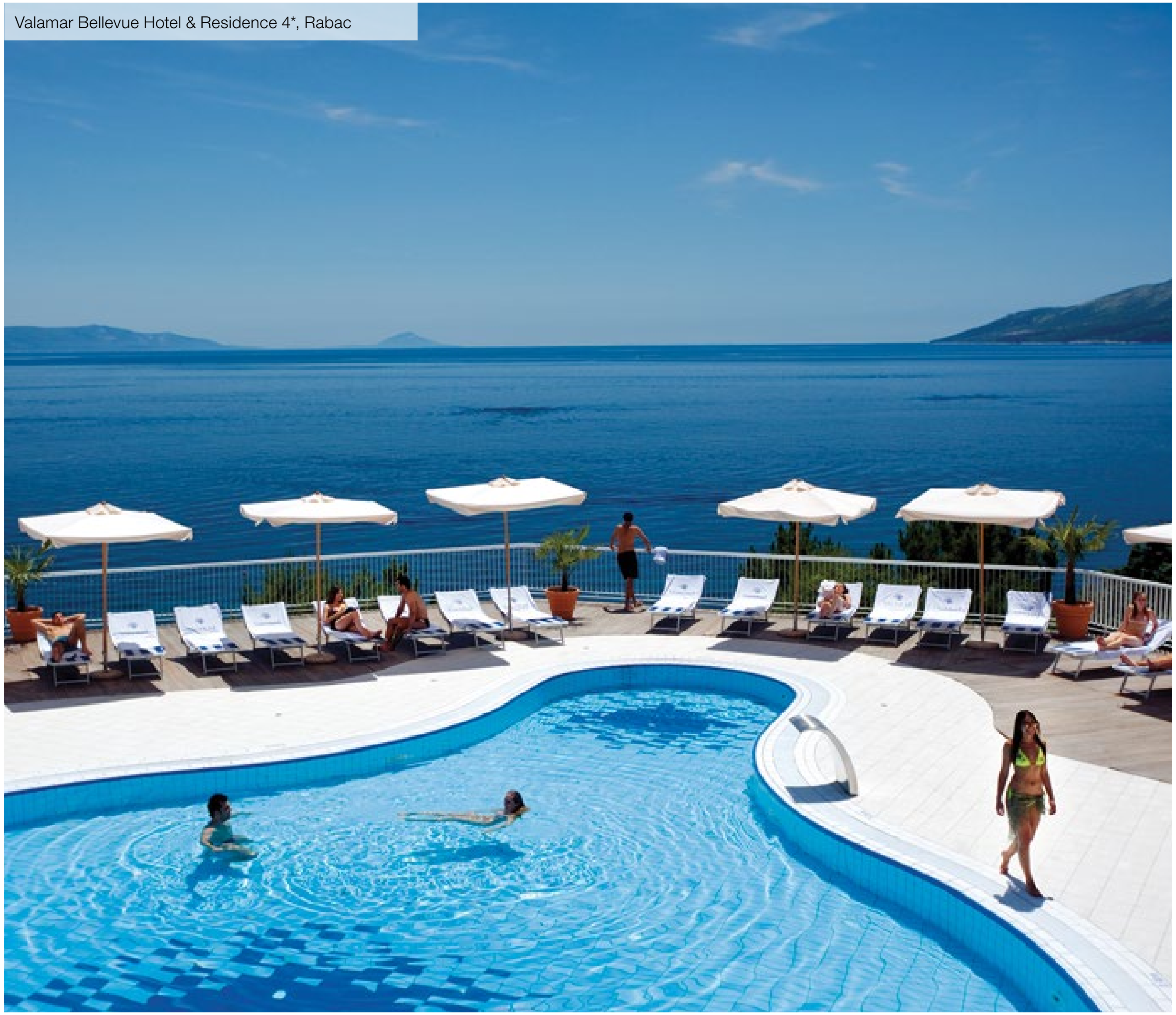
VALAMAR RIVIERA

ANNUAL REPORT 2015

ANNUAL REPORT OF THE GROUP AND THE COMPANY VALAMAR RIVIERA D.D.

for the period from 1 January 2015 to 31 December 2015

Valamar Bellevue Hotel & Residence 4*, Rabac



EXECUTIVE SUMMARY

- Good 2015 business results are a result of the synergy of several important factors – the increase of operational efficiency stemming from the reorganisation and restructuring of business operations, significant investments in portfolio and services driving strong growth, the acquisition of the Baška companies, and, in general, a very good tourist season.

- In 2015, Valamar Riviera Group generated EBITDA in the amount of HRK 423 million (HRK 284 million in 2014), achieving a 49% growth (HRK 139 million).

- Operating income totalled HRK 1,294 million (HRK 1,097 million in 2014), i.e. 18 percent (HRK 197 million) more compared to last year. An increase in the number of overnights (+10.9%), supported by a 6.9% rise of the average daily rate, resulted in a HRK 147 million increase in board revenues to the amount of HRK 1.043 million (HRK 896 million in 2014).

- Growth in efficiency and profitability, the acquisition of the Baška companies, and a higher operating volume resulted in a 6.8 percentage points increase in the EBITDA margin to 32.7% (25.9% in 2014).

- Despite a significant increase in the operating income, the wider consolidation scope, and the costs of the newly acquired Baška companies, operating expenses increased by half as much, recording a 9.2% growth. Excluding the business operations of the Baška companies, comparable operating expenses were up by modest 3.7%, building on a positive cost efficiency trend after last year's consolidation of management and organisational, and shareholding structure, as well as the restructuring of the Group.

- Valamar Riviera successfully finalised its first major acquisition in the Adriatic by purchasing participating interests and shares of the Baška companies for HRK 188 million, paid in cash, which already had a visible positive impact on revenues and EBITDA. The consolidation of the Baška companies in the second half of 2015 resulted in a HRK 76 million increase of the operating income and a HRK 34.8 million increase of EBITDA.

- Following this acquisition, Valamar Riviera became the largest tourism company and group in Croatia in terms of its capacities, which include thirty hotels and apartment resorts and thirteen campsites accommodating approximately 48,000 guests a day.

- 2014/15 investment cycle of HRK 358 million has been completed, with largest investment, namely Valamar Isabella Island Resort 4*, achieving excellent results.

- In the portfolio structure, the largest growth in board revenues of 24% was generated by 4* and 5* hotels and resorts, thus confirming that continuous investments to increase the competitive edge of tourism products, as well as investments in innovations and quality is one of the key factors of successful and sustainable business operations in tourism.

- The enterprise value of the Company has continued a positive growth trend increasing 28% as a result of increased EBITDA and high-quality debt management. On 31 December 2015, the net debt amounted to HRK 1.082.5 million, representing an increase of HRK 394.9 million as a result of (i) realised investments (settlement of 2014/2015 investment credit lines); (ii) newly acquired Baška companies (purchase of interests and shares and takeover of credit liabilities); and (iii) paid dividends.

PRIZES AND AWARDS

- Valamar Riviera received several awards and acknowledgements as a result of continuous investments to increase the quality of its products, services, and contents: Croatia's Leading Resort, Croatia's Leading Boutique Hotel, and Croatia's Leading Business Hotel – World Travel Awards; 2015 Award – HolidayCheck; 2015 Travellers' Choice Award and 2015 Certificate of Excellence – Tripadvisor; Proven Quality 2015 – Thomas Cook; Premium Quality Hotel Wellbeing – FIT Reisen; Zoover Award Gold 2015, Zover Award Bronze 2015, and Kids HolidayTip! Quality Mark 2015 – Zoover; Camping2be 2015 Award – Camping2be.com; Best Camping 2015 – ADAC/ANWB; Leading Campings of Europe 2015 – Leading Campings of Europe; Golden Goat – Istria Tourist Board; Employee of the Year – Kvarner County Tourist Board; Luxury Sea View Hotel of the Year – Luxury Travel Guide Global Awards 2016; Waiter of the Year, Sales and Marketing Employee of the Year, Reception Employee of the Year, and Beach of the Year – Croatian National Tourist Board; second place in the national chefs and pastry chefs championship; best results in M.I.C.E. sales – Croatian Meeting Professionals Association; European Business Award 2014/2015 – The European Business Awards.

- As a result of continuous focusing on environmental protection, sustainable development, and destinations of high quality, a number of Valamar Riviera's products received awards: Sustainable Hotel – Association of Employers in Croatian Hospitality; Travelife Gold award – Travelife; TUI Environmental Champion 2015 – TUI Deutschland; Codex Alimentarius by HACCP; ISO 9001 and ISO 14001 – ISO; Q mark – Ministry of Tourism; Blue Flag – Foundation for Environmental Education.

- Valamar Riviera is committed to investing further efforts to increase the transparency of its relations and the quality of its business and financial communication with investors. In 2015, Valamar Riviera won the first prize for best investor relations awarded by Poslovni dnevnik (Croatian daily business newspaper and Internet portal) in collaboration with the Zagreb Stock Exchange, and was declared the best managed hospitality company in the CEE region by Euromoney, the leading specialist financial magazine, the share of the year by the public, and the share with the highest turnover growth in 2015 by the Zagreb Stock Exchange.

OUTLOOK

- We have been intensively working on the preparation of investment projects aimed at future development and raising of the quality of portfolio facilities, services, and contents, but, owing to the highest VAT rate in the Mediterranean and unresolved tourism land related issues restricting the potential of the tourism sector with regard to further investments, in the following year, we will decrease our planned investments for 2016 season to between HRK 260 million and HRK 270 million (more details under "Investments").

- Following the successful completion of the acquisition of companies in the Baška dest-ination on the island of Krk, we continue to actively pursue expansion, partnership, and acquisition options in Croatia and the region.

Valamar Zagreb Hotel 4*, Poreč

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SIGNIFICANT BUSINESS EVENTS

Valamar Riviera is the leading tourism company and one of the leading tourism groups, as well as a major investor in the tourism sector, its investments reaching almost HRK 2.6 billion in the last 12 years, including a HRK 188 million investment in participating interests and shares in Baška companies. The Valamar Riviera Group operates at four attractive destinations, covering the area from Istria and Kvarner to Dubrovnik, and manages around 10 percent of the categorised tourist accommodation. It is the owner of the Valamar Hotels & Resorts and Camping Adriatic brands and a hospitality facilities portfolio encompassing, together with the new acquisition, thirty hotels and resorts and thirteen campsites accommodating approximately 48,000 guests a day, which makes it the biggest tourism group in Croatia in terms of capacities.

Valamar Riviera takes care of all its stakeholders' interests (several local communities it operates in, more than 21,200 shareholders, more than 4,100 employees engaged by the Group in high season, and a number of partners) through a sustainable growth and development concept based on the principles of socially responsible business operations. Further growth and development will be achieved by increasing operational efficiency, investing further into portfolio, pursuing acquisitions and partnerships, developing destinations where we operate, and training Valamar Riviera's employees.

On 27 February 2015, the Commercial Court in Rijeka, Permanent Office Pazin, registered the merger of the Valamar hoteli i ljetovališta d.o.o. company, Zagreb, with the Valamar Riviera d.d. company; on 12 November 2015, the Commercial Court in Zagreb registered the merger of the Citatis savjetovanje d.o.o. company with the Bastion upravljanje d.o.o. company, which is 100% owned by Valamar Riviera d.d. The transactions

Valamar Lacroma Dubrovnik 4*, Dubrovnik

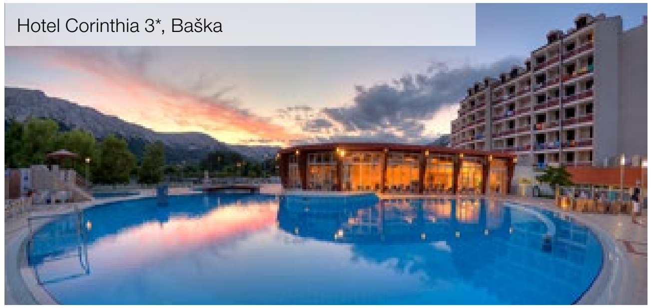
concerned represent a continuation of the process of consolidation and statutory and legal mergers of the companies within the Valamar Riviera Group. The process was initiated back in 2011 with the merger of Zlatni otok d.d. and Rabac d.d. tourism companies with Riviera Adria d.d., and continued in 2013 with the merger of the Dubrovnik-Babin kuk d.d. company with Riviera Adria d.d., its parent company, and in 2014 with the merger of Valamar Adria holding d.d., Valamar grupa d.d., and Linteum savjetovanje d.o.o. with the Valamar Riviera d.d. company, resulting in the establishment of the leading tourism company in Croatia. By consolidating the hospitality property portfolio, management, and shareholding structure in one strategic company (the core of tourism activities), interests of all shareholders have been harmonised, allowing for a more transparent corporate governance and streamlined operations, including additional strengthening of the balance sheet assets.

On 8 June 2015, the General Assembly of the Company was held, where the Annual Financial Statements for 2014 were presented and decisions were made on the use of profit, relieving of duty the Management Board and the Supervisory Board, on dividend pay-out, appointing KPMG Croatia d.o.o. as the auditor in 2015, amending the Articles of Association, and electing a Supervisory Board Member (due to the resignation of a Member, Ms. Gudrun Kuffner). As of 9 June 2015, the Supervisory Board consists of: Mr. Gustav Wurmböck, President, Mr. Mladen Markoč, Vice-president, Mr. Franz Lanschützer, Vice-president, and Members: Mr. Georg Eltz, Mr. Hans Dominik Turnovszky, Mr. Vicko Ferić, and Ms. Mariza Jugovac.

In the previous period, some changes took place in the Company's Management Board, namely on 30 April 2015, Mr. Nikola Koncul and on 8 June 2015, Mr. Franz Lanschützer, Mr. Tihomir Nikolaš, and Ms. Ivana Budin Arhanić ceased to be Members of the Management Board, so that as of 9 June 2015, the Management Board is composed of two Members: Mr. Željko Kukurin, President of the Management Board, and Mr. Marko Čižmek, Member of the Management Board. After they ceased to hold the office in the Company's Management Board, the previous Members have continued with their activities in the Company: Mr. Nikola Koncul as President of the Management Advisory Committee, Ms. Ivana Budin Arhanić as Vice-president in charge of business development, strategic management, and corporate affairs, and Mr. Franz Lanschützer as Vice-president of the Supervisory Board, while Mr. Tihomir Nikolaš has continued his career outside the Company as an investment project consultant.

On 10 June 2015, the Company concluded Contracts for the sale of interests, as well as Contracts for the transfer of interests, pursuant to which the Company purchased and acquired 100% interest in three limited liability companies: Baškaturist d.o.o., Mirta Bašćanska d.o.o., and Vala Bašćanska d.o.o., which together hold in total 250,946 shares in Hoteli Baška d.d. By acquiring additional 8,752 shares, on 30 September 2015 the Company held, either directly or indirectly, 259,698 shares accounting for 96.715% of Hoteli Baška d.d. On 10 August 2015, the Company adopted a decision initiating a procedure to transfer minority shareholders' shares of Hoteli Baška d.d., which was finalised on 15 December 2015. On 21 December 2015, the conclusion of a contract on the merger of the companies Baškaturist d.o.o., Mirta Bašćanska d.o.o., and Vala Bašćanska d.o.o. with Hoteli Baška d.d. initiated their merger procedure, which was finalised upon the entry in the Court Register on 13 January 2016, resulting in Company becoming the sole shareholder of Hoteli Baška d.d. and holding all 268,518 shares. At the beginning of February, a procedure was initiated to merge Hoteli Baška d.d. with Valamar Riviera d.d., which is expected to be finalised by the end of March 2016.

On 22 January 2016, the Company received the decision of the Permanent Court of Arbitration at the Croatian Chamber of Economy, and on 29 January 2016, the decision correcting the decision of 22 January 2016 in the case Glavice d.o.o. in bankruptcy, Opuzen, as the plaintiff / counter-defendant, vs. the Company (as the legal successor of the original



defendant, the Dubrovnik-Babin Kuk d.d. company from Dubrovnik), as the defendant / counter-plaintiff, by which the Court of Arbitration fully rejected Glavice d.o.o.'s claim for the payment of HRK 64,058,078 in total, and, with regard to the counterclaim to determine Company's bankruptcy claims, established that these claims were founded to the amount of HRK 20,931,712 and awarded the Company litigation costs to the amount of HRK 822,004. Since Glavice d.o.o. is in bankruptcy, the Company is not likely to collect the established claims with the exception of litigation costs in the amount of HRK 822,004 (collected in February 2016).

In the context of the Company's acquisition-driven growth strategy, the Company made its first major acquisition, thus confirming its intention to grow by pursuing expansion in the Adriatic and the region. In Hoteli Baška d.d. the Company has recognised a clear potential to apply its experience gained at other Valamar Riviera's destinations, where continued investments in employees, products, services, and experience have created a new value for Company's shareholders. Moreover, this acquisition provides an opportunity to create an additional value from the synergy of two companies for both the employees of Hoteli Baška and the local community. In the forthcoming period, the key activities will be planning and elaboration of future investments in destination Baška, as well as development of the whole Krk destination, where, with this acquisition, the Company has taken over the leading position, becoming the key player on the island of Krk.

The Company's Management Board hereby presents the annual audited business report for 2015, noting that the presented statements must be viewed in the context of the above mentioned changes resulting from mergers, and that they provide information on the status of the Company and the Group, as well as on significant events.

The Company's income statement for the period under consideration comprises the data for the merged company Valamar hoteli i ljetovališta d.o.o. for the period following the merger. Please note that the data for 2015 are not fully comparable to the data for the previous period, as the latter do not comprise the data for the merged company Valamar hoteli i ljetovališta d.o.o.

The Group's income statement for the period under consideration comprises the data for the following companies: Valamar hoteli i ljetovališta d.o.o., Valamar Hotels and Resorts GmbH, Puntižela d.o.o., Bastion upravljanje d.o.o., Citatis d.o.o., Elafiti babin kuk d.o.o, Magične stijene d.o.o., Palme turizam d.o.o., Bugenvilia d.o.o., and Pogača Babin kuk d.o.o., while the data for the newly acquired companies in destination Baška are included as of 1 July 2015. Furthermore, the data for 2015 are not fully comparable to the data for the previous period, as the latter do not comprise the data for the newly acquired companies in destination Baška.

Valamar Isabella Island Resort 4*, Poreč

Results of the Group

Key financial indicators[1]

(in HRK)	2015	2014	2015/2014
Total revenues	1,333,493,479	1,117,577,525	19.3%
Sales revenues	1,268,724,937	1,077,699,851	17.7%
Board revenues (accomodation and bord revenues)[2]	1,043,250,301	895,865,129	16.5%
Operating expenses[3]	838,362,755	767,902,023	9.2%
EBITDA[4]	423,364,870	283,914,457	49.1%
EBITDA margin	32.7%	25.9%	680 bp
Extraordinary operations result and one-off items[5]	15,106,588	33,452,873	-54.8%
Adjusted EBITDA[6]	438,471,458	317,367,330	38.2%
Adjusted EBITDA margin[6]	33.9%	28.9%	500 bp
EBIT	171,792,373	79,534,343	116.0%
Adjusted EBIT[6]	186,898,961	112,994,729	65.4%
EBT	132,926,778	59,051,981	125.1%
EBT margin	10.3%	5.4%	490 bp
Net profit	105,461,478	51,394,211	105.2%
	31/12/2015	**31/12/2014**	**2015/2014**
Net debt[7]	1,082,520,078	687,591,961	57.4%
Net debt / EBITDA	2.56	2.42	5.6%
Net debt / Adjusted EBITDA	2.47	2.17	14.0%
Cash and cash equivalents	318,755,282	195,201,504	63.3%
Capital investments (more details in chapter “Investments”)	310,477,293	381,662,188	-18.7%
ROE[8]	5.5%	2.7%	280 bp
Adjusted ROCE[9]	6.3%	4.4%	190 bp
Market capitalization[10]	2,970,629,728	2,479,755,199	19.8%
EV[11]	4,053,149,806	3,167,347,160	28.0%
EPS[12]	0.84	0.47	78.7%
DPS[13]	0.55	0.50	10.0%

1 Classified accordiong to the Annual Business Financial Statement (GFI POD-RDG). EBIT, EBITDA and their adjusted values and respective margins are recorded on the basis of operating income.
2 In compliance with the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry).
3 Operating expenses include material costs, staff costs, other expenditures, and other operating expenses reduced by extraordinary expenses and one-off items.
4 EBITDA (eng. earnings before interest, taxes, depreciation and amortization) is calculated as: operating income - total operating expneses + depreciation and amortisation + value adjustments.
5 The adjustment includes extraordinary income and expenses in accordance with the USALI standard classification and one-off termination benefit costs and administrative expenses related to the process of merger and business reorganisation.
6 Adjusted by the result of extraordinary operations and one-off items.
7 Net debt: non-current and current liabilities to banks and other financial institutions + liabilities for loans, deposits and other– cash and cash equivalents – long-term and short-term investments in securities – current loans given, deposits, etc.
8 ROE refers to return on equity; calculated as: profit for the period / (capital and reserves).
9 Adjusted ROCE refers to return on capital employed; calculated as: adjusted EBIT / (capital and reserves at the end of the period + non-current and current liabilities to banks and other financial institutions - cash and cash equivalents - long-term and short-term investments in securities - loans given, deposits, etc.).
10 The number of shares as at 31 December 2015 net of treasury shares (includes 432,942 treasury shares of the subsidiary company Bastion upravljanje d.o.o.) amounts to 124,190,206, while per 31 December 2014 amounts to 125,113,784.
11 EV refers to enterprise value; calculated as market capitalization + net debt.
12 EPS refers to earnings per share calculated on the basis of net profit. Weighted average number of shares as at 31 December 2015: 124,784,807. Weighted average number of shares as at 31 December 2014: 108,769,757.
13 DPS refers to dividends per share.

