCH. AND SERVICES	-	-	-	-	-
III	OTHER REVENUES FROM OPERATIONS	22.440	23.724	94,6	4,4	4,9
	Revenues from the lease of business space	22.181	23.022	96,3	4,3	4,8
	Revenues from elimination of long-term reserves	259	670	38,7	0,1	0,1
	Other business revenues	-	32	-	-	-
IV	OTHER REVENUES	4.072	3.488	116,7	0,8	0,7
A)	**TOTAL OPERATING REVENUES (I to IV)**	**515.753**	**482.274**	**106,9**	**100,0**	**100,0**
V	CHANGES IN THE STOCK VALUE OF INTER. AND FINISHED GOODS	-	-	-	-	-
VI	MATERIAL EXPENSES	136.918	125.171	109,4	26,5	26,0
VII	EMPLOYEES EXPENSES	118.240	110.070	107,4	22,9	22,8
VIII	DEPRECIATION	104.320	106.225	98,2	20,2	22,0
IX	VALUE ADJUSTMENT OF LONG-TERM ASSETS	-	-	-	-	-
X	VALUE ADJUSTMENT OF SHORT-TERM ASSETS	500	423	118,2	0,1	0,1
XI	PROVISIONS FOR EXPENSES AND AGAINST RISK	1.802	-	-	0,3	-
XII	OTHER BUSINESS EXPENSES	48.123	48.353	99,5	9,3	10,0
XIII	OTHER EXPENSES	651	5.077	12,8	0,1	1,1
B)	**TOTAL OPERATING EXPENSES (V to XIII)**	**410.554**	**395.319**	**103,9**	**79,6**	**82,0**
	PROFIT FROM OPERATING ACTIVITY (A-B)	105.199	86.955	121,0	20,4	18,0
C)	**TOTAL FINANCIAL REVENUES**	**8.408**	**8.726**	**96,4**	**1,6**	**1,8**
D)	**TOTAL FINANCIAL EXPENSES**	**38.115**	**4.742**	**803,8**	**7,4**	**1,0**
	PROFIT FROM FINANCIAL ACTIVITIES (C-D)	-29.707	3.984	-	-5,8	0,8
	TOTAL REVENUES	**524.161**	**491.000**	**106,8**	**101,6**	**101,8**
	TOTAL EXPENSES	**448.669**	**400.061**	**112,2**	**87,0**	**83,0**
G)	**EARNINGS BEFORE TAXES**	**75.492**	**90.939**	**83,0**	**-**	**-**
H)	**CORPORATE INCOME TAX AND OTHER TAXES**	**7.627**	**2.321**	**328,6**	**-**	**-**
I)	**NET INCOME**	**67.865**	**88.618**	**76,6**	**-**	**-**

	EBITDA	**206.098**	**194.769**	**105,8**	**40,0**	**40,4**

The company Plava laguna d.d. in the period from 1st of January until 31st of December 2015 realized 515.7 million HRK in operating revenue which is in nominal terms 33.5 million HRK more than in the previous year and represents an increase of 6.9%. The growth in operating revenue is generated primarily by an increase in board revenues due to 6.7% more overnights compared to the previous year.

Total operating expenses are positioned to 410.6 million HRK which represents a nominal increase of 15.2 million HRK or 3.9% compared to the previous year and are generated mostly by variable costs due to the increase of physical volume.

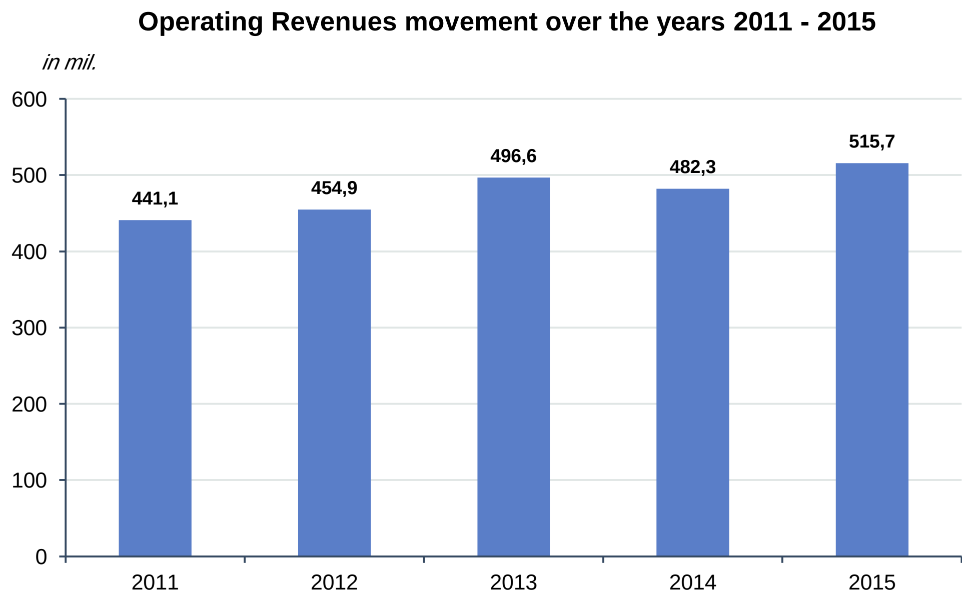
Based on mentioned movements, business activity of the Company results with a profit of 105.2 million HRK which represents an increase of 18.2 million HRK in nominal terms or 21% compared to the previous year.

Financial activity in the current year, due to credit indebtedness, results in a negative effect of 29.7 million HRK, primarily conditioned by the accrued interests in the amount of 37.4 million HRK and, on the other hand, net foreign exchange gains in the amount of 4.5 million HRK and interest gains on term deposits in the amount of 2.8 million HRK. The positive effect of financial categories in 2014 in the amount of 4.0 million HRK was mainly a result of a significantly low interest expense on loans, whereas they were received at the end of November.

Following the above, the Company generated a profit before tax in the amount of 75.5 million HRK for the reporting year, which represents a decrease of 15.4 million HRK, while previously explained financial activity records a negative difference of 33.7 million HRK compared to the previous year.

In accordance with the amended legislation in the area of profit taxation, the Company used tax relief for 2015 on the basis of reinvesting profits and ultimately achieved a net profit of 67.9 million HRK which is 20.8 million HRK in nominal terms or 23.4% less than in the previous year.

Increased level of business performance resulted in EBITDA of 206.1 million HRK thereby achieving an increase of 11.3 million HRK in nominal terms or 5.8% compared to 2014 while maintaining EBITDA margin level at 40%.

