PLAVA LAGUNA d.d., POREČ

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2016

STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITIES

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

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

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

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

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

Independent Auditor's Report

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

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Plava laguna d.d. (the "Company") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in European Union ("IFRS").

What we have audited

The Company's separate financial statements comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Emphasis of matter

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

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Our audit approach

Overview

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

How we tailored our audit scope

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

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

Materiality

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

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

Overall materiality for separate financial statements as a whole	HRK 9 million
How we determined it	8% of profit before tax
Rationale for the materiality benchmark applied	We consider profit before tax to be the key metric in the industry of the Company, and it is the benchmark against which the performance of the Company is most commonly measured by shareholders.

Key audit matters

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

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

Other information

Management is responsible for the other information. The other information comprises the Annual Report of the Company, which includes the Management Report and Corporate Governance Statement (but does not include the financial statements and our independent auditor's report thereon). The Management Report and Corporate Governance Statement are expected to be made available to us after the date of this independent auditor's report.

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

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

With respect to the Management Report and Corporate Governance Statement, we will also perform procedures required by the Accounting Act in Croatia, when they become available to us. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

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

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

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

Auditor's responsibilities for the audit of the separate financial statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

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

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

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

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

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

PricewaterhouseCoopers d.o.o.
Ulica kneza Ljudevita Posavskog 31, Zagreb
27 April 2017

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

BALANCE SHEET

AS AT 31 DECEMBER 2016

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

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

PLAVA LAGUNA d.d., POREČ

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

NOTE 1 – GENERAL INFORMATION

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The Company’s financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

(b) New standards and interpretations not yet adopted:

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

- *IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

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

- *IFRS 15 Revenue from contracts with customers and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Investments in subsidiaries

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

2.3 Investments in associates

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

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Company determined the Management Board as the chief operating decision-maker for business segments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment

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

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

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

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

Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant. The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8). Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income within 'other gains – net'.

2.7 Intangible assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and depreciation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (11 hotels, 2 tourist resorts, 2 apartment resorts, 4 campsites, 2 marinas as cash-generating units). Non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade, deposit, loan and other receivables and cash and cash equivalents.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Management Board intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value.

2.9.2 Measurement and recognition

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

2.9.2 Measurement and recognition (continued)

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

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

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

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

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

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

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivables are impaired. The amount of the provision is the difference between the receivables’ carrying amount and recoverable amount; more precisely, it is the present value of estimated future cash inflows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income within ‘other operating expenses’. Subsequent recoveries of amounts previously written off are credited against ‘other operating expenses’ in the statement of comprehensive income as a deductive item.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of financial assets (continued)

(b) Assets classified as available for sale

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

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

2.11 Derivative financial instruments

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

2.12 Leases

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade, deposit and loan receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Inventories

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

2.16 Share capital

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

2.17 Borrowings

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Trade payables

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

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

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In that case tax is also recognised in equity.

The current income tax charge is calculated at a rate of 20% according to Croatian laws and regulations. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions, where appropriate, on the basis of amounts expected to be paid to the Tax Administration.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investment in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.20 Employee benefits

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits (continued)

(c) Short-term employee benefits

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

2.21 Provisions

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

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

2.22 Revenue recognition

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

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

(a) Sales of services

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

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

(b) Rental services

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue recognition (continued)

(c) Interest income

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

(d) Dividend income

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

2.23 Dividend distribution

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

2.24 Earnings per share

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

2.25 Value added tax

The Tax Administration requires the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where receivables have been impaired, impairment loss is recorded for the gross amount of the debtor, including VAT.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

The accounting policies are applied to financial instruments as follows:

- *Assets*

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

- *Liabilities - at amortised cost*

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

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The majority of foreign sales revenue, cash deposits and borrowings are denominated in Euro. Therefore, movements in exchange rates between the Euro and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow. The Company uses derivative instruments on an occasional basis.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(i) Foreign exchange risk (continued)

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

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

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

(ii) Cash flow and fair value interest rate risk

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

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

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

(iii) Price risk

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

(b) Credit risk

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Company's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Receivables are mainly secured by advances received and mortgages over property in the business premises lease segment. The provisions for impairment of trade, loan and other receivables have been made based on credit risk assessment. The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of all trade and other receivables has been written down to their recoverable amount. The Company has policies that limit the amount of credit risk exposure to any financial institution. Cash transactions are carried out through high quality Croatian banks. The Company has only short-term highly liquid instruments with maturity periods of 3 to 12 months.