Key business indicators

	2015	2014	2015/2014
Number of accommodation units (capacity)	17,783	16,056	10.8%
Accommodation units sold	2,115,421	1,941,534	9.0%
Overnights	4,750,823	4,284,979	10.9%
Full occupancy days	119	121	-1.7%
Annual occupancy (%)	33%	33%	0 bp
ADR[14] (in HRK)	493	461	6.9%
RevPAR[15] (in HRK)	58,665	55,796	5.1%

Following the Group's strategic focus on the key drivers of business expansion and long-term objectives, the Group has achieved a high 18% operating income growth rate and a high 49.1% EBITDA growth rate, resulting in a 32.7% EBITDA margin.

A 9.0% increase of accommodation units sold and a 6.9% growth of the average daily rate per accommodation unit (6.7% excluding the business operations of Hoteli Baška d.d. in 2015 for comparability purposes), on top of favourable weather conditions, brand strength and management expertise, are attributed to the effect of four key strategy drivers: (i) the continued enhancement of the competitive strength and the improvement of services and facilities quality; (ii) focusing on sales, marketing, and operating excellence with a view to achieving profitability and sustainable growth; (iii) strategic acquisitions aimed at expanding our product portfolio and ensuring further growth of the Group; and (iv) the development of destinations, products, and value added services.

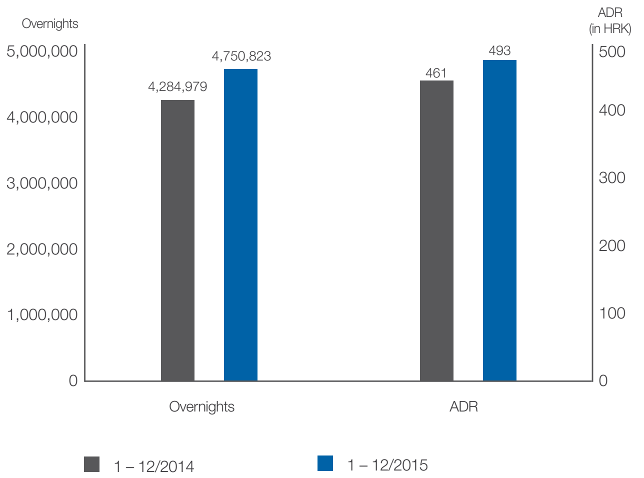
Good response to marketing and sales activities (particularly first-minute offers) and growth in segments which are generating a higher average daily rate (individuals and M.I.C.E.[16)] during the pre-season and at the beginning of the season have resulted in stronger initial booking, thus creating a good base for pricing policy management during the season. Creating a high-quality contractual basis with partners also has increased the quality in managing distribution, sales channels, optimum prices, and marketing and sales activities in high season and post-season.

14 Average daily rate is recorded on the basis of board revenues (accommodation and board's food and beverage revenues).

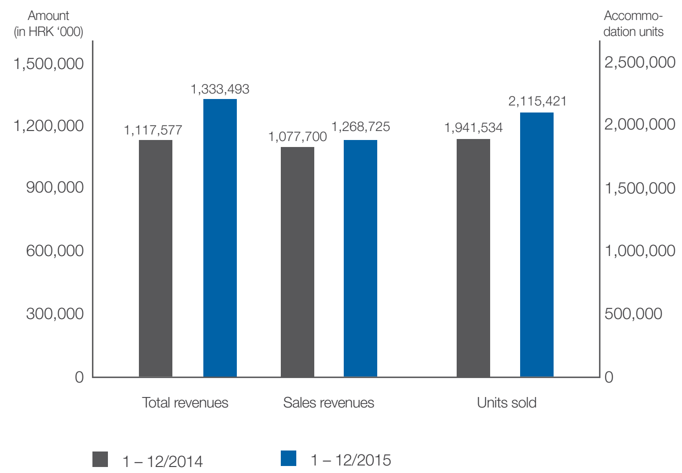
15 Revenue per accommodation unit is recorded on the basis of cumulative board revenues (accommodation and board's food and beverage revenues). Note: In 2015, it is impacted by the consolidation of Baška companies' business operations solely for the period July – December 2015, which, in combination with the increased number of accommodation units has led to somewhat lower RevPAR value.

16 Meetings, incentives, conferencing, exhibitions.

Overnights and ADR



Revenues and accommodation units sold



Despite an increase in operating volume, the wider consolidation scope, and the acquisition of the Baška companies, which have brought a 17.7% increase in sales revenues, operating expenses increased by half as much, recording a 9.2% growth. Excluding the business operations of the Baška companies, operating expenses[17] were up by modest 3.7%, building on a positive cost efficiency trend after the consolidation of management and organisational and shareholding structure, as well as the restructuring of the Group. Revenue volume increase and streamlined cost management have resulted in an increase of EBITDA of HRK 139.5 million, i.e. of adjusted EBITDA by 38.2% to HRK 438.5 million[18]. Profit before tax and net profit follow the exceptional growth rates with an increase of 125.1%, respectively 105.2% to HRK 132.9 million, respectively HRK 105.5 million, with a 10.3% EBT margin (5.4% in 2014). Compared to 2014, there is a strong 17.7% increase in sales revenues to HRK 1,268.7 million (resulting mainly from the increased volume of physical indicators and average daily rate, as well as the increased sale of à la carte food and beverages by 35%), i.e. a 19.3% increase in total revenues to HRK 1,333.5 million, such an increase being a result not only of sales revenue growth, but also of growth in revenues coming from one-off reversals of provisions for termination benefits, foreign exchange gains. The acquisition of the Baška companies, investments in combination with a good response to marketing and sales activities, with the focus on the earlier mentioned changed marketing mix and price optimisation, have resulted in an increase in the number of accommodation units sold by 173,887 (reaching in total 2,115,421), including the increase of the average daily rate to HRK 493. National sales revenues amount to HRK 106.0 million, accounting for 7.9% of total revenues (8.1% in 2014), and are 16.7% above the previous comparable period. Sales revenues generated on international markets are 17.8% up and amount to HRK 1,162.7 million, accounting for 87.2% of total revenues (88.3% in 2014), while other operating and financial income accounts for 4.9% of total revenues. Other operating income of the Group, amounting to HRK 25.3 million, accounts for 1.9% (1.8% in 2014) of total revenues, indicating a 28.6% growth and resulting mainly from the one-off income from the reversal of provisions for termination benefits paid and, to a lesser extent, from the consolidation of other income generated by the companies in destination Baška.

[17] Operating expenses include material costs, staff costs, other expenditures and other operating expenses reduced by extraordinary expenses and one-off items.
[18] Adjustments have been made for: (i) the effect of extraordinary result (net income to the amount of HRK 7.8 million in 2015, i.e. income to the amount of HRK 13.3 million in the comparative period last year); (ii) the effect of one-off revenues and expenses for termination benefits in 2015 (income from the reversal of provisions for termination benefits paid to the amount of HRK 8.5 million and termination benefit costs to the amount of HRK 15.3 million); (iii) the effect of one-off termination benefit costs and administrative expenses related to the, merger and restructuring process in 2014 (to the amount of HRK 20.2 million), and the effect of one-off costs related to the acquisition of new interests in the Baška companies in 2015 to the amount of HRK 0.5 million.

Total operating expenses of Valamar Riviera Group[19]

(in HRK)	2015	2014	2015/2014
Operating expenses[17]	838,362,755	767,902,023	9.2%
Total operating expenses	1,122,244,561	1,017,848,271	10.3%
Material costs	398,167,101	374,042,936	6.4%
Staff costs	327,901,582	302,091,412	8.5%
Depreciation and amortisation	232,922,484	202,977,083	14.8%
Other expenditures	124,793,680	105,527,945	18.3%
Provisions	5,353,888	10,442,566	-48.7%
Value adjustments	18,650,013	1,403,031	1229.3%
Other operating expenses	14,455,813	21,363,298	-32.3%

Compared to the last year, in 2015, total operating expenses are up by 10.3%, mainly coming from increased operating volume and the acquisition of the Baška companies. Excluding the consolidation of the Baška companies, the positive effects of management consolidation and restructuring at all Valamar Group levels are still present, visible in a modest 5.1% growth of operating expenses. Accounting for 35.5% (36.7% in 2014) of total operating expenses, material costs have increased by 6.4% to HRK 398.2 million; out of which 4.1% is a result of Baška companies consolidation and the rest primarily from higher raw materials and materials costs, the most significant being the increase of direct food and beverage costs (increased operating volume and higher à la carte spending) and, to a lesser extent, the increase of water and electricity consumption (increased operating volume, new investments, and replacement of fuel oil with environmentally friendlier energy products).

Staff costs amount to HRK 327.9 million, accounting for 29.2% of total operating expenses (29.7% in 2014). An 8.5% increase in staff costs in 2015 comes from the takeover of employees from the newly acquired Baška companies and partially from an increase in employees' salaries on two occasions (1.5% in November 2014 and 1.5% in June 2015). Depreciation and amortisation amount to HRK 232.9 million (HRK 203.0 million in 2014), accounting for 20.8% (19.9% in 2014) of operating expenses, their 14.8% increase being a result of an intensive 2014/15 investment cycle and, to a lesser extent, the wider consolidation scope. Other operating expenses amount to HRK 14.5 million, indicating a 32.3% decrease, mainly as a result of lower compensations for damages coming from disputes and lower carrying value of disposals. Increase in value adjustments of HRK 17.2 million refers to write-off of receivable for given advance to Glavice d.o.o. (more details in chapter "Significant business events"). Costs provisions, amounting to HRK 5.4 million, are down HRK 5.1 million and mostly refer to provisions related to initiated disputes. Other expenditures are up 18.3%, i.e. HRK 19.3 million, as a result of the Baška companies consolidation and termination benefits paid.

Group's financial income in the reporting period amounts to HRK 39.5 million and is HRK 19.3 million, i.e. 95.4% higher compared to the same period last year. Total foreign exchange gains are HRK 21.3 million higher, whereby we point to the amended policy for accounting for unrealised foreign exchange differences and their recording in the quarterly dynamics. Revenues from interest income on placements are HRK 4.7 million lower due to the lower amount of available cash funds (as a consequence of dividend distribution to shareholders of Valamar Riviera and the acquisition of Hoteli Baška d.d. carried out in the second half of the year to the amount of HRK 188.2 million) and the general decrease in market interest rates. Other financial income is HRK 2.7 million higher, resulting mainly (to the amount of HRK 2.3 million) from the valuation and reversal of unrealised derivatives positions during their realisation in the current year (forward transactions contracted for 2015 and interest swap).

Group's financial costs in the reporting period amount to HRK 78.3 million, accounting for 6.5% of total expenses (3.6% in 2014), and are HRK 37.6 million higher compared to the same period last year. Interest expenses and foreign exchange differences record a HRK 35.1 million increase, while the valuation of contracted IRSs and forwards during the year, including the reversal of their positions during realisation, has resulted in HRK 2.7 million additional expenses. Foreign exchange rate losses on existing loan portfolio, which record a HRK 29.2 million increase (resulting mainly from the appreciation of the Swiss franc exchange rate in the first quarter), are the biggest single item of financial costs. Please note the changed (quarterly) dynamics in recoding unrealised foreign exchange differences. The increase in interest expenses in the amount of HRK 6.0 million is a result of an increase in non-current liabilities driven by drawing funds from granted credit lines for financing the 2014/15 investment cycle and the consolidation of the Baška companies since July 2015.

[19] Classified accordiong to the Annual Business Financial Statement (GFI POD-RDG).

Profitability indicators of Valamar Riviera Group[20]

	2015	2014	2015/2014
EBITDA margin	32.7%	25.9%	680 bp
Adjusted EBITDA margin	33.9%	28.9%	500 bp
EBIT margin	13.3%	7.2%	610 bp
Prilagođena EBIT margin	14.4%	10.3%	410 bp
EBT margin	10.3%	5.4%	490 bp
Net profit margin	8.1%	4.7%	340 bp
ROA	3.0%	1.7%	130 bp
ROE	5.5%	2.7%	280 bp
Adjusted ROCE	6.3%	4.4%	190 bp

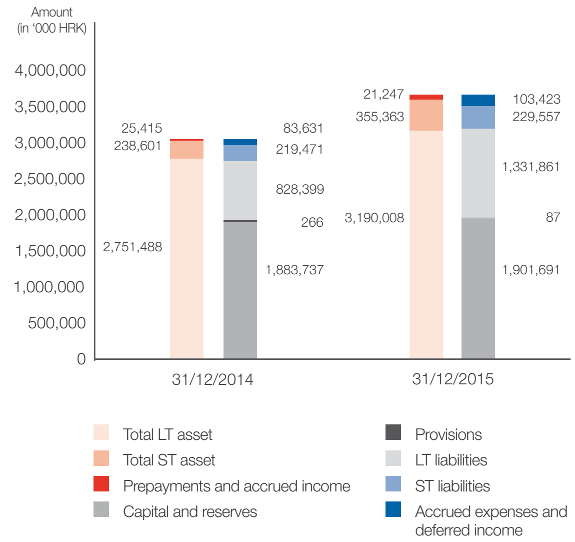
Valuation of Valamar Riviera Group

	31/12/2015	31/12/2014	2015/2014
Average share price per 31 Decemeber	23.92	19.82	20.7%
Market capitalization (in HRK)	2,970,629,728	2,479,755,199	19.8%
EV (in HRK)	4,053,149,806	3,167,347,160	28.0%
EPS	0.84	0.47	78.7%
DPS	0.55	0.50	10.0%
EV / Sales revenues	3.2x	2.9x	10.3%
EV / EBITDA	9.6x	11.2x	-14.3%
EV / Adjusted EBITDA	9.2x	10.0x	-8.0%
EV / EBIT	23.6x	39.8x	-40.7%
EV / Adjusted EBIT	21.7x	28.0x	-22.5%

As at 31 December 2015, compared to 31 December 2014, the total value of the Group's assets is 18.3% higher. The reason for such an increase in assets value and other balance sheet items is to be considered in the context of disclosing the fair value of assets and liabilities of the newly acquired Baška companies in compliance with the provisions of IFRS 3 on the day of acquisition. The total share capital and reserves have increased from HRK 1,884 million to HRK 1,902 million, mostly as a result of the generated profit adjusted for distributed dividend and the purchase of treasury shares.

Total non-current liabilities are 60.8% higher, amounting to HRK 1,331.9 million as at 31 December 2015, primarily driven by (i) inflow of credits of the newly acquired Baška companies amounting to HRK 138.6 million; (ii) the utilisation of credit lines for financing the 2014/15 investment cycle (a total of HRK 265.8 million was drawn in 2015, and HRK 190,2 million for refinancing the acquisition of Hoteli Baška d.d.); (iii) deferred tax liabilities disclosed for the difference in fair value of material assets of the acquired Baška companies as established on the acquisition date to the amount of HRK 20.4 million, and

Assets and liabilities



(iv) foreign exchange rate differences on existing loan portfolio (HRK 19.9 million). Total current liabilities amount to HRK 229.6 million and are 4.6% higher compared to 31 December 2014, primarily due to higher current liabilities to banks (increase of 34.7% to HRK 139.8 million coming from the payment of the current instalment of the non-current debt).

Cash and cash equivalents as at 31 December 2015 amount to HRK 318.8 million, where this year's impact of the consolidation of the Baška companies amounts to HRK 12.5 million, indicating an exceptionally strong cash potential from operating activities, which, together with external debt, provides for a smooth continuation of future investing activities.

20 Classified accordiong to the Annual Business Financial Statement (GFI POD-RDG). The margins are stated on the basis of operating income.

Key operating indicators of Valamar Riviera Group per destinations[21]

DESTINATION	Poreč			Rabac			Krk[22]			Dubrovnik			Other segmets[23]	
	2015	2014	2015/2014	2015	2014	2015/2014	2015	2014	2015/2014	2015	2014	2015/2014	2015	2014
Number of accommodation units (capacity)	10,592	10,390	1.9%	1,913	1,913	0.0%	3,318	1,800	84.3%	1,961	1,953	0.4%	/	/
Annual occupancy rate (%)	31%	31%	0 bp	38%	35%	300 bp	29%	33%	-400 bp	42%	42%	0 bp	/	/
Full occupancy days	113	114	-0.9%	138	127	8.7%	107	122	-12.3%	153	153	0.0%	/	/
Accommodation units sold	1,195,798	1,180,632	1.3%	263,064	243,337	8.1%	356,269	218,966	62.7%	300,290	298,599	0.6%	/	/
Overnights	2,716,812	2,669,360	1.8%	598,486	551,898	8.4%	863,065	492,801	75.1%	572,460	570,920	0.3%	/	/
ADR[13]	430	397	8.3%	546	539	1.3%	376	296	27.0%	838	773	8.4%	/	/
Board revenues (in HRK)	514,060,909	469,017,283	9.6%	143,606,002	131,226,344	9.4%	134,035,119	64,713,323	107.1%	251,548,271	230,908,178	8.9%	/	/
Adjusted EBITDA[24] (in HRK)	303,823,058	271,176,351	12.0%	79,821,108	71,923,789	11.0%	88,965,226	40,270,975	120.9%	155,780,384	121,098,665	28.6%	-189,918,318	-187,102,450
RevPAR[14] (in HRK)	48,534	45,141	7.5%	75,068	68,597	9.4%	40,402	35,972	12.3%	128,276	118,233	8.5%	/	/

At all destinations where it operates, the Group has achieved excellent sales results, its board revenue growth rates ranging from 8.9% to high 107.1%[20]. The number of overnights is higher by 1.8% on the Istrian west coast, in Rabac by 8.4%, on the island of Krk by 75.1% (effect of the consolidation of Hoteli Baška d.d.; excluding the effect of the consolidation of Hoteli Baška d.d., the number of overnights at the Krk destination is up 7.8%), while the number of overnights in Dubrovnik is flat to 2014.

Board revenues in Poreč and Puntižela destination are up by HRK 45 million, as a result of a 1.3% increase of accommodation units sold and an 8.3% growth of the average daily rate per accommodation unit. Poreč hotels have recorded a 15.1% increase in board revenues, coming from a 10.7% increase in average daily rates and a 4% increase of the number of accommodation units sold, where newly invested hotels (Valamar Isabella Island Resort 4* and Valamar Zagreb 4*) have a significant impact on hotel operations growth. Individual sales channels have recorded the highest revenue growth per sales channels in Poreč hotels, followed by groups and allotment. The growth in board revenues from Poreč apartments is most strongly driven by Valamar Isabella Castle, while certain lower category facilities have recorded lower growth, resulting in more attention being paid to high-quality distribution through fixed allotment and group segment, as well as to high-quality scheduling of events and placement of pre-seasonal activities promoting longer stays instead of increasing prices, with a view to maintaining board revenues. Apart from the usually good placement of groups in October, in post-season, Poreč saw an excellent response of sports groups as part of the Christmas tournament, as well as of individuals during the New Year holidays, resulting in four open and excellently booked hotels (Valamar Diamant 4*, Valamar Crystal 4*, Valamar Zagreb 4*, and Valamar Riviera 4*).