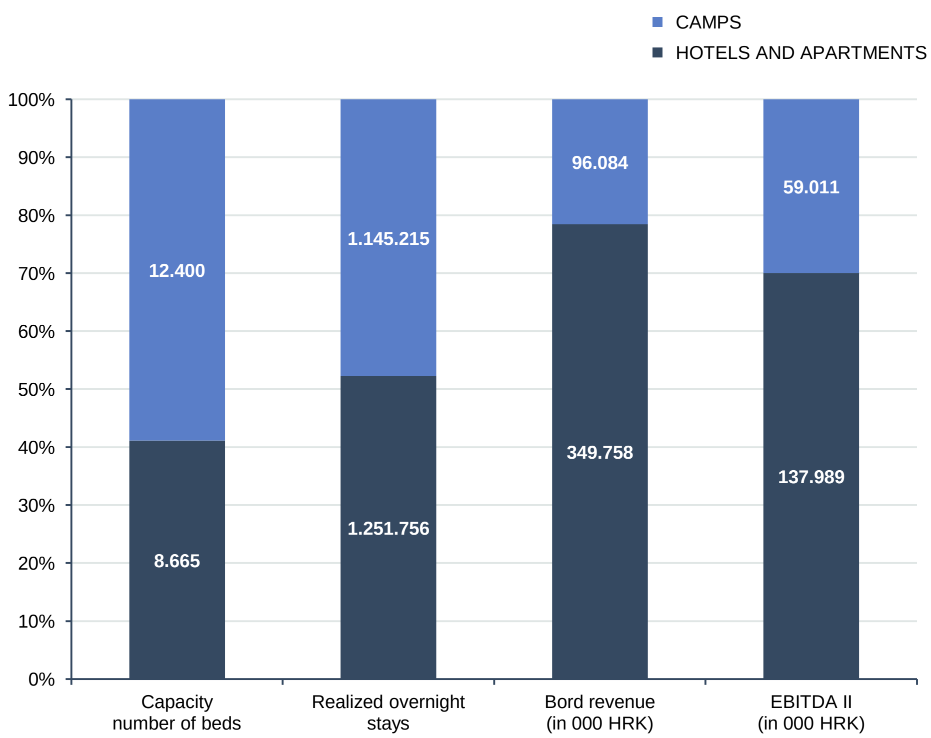


Essential operational indicators by segments

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.

DESCRIPTION	HOTELS AND APARTMENTS 2015	2014	INDEX	CAMPS 2015	2014	INDEX
Capacity - number of beds	8.665	8.665	100,0	12.400	12.400	100,0
Realized overnight stays	1.251.756	1.146.052	109,2	1.145.215	1.100.486	104,1
Days of occupancy	144	132	109,2	92	89	104,1
Annual occupancy in % (beds)	39,6	36,2	109,2	25,3	24,3	104,1
Board revenue in 000 HRK	349.758	326.598	107,1	96.084	89.649	107,2
Average net price per overnight stay in EUR	36,9	37,5	98,4	10,9	10,6	102,8
Average net price per unit (ADR) in EUR	80,3	82,3	97,7	31,3	30,2	103,6
Board revenue per accommodation unit in HRK	84.259	78.679	107,1	23.248	21.691	107,2
EBITDA I (direct) in 000 HRK	181.095	166.690	108,6	71.651	68.112	105,2
EBITDA II (after overhead) in 000 HRK	137.989	127.406	108,3	59.011	57.436	102,7
EBITDA II margins in %	35,1	34,9	100,7	55,9	57,4	97,5

Indicators by segments for 2015



Balance sheet

Assets structure in the Balance sheet

in 000 HRK

ITEM	31.12.2015	%	31.12.2014	%	INDEX
RECEIVABLES FOR SUBSCRIBED BUT UNPAID CAPITAL	-	-	-	-	
LONG-TERM ASSETS	2.112.430	92,0	2.169.927	91,5	97,4
Intangible assets	781	-	762	-	102,5
Tangible assets	997.809	43,5	1.055.984	44,5	94,5
Financial assets	1.113.840	48,5	1.113.181	47,0	100,1
Receivables	-	-	-	-	-
SHORT-TERM ASSETS	182.099	8,0	200.103	8,4	91,0
Inventory	2.385	0,1	2.524	0,1	94,5
Accounts receivables	16.187	0,7	28.602	1,2	56,6
Financial assets	159.771	7,0	163.955	6,9	97,4
Cash in register and upon account	3.756	0,2	5.022	0,2	74,8
ADVANCED PAYMENTS OF THE FUTURE EXPENSES AND UNDUE COLL. OF REV.	992	-	1.375	0,1	72,1
TOTAL ASSETS	2.295.521	100,0	2.371.405	100,0	96,8

Liabilities structure in the Balance sheet

in 000 HRK

ITEM	31.12.2015	%	31.12.2014	%	INDEX
CAPITAL AND RESERVES	1.590.050	69,3	1.521.763	64,2	104,5
LONG-TERM P. FOR RISKS AND EXP.	537	-	2.000	0,1	26,9
LONG-TERM LIABILITIES	563.085	24,5	766.147	32,3	73,5
SHORT-TERM LIABILITIES	112.533	4,9	62.128	2,6	181,1
DEF. PAY. OF EXPEN. AND FUT. REV.	29.316	1,3	19.367	0,8	151,4
TOTAL LIABILITIES	2.295.521	100,0	2.371.405	100,0	96,8

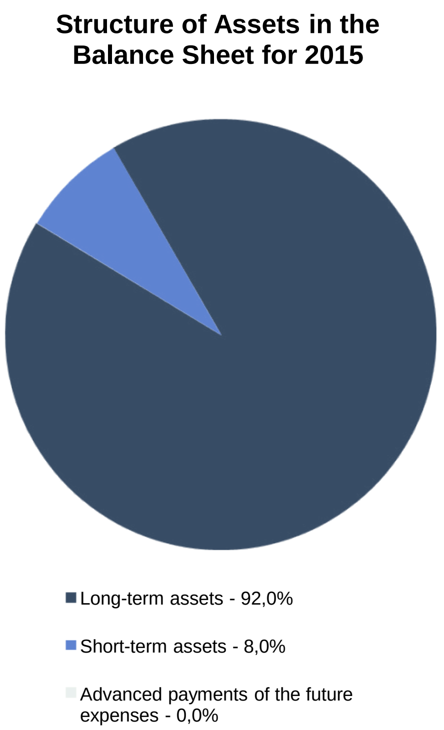
Total balance sheet value of the Company as at 31 December 2015 amounts to 2.296 billion HRK which compared to the same day of the previous year represents a nominal decrease of 76 million HRK.

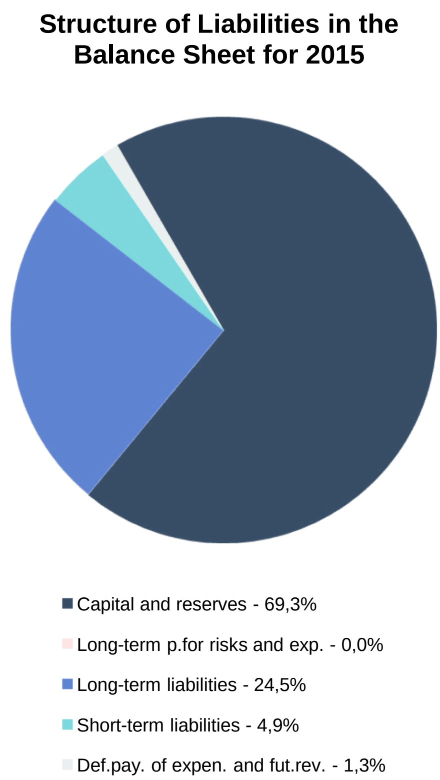
In the structure of active property positions, mentioned decrease was mainly a result of decrease in value of long-term tangible assets due to high depreciation calculations (104.3 million HRK) in relation to capital investments (46.2 million HRK) in the observed year. Lower level of current receivables is the effect of lower amount of receivables arising from income tax advances paid in relation to the established commitment in 2015 compared to 2014.