The credit quality of financial assets:

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

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

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

Receivables are mainly secured by advances received.

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

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

(c) Liquidity risk

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for the owner and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to the owner, return capital to the owner, increase share capital or sell assets to reduce debt. In accordance with the Companies Act, the Company is committed to maintain the level of capital above HRK 200 thousand as required for public limited liability companies.

3.3 Fair value estimation

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

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

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

Fair value hierarchy

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

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

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

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

By using a certain asset, the Company uses the economic benefits contained in this asset, which diminish more intensely with economic and technological ageing. Consequently, in the process of determining the useful life of an asset, in addition to assessing the expected physical utilisation, it is necessary to consider the changes in demand on the tourist market, which will cause a faster economic obsolescence as well as a more intense development of new technologies. Current business operations in the hotel industry impose the need for more frequent investments, and this circumstance contributes to the fact that the useful life of an asset is decreasing. Based on historical information, and in line with the technical department, the useful life of buildings was assessed by Management Board to be 10-25 years. The useful lives of equipment and other assets have also been reassessed as disclosed in Note 2.6.

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

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

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

(b) Land ownership

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

NOTE 5 – SEGMENT INFORMATION

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

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

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

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

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of EBITDA with profit before tax is as follows:

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

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

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

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

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

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

NOTE 6 – COST OF MATERIALS AND SERVICES

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

NOTE 7 – STAFF COSTS

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

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

NOTE 8 – OTHER OPERATING EXPENSES

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

NOTE 9 – FINANCE INCOME AND COSTS

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

NOTE 10 - INCOME TAX

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

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

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

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

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

NOTE 11 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated as follows:

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

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

Diluted earnings per share

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

NOTE 12 – DIVIDEND PER SHARE

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

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

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

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

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

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

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

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

NOTE 14 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

Changes in investments in subsidiaries are as follows:

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

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

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

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

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

Available-for-sale investments are as follows:

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

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

NOTE 16 – TRADE AND OTHER RECEIVABLES

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

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

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

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

NOTE 17 – SHAREHOLDERS' EQUITY

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

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

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

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

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

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

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

NOTE 18 – RESERVES

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

/i/ Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until total reserves together with the capital reserves reach 5% of the Company’s share capital. This reserve is not distributable. Based on the Decision of the General Assembly of 19 August 2016, the Company transferred an amount of HRK 3,393 thousand from current profit to legal reserves. As at 31 December 2016 and 2015, legal reserves amounted to HRK 46,823 thousand (2015: HRK 43,430 thousand) or 3.38% of the share capital (2015: 3.22%), while the share of legal reserves together with capital reserves which are not distributable (HRK 18,824 thousand) and which were formed by denominating the share value in 2001 (from HRK 1,860 to HRK 1,800 per share), form a share of 4.74% (2015: 4.62%) in the Company’s share capital.

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

NOTE 19 – BORROWINGS

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

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

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

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

NOTE 20 – TRADE AND OTHER PAYABLES

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

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

NOTE 21 – CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

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

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

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

NOTE 21 – CONTINGENCIES AND COMMITMENTS (continued)

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

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

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

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

NOTE 22 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the power to exercise control over the other party or under common control or if it has significant influence over the other party in making financial or operational decisions. Plava laguna d.d., Poreč is controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is Vallum Foundation, registered in Vaduz, Liechtenstein.

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

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

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

2) Transactions with the major shareholder were as follows:

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

3) Key management and Supervisory Board compensation

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

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