The Rabac destination has recorded a HRK 12.4 million growth in board revenues to HRK 143.6 million, driven by an 8.1 % increase in the number of accommodation units sold and a 1.3% growth of the average daily rate per accommodation unit. Higher category facilities (Valamar Sanfior 4* and Valamar Bellevue 4*) and certain lower category facilities are particularly worth mentioning. Namely, a successful replacement of the sales mix and carefully planned marketing activities and promotions in lower category facilities have helped to maintain continuous booking entries and, as a consequence, high board revenue growth rates (Mediteran 2*, Marina 2*, and Girandella 2*). The growth of board revenues and accommodation units sold has been mostly driven by good group segment performance in the pre-season in 3* facilities and the increase of the individual segment during the season. In the post-season, more accommodation units were sold as a result of a better response of the group segment and a good response to the New Year's offering, while the following hotels were open: Valamar Casa & Sanfior 4*, Miramar 3*, Allegro 3*.

A 137,303, i.e. 62.7% increase in the number of accommodation units sold at the Krk destination and a 27.0% growth of the average daily rate to HRK 376 have resulted in a 107.1% increase in board revenues. Such high growth rates are driven by the consolidation of the Hoteli Baška d.d. company. In relation to the comparable period last year[25], stable Hoteli Baška d.d. facilities have achieved a 12.8% growth of daily average rates and a

[21] According to the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry).
[22] In the 2015, the consolidation of the business operations of Baška companies for the period July – December 2015 is included, while the Baška companies are not included in the overview of 2014.
[23] Other segments include business of central operations, laundry, sport, central kitchen, strategic rentals, etc.
[24] When calculating adjusted EBITDA, internal allocation of revenues and expenses as well as inter-segment revenues and expenses are excluded from the calculation.
[25] Comparable period refers to the period July - December 2015 compared to July - December 2014.

17.6% growth in board revenues as a result of carefully planned positioning of hotels on the market and increased control of the allotment channel over the contracted quotas in order to allow for the additional entry of the individual channel, which generally achieves a higher average daily rate. This year's positive business results accomplished in October have contributed to an exceptionally successful unification of autumn manifestations in Baška. Excluding the impact of the consolidation of Hoteli Baška d.d., the Krk destination has achieved a high 9.6% growth in board revenues. In the Koralj 3* hotel, the individuals segments has recorded the highest board revenue growth. Intensified marketing activities and an improved pricing policy in earlier invested facilities on the island of Krk, Krk campsite and Stara Baška campsite, have led to high growth rates of average daily rates and board revenues.

Recent investments in higher category facilities at the Dubrovnik destination (Valamar Dubrovnik President 5*, Valamar Argosy 4*) have resulted in HRK 251.5 million board revenues, i.e. a 8.9% increase compared to the same period last years, particularly driven by a 8.4% increase of the average daily rate. Particularly noteworthy are the Valamar Argosy 4* hotel, accounting for high board revenues growth rates, and the Valamar Dubrovnik President 5* hotel, generating an exceptional growth in board revenues coming from its further focusing on high-end segment (individual segment) and M.I.C.E. and from an increase in the number of days during which it is open (46 in relation to the previous year as a result of investment in raising quality to 5*). Comparing marketing and sales channels, the board revenues growth at the Dubrovnik destination has been driven by the replacement of allotment and groups with the individuals channel. In the post-season, Valamar Lacroma 4* recorded a good response in the M.I.C.E. and group segment from the American and Far East markets.


Valamar Dubrovnik President 5*, Dubrovnik

Key operating indicators of Valamar Riviera Group per products[21]

PRODUCT	Hotels and resorts 4* and 5*[26]			Hotels and resorts 2* and 3*[26]			Campsites			Other segments[23]	
	2015	2014	2015/2014	2015	2014	2015/2014	2015	2014	2015/2014	2015	2014
Number of accommodation units (capacity)	3,255	2,734	19.1%	4,638	4,384	5.8%	9,891	8,938	10.7%	/	/
Annual occupancy rate (%)	44%	46%	-200 bb	37%	38%	-100 bb	27%	27%	0 bb	/	/
Full occupancy days	161	166	-3.0%	136	139	-2.2%	97	98	-1.0%	/	/
Accommodation units sold	522,473	454,362	15.0%	631,597	609,599	3.6%	961,351	877,573	9.5%	/	/
Overnights	1,094,168	914,841	19.6%	1,417,379	1,357,631	4.4%	2,239,276	2,012,507	11.3%	/	/
ADR[13]	947	879	7.7%	527	509	3.5%	224	212	5.7%	/	/
Board revenues[14] (in HRK)	494,706,285	399,424,923	23.9%	332,736,726	310,115,411	7.3%	215,807,290	186,324,795	15.8%	/	/
Adjusted EBITDA[22] (in HRK)	288,604,298	212,974,973	35.5%	187,944,823	167,614,859	12.1%	151,840,655	123.879,948	22.6%	-189,918,318	-187,102,450
RevPAR[14] (in HRK)	151,983	146,095	4.0%	71,745	70,738	1.4%	21,820	20,846	4.7%	/	/

Generating HRK 494.7 million board revenues and almost a 24%, i.e. HRK 95.3 million growth, facilities belonging to the 4* and 5* hotels and resorts segment have made the largest contribution to the increase of total board revenues. The impact of the consolidation of Hoteli Baška d.d. in the 4* and 5* segment is only 4.1%, while the remaining part is linked in particular to excellent sales results of Valamar Isabella Island Resort 4* and the Valamar Dubrovnik President 5* hotel, as well as other invested facilities. Precisely these new, investment-driven products and facilities of higher category are expected to make positive contributions in the years to come, since they allow for better marketing and sales channels management as a result of higher demand. The Tamaris 4* cluster has also recorded stable sales results owing to high-quality distribution of allotments and groups in the pre-season, which has provided for a stable base used to develop activities in the individual channel. In relation to the comparable period last year[23], hotels and resorts belonging to the 4* and 5* segment at the Baška destination have recorded a 15.0% increase in board revenues, mainly driven by a 13.5% growth of the average daily rate. Such growth rates are driven by an amended pricing policy in the Zvonimir 4* hotel in relation to the previous year, while in Atrium Residence 4* and Villa Adria 4*, average daily rates are up as a result of higher sales through carefully selected first-minute activities and active monitoring of the realisation of their optimum profitability in line with the market status.

The increase in the number of accommodation units sold to 631,597 and a 3.5% growth of the average daily rate have led to a 7.3%, i.e. HRK 22.6 million increase in board revenues from 2* and 3* hotels and resorts. This increase is impacted by the business operations of Corinthia 3*, consolidated for the third and fourth quarters of 2015, which, in relation to the same period last year, has generated a high growth coming from investments in the restoration of its exterior, collaboration with allotment partners in the post-season, and its promotion as a family hotel. Lanterna apartments have maintained the optimum combination of marketing segments with a view to ensuring a stable revenue continuity. Apartments will be still facing challenges arising from a growing online presence of private accommodations in all sales channels, whose low prices affect 2* and 3* facilities' results.

HRK 29.5 million higher board revenues generated by campsites are a result of an increase in the number of accommodation units sold by 83,778 and a HRK 12 higher average daily rate. Higher board revenues are mostly driven by the consolidation of Hoteli Baška d.d.; excluding the effect of the said consolidation, the campsites have generated 6.3% higher board revenues, mainly coming from the increase of the average daily rate. As to campsites, noteworthy are particularly invested campsites, i.e. Krk campsite and Stara Baška campsite, as well as Marina campsite in Rabac, while Poreč campsites indicate a stable increase in board revenues, with the Lanterna campsite having the largest impact on board revenues growth. The newly acquired campsites, i.e. the Bunculuka nudist campsite 4*, which in combination with specific environment does not have a great number of direct competitors, and the Zablaće campsite have generated a stable board revenues growth in relation to the comparable last year's period in which they operated, as a result of an increase in the number of accommodation units sold due to the active management of price optimisation with regard to mobile homes and plots.

26 In the 2015, the consolidation of the business operations of Baška companies for the period July – December 2015 is included, while the Baška companies are not included in the overview of 2014. Products are classified based on the obtained categorization.

Results of the Company

We are emphasising that the data provided in the current year's financial statements are not fully comparable to the data from the previous year on grounds of the described merger processes, as the items in the previous period do not include the data for the merged company Valamar hoteli i ljetovališta d.o.o. Moreover, net assets of the merged subsidiary Valamar hoteli i ljetovališta d.o.o. are included only as of the merger date in February 2015, therefore, all significant changes in the financial statements of the Company should be observed as a result of these transactions in the current period.

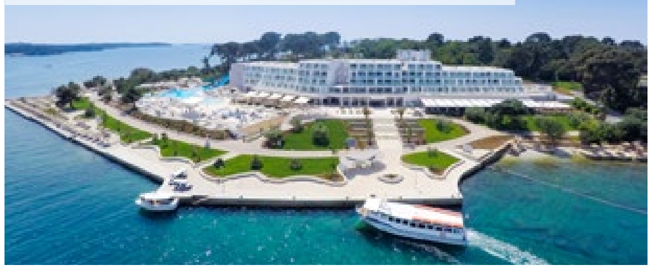
In 2015, the Company generated a total of HRK 1,269.3 million revenues, exceeding the same period 2014 by HRK 169.7 million, or 15.4%. Company's sales revenues (HRK 1,183.2 million) make 93.2% of total revenues (96.9% in 2014), sales revenues generated on international markets accounting for 85.6% of total revenues (88.8% in 2014) and those generated on the domestic market for 7.6% of total revenues (8.1% in 2014). Foreign sales revenues are 11.3% and domestic sales revenues 8.8% above the same period of 2014. Company's other operating income, amounting to HRK 21.8 million and being 18.5% higher, accounts for 1.7% of total revenues (1.7% in 2014), the increase being primarily driven by the reversal of provisions for termination benefits paid.

Material costs amount to HRK 409.5 million and are up 4.7% compared to 2014, accounting for 38.2% of operating expenses (37.7% in 2014). Staff costs amount to HRK 307.6 million, accounting for 28.7% of operating expenses (24.9% in 2014), which is an increase of 18.7%. 2015 staff costs include the data concerning the merged subsidiary Valamar hoteli i ljetovališta d.o.o. only for the period following the merger. Their growth is primarily driven by the takeover of employees from all merged companies and, to a lesser extent, by increased employees' salaries.

Company's financial income in the reporting period amounts to HRK 64.3 million, making it HRK 48.3 million higher compared to the same period last year. The biggest growth item is the dividend revenue from the merged companies Valamar hoteli i ljetovališta d.o.o. and Puntižela d.o.o., amounting in total to HRK 26.18 million. Total foreign exchange gains are HRK 20.8 million higher, whereby we point to the amended policy for accounting for unrealised foreign exchange differences and their recording in the quarterly dynamics. Revenues generated from dividends and profit interests are up HRK 0.6 million. Revenues from interest income on placements are HRK 1.6 million lower due to the lower amount of available cash funds (as a consequence of dividend distribution to shareholders of Valamar Riviera and the acquisition of Hoteli Baška d.d. carried out in the second half of the year to the amount of HRK 188.2 million) and the general decrease in market interest rates. Other financial income is HRK 2.2 million higher, resulting from the fair valuation and reversal of unrealised derivatives positions during their realisation in the current year (forward transactions contracted for 2015 and interest swap).

Company's financial costs in the reporting period amount to HRK 71 million and are HRK 37.7 million higher compared to the same period last year. Interest expenses and foreign exchange differences record a HRK 34.3 million increase, while the valuation of contracted IRSs and forwards during the year, including the reversal of their positions during realisation, has resulted in HRK 3.4 million additional expenses. Foreign exchange rate losses on existing loan portfolio, which record a HRK 28.2 million increase (resulting mainly from the appreciation of the Swiss franc exchange rate in the first quarter of the year), are the biggest single item of financial costs. Please note the changed (quarterly) dynamics in recoding unrealised foreign exchange differences. A HRK 2.5 million increase in interest expenses is mainly a result of an increase in non-current liabilities driven by the withdrawal of funds from granted credit lines for financing the 2014/15 investment cycle.

Valamar Isabella Island Resort 4*, Poreč



Following the Company's strategic focus on the key holders of business expansion and long-term objectives in combination with an increased revenue volume, streamlined business operations, and cost efficiency after the last year's consolidation of management and organisational and shareholder structure of the then group, in relation to the previous year the Company has achieved a 365.1% increase of EBT, which amounts to HRK 126.8 million, at the same time increasing its operating profit by 199.6% to HRK 133.5 million. Company's gross margin is up 8.0 percentage points and amounts to 10.5% (2.5% in 2014). Net profit is HRK 82.2 million higher and amounts HRK 105.9 million.

As at 31 December 2015, Company's total assets amount to HRK 3,557 million, which is HRK 361.0 million above the previous period.

INVESTMENTS

During 2015, capitalised investments in the existing tangible fixed assets portfolio amounted to HRK 310 million[27]. The largest one (a two year investment worth HRK 281 million), which is also one of the largest investments in the Croatian tourism, is the luxurious family Valamar Isabella Island Resort 4* on the island of Sveti Nikola, which was formally opened at the beginning of June 2015 and which offers in total 334 four-star-category units accommodating almost 800 guests. During the two-year construction and renovation, 108 studios in 28 villas were renovated, mostly using the furniture made by the Croatian manufacturers, and, after more than 25 years, the Miramare annex is back in function, with 36 hotel suits with open sea views, along with a 250 m2 swimming pool with a large restaurant, as well as the castle from 1887, with 10 luxuriously decorated apartments, renovated under a conservationist's supervision. At the same time, the oldest integrally preserved lighthouse in the Mediterranean was renovated. The total of 334 four-star accommodation units provide accommodation for almost 800 guests. The Isabella hotel (former Fortuna from 1986) has 180 newly furnished rooms, a new wellness centre, and a large modern outdoor 600 m2 swimming pool, as well as the children's one of 50 m2, with a view on the Poreč waterfront. The island is comprised of two zones, one being quiet and the other one for guests looking for activities. Outdoor swimming pools, six types of island beaches marked with Blue Flags, and seven à la carte restaurants and bars add to the accommodation offer. Diverse services include the professional babysitting service. Also, the resort has a youth club, a wedding hall, and a congress centre of 500 m2 accommodating up to 400 people. Along with properties, renovation also covered the purchase of a new ferry and the renovation of vessels for the transport of guests. On the island, ten electric vehicles are intended for guests, and ten are available to staff. Valamar Isabella Island Resort 4* is the culmination of years-long efforts to create a facility that would bring together guests' wishes, market demands, needs of Poreč and Istria as destinations, nature protection, history conservation, and respect of urban green areas, within a sustainable budgetary framework.

Valamar Isabella Island Resort 4*, Poreč

[27] Refers to activated investments and advance payments for investments booked through 2015; a portion of the total investment cycle 2014/15 (amounting HRK 358 million) was already booked in previous years.

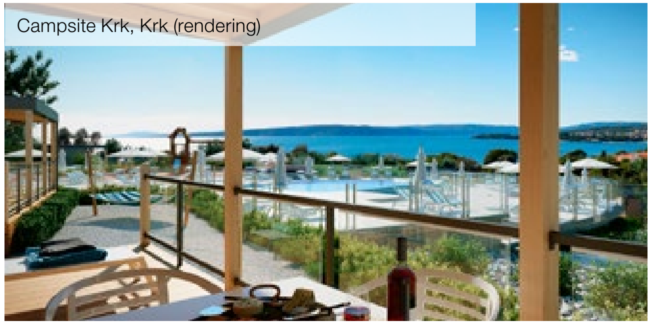
As for other projects announced for 2015, significant investments have been made in hotels, apartment resorts, and campsites in Istria, on the island of Krk, and in Dubrovnik, in an amount reaching almost HRK 100 million, resulting in a higher quality of services in a number of Valamar properties in the 2015 season. Consequently, the Valamar Riviera hotel in Poreč now has a new terrace in front of the restaurant, while the Valamar Zagreb hotel has a new wellness centre. There are also new beach bars added to the Valamar Pinia hotel and the Valamar Koralj hotel on the island of Krk. At the same time, investments have been made in several hotels and apartment resorts with regard to their equipment, landscaping, and further increase in service quality.

As for the Valamar campsites, one of more significant investments in 2015, in an amount exceeding HRK 34 million, related to investments in the Lanterna campsite in Poreč, the leading Istrian campsite, including investments in a new restaurant concept, setting up of new mobile homes, and improvement of plots and glamping zones with a mini swimming pool. Guests were welcomed by 20 new Premium Vista Mare designer houses with large glass surfaces just above the attractive beach, in the vicinity of the sports centre and newly renovated Tratoria, as well as glamorous camping with the new Glamping Village offer, including seven luxurious tents with own swimming pools. What makes the Lanterna campsite special is its offer of the first complex of mobile homes in Istrian campsites with an own large swimming pool designed for adults and children, and diverse activities in the children's Maro Club and Teens Club, with rich daily and evening programmes for children and sport activities for all age groups. It is particularly worth mentioning that this complex does not allow for motor vehicles, thus providing additional safety for parents with children. The Lanterna campsite is a member of the elite "Leading Campings of Europe" association, gathering 40 best campsites in Europe, which has already won the BEST award, i.e. 5* by recognised ADAC and ANWB associations. Apart from Lanterna, this year, the Krk campsite is the only campsite in the Kvarner Gulf and the third one in Croatia to enter this elite group of European campsites.

It should be noted that more than HRK 4 million has been invested in the Marina campsite in Rabac in 2015, and, as a result, this campsite now has a new relax infinity swimming pool located immediately next to the sea and the newly renovated beach and equipped for the initial training of divers. Also, a children's swimming pool with a tanning deck was built in the immediate vicinity of the Maro Club and the newly constructed children's playground. With these investments, this season, the Marina campsite in Rabac has become the first campsite in Croatia with a swimming pool and a special offer for divers (mobile homes near the diving centre, equipped with storages for diving equipment and other facilities). This year, the Ježevac campsite on the island of Krk has introduced 15 new Superior mobile homes and 10 new Comfort plots, while the Škrila campsite, with an investment of above HRK 4 million, has welcomed guests with completely renovated certain zones, shops, the restaurant terrace, beach, and the beach bar. From this year on, the visitors of the Naturist Resort Solaris campsite can use 4 new Luxury Mare plots equipped with grills and parasols and located on the most attractive sites in the campsite. The Solitudo campsite in Dubrovnik has prepared for its guests 4 new Comfort and Superior mobile homes, and its guests can enjoy a wide variety of facilities, such as an outdoor swimming pool, a swimming pool for children, a wellness centre, tennis courts, and the renovated Solitudo Bistro, with the special note that this is the only campsite in the city of Dubrovnik.

In 2016, Valamar Riviera continues its investment cycle with a view to increasing the quality of services and contents and repositioning its portfolio towards higher category facilities. Investments in-between HRK 260 million HRK 270 million[28] will be focused on further increasing the quality of its portfolio of hotels, apartments, and campsites, with particular emphasis (more than 50% of total 2016 investments) being placed on the development of accommodation, services, and contents in campsites operating under the Camping Adriatic by Valamar brand. After completing another investment cycle, the Krk campsite, as member of the prestigious "Leading Campings of Europe" association, will become the first five-

Campsite Krk, Krk (rendering)



star campsite in the Republic of Croatia. In the new season, guests can expect completely new accommodation capacities and public contents. Furthermore, Valamar Riviera is investing in the leading Istrian campsite Lanterna, also a member of the "Leading Campings of Europe" association, thus raising the campsite category from 3 to 4 stars; investments will be focused in the completion of the Istrian Village project with new accommodation capacities, the continuation of the successful Glamping project in the luxurious camping segment, two completely new thematic accommodation zones, and raising the level of public contents. Investments are also being made with a view to increasing the quality of other campsites on the island of Krk, in Istria, and in Dubrovnik by improving accommodation, beach offer, and hospitality contents. A HRK 12 million investment will continue developing the last year's successful project Isabella Island Resort in order to raise the quality of a part of products and services to a five-star level (Miramare annex, castle and 7 villas). A range of other projects, which will considerably increase the quality of offer and experience at all destinations by generating new contents and improving the existing ones, is also in the pipeline (the adaptation of a multifunctional hall in Poreč, further continued investments in beaches, investments in the improvement of personal accommodation, IT and business digitalisation projects, investments in technological processes and energy savings in laundry rooms aimed at environmental protection, and investments in other energy efficiency related projects).

[28] A portion already recorded in 2015.

The camping segment has a potential to develop into innovative camping resorts, i.e. resorts offering accommodation and services with higher additional value and aimed at high-end guests; however, such projects are still difficult to develop due to unresolved tourism land related issues, and thus Valamar Riviera is limited to partial investments into premises and contents in the campsites. The resolving of tourism land concessions would release a potential for stronger repositioning of campsites both in the Valamar Riviera's portfolio and the entire Croatia, placing campsites at a high competitiveness level compared to the best camping resorts in Europe.