Passive balance sheet positions indicate growth of the value of capital and reserves, as a result of generating income in that period. In accordance with the resolution of the General Assembly on the use of profit realized in 2014, part of the profit in the amount of 84.1 million HRK is used as reinvested earnings to increase share capital of the Company, 4.4 million HRK stands in legal reserves and 54 thousand HRK in retained earnings.

Total liabilities of the Company on 31 December 2015 amounted to 705.5 million HRK and recorded a decrease of 144.2 million HRK. In the observed period, a repayment of one part of a long-term loan of the subsidiary was made in the amount of 20 million EUR, with which the level of total credit indebtedness of the Company on the day of the balance sheet was positioned at 80 million EUR. Also, 47.7 million HRK obligations in respect to the long-term loan obtained from the business bank maturing during 2016, were transferred from long-term to short-term liabilities at the end of the reporting period, leading to a significant growth of current liabilities in the maturity structure of passive balance sheet positions.

Stability of the Company is manifested through size of the capital and reserves in the amount of 1.590 billion HRK and the amount of highly liquid forms of financial assets, foreign currency deposits, amounting to 160 million HRK that exceed current liabilities on the last day of the reporting period.



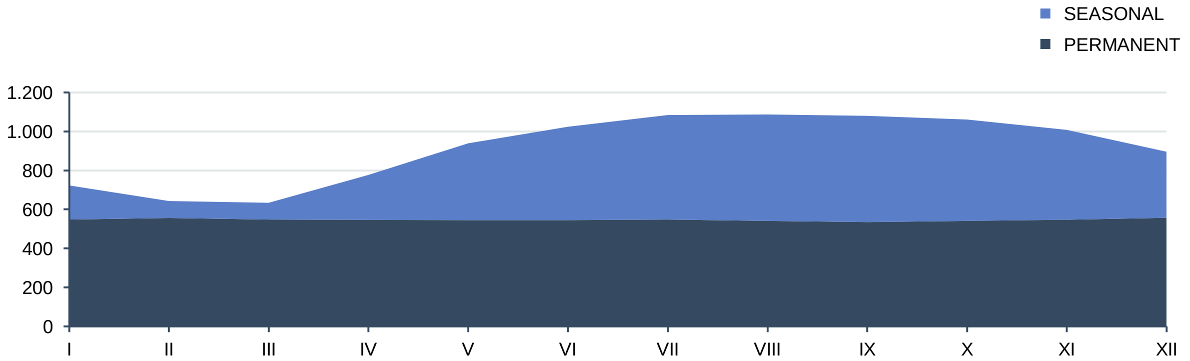


Employment

DESCRIPTION	2015	%	2014	%	INDEX
PERMANENT	547	59,8	587	62,4	93,2
SEASONAL	368	40,2	354	37,6	104,0
TOTAL	**915**	**100,0**	**941**	**100,0**	**97,2**

The business year 2015 was marked by a significant increase in the number of new seasonal employees compared to previous years. Nearly 300 new seasonal workers were employed in total which is more than a double increase compared to the previous year but also a significantly larger number of newly employed compared to every year after 2008 (if 2011 is excluded when due to the amendments of the Labour Act, 221 new seasonal workers were employed).

Average number of employees in 2015 (based on the hours paid)



Also, more than 140 workers with student work agreements were engaged, which represents the largest number of students employed in the recent history of the company.

In order to maintain the stability of human resources, the permanent seasonal workers program continued with around 180 contracts for permanent seasonal jobs concluded for year 2016, and also 20 contracts of employment for indefinite period were concluded during the year.

The focus of human resources management still remains on finding and developing scarce staff and thus, an internship program for young chefs has been initiated as well as internal academy for waiters and other education and training programs.

Investments

In accordance with the strategic orientation towards continuous raising of service quality and improvement of work processes, aiming at achieving high level of guest satisfaction, long-term property of the Company increased by 46.2 million HRK based on the investments in year 2015.

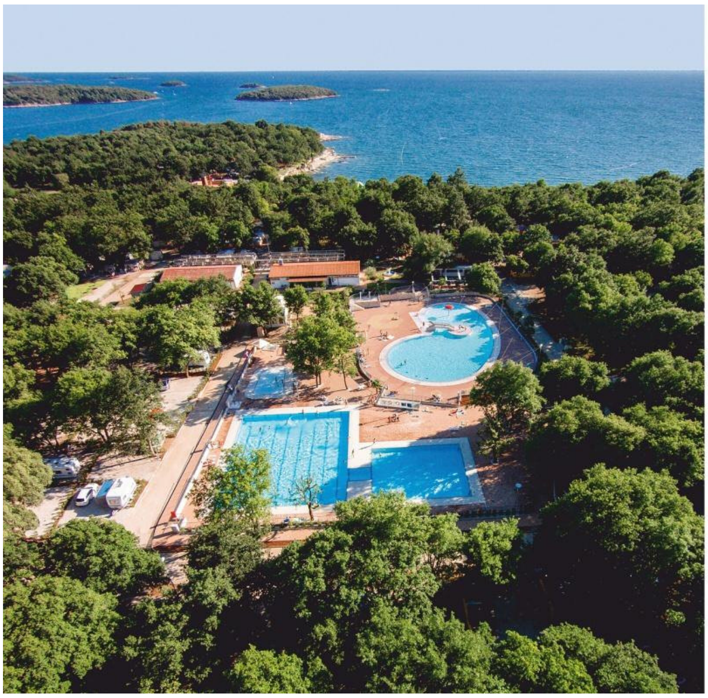
The focus in the observed year was placed on the investments into campsites, where it is necessary to point out the investments in the expansion and the arrangement of new plots in the campsite Bijela uvala together with the construction of the new and the reconstruction of the existing pool.

Among other important investments should be noted, the following:

- Fulfillment of requirements to upgrade the campsite AC Puntica to a 3* category
- Continuation of refurbishment of bathrooms in part of accommodational units at hotel Delfin
- Improvement of the Wi-Fi coverage and bandwith in several facilities
- Reconstruction of football fields and other.

Oriented towards the preservation of natural resources, during year 2015, the Company continued with the program of planning and organization of beaches and beach areas, and investments in improving the environment.

Continuous efforts of the Company towards the improvement of the quality of services provided and setting the bar high in terms of business standards got rewarded with prestigious awards for our hotels, apartments and campsites among which, the most recent are as follows: HolidayCheck 2015 (L. Parentium), Tripadvisor 2015 (L.Parentium, L.Albatros, L.Materada, L.Mediteran, L.Galijot, L.Bellevue), Zoover award winner bronze 2015 (AC Bijela Uvala and AC Zelena Laguna, and L.Bellevue, L.Mediteran, Zorna) and other.



ECOLOGY AND SUSTAINABLE DEVELOPMENT

Ecology and Sustainable Development is a framework for developing a strategy according to which the Company may develop without harmful effects on the environment and natural resources that are essential for further human activity. By using non-renewable energy sources and by the devastation and pollution of the environment, we should not jeopardize the future of generations ahead of us.

Today, the concept of sustainable development is the starting point of all modern economic and social trends while the damage to the environment is a damage to the overall society, and vice versa. Acting within the protection of the environment brings benefits in the form of economic growth, employment and competitiveness.

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.

EXPECTED FUTURE DEVELOPMENT OF THE COMPANY

Caring for sustainable business operation is based on wise decisions about development guidelines that the Company, in the current growth and development, managed to implement steadily based upon economic principles.

