# PLAVA LAGUNA d.d., POREČ

# INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2015

**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

**PLAVA LAGUNA d.d., POREČ**

**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 |

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

**PLAVA LAGUNA d.d., POREČ**

**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.

## PLAVA LAGUNA d.d., POREČ

## 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** |

**PLAVA LAGUNA d.d., POREČ**

**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).