Valamar Riviera is continuously working on the preparation of projects for 2017 at all its destinations with a view to increasing the quality of portfolio facilities, services, and contents, which is the basis of creating an additional value for both our customers and all Valamar Riviera's stakeholders. The VAT rate in line with other Mediterranean countries and solving the touristic land issue may further accelerate investment, growth and business development. Tourism continues to be insufficiently recognized as an opportunity for Croatia's economy which is evidenced by the fact that, apart from financing through Croatian Bank for Reconstruction and Development, there is a lack of other measures to enable faster growth and development necessary to raise competitiveness to the level of its Mediterranean competitors.

Ilustration Glamping village Lanterna, Poreč

The risks of the Company and the Group

Macro-economic development risk

Bearing in mind the fact that almost 95% of the Company and Group's guests are foreign guests who carefully choose their vacation destination in the competitive Mediterranean environment, the stability of a country's macro-economic indicators is very important, with special emphasis being given to the exchange rate and prices of goods and services with a direct impact on guests' purchasing power. Although smaller in share, the number of arrivals of domestic guests to the Company and Group's facilities is important as well, and also impacted by a number of other national macro-economic indicators, such as employment/unemployment, domestic gross product increase/decrease, industrial product increase/decrease, as well as other indicators having a direct impact on the purchasing power of the Croatian citizens and, consequently, on their decision at which of the Adriatic destinations to spend their summer vacation.

Risk related to the change of tax and other regulations

The risk related to the change of tax and other regulations is another significant risk for the Company and the Group and one of the more demanding segments of risk management with only limited possibilities for the Company and the Group. During previous years, frequent changes of tax regulations had a negative impact on the profitability of the Company and the Group, the most significant being:

- Increase of the general value added tax (hereinafter: VAT) rate from 23% to 25% (March 2012) decrease of the intermediate value added tax rate from 25% to 10% (January 2013) followed, within a period of one year, by the increase of the intermediate value added tax rate in the hospitality and tourism industry from 10% to 13% (January 2014);

Valamar Isabella Island Resort 4*, Poreč

- Decrease of the health contribution rate from 15% to 13% (May 2012), followed after two years by the increase from 13% to 15% (April 2014);
- Frequent increases of various charges for water etc.

Such frequent changes of regulations related to tax levies imposed on the economy, which often take place after the Company and the Group have already adopted their business policy and the budget for the following year and agreed on commercial terms and conditions with their business partners, materially distort the financial position of the Company and the Group and jeopardise further investment plans, and thus the trust of investors.

The Company and the Group are also exposed to the risks of potential change of regulations concerning concessions and concession approvals, i.e. concession fees for the use of maritime domain, but also concession fees for the use of touristic land, the area which has not been regulated until the present day. Namely, in view of the core business of the Company and the Group, the right of use of maritime domain and touristic land is one of the significant conditions of further business operations, particularly in campsites.

Financial risks

In their day-to-day operations and activities undertaken, the Company and the Group are exposed to a number of financial risks, in particular to the following ones:

1) Foreign exchange risk;
2) Interest rate risk;
3) Price risk;
4) Credit risk; and
5) Liquidity risk.

The Company and the Group hedge interest rate and foreign exchange risks by applying instruments available in the market in order to mitigate these risks. Internal risk management objectives and policies refer to the protection of foreign exchange inflows during seasonal activity and to the partial interest hedge of loan principal.

1) Foreign exchange risk

The Company and the Group operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro and Swiss franc. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The majority of international sale revenues are denominated in euro, with long-term debt being denominated in euro and Swiss franc. Accordingly, movements in exchange rates between the euro, Swiss franc and Croatian kuna may have an impact on the results of future operations and future cash flow. The Company and the Group make use of derivative instruments in accordance with operating estimates and expected market developments. Given that the inflow is to a large extent denominated in euro, as well as the majority of credit liabilities, the Company and the Group are to the largest extent naturally hedged.

As for the part of credit liabilities committed in Swiss franc, the Company and the Group contract available instruments to hedge against cash flow interest rate and foreign exchange risks. In view of exceptional volatility and unpredictability of Swiss franc exchange rate developments, the Company and the Group are actively continuing activities related to further debt conversion from Swiss franc to euro (in significant part already converted), where the Company and the Group are naturally hedged.

2) Interest rate risk

Bank debentures committed at variable rates expose the Company and the Group to cash flow interest rate risk. The Company and the Group periodically use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure by applying interest rate swap from a variable rate to a fixed one. The economic effect of such interest rate swap is the conversion of credits at a variable rate into credits at a fixed rate for pre-committed part of the loan principal protected in this way. The Company and the Group have interest-bearing assets (cash assets and deposits), resulting in the Company and Group's income and operating cash flows being influenced by changes in market interest rates. This becomes particularly evident during the season when the Company and the Group have significant excess funds at their disposal.

3) Credit risk

Credit risk arises from cash, time deposits and trade receivables, where the Company and the Group have no significant concentration of credit risk. Following the sales policies of the Company and the Group, they commit to collaboration with customers with an appropriate credit history, i.e. their commitment is made conditional upon advance payments, payment of bank securities or by major credit cards (individual customers). With a view to reducing their credit risk, the Company and the Group continuously monitor their exposure to parties they operate with and their credit standing, obtain security instruments (bills of exchange, promissory notes) and thus lowering bad debt risk with regard to services provided.

4) Price risk

The Company and the Group are holders of equity and debt securities and are exposed to price risk of listed equity securities. The Company and the Group do not actively participate in the capital market in terms of investments in equity and debt securities, so that the price risk of equity securities in their possession is not significant.

5) Liquidity risk

Prudent liquidity risk management exercised by the Company and the Group implies maintaining at all times sufficient cash to settle all their liabilities by developing cash flow projections at a monthly, annual and long-term basis. On top of currently available cash, the Company and the Group aim to maintain flexibility in funding by keeping committed credit lines available. Excess funds above the amount required for working capital management are invested in interest-bearing deposits, time deposits, money market deposits and marketable securities, thereby choosing instruments with appropriate maturities or sufficient liquidity in accordance with the projected needs for liquid funds.

6) Share-related risks

As an asset class with the highest risk, the market value of shares can be exceptionally volatile, as it is affected by the volatility of the whole capital market, macro-economic movements on the markets in which the Company and the Group operate, discrepancies with regard to financial analysts' expectations in relation to the performance, changes in dividend policy, activities concerning mergers, acquisitions and entering into strategic partnerships, instability of the Company and Group's business model, as well as fluctuations in the financial results of the Company and Group's business operations. If the given factors have a negative connotation, there is a significant risk of share market value drop. Furthermore, there is a significant risk of investors not being able to sell their shares at any time at a fair market value.

Business risk

On a daily basis, the Company and the Group face business risks potentially leading the weakening of competitive strength, and thus jeopardising their further stability. In the previous period, the Company and the Group made business decisions contributing to the increase of their competitive strength on the demanding Mediterranean market and thus improved the performance and the efficiency of their business operations, which gave rise to the expectation of continued positive trends in the future as well, subject to prudent long-term strategic management.

Risk related to the tourism branch of the economy

In the Republic of Croatia, tourism has been one of few growing branches of the economy during the last several years marked by the global financial crisis and economic downturn, which have had a significant impact on the Croatian economy as well. Upon joining the European Union, the Republic of Croatia's market has become a part of the large European market, while the membership of the Republic of Croatia in NATO has reduced safety risks. The Tourism Development Strategy of the Republic of Croatia until 2020 (Official Gazette No. 55/13) provides answers to the question what kind of tourism the Republic of Croatia wants and needs to develop by using its comparative advantages as well as knowledge and skills with a view to strengthening the competitive capacity of the Croatian tourism. It is important that the achieved growth rates of the Croatian tourism are maintained over the following years, an objective to be accomplished only through further strategic considerations in developing tourism products and by investing in the creation of additional values, which will differentiate Croatian tourism from its competitive environment by pointing out its uniqueness, attractiveness and quality.

Despite the improved security and political circumstance, which gave rise to the launching of investment cycles in tourism, the Croatian tourism, as one of the strategic branches of the Croatian economy, is still faced with a number of challenges and risks, such as:

- Failing competitiveness in relation the environment as a result of frequent fiscal and parafiscal regulations over which the Company and the Group exercise no influence;
- Global financial crises affecting adversely the purchase power of the population prone to travelling;
- Security and political risks related to increasing terrorism threats in the world and in the country;
- Security and political instability in the immediate environment of the neighbouring countries;
- Strong seasonality of tourism as a branch of the economy causing an insufficient utilisation of available capacities and resources of the Company and the Group.

Environmental risks

The performance of the Company and Group's business operations can also be affected by environmental risks, primarily with regard to customer satisfaction with the whole experience of staying in Valamar's facilities, reflecting as a result in a reduced number of arrivals. Such risks include, for example, sea water pollution (e.g. as a result of tanker breakage or discharge of chemicals into the sea), but also less intense deterioration of sea quality and shoreline pollution arising from insufficient quality of waste water management and sewage along the Croatian coast of the Adriatic Sea. Likewise, climate changes, such as long drought periods or, on the other hand, long rain periods, can also have a direct impact on how long guests stay in hotels and campsites of the Group and the Company, or can also lead to increased operating costs. This also includes various other natural disasters and adverse climatic events (such as earthquakes, fires, floods), air pollution caused by toxic gas emissions from e.g. industrial plants, etc.

Corporate Governance

The Company Valamar Riviera d.d., as well as the Group, has been continuously developing and acting in line with the best corporate governance practice. It is committed to transparent and efficient operations and strong relations with the community where it operates as supported by its business strategy, policies, key bylaws and business practices. With the aim of further strengthening and establishing high standards of corporate governance, the Company has adopted a Corporate Governance Code already in 2008. The Management Board fully abides by the provisions of the adopted Code. Since listing shares on the Official market of the Zagreb Stock Exchange, the Company applies the Corporate Governance Code of the Zagreb Stock Exchange (in detail described in the Corporate Governance Questionnaire which is to be published in accordance with the regulations).

The major direct shareholders in accordance with the data from the Central Depository and Clearing Company are listed in the table under "Shares.

General risk management characteristics are described in the section "The risks of the Company and the Group."

There is a time limit related to the use of voting rights at the general assembly pursuant to the provisions of the Companies Act – shareholders are required to register their participation within the period stipulated by law. There is no case in which the financial right stemming from securities would be separate from holding the securities. In the Company, there are no securities with special rights of control nor are there any voting right limitations.

The rules on the appointment and recall of members of the Management Board and members of the Supervisory Board are established by the Articles of Association, in accordance with the provisions of the Companies Act.

The Company can acquire treasury shares pursuant to the decision of the General Assembly of 17 November 2014. The rules on amending the Company's Articles of Association have been established by the Companies Act and there are no additional limitations.

The authorisations of the Management Board members are also fully in accordance with the provisions of the Companies Act.

The corporate bodies of the Company are as follows:

The Management Board: Mr. Željko Kukurin, President of the Management Board, and Mr. Marko Čižmek, Member of the Management Board constituted the Management Board of the Company from 9 June 2015. In the previous period, some changes took place in the Company's Management Board, namely on 30 April 2015, Mr. Nikola Koncul and on 8 June 2015, Mr. Franz Lanschützer, Mr. Tihomir Nikolaš, and Ms. Ivana Budin Arhanić ceased to be Members of the Management Board. After they ceased to hold the office in the Company's Management Board, the previous Members have continued with their activities in the Company: Mr. Nikola Koncul as President of the Management Advisory Committee, Ms. Ivana Budin Arhanić as Vice-president in charge of business development, strategic management, and corporate affairs, and Mr. Franz Lanschützer as Vice-president of the Supervisory Board, while Mr. Tihomir Nikolaš has continued his career outside the Company as an investment project consultant.

The Supervisory Board: Up to 8 June 2015 the Supervisory Board was constituted by Mr. Gustav Wurmböck (President of the Supervisory Board), Mr. Mladen Markoč (Vice-president of the Supervisory Board), and members: Mr. Georg Eltz, Ms. Mariza Jugovac, Ms. Gudrun Kuffner, Mr. Hans Dominik Turnovszky, and Mr. Vicko Ferić. Due to the resignation of a Member, Ms. Gudrun Kuffner, on 8 June 2015 on the General Assembly Mr. Franz Lanschützer was voted as the member of the Supervisory Board, and on 9 June 2015 at the Supervisory Board session as the vice-president of the Supervisory Board. As of 9 June 2015, the Supervisory Board consists of: Mr. Gustav Wurmböck, President, Mr. Mladen Markoč, Vice-president, Mr. Franz Lanschützer, Vice-president, and members: Mr. Georg Eltz, Mr. Hans Dominik Turnovszky, Mr. Vicko Ferić, and Ms. Mariza Jugovac.

During 2015 the Supervisory Board, for a more efficient performance of its functions and duties as prescribed by the provisions of the Audit Act, named:

The Presidium of the Supervisory Board: Mr. Gustav Wurmböck, President of the Supervisory Board, Mr. Mladen Markoč, Vice-president of the Supervisory Board, and Mr. Franz Lanschützer, Vice-president of the Supervisory Board.

The Audit Committee: Mr. Georg Eltz, President of the Committee, Mr. Franz Lanschützer, Mr. Mladen Markoč, Mr. Vicko Ferić, and Mr. Dubravko Kušeta.

The Investment Committee: Mr. Franz Lanschützer, President of the Committee, Mr. Georg Eltz, Mr. Vicko Ferić, Mr. Hans Dominik Turnovszky, and Mr. Gustav Wurmböck.

The Management and the Supervisory Boards primarily act through meetings and by making correspondent decisions, in accordance with effective regulations and Company's bylaws.

Related-party transactions

Pursuant to the Hotel Management Contract, from 2004 to 27 February 2015, the Company entrusted the management of its hospitality properties to the leading hospitality management company in Croatia, Valamar hoteli i ljetovališta d.o.o. The services concerned included the management of hotels and other tourism facilities and services, the laundry and other centralised tourism functions, such as procurement, technical maintenance, marketing, sales, human resources, IT, etc. The merger of Valamar hoteli i ljetovališta d.o.o. to the Company (described under Significant Business Events) will contribute to a further increase in operational efficiency.

The transactions with related parties within the Group are effected at regular commercial terms and conditions and at market prices. In the period under consideration, revenues resulting from related-party transactions amounted to HRK 1.1 million and HRK 26.2 million dividend revenues (in 2014: HRK 2.8 million) for the Company, and HRK 85 thousand (in 2014: HRK 29 thousand) for the Group, while expenses amounted to HRK 33.3 million (in 2014: HRK 132.6 million[29]) for the Company, and HRK 1.3 million (in 2014: HRK 2,1 million) for the Group.

Balances of related-party receivables and liabilities as at 31 December 2015 amounted to: HRK 165.0 million receivables for the Company (at the end of 2014: HRK 192.6 million[30], and HRK 2 thousand for the Group (at the end of 2014: HRK 4 thousand); and HRK 306 thousand liabilities for the Company (at the end of 2014: HRK 5.1 million), and HRK 405 thousand for the Group (at the end of 2014: HRK 191 thousand).

In accordance with the provision of Article 497 of the Companies Act, on 4 March 2016 the Management Board has prepared a separate report on the Company's related-party transactions and in accordance with Paragraph 3 of Article 497 it states that the Company, in line with circumstances management was aware of at the time a legal activity or an action related to the company was performed, received an appropriate consideration, without any damage to the Company.

Upon completion of the audit of the Management Board's Report on Related Parties, the company's auditor, KPMG Croatia d.o.o. has issued the statement pursuant to Article 498 of the Companies Law and has confirmed the following: (1) the statements in the Report are correct; (2) in the business transactions mentioned in the Report and based on the circumstances that were known when those transactions were undertaken, the value of the Company's consideration was not inappropriately high, or any difference in value was compensated; (3) in relation to the measures outlined in the Report, there were no circumstances which could lead one to make a materially different decision than the one that was made by the Management.

Branch offices of the Company

On 2 September 2011, the establishment of branch offices was entered in the court register as follows: Branch Office for Tourism RABAC, with registered office in Rabac, Slobode 80, and Branch Office for Tourism ZLATNI OTOK, with registered office in Krk, Vršanska 8. On 4 October 2013, the establishment of the Branch Office for Tourism DUBROVNIK-BABIN KUK, with registered office in Dubrovnik, Dr. Ante Starčevića 45, was registered, and on 1 October 2014, the Branch Office for Business and Management Consulting ZAGREB, with registered office in Zagreb, Miramarska cesta 24.

The Branch Offices Rabac, Zlatni otok and Dubrovnik-Babin kuk, as economic drivers of their local communities, continue to operate at their destinations supporting their development by further investments, tourism development and participation in social and business activities.

[29] For the most part refers to the procurement, marketing and reservation center fee paid to Valamar hoteli i ljetovališta d.o.o.

[30] For the most part refers to the re-invoiced amount arising from the investment made in the reconstruction and upgrading of the hotel Valamar Lacroma owned by subsidiary Elafiti Babin-kuk d.o.o.

Shares

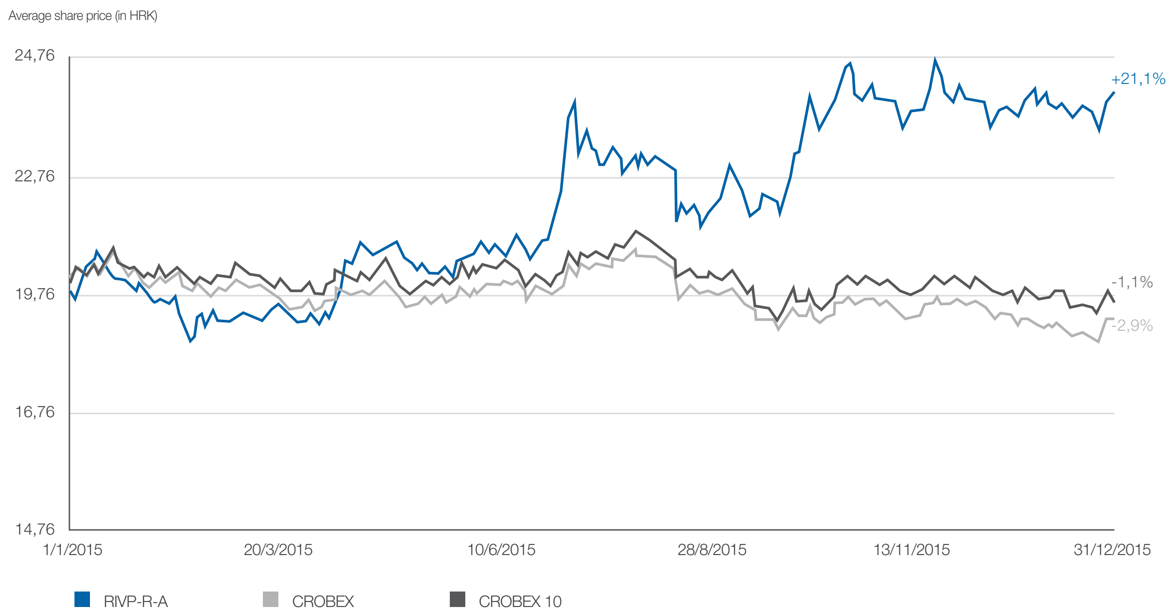
In the period from 1 January 2015 to 31 December 2015, the Company purchased 971,176 treasury shares on the regulated market, at the total purchase cost of HRK 21,140,090, which makes 0.771% of the registered capital, and released, for the purpose of rewarding its senior managers in accordance with performance management projects, 47,598 shares to the amount of HRK 929,952, which makes 0.038% of the registered capital. On 31 December 2015, in accordance with purchases made by the end of 2015, the Company held in total 1,404,394 treasury shares, or 1.11% of the registered capital.

In the period from 1 January 2015 to 31 December 2015, the highest recorded share price on the regulated market was HRK 24.94, while the lowest was HRK 18.55. In the period under consideration, the Company's share price increased by 21.1%, exceeding both CROBEX and CROBEX 10 indices development, which fell by 2.9%, respectively 1.1%. With the average trading turnover of 813 thousand a day[31], the Valamar Riviera's share is among the 3 most frequently traded shares on the Zagreb Stock Exchange. Apart from the Zagreb Stock Exchange indices, the share makes a component part of the Vienna Stock Exchange indices (CROX[32] and SETX[33]).