During year 2014 in the area of growth and development of the company, a strong step forward was made with the acquisition of the company Istraturist Umag d.d. and a transaction that significantly changed the potential of the Group in terms of size and structure of accommodation capacities. In the coming period, there will be work on generating synergies through the selection of best practices and improving internal processes.

Besides, it should be mentioned that we have the ownership share of 32.48% in the company Jadranski luksuzni hoteli d.d., a company with a portfolio dominated by 5* category hotels in the area of destination Dubrovnik.

This is the crown of the overall concept of development with the main goal to preserve financial stability and seeking solutions that will serve the creation of added value.

In addition to the life expectancy of the product in terms of functionality and process obsolescence, structural changes in demand that began with the reduction of the share of Russian and Ukrainian markets in built objects of the Company, require adjustments focused on seeking new markets and the introduction and consequently adaptation of accommodational capacities to guests of other preferences. In some areas, the processes are subject to faster change given that during the mature phase of the demand, indicators of slight decrease in attractiveness of certain products have been observed.

The activity plan is defined for next year on finding and preparing the conceptual solution for the TR Galijot is about to occur that during the past 10 years has mainly been directed towards Russian guests whose demand determined the achieved levels of occupancy and operational results. In doing so, the factors of the location and natural environment will be of great importance and a starting point in defining the overall product.

The main focus during the year was directed to the preparation of the reconstruction project for tourist resort Laguna Park, located within the residential village, as a difference to most of the other accommodation capacities of the Company located within bigger tourist resorts in which there is a certain degree of integration with other tourist facilities. Accommodation capacities within the resort will include, as at present, the hotel, village, apartments and villas intended for families as a segment of demand. Besides, with the concept defined, the weaknesses of this micro destination should be minimized in terms of access and quality of the beach, therefore the concept envisages the construction of water areas exceeding the existing standard per guest in the region, as well as other facilities for children and sports facilities.

The forthcoming work in the future includes the new solutions for four hotels with a former prefix Lotos in their names (Zorna, Plavi, Laguna Gran Vista and Laguna Istra).

The structure of apartment capacities, in addition to more than half of accommodation units being 4*, the challenge is represented in finding and developing the optimum product for the apartment Villas Astra, 2* category with 504 beds.

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.

During 2011, the Company timely performed all necessary actions and procedures prescribed by the Law on tourist and other construction land that was not appraised in the process of transformation and privatization and other pertinent regulations, and in accordance with that submitted a request for granting the concession. The aforementioned represents an essential prerequisite for planning the development of certain segments of assets, especially campsites.

Furthermore, in the following period, it is necessary to move forward the implementation of the Master plan for tourist village Zelena Laguna, with the purpose of improving the offer outside the services already provided in the associated facilities, in order to improve the overall site offer.

Besides the aforementioned, the possibilities for growth and qualitative changes in the structure of capacity through external growth or acquisitions, will continue to be reviewed and evaluated.

BUSINESS RISKS

The Company 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.

The Company's borrowings are denominated in EUR, which is balanced with the inflows and therefore, the protection from the currency risk is achieved.

The Company is exposed to the interest rate risk as it has financial assets which generates interest income, as well as through borrowings in EUR, of which 37.5% are contracted with variable interest rate.

The remaining borrowings, with fixed interest rate contracted, are exposing the Company to the fair value interest rate risk.

The Company owns equity securities classified as financial assets available for sale and thus exposed to the risk of price changes of securities quoted on the stock exchange.

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 advance payment. 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 2015, 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.

The Company publishes quarter, semi-annual and annual financial reports in its own Internet pages, and these pages contain publicly available all relevant documents related to the meetings of the General Assembly.

Description of fundamental characteristics of risk management and Shareholder data management on date 31 December 2015 are contained in this Annual Report.

The rules on appointing and removing members of the Management are contained in the Company's Articles of Incorporation. At February 27th 2015 Company's Supervisory Board made a decision by which, so far the only Board member, Mr. Neven Staver was reappointed as the only Board member for a 3 year term.

The Management's authorities are established in the Articles of Incorporation and Companies Act, thus the Company may acquire treasury shares in accordance with Article 233 of the Companies Act, and on the basis of authorization by the General Assembly. Currently, the Management has not been give authorization to acquire such shares.

Amendments and supplements to the Company's Articles of Incorporation are regulated in a manner prescribed by the Act, as provided in Article 61 of the Articles of Incorporation.

The Company's Management conducts business operations independently and unlimitedly, and certain operations listed in Article 38 of the Articles of Incorporation (such as founding a company, purchasing and selling shares in other companies, purchasing and selling real estate above 1% of the share capital value, taking the loan above 2% share capital value and other) the management may perform solely upon the consent of the Supervisory Board.

In accordance with the Articles of Incorporation and the decision by the General Assembly, the Supervisory Board of the company consists of seven members who among themselves elect their president and vice-president. Election of these members is carried out pursuant to the Companies Act, the Articles of Incorporation and the general Assembly's Rules of Procedure, and as long as it is prescribed by the special legislation, workers by virtue of the Working Council have the right to appoint one member. The term of the members in the Supervisory Board lasts four years. The Supervisory Board operates at the meetings held on a monthly basis, where they discuss and decide all matters falling under their competence pursuant to the Companies Act and the Company's Articles of Incorporation.

In accordance with the provisions of Article 250a paragraph 4 and Article 272p paragraph 1 of the Companies Act, this statement is a special section and an integral part of the Annual Report on the Situation in the Company for the year of 2015.

President of the Company

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 d.d. 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 14 August 2015, and on 19 November 2015 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 2015 and until the issuance of the report in the first half of 2016, 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.

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
Đenio Radić *(until 02 February 2015)*	Member
Borislav Škegro	Member
Stipe Liović	Member
Boris Šavorić *(from 14 August 2015)*	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
Vladimir Mofardin	PC Hotels and Apartments 3* Manager
Franko Beaković	PC Hotels and Apartments 2* Manager
Igor Vidas	PC Auto-camps Manager
Marina Rogović	PC GH Bonavia Manager
Saša Pilat	PC Sport and supporting activities

Independent Auditor's Report on the Annual Report

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

We have audited the financial statements of Plava laguna d.d. ("the Company") as of and for the year ended 31 December 2015 disclosed on pages 4 to 43 and issued the opinion dated 8 April 2016 disclosed on pages 2 and 3.

Management's Responsibility for the Annual Report

Management is responsible for the preparation, content and accuracy of the Annual Report of the Company for the year ended 31 December 2015.

Auditor's Responsibility

Our responsibility is to express an opinion on the consistency of the Annual Report with the financial statements referred to above, based on our verification procedures.

We conducted our verification procedures in accordance with the International Standards on Auditing. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the information included in the Annual Report which describes matters that are also presented in the financial statements ("other information") is, in all material respects, consistent with the financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the Annual Report of the Company for the year ended 31 December 2015 is consistent, in all material respects, with the financial statements. The information included in the income statement differ from the information included in the financial statements due differences in classification.

PricewaterhouseCoopers d.o.o.
Zagreb, 8 June 2016

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 its operating results and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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 set out on pages 4 to 43 were approved by the Management Board on 8 April 2016 and are signed below to signify this.

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of Plava laguna d.d. (the "Company"), which comprise the balance sheet as at 31 December 2015, statements of comprehensive income, changes in equity and cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

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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.

PricewaterhouseCoopers d.o.o.
Zagreb, 8 April 2016

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts are expressed in thousands of HRK)	Note	2015	2014
Sales of services	5	513,574	479,665
Other income		1,620	2,368
Cost of materials and services	6	(142,924)	(131,156)
Staff costs	7	(127,139)	(119,043)
Depreciation and amortisation	13	(104,320)	(106,225)
Other operating expenses	8	(35,266)	(38,945)
Other gains – net		455	398
Operating profit		**106,000**	**87,062**
Finance income	9	7,033	7,955
Finance costs	9	(37,541)	(4,078)
Finance income/(costs) - net	9	(30,508)	3,877
Profit before tax		**75,492**	**90,939**
Income tax	10	(7,627)	(2,321)
Profit for the year		**67,865**	**88,618**
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets	18	527	(251)
Total comprehensive income for the year		**68,392**	**88,367**
Basic and diluted earnings per share (in HRK):			
- ordinary shares	11	105.52	137.83
- preference shares		106.52	138.83

BALANCE SHEET

AS AT 31 DECEMBER 2015

(all amounts are expressed in thousands of HRK)	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	13	997,809	1,055,984
Intangible assets		781	762
Investments in subsidiaries and associate	14	1,106,863	1,106,863
Available-for-sale financial assets	15	6,977	6,318
		2,112,430	2,169,927
Current assets			
Inventories		2,386	2,524
Trade and other receivables	16	6,197	10,814
Income tax prepayments receivable	10	10,982	19,163
Bank deposits		159,770	163,955
Cash and cash equivalents		3,756	5,022
		183,091	201,478
Total assets		**2,295,521**	**2,371,405**
EQUITY			
Capital and reserves			
Share capital	17	1,347,327	1,263,194
Capital reserves	17	9,304	7,896
Treasury shares	17	(20,789)	(19,381)
Reserves	18	75,089	70,131
Retained earnings	18	179,119	199,923
Total equity		1,590,050	1,521,763
LIABILITIES			
Non-current liabilities			
Borrowings	19	563,085	766,148
Provisions for other liabilities and expenses		537	2,000
		563,622	768,148
Current liabilities			
Current portion of borrowings	19	55,680	2,446
Trade and other payables	20	86,169	79,048
		141,849	81,494
Total liabilities		705,471	849,642
Total equity and liabilities		**2,295,521**	**2,371,405**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts are expressed in thousands of HRK)	**Note**	**Share capital**	**Capital reserves**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**
At 1 January 2014		1,181,246	6,525	(18,010)	64,919	198,820	1,433,500
Profit for the year		-	-	-	-	88,618	88,618
Other comprehensive losses		-	-	-	(251)	-	(251)
Total comprehensive income for 2014		**-**	**-**	**-**	**(251)**	**88,618**	**88,367**
Share capital increase	17	81,948	1,371	(1,371)	-	(81,948)	-
Distribution of profit from 2013		-	-	-	5,463	(5,463)	-
Dividend relating to 2013	11	-	-	-	-	(105)	(105)
Total transactions with owners of the Company, recognised in equity		**81,948**	**1,371**	**(1,371)**	**5,463**	**(87,516)**	**(105)**
At 31 December 2014		**1,263,194**	**7,896**	**(19,381)**	**70,131**	**199,923**	**1,521,763**
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 gains		-	-	-	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**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts are expressed in thousands of HRK)	Note	2015	2014
Profit before tax		**75,492**	**90,939**
Adjustments for:			
Depreciation and amortisation		104,320	106,225
Gains on sale of property, plant and equipment		(2)	(73)
Provision for impairment of receivables - net	8	15	100
Provisions for legal disputes - net	8	278	-
Dividend income		(401)	(398)
Other gains – net		(453)	(325)
Interest income	9	(2,798)	(4,733)
Interest expense	9	37,541	4,078
Finance income and costs - other	9	(4,235)	(3,222)
Other adjustments		1	73
Changes in working capital:			
Trade and other receivables		(1,638)	2,060
Inventories		138	(43)
Trade and other payables		5,248	3,396
Cash flow from operating activities		**213,506**	**198,403**
Interest and fees paid		(31,936)	(1,631)
Return/(payment) of income tax		554	(2,770)
Net cash flow from operating activities		**182,124**	**194,002**
Cash flow from investing activities			
Purchase of intangible assets		(313)	(246)
Purchase of tangible assets	13	(45,890)	(66,033)
Acquisition of subsidiary	14	6,918	(922,973)
Proceeds from sale of tangible assets		41	271
Proceeds from sale of available-for-sale financial assets		-	432
Deposits given		3,754	25,248
Dividend received		401	398
Interest received		2,801	4,741
Net cash used in investing activities		**(32,288)**	**(958,162)**
Cash flow from financing activities			
Proceeds from borrowings		-	766,936
Repayment of borrowings		(150,997)	-
Dividends paid		(105)	(164)
Net cash (used in)/from financing activities		**(151,102)**	**766,772**
Net increase/(decrease) in cash and cash equivalents		**(1,266)**	**2,612**
Cash and cash equivalents at the beginning of the year		5,022	2,410
Cash and cash equivalents at end of year		3,756	5,022

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 Rijeka – Permanent attendance 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 (2014: E. Abaroa Foundation, Vaduz, Liechtenstein). The ownership structure as at 31 December 2015 and 2014 is disclosed in Note 17.

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

As at 31 December 2015 and 2014, 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 2015 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) Standards and interpretations issued and effective:

The Company has adopted the following new and amended standards for their annual reporting period commencing 1 January 2015 which were endorsed by the European Union and which are relevant for the Company's financial statements:

- Annual Improvements to IFRSs – 2010 – 2012 Cycle comprising changes to seven standards (IFRS 1, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 28 and IAS 24).
- Annual Improvements to IFRSs – 2011 – 2013 Cycle comprising changes to four standards (IFRS 2, IFRS 3, IFRS 13 and IAS 40).
- Defined Benefit Plans: Employee Contributions - Amendments to IAS 19.

The adoption of these improvements did not have any impact on the current period or any prior period and is not likely to affect 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 2015 reporting periods and have not been early adopted by the 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 is currently assessing the impact of the new standard IFRS 9 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)*

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.

At this stage, the Management Board is not able to estimate the impact of the new rules on its financial statements, it will make more detailed assessments of the impact over the next twelve months. The Management Board plans to adopt the standard on its effective date and when endorsed by the European Union.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *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.