On 19 June 2015, Valamar Riviera d.d., Zagrebačka banka d.d., and Interkapital vrijednosni papiri d.o.o. concluded Contracts for the performance of specialist tasks referring to ordinary shares of the Company listed in the Official Market of Zagrebačka burza d.d. (Market Making). The specialists started performing specialist trading tasks pursuant to the Contracts concerned on 1 July 2015 with an average support to Valamar Riviera's share trading turnover of 42.6%[34].

The Company actively holds meetings and conference calls with domestic and foreign investors (over 70 meetings and conference calls were held in the period from 1 January 2015 to 31 December 2015) in order to provide support to high-level transparency, to the creation of additional liquidity, to the increase of share value, and to the involvement of investors who can contribute to further growth of the Company's value for the benefit of all stakeholders, all with a view to making the Valamar Riviera's share recognisable as the leading Croatian tourism share.

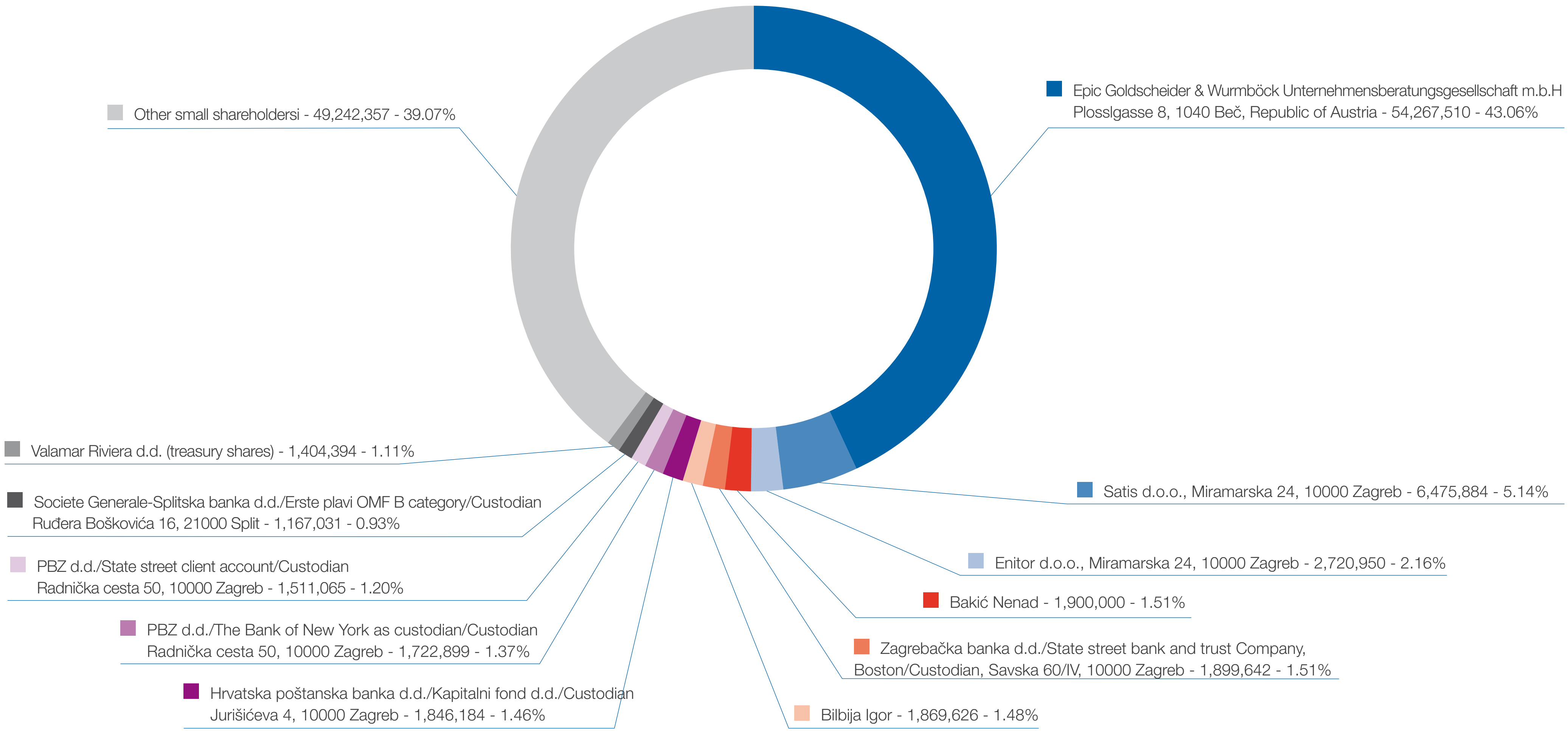
Performance of Valamar Riviera's share and CROBEX and CROBEX 10 indices



Analytical coverage of Valamar Riviera is provided by:
1) Alta invest d.d., Ljubljana;
2) ERSTE bank d.d., Zagreb;
3) Hypo Alpe-Adria-Bank d.d., Zagreb;
4) Interkapital vrijednosni papiri d.o.o., Zagreb;
5) Raiffeisenbank Austria d.d., Zagreb;
6) UniCredit Group - Zagrebačka banka d.d., Zagreb.

31 Block transactions are excluded from the calculation.
32 Croatian Traded Index (CROX) is a capitalization-weighted price index and is made up of 12 most liquid and highest capitalized shares of Zagreb Stock Exchange.
33 South-East Europe Traded Index (SETX) is a capitalization-weighted price index consisting of blue chip stocks traded on stock exchanges in the region of South-eastern Europe (shares listed in Bucharest, Ljubljana, Sofia, Belgrade and Zagreb).
34 Block transactions are excluded from the calculation. The data refers to the period 1/7 - 31/12/2015.

Overview of major shareholders as at 31 December 2015:



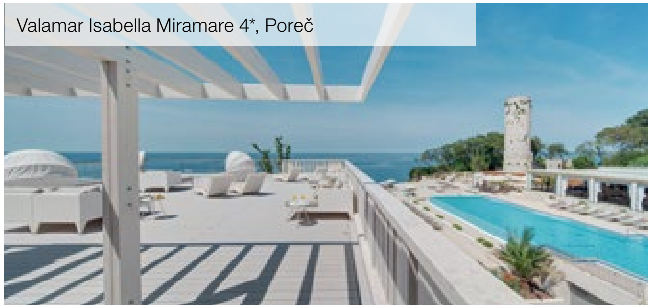
Corporate Social Responsibility

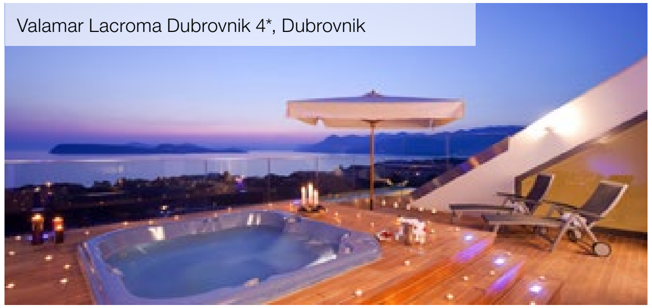
Valamar Riviera's corporate social responsibility is part of a 60-year long tradition arising from our belief that business sustainability is a key strategic goal and an important factor of long-term growth and business development in the tourism sector.

Our leading market position and our business strategy, where sustainability is a key platform ensuring long-term growth of the company, implies for Valamar Riviera a high level of corporate responsibility towards stakeholders and the society as a whole – our guests, employees, partners, investors, stakeeholders, local community, and the environment.

Thus, the development of corporate social responsibility in Valamar Riviera is focused on the education and caringfor its employees, development od destinations, contributing to the local community and helping those in need, systematic approach to the protection of the environment and the quality of the Adriatic coast, transparent business and communication with stakeholders.

Successful doing business in the field of corporate social responsibility in 2015, resulted with the Corporate Social Responsibility Index Award for responsible environmental protection policies and practices, conferred to Valamar Riviera by the Croatian Business Council for Sustainable Development and the Croatian Chamber of Economy.


Valamar Isabella Miramare 4*, Poreč


Valamar Lacroma Dubrovnik 4*, Dubrovnik


Valamar Crystal Hotel 4*, Poreč

Development of Destinations and Tourism of Experiences

As the leading tourism company in Croatia, which operates in destinations from Istria and the island of Krk do Dubrovnik, Valamar systematically invests in development of its destinations and improvement of the quality of life, education, sports, and culture as the basis for providing a genuine and high-quality experiences. Valamar Riviera actively supports various destination-oriented projects, sporting and cultural manifestations and events in the communities in which it operates, in order to enhance the attractiveness and competitiveness of these destinations and to prolong the tourist season. In 2015, Valamar Riviera provided over HRK 2,3 million for various donation and sponsorship programmes benefiting associations, institutions, clubs, valuable initiatives, and projects. As part of the "Enriching the Tourism Offer" program, in 2015, Valamar Riviera continued with implementation of various destination-oriented projects aiming at promoting culture, among which particularly worth mentioning are the Art Colony and "Artist on Vacation". As part of the "Preserving Local Heritage" program, Valamar Riviera has supported great number of destination-oriented initiatives, such as the Labin Republic manifestation, Giostra, Vinistra, etc. Valamar Riviera's program "We Love Sport" encompasses great number of projects commited to developing of sports in destinations and organising major sporting events. 2015 saw a number of major projects, such as "Swatch Beach Volleyball Major", world beach volleyball championship; Valamar Terra Magica bicycle race; Valamar Trail race; Offshore World Challenge, tuna fishing championship; sponsorship of the Dubrovnik Basketball Club; sponsorship of the Krk Football Club; and many more. Valamar Riviera invests considerable funds in developing tourism infrastructure; thus, in 2015, only in the development of beaches, promenades, and cycling tracks approximately HRK 23 million were invested.

Valuating and Motivating Our Employees

Valamar Riviera is one of the leading employers in tourism industry in Croatia and also among the most desirable employers thanks to continuous carefor employees, employee satisfaction and investments in their education and on-the-job training. The Employer Partner Certificate, held by Valamar Riviera for ten years in a row, is a major recognition to the company finding people to be its greatest value In the high season, Valamar Riviera's team exceeds 4.100 employees (on 31 December 2015, the Company employed 1,901 workers, 972 of them permanent and 929 seasonal). In order to ensure the highest level of excellence in its entire team, tens of thousands of hours of education and internal training are conducted annually. Valamar Riviera is known for its Valamar Academy – a standardized educational programme representing a set of the best practices, internal know-how, and professional expertise in the course of growing company. Numerous awards and certificates conferred to Valamar Riviera as an employer, as well as the numerous awards won by Valamar Riviera's employees are the best evidence of our drive for excellence, which is also the foundation of our long-term success.

Reliability and Cooperation - Partnering With the Best

Valamar Riviera builds strong business relations with a number of partners and suppliers, ensuring the excellence in terms of its products and services, based on international sustainability standards and principles. The procurement and delivery of goods and services are generally contracted with local suppliers (more than 95 %), directly strengthening local economy and market. A wide range of local suppliers drives healthy competition, builds up offer and demand, achieves better price and quality ratio, and nourishes strong partnerships. High product and service quality standards, ethical and transparent business relationships, respect for agreed terms, and cultivation of long-term business cooperation all form the foundation for joint success and growth for both Valamar and our partners.

Transparent Communication with Investors

Valamar Riviera is a company that considers transparency and proactive reporting as a priority by continuously and openly communicating all material information to stakeholders and maintaining a high level of communication with Croatian and foreign investors. In 2015, Valamar Riviera's share was proclaimed Share of the Year for the fourth consecutive year, Share with the Highest Growth in Trading for the first time. Valamar Riviera also won the first-place award for Best Investor Relations in 2015. Valamar Riviera was also awarded as the best managed hospitality company in the CEE region by Euromoney, the leading specialized financial magazine.

Investments in Sustainability and Environmental Protection

Valamar Riviera has adopted a Sustainable Business Policy and has been systematically caring for environmental protection, rational use of resources, waste management, use of renewable energy sources, and preservation of natural resources. From 2012 to 2015, more than HRK 17 million has been invested in energy efficiency projects, while Valamar Riviera's hotels, resorts, and campsites have been conferred with numerous international awards, recognitions, and certificates. Since 2015, Valamar Riviera has been monitoring greenhouse gas production in all its tourism facilities, while in 2016, the aim is to conduct certification in accordance with the ISO 50001 standard and to introduce electricity obtained from renewable sources in its procurement in order to reduce greenhouse gas production by more than 60 %. As part of the "Preserving Natural Attractions" program, in 2015, for the second consecutive year, "We love the Adriatic Sea" project was successfully implemented focusing on the preservation of the Adriatic Sea and coast, while the "Preserving the Environment in Which We Operate and Live" programis focused on the implementation of energy efficiency projects, waste management and certification in the field of environmental protection.

Educating Guests on the Importance of Environmental Protection

Valamar Riviera systematically engages in environmental protection and rational use of resources, where the education of guests on how to save energy, properly dispose of and recycle waste and information about protected plant and animal species plays a major role. As a part of the meetINblue project, successfully implemented also in 2015 in cooperation with the Blue World Institute, congress guests are given the opportunity to take part in the protection of Adriatic dolphins by participating in large conferences.

Contributing to the Local Community

Involvement in the local community and the contribution to socialdevelopment are part of Valamar Riviera's daily business activities. In addition to strong cooperation with tourism boards and public authorities, Valamar Riviera cooperates on regular basis withnumerous local associations, educational and cultural institutions and sports clubs. Ongoing cooperation with vocational schools and colleges represents a considerable contribution to developing knowledge, skills and education, as well as to promoting vocations in the hospitality sector. As part of the Valamar Riviera's "Knowledge Brings Excellence in Tourism" program, the cooperation with foundations in the field of education and the organisation of Open Door Days were continued in 2015 , enabling the company to bring its business activities closer to the local community, particularly to the students of vocational schools and potential employees.

Helping Those in Need

Valamar Riviera contributes to the development of a spirit and culture of community by directly assisting various associations and initiatives in local communities benefiting the society in whole. An example of such activities is Valamar Riviera's national donation program called "A Thousand Days on the Adriatic Sea", supporting projects that entail work with children without adequate parental care, children from low-income families, children with specific health problems who benefit from the coastal climate in terms of treatment or recovery, i.e. special needs children. As part of this program, over the past two years, Valamar Riviera has provided summer holidays free of charge in its hotels, residences and campsites from Istria and the island of Krk to Dubrovnik for more than 650 children and their attendants. The majority of children who participated in the program visted the coast for the first time, which is a particularly heart-warming aspect ofthis project. In 2015, through its "Valamar Riviera Third Age" program, Valamar Riviera provided support to retired colleagues, i.e. supported the work and implementation of the activities of the Valamar Riviera pensioners' branch in destination Poreč. Within the "Let Us Be Solidary" program, in 2015, Valamar Riviera continued providing support by donating to the local community where it operates, while Valamar Riviera's employees volunteered within various humanitarian initiatives.

2015 Awards and Certificates

Valamar Riviera has been continuously investing to increase the quality of its products, services and contents, widely recognised by the community, professionals, institutions and partners. In 2015, more than 100 awards and certificates were conferred to the company, employees, hotels, resorts, and campsites in destinations where it operates.

A high level of reporting quality and transparency towards investors have brought Valamar Riviera the award for Best Investor Relations in 2015. In the traditional voting organized by the Zagreb Stock Exchange, the company won, as chosen by the public, the award for the Share of the Year for the fourth consecutive year and, for the first time, the Share with the Highest Growth in Trading. Valamar Riviera's focus on efficient, ecologically advanced and sustainable technologies in the realisation of investments, in the education of employees, guests, and suppliers, as well as raising public awareness on the importance of environmental protection has been recognised by the Croatian Business Council for Sustainable Development and the Croatian Chamber of Economy, granting the company the Corporate Social Responsibility Index Award for responsible environmental protection policies and practices. In the field of sustainability as an important segment of tourism business, in 2015, Valamar Riviera was conferred prestigious "Travelife Gold Award" certificates for 16 hotels that meet demanding criteria for complying with the highest environmental protection standards. Valamar Riviera's focus on sustainable business is validated by a number of other certificates conferred to facilities, such as: Sustainable Hotel for five hotels, TUI Environmental Champion 2015 for three hotels, and the Environmental Management System in

Valamar Riviera was awarded for best investor relations in 2015 by Poslovni dnevnik in collaboration with Zagreb Stock Exchange

compliance with the ISO14001 and ISO 9001 standards and the HACCAP system in compliance with the Codex Alimentarius standard.

Valamar Riviera is focused on continuous care for its employees, care for their satisfaction, and investments in their knowledge by providing tens of thousands of hours of internal training and education. The results are evident through valuable recognitions conferred to employees, awarding their commitment tovocations in hospitality sector. As part of the Tourism Days event, the Croatian National Tourist Board awarded three Valamar Riviera's employees within the category "Man – the Key to Success in Tourism". Employees confirm their expertise also by participating in various competitions on regular basis and scoring excellent results – from high rankings in F&B segment to top experts in congress tourism.Valamar Riviera's hotels, resorts, and campsites operate in compliance with the highest service and accommodation quality standards, as recognised by professionals and guests on regular basis and as confirmed by recognitions, awards, and evaluations giving Valamar Riviera's facilities high rankings on renowned world travel portals, which places Valamar at the very top of the Croatian tourism. Three Valamar Riviera's hotels have won prestigious World Travel Awards in the Leading Business Hotel category and the Leading Hotel in Croatia category for the third consecutive year, and in the Leading Resort in Croatia category for the second consecutive year, proving Valamar Riviera's continuous dedicationto ensuring high-quality service. The Croatian National Tourist Board awarded Cava Beach as be the Best Beach in 2015. Recognitions awarded by renowned tour operators are of no less importance –Thomas Cook conferred the "Proven Quality" recognition to 11 Valamar Riviera's hotels and resorts, while FIT Reisen conferred the "Proven Quality 2015" award. High ratings given by guests, reviews on reputable travel portals, as well as positive and motivating comments, ensure highest rankings of Valamar Riviera's facilities which brought the following awards in 2015: HolidayCheck "2015 Award", Hotels.com "Guest Review Score", TripAdvisor "2015 Certificate of Excellence", Travellers' Choice Award", Zoover "Kids HolidayTip!, Quality Mark 2015", "Zoover Award Gold", and "Zoover Award Bronze".

Awarding organisation	Award	Winner
Association of Croatian Travel Agencies and Way to Croatia tourism magazine	Simply the best 2015	Lanterna campsite
Kongres magazine	TOP 10 PREMIUM RESORT MEETING HOTELS	Valamar Lacroma Dubrovnik
Kvarner Tourist Board	Employee of the Year	Dubravka Brkljač, Corinthia hotel, Baška
Istria Tourist Board	Zlatna koza (Golden Goat)	Valamar Isabella Island Resort 4/5*
Association of Employers in Croatian Hospitality (UPUHH)	Sustainable Hotel	Valamar Dubrovnik President, Valamar Zagreb, Valamar Bellevue
LuxuryTravelGuide Global Awards 2016	LuxuryTravelGuide Global Awards 2016	Casa Valamar Sanfior
World Travel Awards	Leading Resort in Croatia	Valamar Club Tamaris
World Travel Awards	Leading Boutique Hotel	Valamar Riviera hotel
World Travel Awards	Leading Hotel	Valamar Lacroma Dubrovnik
World Travel Awards	Leading Business Hotel	Valamar Lacroma Dubrovnik
Hotels.com	Guest Review Score	Valamar Riviera hotel, Hotel & Casa Valamar Sanfior
HolidayCheck	2015 Award	Hotel & Casa Valamar Sanfior
Travelife	Travelife Gold Award	16 hotels and resorts
TripAdvisor	2015 Travellers' Choice Award	Valamar Bellevue Hotel & Residence
TripAdvisor	2015 Certificate of Excellence	Miramar Hotel
TUI Deutschland	TUI Environmental Champion 2015	Valamar Club Tamaris&Valamar Tamaris Residence, Valamar Dubrovnik President, Valamar Lacroma Dubrovnik
Thomas Cook	Proven Quality 2015	Crystal, Diamant, Valamar Club Tamaris, Rubin, Riviera, Zagreb, Pical, Sanfior, Albona, Miramar, Koralj
FIT Reisen	Premium Quality Hotel – Wellbeing	Valamar Diamant
Zoover Vakantiebeoordelingen & Kids Vakantiegids	Kids HolidayTip! Quality Mark 2015	Valamar Club Tamaris, Valamar Zagreb
Zoover	Zoover Award Gold 2015	Krk campsite
Zoover	Zoover Award Bronze 2015	Ježevac campsite, Lanterna apartments
Camping2be.com	Camping2be 2015 Award	Marina campsite
ADAC/ANWB	Best Camping 2015	Lanterna campsite, Krk campsite
HACCP	Codex Alimentarius	15 hotels and resorts
ISO	ISO 14001	26 properties
Ministry of Tourism	Q Mark	Valamar Riviera Hotel & Villa Parentino
FEE (Foundation for Environmental Education)	Blue Flag	Brulo, Oliva, Galeb, Valeta, Istra, Vala, Crnika, Krk campsite, Ježevac campsite, Valamar Dubrovnik President
Croatian National Tourist Board	The Best Employee in the "Waiter" Category	Jozo Krešić
Croatian National Tourist Board	The Best Sales and Marketing Employee in Tourism	Lucija Erhardt
Croatian National Tourist Board	The Best Reception Staff Employee	Smiljana Lovrić
Croatian National Tourist Board	Beach of the Year	Cava Beach
The European Business Awards	European Business Award 2014/2015	Valamar Riviera d.d.
Poslovni dnevnik (Croatian daily business newspaper and Internet portal) and Zagreb Stock Exchange	"Best Investor Relations"	Valamar Riviera d.d.
Leading Campings of Europe	Leading Campings of Europe for 2015	Lanterna campsite, Krk campsite
Zagreb Stock Exchange	Share of the Year 2015	Valamar Riviera d.d.
Zagreb Stock Exchange	Share with the Highest Growth in Trading	Valamar Riviera d.d.
National Chefs and Pastry Chefs Championship	2nd place	Dean Gluhak
10th Confectionary Championship – Association of the Italians (Novigrad)	1st and 3rd place	Ivan Ergović & Marija Franjić (Valamar Club Tamaris)
4th Croatian Conference Industry Forum	Croatian Meeting Industry Ambassador	Gorazd Surla, MICE Specialist (Dubrovnik)
Association of Employers in Croatian Hospitality (UPUHH)	The Best Four-Star Hotel in the Adriatic	Valamar Club Tamaris 4*
ISO	ISO 9001	20 properties

Other Information

By the end of second quarter of 2016, Valamar Riviera will publish its first integrated report covering sustainable development and financial performance in accordance with the internationally recognised Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines. Valamar Riviera has expressed its intention to join the Croatian Business Council for Sustainable Development and expects to be admitted to its membership in March 2016.