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 prevailing 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'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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/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 investments 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 rate 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 a 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 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 a 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 has substantially 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 the liability 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 expensed 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 transaction costs, is deducted from equity attributable to the Company's equity holders until the shares are 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 there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.
Borrowings are classified as current liabilities, unless the 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. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit 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 has been 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 – the 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, and continues unwinding the discount as interest income. The unwinding of discount in future periods is recognised as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(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 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 a provision has been made for impairment of receivables, 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 them to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company does not have a written risk management programme, but 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 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**
31 December 2014			
Investments in shares of domestic companies	-	6,318	6,318
Trade and other receivables	7,850	-	7,850
Deposits and loans given	163,955	-	163,955
Cash and cash equivalents	5,022	-	5,022
Total	**176,827**	**6,318**	**183,145**

- *Liabilities - at amortised cost*

	2015	**2014**
	(in thousands of HRK)	
Borrowings	618,765	768,594
Trade and other payables	43,888	39,759
	662,653	**808,353**

(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 2015 and 2014, the currency structure of the Company's financial instruments within the scope of IAS 39 is as follows:

2015	EUR	HRK	Other	Total
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**
2014				
Financial assets				
Trade and other receivables	7,220	630	-	7,850
Loans and deposits given	163,955	-	-	163,955
Available-for-sale financial assets	-	6,318	-	6,318
Cash and cash equivalents	3,430	1,482	110	5,022
	174,605	**8,430**	**110**	**183,145**
Financial liabilities - at amortised cost				
Borrowings	768,594	-	-	768,594
Trade and other payables	590	39,131	38	39,759
	769,184	**39,131**	**38**	**808,353**

As at 31 December 2015, if the EUR had weakened/strengthened by 1% (2014: 1%) against the HRK, with all other variables held constant, the net profit for the reporting period would have been HRK 3,641 thousand higher/lower (2014: HRK 4,757 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 37.5% of the borrowings have been contracted at variable interest rates, while 62.5% of the 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 until the expiration of a contract. Interest rates on borrowings are set at 12m EURIBOR + 4.34% to 4.85% 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 2015, if interest rates on borrowings and given deposits had been 1 p.p. higher/lower (2014: 1 p.p. higher/lower), with all other variables held constant, the net profit for the year would have been HRK 554 thousand lower/higher (2014: HRK 1,752 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).

If the indices of ZSE had been lower/higher by 3% for 2015 (2014: 3%) (which was the average ZSE index movement), with all other variables held constant and provided that all the Company's equity instruments moved according to the historical correlation with the index, reserves within equity and other comprehensive income would have been HRK 165 thousand (2014: HRK 149 thousand) lower/higher as a result of losses/gains on available-for-sale financial assets.

(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 and is equal to the carrying value of each item, as follows:

	2015	**2014**
	(in thousands of HRK)	
Trade and other receivables	2,745	7,850
Deposits and loans given	159,770	163,955
Cash and cash equivalents	3,756	5,022
Total	**166,271**	**176,827**

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 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. 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 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:

	2015	2014
	(in thousands of HRK)	
Neither past due nor impaired	163,874	176,163
Past due but not impaired	2,397	664
Impaired	1,301	1,669
Impairment	(1,301)	(1,669)
	166,271	**176,827**

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

	2015	2014
	(in thousands of HRK)	
Trade and other receivables	348	7,186
Deposits given – financial institutions	159,770	163,955
Cash at bank	3,756	5,022
	163,874	**176,163**

None of the financial assets that are fully performing 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: BB, BBB-, BBB+ (S&P).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

As at 31 December 2015, trade receivables were past due but not impaired. The ageing analysis of these receivables is as follows:

	2015	2014
	(in thousands of HRK)	
Up to 1 month	512	201
1 to 2 months	215	53
2 to 3 months	154	32
Over 3 months up to 1 year	1,516	378
	2,397	**664**

Receivables are mainly secured by advances received. In January and February 2016, HRK 849 thousand of receivables past due but not impaired as at 31 December 2015 were settled.

Impaired receivables relate to trade receivables in the amount of HRK 1,301 thousand (2014: HRK 1,669 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 year	Between 1 and 5 years	Over 5 years	Total
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**
At 31 December 2014				
Borrowings	33,083	476,352	495,471	1,004,906
Trade payables	39,759	-	-	39,759
Total liabilities	**72,842**	**476,352**	**495,471**	**1,044,665**

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 financial assets held by the Company 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 provision for impairment and trade payables are assumed to approximate their fair values.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:
- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2015, assets carried at fair value in the amount of HRK 6,857 thousand (2014: HRK 6,198 thousand) were allocated into level 1.

Available-for-sale investment securities in the amount of HRK 120 thousand (2014: 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 a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

By using a certain asset, the Company uses the economic benefits contained in this asset, which diminish more intensely with economic and technological ageing. Consequently, in the process of determining the useful life of an asset, in addition to assessing the expected physical utilisation, it is necessary to consider the changes in demand on the tourist market, which will cause a faster economic obsolescence as well as a more intense development of new technologies. Current business operations in the hotel industry impose the need for more frequent investments, and this circumstance contributes to the fact that the useful life of an asset is decreasing. Guided by these historical facts and in line with the technical department's opinions, the management agreed on a useful life of buildings of 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 7,566 thousand higher (2014: HRK 7,725 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 9,247 thousand lower (2014: HRK 9,442 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. Until 31 December 2015, 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 activities and other similar services.

The segment information provided to the Company's Management Board 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	544,674
Inter-segment revenue	(1,750)	-	(29,350)	(31,100)
Revenue from external customers	392,033	105,666	15,875	513,574
EBITDA	**137,989**	**59,011**	**9,098**	**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**

The segment information for the year ended 31 December 2014 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	365,835	100,260	40,158	506,253
Inter-segment revenue	(1,486)	-	(25,102)	(26,588)
Revenue from external customers	364,349	100,260	15,056	479,665
EBITDA	**127,406**	**57,436**	**9,927**	**194,769**
Depreciation	83,386	12,976	9,863	106,225
Income tax				2,321
Total assets	**810,863**	**160,203**	**68,233**	**1,039,299**
Total liabilities	**11,690**	**2,385**	**2,099**	**16,174**

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of EBITDA with profit before tax is as follows:

	2015	2014
	(in thousands of HRK)	
EBITDA by segments	197,000	184,842
EBITDA by other segments	9,098	9,927
Total segments	**206,098**	**194,769**
Depreciation	(104,320)	(106,225)
Interest income	48	26
Dividend income	401	398
Other expenses	(101)	(643)
Net other income/(expenses)	3,421	(1,589)
Net foreign exchange gains – other	453	91
Impairment of non-current financial assets/loan receivable	-	(20)
Gains on sale of available-for-sale financial assets	-	255
Finance income – net	(30,508)	3,877
Profit before tax	**75,492**	**90,939**

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:

	2015		2014	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	919,458	14,274	971,066	14,075
Other segment assets/liabilities	61,145	2,265	68,233	2,099
Unallocated:	1,314,918	688,932	1,332,106	833,468
Investments in subsidiaries and associate	1,106,863	-	1,106,863	-
Available-for-sale financial assets	6,977	-	6,318	-
Loans and deposits given	159,770	-	163,955	-
Cash and cash equivalents	3,756	-	5,022	-
Other assets	37,552	-	49,948	-
Provisions	-	537	-	2,000
Borrowings	-	618,765	-	768,594
Other liabilities	-	69,630	-	62,874
Total	**2,295,521**	**705,471**	**2,371,405**	**849,642**

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.

	2015	2014
	(in thousands of HRK)	
Sales of services:		
Domestic sales	84,056	77,263
Foreign sales	429,519	402,402
	513,575	**479,665**

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

Foreign sales	2015	%	2014	%
Germany	127,317	29.64	108,360	26.93
Austria	62,379	14.52	56,193	13.96
Russia	29,747	6.93	55,927	13.90
Slovenia	35,749	8.32	31,986	7.95
Italy	36,114	8.41	30,827	7.66
Netherlands	30,638	7.13	27,516	6.84
Czech Republic	23,691	5.52	21,526	5.35
Other countries	83,884	19.53	70,067	17.41
	429,519	**100.00**	**402,402**	**100.00**

NOTE 6 – COST OF MATERIALS AND SERVICES

	2015	2014
	(in thousands of HRK)	
Raw materials and supplies		
Raw materials and supplies used	47,457	43,258
Energy and water used	37,497	33,660
Small inventories	3,163	2,558
	88,117	79,476
External services		
Maintenance services	18,947	18,479
Cleaning services	10,531	10,045
Entertainment and animation	6,219	6,105
Transportation and telecommunication	1,791	1,782
Advertising and promotion	5,428	4,513
Utility services	4,346	4,417
Rentals	789	882
Student employment agency services	2,096	1,257
Security services for assets and individuals	2,427	2,074
Other services	2,233	2,126
	54,807	51,680
	142,924	**131,156**

NOTE 7 – STAFF COSTS

	2015	2014
	(in thousands of HRK)	
Salaries	68,702	63,504
Pension insurance contributions	19,483	18,197
Health insurance contributions	15,003	13,902
Other contributions and taxes on salaries	15,052	14,466
Other staff costs /i/	8,899	8,974
	127,139	**119,043**
Number of employees at 31 December	863	827

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

NOTE 8 – OTHER OPERATING EXPENSES

	2015	2014
	(in thousands of HRK)	
Utility and similar charges, taxes and contributions	21,488	19,925
Professional services	3,259	6,237
Insurance premiums	2,455	2,282
Travel and entertainment	623	614
Bank charges and membership fees	1,352	1,406
Provisions for legal disputes	537	-
Reversal of provisions for legal disputes	(259)	-
Provision for impairment of trade and other receivables (Note 16)	500	423
Collection of receivables previously written-off (Note 16)	(485)	(323)
Expenses arising from reviews of state bodies /i/	-	3,227
Other	5,796	5,154
	35,266	**38,945**

/i/ During 2014, the governing state authorities performed a review and established additional tax liabilities in the amount of HRK 1,048 thousand (Note 10), and additional liabilities for concessions in the amount of HRK 2,179 thousand.

NOTE 9 – FINANCE INCOME AND COSTS

	2015	2014
	(in thousands of HRK)	
Finance income		
Interest income on cash deposits and loans	2,798	4,733
Net foreign exchange gains from financing activities	4,003	2,997
Other finance income	232	225
	7,033	7,955
Finance costs		
Interest expense	(37,541)	(4,078)
	(37,541)	(4,078)
Finance income/(costs) - net	**(30,508)**	**3,877**

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% (2014: 20%) as follows:

	2015	2014
	(in thousands of HRK)	
Profit before tax	**75,492**	**90,939**
Income tax (20%)	15,098	18,188
Effect of non-taxable income	(1,355)	(1,125)
Effect of reinvested profit /i/	(7,565)	(16,827)
Effect of non-deductible expenses	1,449	2,085
Income tax expense	**7,627**	**2,321**
Income tax prepayments	(18,609)	(21,484)
Income tax prepayments receivable	10,982	19,163
Effective tax rate	10.10%	2.55%

/i/ In accordance with article 6, paragraph 1, item 6 of the Income Tax Act, the Company decided to reinvest the profit for 2015 by the amount of HRK 38 million (2014: HRK 84 million) and increase its share capital, which is governed since 1 January 2015 by amendments to existing requirements, in accordance with amendments to income tax legislation.

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 and 2013. In 2014, a review was performed of the income tax and VAT returns for 2013. At the balance sheet date, the outstanding tax liability in the amount of HRK 939 thousand and penalty interest in the amount of HRK 109 thousand were recognised. The liability and interest were paid in February 2015. In March 2015, the Company filed an appeal to the second instance body with respect to the administrative procedure.

NOTE 11 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated as follows:

	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**	

	2014		
	(in thousands of HRK)		
	Preference shares	**Ordinary shares**	**Total**
Dividends declared and paid in the year	105	-	105
Undistributed earnings	14,472	74,041	88,513
Profit for the year	**14,577**	**74,041**	**88,618**
Weighted average number of shares in issue excluding treasury shares	105,000	537,176	
Distributed earnings	1.00	-	
Undistributed earnings	137.83	137.83	
Basic earnings per share *(in HRK)*	**138.83**	**137.83**	

Diluted earnings per share

Diluted earnings per share for 2015 and 2014 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 of Shareholders.

Unpaid dividends in respect of 2005 through 2015 of HRK 5,365 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 constructio n**	**Total**
At 1 January 2014					
Cost	2,354,469	300,311	34,375	2,524	2,691,679
Accumulated depreciation and impairment	(1,316,327)	(250,167)	(29,072)	-	(1,595,566)
Net book amount	**1,038,142**	**50,144**	**5,303**	**2,524**	**1,096,113**
Year ended 31 December 2014					
Opening net book amount	1,038,142	50,144	5,303	2,524	1,096,113
Additions	54,574	11,360	1,640	(1,541)	66,033
Transfer	2,450	(2,450)	-	-	-
Disposal and impairment	(99)	(99)	-	-	(198)
Depreciation	(89,188)	(15,049)	(1,727)	-	(105,964)
Closing net book amount	**1,005,879**	**43,906**	**5,216**	**983**	**1,055,984**
At 31 December 2014					
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**

Additions under ‘Land and buildings’ relate to various construction works in hotels and campsites which were completed in 2015 and 2014, respectively, and to purchase of land.

As at 31 December 2015, the net carrying amount of assets pledged as security for the repayment of borrowings is HRK 201,513 thousand (2014: HRK 218,404 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:

	2015	**2014**
	(in thousands of HRK)	
Cost	118,585	117,924
Accumulated depreciation at 1 January	(82,958)	(74,609)
Depreciation charge for the year	(3,979)	(8,350)
Net book amount	**31,648**	**34,965**

Operating leases relate to leases of business premises and hospitality facilities. During 2015, the Company realised rental income in the amount of HRK 22,181 thousand (2014: HRK 23,022 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:

	2015	**2014**
	(in thousands of HRK)	
Up to 1 year	18,511	18,617
From 2 to 5 years	74,044	74,468
	92,555	**93,085**

In 2015 and 2014, 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

	2015	2014
	(in thousands of HRK)	
Subsidiaries	916,131	916,131
Associates	190,732	190,732
	1,106,863	**1,106,863**

Changes in invenstemnets in subsidiaries are as follows:

	2015	2014
	(in thousands of HRK)	
At the beginning of the year	916,131	190,808
Effect of loss of control /i/	-	(190,712)
Effect of liquidation of subsidiary /ii/	-	(20)
Effect of acquisition /iii/	-	916,055
	916,131	**916,131**

	Country	Ownership %	
		2015	2014
Subsidiaries			
Laguna invest d.o.o., Poreč	Croatia	100.00	100.00
Istraturist Umag d.d., Umag	Croatia	93.04	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 2015 or 2014.

/i/ In line with the Merger Agreement concluded on 13 June 2013 between Hoteli Croatia d.d., Cavtat, as the merged company, and the company Jadranski luksuzni hoteli d.d., Duborvnik, as the acquiring company, and the decision of the General Assemblies of the merging companies, on 31 December 2013 the Commercial Court in Split (Permanent attendance in Dubrovnik) adopted the Decision based on which the stated merger was entered into the court register. The merger is effective as of 1 January 2014. At the balance sheet date, the number of shares owned by Plava laguna d.d. in the company Jadranski luksuzni hoteli d.d. is 32.48%.

/ii/ The subsidiary Hotel Bonavia-usluge d.o.o., Rijeka was liquidated on 1 December 2014.