In the course of 2015, the Company's Management Board performed the actions provided for by law and the Articles of Association with respect to the management and representation of the Company, and planned a business policy that was implemented with prudent care. The Company's Management Board will continue to undertake all the necessary measures in order to ensure sustainability and business growth. The annual audited, separate and consolidated financial statements for 2015 were adopted by the Management Board on 4 March 2016.

The Company's Management Board expresses its gratitude to all shareholders, business partners, and guests for their support and trust, and particularly to all employees for their contribution.

Camping Solitudo, Dubrovnik

Management Board's decision on the proposal of profit distribution and Management Board's decision on establishing the Annual Financial Statements

VALAMAR RIVIERA d.d.
MANAGEMENT BOARD

Number: 108-1/16.
Poreč, 4.3.2016.

Pursuant to provisions from articles 250.a, 250.b, 300.a and 300.b of the Law on companies, articles 403 and 404 of the Law on capital market and article 19., 20. and 21. of the Accounting law, Valamar Riviera (Poreč, Stancija Kaligari 1, hereinafter: Valamar Riviera or Company) Management board on its meeting held on March 4, 2016 made the following

DECISION

I

The Valamar Riviera annual Statement of Finances has been established, all listed in text "YEAR 2015 – ANNUAL STATEMENT" enclosed to this Decision.

II

The audit and consolidated Statement of Finances for year 2015 has been established, all listed in the text that is an integral part of the Annual Statements stated in paragraph I of this Decision.

III

It is established that the Auditor KPMG Croatia d.o.o. from Zagreb made audit Annual Reports for 2015, all listed in the text that is the integral part of Report stated under paragraph I of this Decision.

IV

Management board report about condition of Company has been established for the period from 01.01.2015. till 31.12.2015. all in the text enclosed to the Report from paragraph I of this decision.

V

Decision proposal has been established to distribute the realized profits in the amount of HRK 105.854.201,03 as follows:

- The amount of HRK 5.292.710,05 in Company's legal reserves
- The amount of HRK 100.561.490,98 in Company's retained profits

Management Board's decision on the proposal of profit distribution and Management Board's decision on establishing the Annual Financial Statements (continued)

VI

Pursuant to the provision of Article 300. b of the Law on Companies:

1. the Annual Statements stated under paragraphs II and IV of this Decision shall be submitted to the Supervisory Board for examination and it is proposed to the Supervisory Board to approve those Annual Statement,
2. the audited Annual Report stated in paragraph III is delivered to the Supervisory Board to take the stand and
3. it is proposed that the Supervisory Board of the Company approve the proposal stated in the Decision on the allocation of profits pursuant to paragraph V of this Decision and to pass it as such to the General Meeting to be adopted.

VII

Zagreb stock exchange will be informed about this decision according to provision from the article 123 Rules of Zagreb stock exchange till the start of trading next day at the latest.

Upon making decisions of Supervisory board in the sense of peragraph VI, this Decision with decision proposal about using profits from paragraph V and Reports established in this Decision will be published according to provision from article 403 and article 440 paragraph 4 of the Law on capital market till April 30, 2016.

VIII

This Decision together with decision proposal about using the profits from paragraph V, Reports established in this Decision and Supervisory board decision from paragraph VI of this decision upon passing, will be delivered in the proscribed deadline to Financial agency due to publishing according to the provision from article 30 of Accounting law.

Željko Kukurin v.r.
President of Management Board

To be delivered to:
1. Supervisory Board
2. HANFA official register of proscribed information, according to paragraph VII
3. Zagreb stock exchange according to paragraph VII
4. FINA, according to paragraph VIII
5. Archive

Supervisory Board's resolution on approving the Annual Financial Statements

VALAMAR RIVIERA d.d.
SUPERVISORY BOARD
Number: 116-1/16.
In Poreč, 15th of March 2016

Based on Article 300.d, and according to Article 300.c of Companies Act and MB Decision no. 108-1/16 from March 4, 2016 the Supervisory Board of VALAMAR RIVIERA d.d. from Poreč at its session held on March 15, 2016 passed the following

RESOLUTION

I

The Yearly financial statements for 2015 of VALAMAR RIVIERA d.d. from Poreč – consolidated and non-consolidated which consists of: Profit and loss statement, Balance sheet, Notes to the financial statements, Cash flow statement, Statement of changes in shareholder's equity and Audit report made by the Auditor KPMG Croatia d.o.o. from Zagreb are approved.

II

By giving approval as said in paragraph I of this Decision, the Management Board and Supervisory Board determined the Yearly financial statements for 2015 of VALAMAR RIVIERA d.d. from Poreč.

Gustav Wurmböck
Supervisory Board President

Supervisory Board's resolution proposal on payment of dividend

VALAMAR RIVIERA d.d.
SUPERVISORY BOARD
Number: 116-4/16
In Poreč, 15th of March 2016

Supervisory Board of the Company VALAMAR RIVIERA d.d. at its session held on 15th of March 2016 passed the following

RESOLUTION

I
The consent is being given to proposed Decision on payment of dividend, all according to Management Board decision number: 108-3/16 from March 4th, 2016, all attached to this decision, as follows
Pursuant to Article 275. paragraph 1 point 2, of the Law on commercial companies, General Assembly of the company VALAMAR RIVIERA joint stock company for tourism seated in Poreč, Stancija Kaligari 1, 040020883, OIB: 36201212847, (hereinafter: the Company) on the __.__.2016 is bringing the following

DECISION
on payment of dividend

I
To shareholders of the Company will be paid dividend in amount of 0,60 kn (sixty lipa) per each share.

II
Dividend will be paid from retained profits of the year 2013 .

III
Right to receive payment of dividend has each Company shareholder, owner of the shares registered on their accounts of dematerialized securities in the computer system of the Central Depository and Clearing Agency on May 4th 2016 (record date). The day from when the trade will be performed without right for dividend payment is May 3th 2016 (ex date).

IV
Dividend will be paid on May 27th 2016

V
This decision is on force from the day it is adopted."

II
The proposal is given to the General Assembly to adopt the compliant proposal made by the Supervisory Board and the Management Board established in paragraph I of this decision.

Gustav Wurmböck
Supervisory Board President

Supervisory Board's report on the performed supervision of Company's business management in 2015

VALAMAR RIVIERA d.d.
SUPERVISORY BOARD
Number: 116-2/16.
In Poreč, March 15, 2016

Based on article 263., paragraph 3. and article 300.c paragraph 3. of Companies Act the Supervisory Board of VALAMAR RIVIERA d.d. from Poreč at its session held on March 15, 2016 passed the following

REPORT

To the General Assembly of VALAMAR RIVIERA d.d. from Poreč
On the supervision on managing the Company's business in 2015

I

In 2015, to which this report refers to, Supervisory board consisted of: Gustav Wurmböck, president, Mladen Markoč, deputy president, and members: Georg Eltz, Mariza Jugovac, Gudrun Kuffner, Hans Dominik Turnovszky i Vicko Ferić until 8th of June 2015. Because of resignation received from Gudrun Kuffner, at General Assembly held on 8th of June new member, Franz Lanschützer is elected, and on the Supervisory Board meeting held on 9th of June he is also elected for deputy presidend. Therefore, starting from 9th of June, Supervisory board consisted of: Gustav Wurmböck, president, Franz Lanschützer and Mladen Markoč, deputy presidents, and members: Georg Eltz, Mariza Jugovac, Hans Dominik Turnovszky i Vicko Ferić.

II

During 2015 the Supervisory Board regularly received written reports on the business, as well as other reports and Management Board proposals and decisions which the Supervisory Board have examined and decided according to regulations and Company's Statue. During 2015 the Supervisory Board held 14 sessions out of which 10 via correspondence, all according to Company's Statue at which it discussed many issues related to the Company business and supervised managing Company's business.

Supervisory board had formed the following committees during 2015, in order to fulfil its functions, and to prepare its decisions more efficiently, the following committees: The presidium of the supervisory board consisting of the chairman Gustav Wurmböck and deputy chairmen: Franz Lanschützer and Mladen Markoč; The audit committee which consist of: Georg Eltz, president of the committee and Franz Lanschützer, Mladen Markoč, Vicko Ferić and Dubravko Kušeta, and The committee for investments which consist of: Franz Lanschützer, president of the committee, Georg Eltz, Vicko Feric ,Hans Dominik Turnovszky and Gustav Wurmböck. Committees had, in order to fulfil its tasks, together with Management board and other responsible persons and expert in the Company, held fifteen (15) meetings in 2015.

III

In accordance with their obligations during 2015 the Supervisory Board maintained the supervisory role through sessions and received acts and information by the Management Board and

e s t a b l i s h e d

that VALAMAR RIVIERA d.d. from Poreč operates in accordance with the law, Company's Statue and other acts and Company's decisions.

Supervisory Board's report on the performed supervision of Company's business management in 2015 (continued)

IV

The Supervisory Board specially examined the reports and decision proposals submitted by the Management Board, namely:

- Yearly financial statements of VALAMAR RIVIERA d.d. from Poreč for 2015 – consolidated and non-consolidated which consists of: Profit and loss statement, Balance sheet, Notes to the financial statements, Cash flow statement, Statement of changes in shareholder's equity and Audit report made by the Auditor KPMG Croatia d.o.o. from Zagreb,
- Yearly Management Board report on the Company status,
- MB proposal on profit allocation and payment of dividend,
- Report on relations with affiliated companies for 2015 with Auditor report.

At its session and in the presence of Auditor of the Company KPMG Croatia d.o.o. from Zagreb, the Supervisory Board examined the submitted Yearly financial statements for 2015 and established that they are formed in accordance with the Company's business books and that they show correct business status of the Company and that there are no objections to it.
The Supervisory Board doesn't have any objections to the opinion of Audit committee, regarding Auditor's report on the preformed audit. Also, Supervisory board doesn't have and objections to the Yearly Management Board report on the Company status.
The Supervisory Board in the presence of Auditor from the audit company KPMG Croatia d.o.o. from Zagreb examined the Report of Management Board on relations with affiliated companies with the Auditor report and does not have any objections.

V

Besides the examination of the above specified, according to the Company's Statue, the Supervisory Board supervised managing the Company's business by considering decision proposals of the Management Board for whose adoption an approval by the Supervisory Board is needed. In that part, the Supervisory Board gave a special attention on the conditions for concluding legal affairs, concessions, managing the real estates, particularly lease of business premises, both from aspects of fair revenue for Company and from the aspect of appropriate services that should be provided by the Company. Also, Supervisory Board dedicated specially approved each Company's debenture and regularly monitored Company's financial and cash flow.

Besides above, Supervisory board regularly reviewed monthly business results paying attention to each business facility and to this Company as a whole, all regarding previously adopted business plans. In this field special attention was devoted to business plan for 2016.
Furthermore, Supervisory Board during 2015 paid particular attention to reviewing, directing and approving of planned investments in all stages of their preparation and realization, especially from the point of real needs to raise the overall level of quality and standards of Company's facilities, real opportunities of sales of such services on the emitting markets and their financial feasibility and profitability.
Supervisory Board examined and gave all necessary agreements and approvals in the procedure of merger of company Valamar hotels and resorts d.o.o. as merged company to the Company as take over company. The merger process which were finalized upon entry to the court register on February 27, 2015
Supervisory Board had, with special attention, monitored Management Board in processes of share purchases and potential acquisitions of strategic importance for Valamar Riviera. One of the most important activities to which Supervisory Board paid particular attention in 2015 were all procedures and documents prescribed for preparation and conclusion of purchase of shares in the company HOTELI BAŠKA d.d., (including shares in the companies BAŠKATURIST d.o.o., MIRTA BAŠĆANSKA d.o.o. i VALA BAŠĆANSKA d.o.o.) and the squeeze out procedure of minority shareholders. All the procedures were finalized upon entry to the court register on December 14, 2015 from which date Valamar Riviera d.d. became directly and indirectly the only shareholder of HOTELI BAŠKA d.d.

Supervisory Board's report on the performed supervision of Company's business management in 2015 (continued)

Finally, Supervisory board decided that Management board will consist of two (2) members and appointed Mr. Željko Kukurin as Management board presidend with the decision on force since 9th of June 2015. Mr. Marko Čižmek was again appointed as Management board member upon expiration of mandate. President and member of Management board are appointed on a mandate lasting until 31st of December 2018.

VI
Based on all mentioned, and according to total knowledge from the supervision of managing Company's business and received information during the course of work of Supervisory board in the period from January 1 till December 31, 2015 and conducted examinations from item V of this Report, on its session held on March 15, 2016 Supervisory board passed

A)
gave his approval to

1. Yearly financial statements of VALAMAR RIVIERA d. d. from Poreč for 2015,
2. Report on the performed audit made by the Auditor KPMG Croatia d.o.o. from Zagreb,
3. Yearly Management Board Report on the Company status,
4. Decision proposal on the usage of the profit realized in 2015.

and by doing so, according to Article 300.d of the Law on Companies, Yearly financial statements of VALAMAR RIVIERA d. d. from Poreč for 2015 are considered established both by the Management Board and by the Supervisory Board.

B)
Does not have objections
on the Management Board statement according to provisions of article 497. paragraph 3. of Companies Act in Report on relations with related companies for 2015.

and

agrees with

Auditor's report KPMG Croatia d.o.o. on Report of MB on relations with related companies for 2015.

Gustav Wurmböck
Supervisory Board President

Responsibility for the Annual Financial Statements

In Poreč, 4.3.2015

In accordance with provisions of Law on Capital Market, Marko Čižmek, Management board member responsible for finance, treasury and IT business as well as relations with institutional investors and Ljubica Grbac director of Department of Finance and Accounting, procurator and person responsible for finance and accounting, together as persons responsible for the preparation of annual reports of company VALAMAR RIVIERA d.d. seated in Poreč, Stancija Kaligari 1, OIB 36201212847 (hereinafter: Company), hereby make the following

STATEMENT

According to our best knowledge

- The set of audited, consolidated and unconsolidated financial statements for 2015, prepared in accordance with applicable standards of financial reporting gives a true and fair view of the assets and liabilities, profit and loss, financial position and operations of the Company and the companies included in consolidation

- Report of the Company's Management board for the period from 1st January to 31st December 2015 contains the true presentation of development, results and position of the Company and companies included in the consolidation, with description of significant risks and uncertainties which the Company and companies included in consolidation are exposed

VALAMAR RIVIERA d.d.
POREČ (5)

Marko Čižmek
Management board member

Ljubica Grbac
director of Department of Finance
and Accounting

Valamar Riviera d.d., Poreč

Independent auditors' report and financial statements 31 December 2015

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Independent Auditors' Report to the shareholders of Valamar Riviera d.d., Poreč

We have audited the accompanying separate financial statements of Valamar Riviera d.d. ("the Company") and the accompanying consolidated financial statements of Valamar Riviera d.d. and its subsidiaries ("the Group"). The financial statements comprise the statements of financial position as at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb,
Croatia

4 March 2016

This version of our audit report is a translation from the original, which was prepared in the 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 the report takes precedence over this translation.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

(all amounts are expressed in thousands of HRK)	Note	Group 2015	Group 2014* (See Note 1)	Company 2015	Company 2014 (See Note 1)
Revenue	5	1,268,725	1,077,699	1,183,211	1,065,151
Other income	6	18,998	20,954	41,848	18,978
Cost of materials and services	7*	(403,000)	(365,065)	(409,750)	(463,141)
Staff costs	8	(371,035)	(350,152)	(348,837)	(303,414)
Depreciation and amortisation	14, 15, 16	(232,922)	(202,977)	(206,773)	(186,426)
Other operating expenses	9*	(105,286)	(98,990)	(97,222)	(84,663)
Other gains – net	10	3,567	4,561	3,784	4,571
Operating profit		**179,047**	**86,030**	**166,261**	**51,056**
Finance income		4,422	9,950	4,374	5,881
Finance costs		(50,542)	(36,928)	(43,826)	(29,670)
Finance costs – net	**11**	**(46,120)**	**(26,978)**	**(39,452)**	**(23,789)**
Profit before tax		**132,927**	**59,052**	**126,809**	**27,267**
Income tax expense	12	(27,465)	(7,658)	(20,955)	(3,639)
Profit for the year		**105,462**	**51,394**	**105,854**	**23,628**
Other comprehensive income					
Items that may be reclassified to profit or loss					
Change in value available-for-sale financial assets	20	2,203	4,090	2,101	(720)
Tax on other comprehensive income		(428)	(818)	(419)	144
Total comprehensive income for the year		**107,237**	**54,666**	**107,536**	**23,052**
Profit attributable to:					
Owners of the parent		105,442	51,381	-	-
Non-controlling interests		20	13	-	-
		105,462	**51,394**	**-**	**-**
Total comprehensive income attributable to:					
Owners of the parent		107,217	54,653	-	-
Non-controlling interests		20	13	-	-
		107,237	**54,666**	**-**	**-**
Earnings per share (in HRK) attributable to equity holders of the Group during the year:					
- basic and diluted	13	0.84	0.47	-	-

*As explained in Note 2.1.1 the Group has reclassified marketing expenses to the Cost of material and services.

Accompanying notes form an integral parts of these financial statements.

These financial statements were approved by the Management Board of the Company on 4 March 2016.

President of the Management Board:
Željko Kukurin

Member of the Management Board:
Marko Čižmek

VALAMAR RIVIERA d.d.
POREČ (5)

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2015

(all amounts are expressed in thousands of HRK)	Note	Group 31 December 2015	Group 31 December 2014 (See Note 1)	Company 31 December 2015	Company 31 December 2014 (See Note 1)
ASSETS					
Non-current assets					
Property, plant and equipment	14	3,043,554	2,585,889	2,361,333	2,262,187
Investment property	15	21,741	22,932	18,462	19,508
Intangible assets	16	17,007	15,086	9,202	8,157
Investment in subsidiaries	17	-	-	583,263	400,478
Interest in joint venture	18	1,242	1,340	1,490	1,490
Deferred tax assets	26	60,513	83,416	20,338	40,656
Available-for-sale financial assets	20	44,902	42,092	41,124	39,032
Derivative financial instruments	25	141	-	141	-
Loans and deposits	21	945	733	645	733
Trade and other receivables	23	-	-	135,815	162,454
		3,190,045	2,751,488	3,171,813	2,934,695
Current assets					
Inventories	22	9,761	7,279	9,605	7,124
Trade and other receivables	23	45,969	58,240	71,624	83,695
Income tax receivable		1,610	974	477	974
Loans and deposits	21	479	1,231	396	982
Financial assets at fair value through profit or loss	24	-	1,091	-	1,091
Cash and cash equivalents	27	318,755	195,201	301,797	166,189
		376,574	264,016	383,899	260,055
Total assets		**3,566,619**	**3,015,504**	**3,555,712**	**3,194,750**
EQUITY AND LIABILITIES					
Share capital	28	1,672,021	1,672,021	1,672,021	1,672,021
Treasury shares	28	(33,513)	(13,303)	(29,046)	(8,836)
Capital reserves	29	(374)	(18,595)	109	(8,394)
Fair value reserves	29	31,188	29,413	31,432	29,750
Legal reserves	29	61,906	60,724	61,906	60,724
Other reserves	29	58,381	79,029	178,143	254,711
Retained earnings	29	111,984	74,356	174,017	79,345
		1,901,593	1,883,645	2,088,582	2,079,321
Non-controlling interest		98	91	-	-
Total equity		**1,901,691**	**1,883,736**	**2,088,582**	**2,079,321**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

For the year ended 31 December 2015

(all amounts are expressed in thousands of HRK)	Note	Group 31 December 2015	Group 31 December 2014 (See Note 1)	Company 31 December 2015	Company 31 December 2014 (See Note 1)
LIABILITIES					
Non-current liabilities					
Borrowings	30	1,306,224	822,163	1,158,888	813,686
Derivative financial instruments	25	1,569	2,390	1,569	2,390
Deferred tax liabilities	26	22,804	2,298	2,718	2,298
Provisions	32	31,014	26,807	31,014	26,807
		1,361,611	853,658	1,194,189	845,181
Current liabilities					
Trade and other payables	31	139,508	154,045	125,272	150,991
Borrowings	30	139,838	103,814	125,356	102,569
Derivative financial instruments	25	1,736	1,548	1,736	1,548
Provisions	32	22,235	18,703	20,577	15,140
		303,317	278,110	272,941	270,248
Total liabilities		**1,664,928**	**1,131,768**	**1,467,130**	**1,115,429**
Total equity and liabilities		**3,566,619**	**3,015,504**	**3,555,712**	**3,194,750**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2015

Group

(in thousands of HRK)	Note	Share capital	Treasury shares	Capital reserves	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2014	28	**1,117,663**	**(33,847)**	**466,741**	**-**	**-**	**167,682**	**25,658**	**1,743,897**	**-**	**1,743,897**
Profit for the year		-	-	-	-	-	-	51,381	51,381	13	**51,394**
Other comprehensive income	29	-	-	-	-	3,272	-	-	3,272	-	**3,272**
Total comprehensive income/(loss)		**-**	**-**	**-**	**-**	**3,272**	**-**	**51,381**	**54,653**	**13**	**54,666**
Reissue of shares	29	554,358	46,582	(350,000)	-	-	-	-	250,940	-	**250,940**
Effect of merger	29	-	-	(146,805)	-	26,517	31,977	(3,209)	(91,520)	-	**(91,520)**
Intragroup transfer of subsidiaries	29	-	(4,467)	-	-	(455)	-	3,458	(1,464)	78	**(1,386)**
Transfer to legal reserves		-	-	-	2,932	-	-	(2,932)	-	-	**-**
Transfer		-	-	-	-	79	(79)	-	-	-	**-**
Transfer	28,29	-	-	-	57,792	-	(57,792)	-	-	-	**-**
Transfer		-	(11,469)	11,469	-	-	-	-	-	-	**-**
Treasury shares purchase	28,29	-	(10,102)	-	-	-	-	-	(10,102)	-	**(10,102)**
Dividends paid	28,29	-	-	-	-	-	(62,759)	-	(62,759)	-	**(62,759)**
Total contributions by and distributions to owners of the company, recognised directly in equity		**554,358**	**20,544**	**(485,336)**	**60,724**	**26,141**	**(88,653)**	**(2,683)**	**85,095**	**78**	**85,173**
Balance at 31 December 2014		**1,672,021**	**(13,303)**	**(18,595)**	**60,724**	**29,413**	**79,029**	**74,356**	**1,883,645**	**91**	**1,883,736**
Profit for the year		-	-	-	-	-	-	105,442	105,442	20	**105,462**
Other comprehensive income	29	-	-	-	-	1,775	-	-	1,775	-	**1,775**
Total comprehensive income		**-**	**-**	**-**	**-**	**1,775**	**-**	**105,442**	**107,217**	**20**	**107,237**
Transfer to legal reserves	28,29	-	-	-	1,182	-	-	(1,182)	-	-	**-**
Capital loss cover	29	-	-	8,394	-	-	(8,394)	-	-	-	**-**
Treasury shares released		-	930	109	-	-	-	-	1,039	-	**1,039**
Treasury shares purchase	29	-	(21,140)	-	-	-	-	-	(21,140)	-	**(21,140)**
Transfer to treasury shares reserve	29	-	-	-	-	-	10,000	(10,000)	-	-	**-**
Dividends paid	29	-	-	-	-	-	(22,254)	(46,431)	(68,685)	-	**(68,685)**
Change in non-controlling interest	29	-	-	(483)	-	-	-	-	(483)	(13)	**(496)**
Transfer to retained earnings	29	-	-	10,201	-	-	-	(10,201)	-	-	**-**
Total contributions by and distributions to owners of the company, recognised directly in equity		**-**	**(20,210)**	**18,221**	**1,182**	**-**	**(20,648)**	**(67,814)**	**(89,269)**	**(13)**	**(89,282)**
Balance at 31 December 2015		**1,672,021**	**(33,513)**	**(374)**	**61,906**	**31,188**	**58,381**	**111,984**	**1,901,593**	**98**	**1,901,691**

Accompanying notes form an integral parts of these financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2015

Company

(in thousands of HRK)	Note	Share capital	Treasury shares	Capital reserves	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2014	28	**1,117,663**	**(33,847)**	**466,741**	**57,792**	**-**	**285,789**	**58,649**	**1,952,787**
Profit for the year		-	-	-	-	-	-	23,628	23,628
Other comprehensive loss	29	-	-	-	-	(576)	-	-	(576)
Total comprehensive income		**-**	**-**	**-**	**-**	**(576)**	**-**	**23,628**	**23,052**
Reissue of shares	29	554,358	46,582	(350,000)	-	-	-	-	250,940
Effect of merger	29	-	-	(136,604)	-	30,247	31,977	-	(74,380)
Transfer to legal reserves	28,29	-	-	-	2,932	-	-	(2,932)	-
Transfer	28,29	-	-	-	-	79	(79)	-	-
Transfer	37	-	(11,469)	11,469	-	-	-	-	-
Treasury shares purchase		-	(10,102)	-	-	-	-	-	(10,102)
Dividends paid	28,29	-	-	-	-	-	(62,976)	-	(62,976)
Total contributions by and distributions to owners of the company, recognised directly in equity		**554,358**	**25,011**	**(475,135)**	**2,932**	**30,326**	**(31,078)**	**(2,932)**	**103,482**
Balance at 31 December 2014		**1,672,021**	**(8,836)**	**(8,394)**	**60,724**	**29,750**	**254,711**	**79,345**	**2,079,321**
Profit for the year		-	-	-	-	-	-	105,854	105,854
Other comprehensive loss	29	-	-	-	-	1,682	-	-	1,682
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**1,682**	**-**	**105,854**	**107,536**
Effect of merger	29	-	-	-	-	-	(9,251)	-	(9,251)
Transfer to treasury shares reserve	29	-	-	-	-	-	10,000	(10,000)	-
Transfer to legal reserves	29	-	-	-	1,182	-	-	(1,182)	-
Transfer to capital reserves	29	-	-	8,394	-	-	(8,394)	-	-
Treasury shares released	29	-	930	109	-	-	-	-	1,039
Treasury shares purchase	28,29	-	(21,140)	-	-	-	-	-	(21,140)
Dividends paid	29	-	-	-	-	-	(68,923)	-	(68,923)
Total contributions by and distributions to owners of the company, recognised directly in equity		**-**	**(20,210)**	**8,503**	**1,182**	**-**	**(76,568)**	**(11,182)**	**(98,275)**
Balance at 31 December 2015		**1,672,021**	**(29,046)**	**109**	**61,906**	**31,432**	**178,143**	**174,017**	**2,088,582**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

(all amounts are expressed in thousands of HRK)	Note	Group 2015	Group 2014 *(See Note 1)*	Company 2015	Company 2014 *(See Note 1)*
Cash flow generated from operating activities					
Cash from operations	35	427,188	261,155	411,266	274,298
Income tax paid/(received)	12	(3,706)	1,917	-	9,299
Net cash generated from operating activities*	2.1.1	**423,482**	**263,072**	**411,266**	**283,597**
Cash flow from investing activities					
Cash from merger of subsidiary	37	-	1,391	14,234	1,391
Cash from merger of parent companies	37	-	5,308	-	5,308
Purchase of property, plant and equipment	14	(342,715)	(376,781)	(339,409)	(376,622)
Purchase of intangible assets	16	(4,206)	(1,657)	(3,934)	(1,657)
Proceeds from disposal of property, plant and equipment		960	157	405	145
Acquisition of subsidiary	38	(172,789)	-	(188,226)	-
Acquisition of non-controlling interest	38	(9,769)	-	-	-
Subsidiaries intragroup transfer		-	52,966	-	-
Proceeds from disposal of financial assets held for sale		1,669	196	1,091	196
Loans granted		(403)	(43)	(78)	(43)
Loan repayments received		943	45,320	752	46,050
Dividend received		69	-	-	-
Interest received		5.366	12,359	5,315	8,293
Net cash used in investing activities		**(520,875)**	**(260,784)**	**(509,850)**	**(316,939)**
Cash flow from financing activities					
Dividend payment	29	(68,685)	(62,759)	(68,923)	(62,976)
Purchase of treasury shares	29	(21,140)	(10,102)	(21,140)	(10,102)
Interest paid	2.1.1	(30,189)	(29,458)	(24,930)	(23,032)
Proceeds from borrowings		863,913	415,549	857,540	415,549
Repayments of borrowings		(522,952)	(343,422)	(508,355)	(342,664)
Net cash used in financing activities*		**220,947**	**(30,192)**	**234,192**	**(23,225)**
Net increase in cash and cash equivalents		**123,554**	**(27,904)**	**135,608**	**(56,567)**
Cash and cash equivalents at beginning of year		195,201	223,105	166,189	222,756
Cash and cash equivalents at end of year	27	**318,755**	**195,201**	**301,797**	**166,189**

*As explained in note 2.1.1 Group and the Company has reclassified interest paid to net cash used in financing activities.

Accompanying notes form an integral parts of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

NOTE 1 – GENERAL INFORMATION

Valamar Riviera d.d., Poreč ("the Company") is registered in accordance with Croatian laws and regulations. The Company is registered with the Commercial Court in Pazin. Principle activity of the Company is the provision of accommodation in hotels, resorts and camps, food preparation and catering services as well as the preparation and serving of beverages. The registered office of Valamar Riviera d.d. is in Poreč, Stancija Kaligari 1.
Valamar Riviera Group consists of Valamar Riviera d.d., Poreč for tourism services (the Company) and its subsidiaries as follows (the Group):

- Elafiti Babin kuk d.o.o., Dubrovnik, 100% ownership
- Palme turizam d.o.o., Dubrovnik, 100% ownership
- Magične stijene d.o.o., Dubrovnik, 100% ownership
- Bugenvilia d.o.o., Dubrovnik, 100% ownership
- Pogača Babin kuk d.o.o., Dubrovnik, 33% ownership, joint venture
- Valamar hoteli i ljetovališta d.o.o., 100% ownership (subsidiary from 1 October 2014 and merged into parent company on 27 February 2015)
- Puntižela d.o.o., 99,39% ownership (subsidiary from 1 October 2014)
- Bastion upravljanje d.o.o., 100% ownership (subsidiary from 1 October 2014)
- Linteum savjetovanje d.o.o., 100% ownership (subsidiary from 1 October 2014 until 15 December 2014 and merged into parent company on 15 December 2014)
- Citatis savjetovanje d.o.o., Bastion upravljanje d.o.o. holds 100% ownership (subsidiary from 1 October 2014 and merged into Bastion upravljanje d.o.o. on 12 November 2015)
- Valamar Hotels & Resorts GmbH, 100% ownership (subsidiary from 1 October 2014, in the process of the liquidation)
- Hoteli Baška d.d., Baška, 85,22% ownership from 18 June 2015 and 100% ownership from 14 December 2015 (Note 38 and 39)
- Baškaturist d.o.o., Baška, 100% ownership from 18 June 2015
- Mirta Bašćanska d.o.o., Baška, 100% ownership from 18 June 2015
- Vala Bašćanska d.o.o., Baška, 100% ownership from 18 June 2015

The Company's shares are listed and traded in 2015 on the Zagreb Stock Exchange d.d. in accordance with the relevant regulations on the organized market.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 1 – GENERAL INFORMATION (continued)

Components in the Statements of financial position and comprehensive income is presented below in the following table which provides effects of various mergers and acquisitions on corresponding information.

Table 1.

		Group				Company			
		Statement of financial position		Statement of comprehensive income		Statement of financial position		Statement of comprehensive income	
Company	Note	31.12. 2015	31.12. 2014	2015	2014	31.12. 2015	31.12. 2014	2015	2014
Valamar grupa d.d.	a	✔	✔	1.1-31.12	1.1-31.12	✔	✔	1.1-31.12	1.10-31.12
Valamar Adria holding d.d.	a	✔	✔	1.1-31.12	1.1-31.12	✔	✔	1.1-31.12	1.10-31.12
Linteum savjetovanje d.o.o.	b	✔	✔	1.1-31.12	1.1-31.12	✔	✔	1.1-31.12	15.12-31.12
Epima d.o.o.	c	✔	✔	1.1-31.12	1.1-31.12	✔	✔	1.1-31.12	1.10-31.12
Valamar turistički projekti d.o.o.	d	✔	✔	1.1-31.12	1.1-31.12	✔	-	28.2-31.12	-
Valamar poslovni razvoj d.o.o.	e	✔	✔	1.1-31.12	1.10-31.12	✔	-	28.2-31.12	-
Valamar hoteli i ljetovališta d.o.o	f	✔	✔	1.1-31.12	1.1-31.12	✔	-	28.2-31.12	-
Hoteli Baška d.d.	h	✔	-	18.6-31.12	-	-	-	-	-
Baškaturist d.o.o.	h	✔	-	18.6-31.12	-	-	-	-	-
Mirta Bašćanska d.o.o.	h	✔	-	18.6-31.12	-	-	-	-	-
Vala Bašćanska d.o.o.	h	✔	-	18.6-31.12	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 1 – GENERAL INFORMATION (continued)

a) On 30 September 2014, a merger Agreement was concluded, whereby companies Valamar grupa d.d., Zagreb and Valamar Adria holding d.d. were merged into Valamar Riviera d.d., Poreč. The merger was registered in the Court Registry of the Commercial Court in Rijeka, seated in Pazin, as at 30 September 2014, with legal effect as of 1 October 2014. By this registration, the merged companies Valamar grupa d.d. and Valamar Adria holding d.d. ceased to exist, and the company Valamar Riviera d.d., took over all assets, all rights and all liabilities of the merged company.

b) On 15 December 2014, a merger Agreement was concluded, whereby the company Linteum savjetovanje d.o.o., Zagreb was merged into Valamar Riviera d.d., Poreč. The merger was registered in the Court Registry of the Commercial Court in Rijeka, seated in Pazin, as at 15 December 2014, with legal effect as of 16 December 2014. By this registration, the merged company Linteum savjetovanje d.o.o., Zagreb ceased to exist, and company Valamar Riviera d.d., took over all assets, all rights and all liabilities of the merged company.

c) On 14 July 2014 the company Epima d.o.o. was merged into Valamar grupa d.d.

d) On 29 April 2014 the company Valamar turistički projekti d.o.o. was merged into Valamar hoteli i ljetovališta d.o.o.

e) On 30 September 2014 the company Valamar hoteli i ljetovališta d.o.o. has acquired 100% of shares in Valamar poslovni razvoj d.o.o. On 29 November 2014 the company Valamar poslovni razvoj d.o.o. was merged into Valamar hoteli i ljetovališta d.o.o.

f) On 27 February 2015, a merger Agreement was concluded, whereby the company Valamar hoteli i ljetovališta d.o.o., Zagreb was merged into Valamar Riviera d.d., Poreč. The merger was registered in the Court Registry of the Commercial Court in Rijeka, seated in Pazin, as at 27 February 2015, with legal effect as of 28 February 2015. By this registration, the merged company Valamar hoteli i ljetovališta d.o.o. Zagreb ceased to exist, and company Valamar Riviera d.d., took over all assets, all rights and all liabilities of the merged company.

g) On 12 November 2015, a merger Agreement was concluded, whereby the company Citatis savjetovanje d.o.o., Zagreb was merged into Bastion upravljanje d.o.o., Zagreb. The merger was registered in the Court Registry of the Commercial Court in Zagreb, as at 12 November 2015, with legal effect as of 13 November 2015. By this registration, the merged company ceased to exist, and Bastion d.o.o. took over all assets, all rights and all liabilities of the merged company.

h) On 18 June 2015, the company Valamar Riviera d.d. acquired 100% shares in the companies Baškaturist d.o.o., Mirta Bašćanska d.o.o. and Vala Bašćanska d.o.o., all based in Baška, as well as 1.40% shares in the company Hoteli Baška d.d. (together:"Hoteli Baška d.d. acquisition). Since the above-mentioned limited liability companies held shares in the company Hoteli Baška d.d. constituting 83.82% of the share capital of the company, Valamar Riviera d.d. thus acquired 85.22% shares in the company Hoteli Baška d.d. Group Baška is included in consolidation from the date of acquisition. In the subsequent period, the parent company purchased shares in Hoteli Baška d.d. and with the acquisition of 95% shares as major shareholder on 10 August 2015 initiated a squeeze out process for Hoteli Baška d.d. With Decision number Tt-6876-6 of the Commercial Court in Rijeka, the decision on the transfer of the shares of minority shareholders was entered in the court register on 14 December 2015, and the process was completed on 15 December 2015 with the implementation of the corporate action of transfer and registration of the shares of minority shareholders in SKDD (the Central Depository & Clearing Company). On 21 December 2015, with the conclusion of the contract on the merger of the companies Baškaturist d.o.o., Mirta Bašćanska d.o.o. and Vala Bašćanska d.o.o. into the company Hoteli Baška d.d., the merger process with parent company was initiated.

Transactions of mentioned mergers were recorded according to accounting method of merger of companies under common control. Results for the year of the merged companies are accounted for in the Statement of Comprehensive Income of the company Valamar Riviera d.d. from the date of merger, while Statement of comprehensive income of the Group for the prior year includes the results of the merged companies for the whole year, as detailed in Table 1 above. Merger effects for Valamar hoteli i ljetovališta d.o.o., Zagreb are disclosed in Note 37.

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 financial statements of the Group and Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The financial statements have been prepared under the historical cost method, except for the financial assets at fair value through profit or loss and financial assets available-for sale.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The preparation of financial statements in accordance with International Financial Reporting Standards as adopted by European Union (IFRS) requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the notes.

Financial statements represent unconsolidated and consolidated financial position and results of the Company and the Group, respectively.

2.1.1 Changes in the presentation of financial statements for 2014

Statement of comprehensive income

The Group has reclassified marketing expenses in 2014 in the statement of comprehensive income which were included in Other operating expenses to the Professional services included in the Cost of materials and services to improve its presentation. Effect of reclassification on comparative information in the statement of comprehensive income of the Group is presented below:

Group (in thousands of HRK)	**As previously reported**	**Reclassification**	**Reclassified**
Marketing, promotion and fairs	17,332	9,432	26,764
Cost of materials and services	355,633	9,432	365,065
Professional services	31,925	(9,432)	22,493
Other operating expenses	108,422	(9,432)	98,990

Statement of cash flows

During 2015, Group and the Company has changed the presentation of interest paid in the statement of cash flows by reclassifying interest paid to the net cash used in financing activities which is in line with company's main activity. Effect of reclassification on comparative information in the statement of cash flows of Group and the Company are presented below:

(in thousands of HRK)	**As previously reported**	**Reclassification**	**Reclassified**
Group			
Net cash generated from operating activities	233,614	29,458	263,072
Net cash used in financing activities	(734)	(29,458)	(30,192)
Company			
Net cash generated from operating activities	260,565	23,032	283,597
Net cash used in financing activities	(193)	(23,032)	(23,225)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1.2 Changes in accounting policy and disclosures

A number of new standards, amendments to standards and interpretations are effective but not mandatory for annual periods beginning on or after 1 January 2015 and earlier application is permitted, and have not been applied in preparing these financial statements. The application of new standards is not expected to have a significant influence on the financial statements of the Group and the Company and their early adoption is not planned.