/iii/ 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 (Note 16).

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Ownership	2015	2014
		(in thousands of HRK)	
Investments in banks	3.63 %	5,324	4,936
Investments in companies	/i/	1,653	1,382
		6,977	**6,318**

/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%.

	2015	2014
	(in thousands of HRK)	
At the beginning of the year	6,318	6,821
Effect of sale	-	(432)
Revaluation gains/(losses)	659	(71)
At end of year	**6,977**	**6,318**

Available-for-sale investments are as follows:

	2015	2014
	(in thousands of HRK)	
Equity securities		
- listed	6,857	6,198
Equity securities		
- unlisted	120	120
	6,977	**6,318**

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

	2015	2014
	(in thousands of HRK)	
Domestic trade receivables	1,795	2,024
Foreign trade receivables	1,951	510
Due from brokers – agencies	297	8
Impairment of trade receivables	(1,301)	(1,669)
Trade receivables – net	2,742	873
Receivables arising from purchase agreement on the acquisition of subsidiary (Note 14) /iii/	-	6,918
Interest receivable	3	3
Accrued income not yet invoiced	-	56
Total financial assets	2,745	7,850
Due from state institutions	2,414	2,360
VAT prepayments	2,126	2,048
Advances to suppliers	852	571
Other current receivables	253	178
Provisions for impairment of other receivables	(2,193)	(2,193)
	6,197	**10,814**

/i/ The receivables arising from the purchase agreement on the acquisition of the subsidiary were settled in February 2015.

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

	2015	2014
	(in thousands of HRK)	
At 1 January	3,862	3,766
Increase (Note 8)	500	423
Collection (Note 8)	(485)	(323)
Write-off	(383)	(4)
At 31 December	**3,494**	**3,862**

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 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**
	651,318	**1,347,327,132**	

The equity ownership structure as at 31 December 2014 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	930,465,880	80.34
Deutsche Bank Trust Company Americas	23,939	50,750,680	4.38
Treasury shares /i/	9,142	19,381,040	1.67
Other legal entities and natural persons	74,338	157,596,560	13.61
	546,318	**1,158,194,160**	**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**
	651,318	**1,263,194,160**	

Following the decision of the Company's General Assembly of 14 August 2015 (2014: 29 August 2014), the Company's share capital was increased by reinvesting a portion of its profit in the amount of HRK 84,133 thousand (2014: HRK 81,948 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.

/i/ As at 31 December 2015 and 2014, 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 9,304 thousand (2014: HRK 7,896 thousand).

NOTE 18 – RESERVES AND RETAINED EARNINGS

	2015	2014
	(in thousands of HRK)	
Legal reserves	43,430	38,999
Other reserves	31,659	31,132
Retained earnings	179,119	199,923
	254,208	**270,054**
Changes in reserves:		
Legal reserves		
At the beginning of the year	38,999	33,536
Transfer from retained earnings	4,431	5,463
At end of year	**43,430**	**38,999**
Other reserves		
At the beginning of the year	31,132	31,383
Revaluation of available-for-sale financial assets	527	(57)
Transfer to the income statement	-	(194)
At end of year	**31,659**	**31,132**
Retained earnings		
At the beginning of the year	199,923	198,820
Net profit for the year	67,865	88,618
Share capital increase	(84,133)	(81,948)
Dividend distribution	(105)	(105)
Transfer to legal reserves	(4,431)	(5,463)
At end of year	**179,119**	**199,923**

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. Legal reserves are not distributable. Based on the Decision of the General Assembly of 14 August 2015, the Company transferred an amount of HRK 4,431 thousand from current profit to legal reserves. As at 31 December 2015, legal reserves amounted to HRK 43,430 thousand or 3.22% of the share capital (2014: HRK 38,999 or 3.09%), 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 4.62% (2014: 4.58%) in the Company's share capital.

As at 31 December 2015, other reserves amounted to HRK 31,659 thousand (2014: HRK 31,132 thousand) and comprise treasury shares reserves of HRK 11,485 thousand (2014: HRK 11,485 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 1,350 thousand (2014: HRK 823 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 the amount of HRK 2,470 thousand.
Based on the decision of the General Assembly of 14 August 2015, a preference fixed dividend was paid to holders of eligible capital in the amount of HRK 105 thousand.

NOTE 19 – BORROWINGS

	2015	2014
	(in thousands of HRK)	
Long-term:		
Bank borrowings	334,034	383,074
Borrowings from major shareholder	229,051	383,074
	563,085	**766,148**
Short-term:		
Current portion of bank borrowings	47,719	-
Accrued interest and fees	7,961	2,446
	55,680	**2,446**
	618,765	**768,594**

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:

	2015	2014
	(in thousands of HRK)	
From 1 to 2 years	76,350	47,885
From 2 to 5 years	229,052	287,305
Over 5 years	257,683	430,958
	563,085	**766,148**

During 2015, the Company made a partial early repayment of the borrowing from the major shareholder in the amount of EUR 20 million.

NOTE 20 – TRADE AND OTHER PAYABLES

	2015	2014
	(in thousands of HRK)	
Trade payables	17,576	17,550
Due to related parties (Note 22)	132	131
Dividends payable (Note 12)	5,365	5,365
Accrued costs not yet invoiced	5,148	3,995
Concession payable /i/	15,667	12,718
Total financial liabilities	43,888	39,759
Net salaries payable	16,432	12,973
Taxes and contributions payable	12,306	8,639
Advances payable	8,585	10,119
Liabilities arising from findings of supervisory bodies	-	3,227
Other current liabilities	4,958	4,331
	86,169	**79,048**

/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. Until 31 December 2015, 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 2015 the Company anticipates payment of other contingent liabilities in the amount of HRK 537 thousand (2014: HRK 2,000 thousand). During 2015, a court settlement was reached with regard to the dispute for which provisions in the amount of HRK 2,000 thousand were made in the balance sheet under anticipated contingent liabilities.

Investment commitments. Future commitments contracted for investments in tourist facilities, for which provisions were not made, as at 31 December 2015 amounted to HRK 16,024 thousand (2014: HRK 8,495 thousand).

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

	2015	2014
	(in thousands of HRK)	
Up to 1 year	375	403
From 2 to 5 years	897	1,095
	1,272	**1,498**

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 (Note 14), 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 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 (2014: E. Abaroa Foundation, 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:

	2015	**2014**
	(in thousands of HRK)	
Trade and other receivables	28	-
Other income	89	2
Trade and other payables	132	131
Other expenses	2	2
Impairment of non-current financial assets	-	20

2) Transactions with the major shareholder were as follows:

During 2014, the Company obtained a borrowing from the major shareholder in the amount of EUR 50 million (Note 19). As at 31 December 2015, borrowing liabilities and interest payable amounted to HRK 232,138 thousand (2014: HRK 385,242 thousand). In 2015, interest and fee expense amounted to HRK 18,285 thousand (2014: HRK 2,179 thousand).

3) Key management and Supervisory Board compensation

	2015	**2014**
	(in thousands of HRK)	
Net salaries	5,875	6,252
Pension insurance contributions	1,484	1,627
Health insurance contributions	1,534	1,580
Other costs (contribution and taxes)	3,091	3,505
	11,984	**12,964**
Supervisory Board compensation	1,433	2,500
	13,417	**15,464**

Key management comprises 14 persons (2014: 16 persons). The Supervisory Board has 7 members (2014: 7 members).