2.2 Consolidation

(a) Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

In the consolidated financial statements inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Joint ventures
The Group's interests in joint ventures are accounted for under the equity method. Under this method, an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets of the jointly controlled entity. The profit or loss of the venturer includes the venturer's share of the profit or loss of the jointly controlled entity. In the Company's separate financial statements interest in joint venture is measured at cost less impairment.

2.2.1 Subsidiaries in separate financial statements

The Company discloses its subsidiaries at cost less impairment (note Investment in subsidiaries).

2.3 Merger of entities and transactions with companies under common control

Merger of entities from parties under common control are accounted for using book values (carryover basis accounting). Under this method, the assets and liabilities of the entities under common control are transferred at the predecessor entities carrying amounts. Related goodwill inherent in the predecessor entity's original acquisitions are also recorded in these financial statements. Any difference between the carrying amount of net assets, and the consideration paid is accounted for in these financial statements as an adjustment to equity.

2.4 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 a person or group responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-maker is the Group Management which is in charge of managing hotel and tourist properties and facilities.

2.5 Foreign currencies

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

(b) Transactions and balances in foreign currency
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates 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/(losses) – net'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment

Property, plant and equipment is included in the statement of financial position at historical cost less accumulated depreciation and impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Group 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 replaced parts is derecognized.

Land, arts and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment 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	4-10 years
Furniture, tools and horticulture	3-10 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 Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The operating assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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.

2.7 Intangible assets

(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiary is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Software
Separately 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.

2.8 Impairment of non-financial assets

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.

2.9 Non-current assets classified as held for sale

Non-current assets are classified in the statement of financial position as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying and fair value, less costs to sell. The assets should be available for immediate sale in their present condition and their sale should be very likely. Gains and losses on sale of non-current assets held for sale are included in the statement of comprehensive income within 'other gains/(losses) – net'.

2.10 Investment property

Investment property, principally comprising business premises, is held for long-term rental yields or appreciation and is not occupied by the Group. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investment property (continued)

Investment property is carried at historical cost less accumulated depreciation and provision for impairment, where required. Investments in progress are not depreciated. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (using depreciation rate of 4%).

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

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets except derivative financial instruments.

(b) 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 reporting date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables.

(c) 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 management intends to dispose of the investment within 12 months from the reporting date. Available-for-sale financial assets are carried at fair value.

(d) Repurchase agreements

The Company enters into sales of investments under agreements to repurchase substantially identical investments at a certain date in the future at a fixed price. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference in the effective interest rate between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest expense.

2.11.2 Measurement and recognition

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group 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. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other (losses)/gains- net' in the period in which they arise. Gain and losses arising from changes in the fair value of interest rate swap are presented in the statement of comprehensive income within other gains/losses. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of 'other income' when the Group's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

2.11.2 Measurement and recognition (continued)

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity (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 as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.11.3 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each reporting 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 Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original 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.

(b) Assets classified as available for sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments 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 available-for-sale 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 recognized in the statement of comprehensive income – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. 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 recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income and recognized within 'other (losses)/gains-net'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Derivative financial instruments

Derivative financial instruments include foreign currency forward contracts in foreign currencies and interest rate swaps. Derivative financial instruments are recognized in the statement of financial position at fair value. The fair value is determined according to the market value, if appropriate. All derivatives are recorded in the statement of financial position as assets when their fair value is positive, and as liabilities when their fair value is negative. These derivatives do not classify as hedge accounting and are recognized as derivatives held for trading.

2.13 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of fair value of the leased property or the present value of minimum lease payments. In accordance with Law on tourist land, the Group pays an annual concession fee for tourist land area which is presented as the cost of the current period.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other current and non-current liabilities depending on maturity.

The interest element of the finance costs is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic 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.

Leases in which a significant portion of risks and rewards of ownership are not retained by the Group 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. Assets under lease are disclosed in the Statement of financial position in the line "Property, plant and equipment". Assets are depreciated on the straight line basis as for similar assets. Revenue from lease is recognized according to period of the lease.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. 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 receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment.

2.16 Cash and cash equivalents

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

2.17 Share capital

Ordinary shares are classified as equity. Where the Group purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group's equity holders until the shares are issued or purchased. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

2.18 Borrowings

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Borrowings (continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts 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.

2.20 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 in equity. In that case tax is also recognised in equity.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

2.21 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group 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 Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits.

(b) Termination benefits

Termination benefits are recognised when the Group terminates employment contracts of employees before their normal retirement date in accordance with pension and labour regulations. The Group recognises termination benefits when it has made an individual decision on the termination of an employment agreement due to business or personal reasons, whereby the liability to pay termination benefits are objectively determined, in accordance with regulations and by-laws.

(c) Short-term employee benefits

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Group recognises a liability for accumulated compensated absences based on unused vacation days at the reporting date and if liability can be reliably estimated.

2.22 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Provisions (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax 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.

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of Group's activities. Revenue is shown net of value-added tax and after eliminating sales within the Group.

The Group 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 Group's activities as described below.

(a) Sales of services

Revenue from hotel and tourist services is recognised in the period the services are provided.

(b) Rental of services

Revenue for rental services is generally recognised in the period the services are provided, using a straight-line basis over the terms of contracts with lesser and presented in Statement of comprehensive income within 'Revenue'.

(c) Interest income

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

2.24 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 Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the statement of financial position on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to the variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group does not have a formalised risk management program, however overall risk management in respect of these risks is carried out by the Group management. However, the Group periodically hedges interest rate and foreign exchange risks through instruments available in the market for the purpose of mitigating these risks. Internal objectives and risk management policies refer to the protection of foreign exchange inflows during seasonal activity by contracting forward sales transactions of EUR into HRK at a fixed rates EUR/HRK which hedges part of its cash flow against currency risk and to the partial interest hedge of loan principal from fluctuations in market interest rates by agreeing interest rate swaps by fixing the upper limit of the interest cost.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro (EUR) and Swiss franc (CHF). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The Group regularly performs projected analysis of exchange rates change effects of EUR and CHF. These exchange rate changes are simulated on credit liabilities in foreign currencies as well as on deposits denominated in the currency.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk *(continued)*

The majority of sales revenue to foreign customers is denominated in EUROs. The majority of long-term debt is denominated in EUROs and minor part in Swiss francs (share of debt denominated in Swiss francs toward total debt was 6.14% (2014:18.8%)) . Therefore, movements in exchange rates between the EURO, Swiss franc and Croatian kuna may have an impact on the results of future operations and future cash flow. The Group uses derivative instruments in accordance with operating estimates and expected market movements.

At 31 December 2015, if the EURO had weakened/strengthened by 1% against the HRK, with all other variables held constant, the net profit for the year would have been HRK 7,255 thousand (2014: HRK 4,570 thousand) higher/(lower) mainly as a result of foreign exchange gains/(losses) on translation of EURO denominated trade receivables, borrowings and foreign cash funds.

At 31 December 2015, if the CHF had weakened/strengthened by 11% against the HRK, with all other variables held constant, the net profit for the year would have been HRK 7,810 thousand (2014: HRK 20,569 thousand, effect at the rate of 15%) higher/(lower) mainly as a result of foreign exchange gains/(losses) on translation of CHF-denominated borrowings and foreign cash funds.

(ii) Interest rate risk

The Group has interest-bearing assets, and therefore the Group's income and operating cash flows are influenced by changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group periodically uses derivative instruments to actively hedge cash flow and fair value interest rate risk exposure through arranging interest rate swap transactions which fix the upper limit of the interest cost.

At 31 December 2015, if interest rates on currency-denominated borrowings had been higher/lower by 1%, with all other variables held constant, the profit for the year would have been HRK 3,931 thousand (2014: HRK 1,832 thousand) lower/higher, mainly as a result of higher/lower interest expense on variable-rate borrowings.

At 31 December 2015, if interest rates on currency-denominated deposits had been 1% higher/lower, with all other variables held constant, the profit for the year would have been HRK 101 thousand (2014: HRK 478 thousand) higher/(lower), mainly as a result of higher/lower interest income on variable rate deposits.

(iii) Price risk

The Group owns equity securities and is exposed to price risk of listed equity securities, which are classified as financial assets available for sale and at fair value through profit or loss.

The Group invests in securities listed on the Zagreb Stock Exchange (ZSE).

As at 31 December 2015, if the indices of the ZSE had been higher/lower by 3.33% for 2015 (which was the average index movement), with all other variables held constant, reserves within equity and other comprehensive income would have been HRK 1,199 thousand higher/lower as a result of gains/losses on equity securities available for sale.

(b) Credit risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash, time deposits and trade receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Group's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). The Group holds advances, bills of exchange, promissory notes and periodically mortgage security for collection. Type of insurance depends on the customer segment: mortgage securities are taken for long-term leases while other security instruments (advances, bills of exchange and promissory notes) are held for customers in the segment of sales and marketing, laundries and leases, depending on the assessment of the creditworthiness of the client, historical relationship and similar.

Provisions for impairment of trade, loan and other receivables have been made on the basis of credit risk assessment. Management monitors the collectability of receivables through weekly reports on individual balances of receivables. Impairment of trade receivables is performed when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of trade and other receivables has been written down to their recoverable amount. The Group has policies that limit the amount of credit exposure to any financial institution. The Group has only short-term highly liquid instruments with maturity periods of three months or less.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(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 Group aims to maintain flexibility in funding by keeping committed credit lines available. Management daily monitors available cash resources based on reports on the balance of cash and liabilities. Both monthly cash flow forecast for the following period and long-term cash flow forecast are prepared based on the established budget.

Excess funds that are held by the business units above the amount needed for working capital management are transferred to the Group's treasury. Group Treasury invests surplus of funds in deposits that bear interest, time deposits, money market deposits and marketable securities, thereby choosing instruments with appropriate maturities or sufficient liquidity in accordance with the above objectives.

The table below analyses expected contractual cash flows for financial liabilities of the Group and the Company according to contracted maturities. The amounts stated below include interest, if applicable, and represent undiscounted cash flows.

	Group				
	Less than 3 months	3 months-1 year	1-3 years	3-6 years	Over 6 years
At 31 December 2015					
Trade and other payables	78,654	4,147	-	-	-
Borrowings	19,546	155,892	340,683	476,170	692,823
Derivative financial instruments	468	1,268	1,388	181	-
Total liabilities (contractual maturities)	**98,668**	**161,307**	**342,071**	**476,351**	**692,823**
At 31 December 2014					
Trade and other payables	80,319	19,019	-	-	-
Borrowings	22,612	102,445	222,095	292,527	439,332
Derivative financial instruments	403	1,145	1,103	1,287	-
Total liabilities (contractual maturities)	**103,334**	**122,609**	**223,198**	**293,814**	**439,332**

	Company				
	Less than 3 months	3 months-1 year	1-3 years	3-6 years	Over 6 years
At 31 December 2015					
Trade and other payables	70,720	4,121	-	-	-
Borrowings	19,082	135,459	298,033	392,832	648,023
Derivative financial instruments	468	1,268	1,388	181	-
Total liabilities (contractual maturities)	**90,270**	**140,848**	**299,421**	**393,013**	**648,023**
At 31 December 2014					
Trade and other payables	84,174	19,019	-	-	-
Borrowings	22,195	101,216	218,778	287,952	437,576
Derivative financial instruments	403	1,145	1,103	1,287	-
Total liabilities (contractual maturities)	**106,772**	**121,380**	**219,881**	**289,239**	**437,576**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group'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.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group 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 Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

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

Quoted market prices for similar instruments are used for long-term debt. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents assets measured at fair value as at:

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2015				
Assets measured at fair value				
Available-for-sale financial assets - equity securities	44,902	-	-	44,902
Derivative financial instruments	-	141	-	141
Total assets measured at fair value	**44,902**	**141**	**-**	**45,043**
Liabilities measured at fair value				
Derivative financial instruments	-	3,305	-	3,305
Total liabilities measured at fair value	**-**	**3,305**	**-**	**3,305**
At 31 December 2014				
Assets measured at fair value	42,092			42,092
Available-for-sale financial assets - equity securities		-	-	
Available-for-sale financial assets - debt securities	1,091	-	-	1,091
Total assets measured at fair value	**43,183**	**-**	**-**	**43,183**
Liabilities measured at fair value				
Derivative financial instruments	-	3,938	-	3,938
Total liabilities measured at fair value	**-**	**3,938**	**-**	**3,938**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents assets measured at fair value as at:

	Company			
	Level 1	Level 2	Level 3	Total
At 31 December 2015				
Assets measured at fair value				
Available-for-sale financial assets - equity securities	41,124	-	-	41,124
Derivative financial instruments	-	141	-	141
Total assets measured at fair value	**41,124**	**141**	**-**	**41,265**
Liabilities measured at fair value				
Derivative financial instruments	-	3,305	-	3,305
Total liabilities measured at fair value	**-**	**3,305**	**-**	**3,305**
At 31 December 2014				
Assets measured at fair value				
Available-for-sale financial assets - equity securities	39,032	-	-	39,032
Available-for-sale financial assets - debt securities	1,091	-	-	1,091
Total assets measured at fair value	**40,123**	**-**	**-**	**40,123**
Liabilities measured at fair value				
Derivative financial instruments	-	3,938	-	3,938
Total liabilities measured at fair value	**-**	**3,938**	**-**	**3,938**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. These and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Estimated useful lives

By using a certain asset, the Group uses the economic benefits contained in this asset, which diminish more intensely with economic and technological aging. 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 components was assessed by Management to be 10 to 25 years. The useful lives of equipment and other assets have also been assessed.

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

(b) Land ownership

Due to the transition from public to private ownership, e.g. in the transformation and privatisation process and the fact that the properties of the Company that were used in the transformation process were evaluated in the share capital of the Company, and part was not evaluated, there are certain ambiguities and proceedings regarding the ownership of part of the land within the majority of tourist companies. In a clear and undisputed ownership the Company has approximately 1,65 million m2 of land and land which is the object of determining the status of co-ownership or ownership in accordance with the regulations of the Law on Tourist and Other Construction Land not evaluated in the transformation and privatisation process, that came into force on 1 August 2010 (hereinafter the Law) is approximately 3,06 million m2. On 31 January 2011 the Company submitted requests according to the Law in appropriate legal deadline and prescribed content.

Concessions are required: a) for approximately 2.1 million m2 of land in the camps to determine the co-ownership shares of the Republic of Croatia and for which, according to relevant wages regulations, advance concession fee of approximately 4.3 mil. per year; and b) for approximately 960 thousand m2 of land in tourist resorts and hotels that should determine ground plan of hotels, apartments and other estimated buildings and land owned by the Company and other land owned by the local government and for which, according to relevant regulations, is paid advance concession fee of approximately 1.3 mil. per year.

A more detailed description of proceedings and unsolved situations for properties of the Company are disclosed in the Note 34.

(c) Recognition of deferred tax assets

Deferred tax assets represents the amount of income tax recoverable through future deductions from taxable profits and is expressed in the statement of financial position. Deferred tax assets are recognized to the extent of tax benefit that is probable to be achieved. While determining future taxable profits and the amount of tax benefits that are likely to be generated in the future, Management of the Company makes judgments and applies estimations based on taxable profits from previous years and expectations of future income that are believed to be reasonable under the existing circumstances.

As explained in Note 12, the Company, in accordance with the Act on Investment Incentives became entitled to a tax incentive amounting to HRK 68 million, which due to the uncertainty of fulfilment of legal requirements has not been recognised as deferred tax asset. If the Group and Company had recognised a deferred tax asset as at 31 December 2015 in respect of the tax incentive as explained in Note 12, which is based on fulfilment of specific criteria, net profit after tax (as an income tax benefit) would have been higher by HRK 68 million and a deferred tax asset of 68 million would have been recorded in the balance sheet. The basis for recognition of the deferred tax asset will be further considered in the future, as explained in Note 12.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 5 – SEGMENT INFORMATION

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

The Group records operating revenues and expenses by types of services rendered in three basic segments: hotels and apartments, camping and other business segments. Revenue was divided between segments according to the organisational principle where all of the income generated from camping profit centres was reported in the camping segment, while all of the income generated from hotel and apartment profit centres was reported in that segment. Other business segments include revenue from sports activities, laundry services, other rentals of properties and revenue generated from the central services and central kitchens.

The segment information related to reportable segments for the year ended 31 December 2015 is as follows:

Group (in thousands of HRK)	**Hotels and apartments**	**Camping**	**Other business segments**	**Total**
Total sales	971,289	269,897	56,601	1,297,787
Inter-segment revenue	(3,380)	(104)	(25,578)	(29,062)
Revenue from external customers	**967,909**	**269,793**	**31,023**	**1,268,725**
Depreciation and amortisation	179,973	34,340	18,609	232,922
Net finance income/(expense) net	(37,403)	(4,926)	(3,791)	(46,120)
Write off of fixed assets	304	3,234	3	3,541
Profit/(loss) of segment	349,783	152,152	(29,535)	472,400
Total assets	**2,289,706**	**436,995**	**378,963**	**3,105,664**
Total liabilities	**1,535,535**	**15,345**	**27,971**	**1,578,851**

Hotels and apartments and camping (operating assets) are located in the Republic of Croatia.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 5 – SEGMENT INFORMATION (continued)

The segment information related to reportable segments for the year ended 31 December 2014 is as follows:

Group (in thousands of HRK)	**Hotels and apartments**	**Camping**	**Other business segments**	**Total**
Total sales	813,520	230,696	65,290	1,109,506
Inter-segment revenue	(3,326)	(110)	(28,371)	(31,807)
Revenue from external customers	**810,194**	**230,586**	**36,919**	**1,077,699**
Depreciation and amortisation	155,478	28,556	18,943	202,977
Net finance income/(expense) net	(25,310)	(2,892)	1,224	(26,978)
Write off of fixed assets	7,624	91	6	7,721
Profit/(loss) of segment	277,965	133,752	(59,243)	352,474
Total assets	**1,941,309**	**346,757**	**364,066**	**2,652,132**
Total liabilities	**1,038,127**	**9,974**	**20,292**	**1,068,393**

Reconciliation of the profit per segment with profit before tax is as follows:

	Group	
(in thousands of HRK)	**2015**	**2014**
Revenue		
Revenue from segments	1,297,787	1,109,506
Other revenue	-	-
Inter-segment revenue	(29,062)	(31,807)
Total revenue	**1,268,725**	**1,077,699**
Profit		
Profit from segments	472,400	352,474
Other expenses	(285,336)	(249,911)
Elimination of inter-segment profits	(54,137)	(43,511)
Total profit before tax	**132,927**	**59,052**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 5 – SEGMENT INFORMATION (continued)

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

	Group			
	2015		2014	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	**3,105,664**	**1,578,851**	**2,652,132**	**1,068,393**
Hotels and apartments segment	2,289,706	1,535,535	1,941,309	1,038,127
Camping segment	436,995	15,345	346,757	9,974
Other segment	378,963	27,971	364,066	20,292
Unallocated:	**460,955**	**86,077**	**363,372**	**63,375**
Investments in joint ventures	1,242	-	1,340	-
Other financial assets	44,902	-	43,183	-
Loans and deposits	1,424	-	1,964	-
Cash and cash equivalents	318,755	-	195,201	-
Income tax receivable	1,610	-	974	-
Other receivables	32,368	-	37,294	-
Deferred tax assets/liabilities	60,513	22,804	83,416	2,298
Other liabilities	-	28,954	-	30,332
Derivative financial assets/ liabilities	141	3,305	-	3,938
Provisions	-	31,014	-	26,807
Total	**3,566,619**	**1,664,928**	**3,015,504**	**1,131,768**

The Group's hospitality services are provided in Croatia to domestic and foreign customers. The Group's sales revenues are classified according to the customers' origin.

	Group	
(in thousands of HRK)	**2015**	**2014**
Revenue from sales to domestic customers	106,000	90,799
Revenue from sales to foreign customers	1,162,725	986,900
	1,268,725	**1,077,699**

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

	Group			
Sales to foreign customers	**2015**	**%**	**2014**	**%**
EU members	1,006,157	86.53	852,155	86.35
Other	156,568	13.47	134,745	13.65
	1,162,725	**100.00**	**986,900**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 6 – OTHER INCOME

(In thousand HRK)	Group		Company	
	2015	2014	2015	2014
Income from insurance and legal claims	1,849	2,647	1,705	2,647
Income from cassa sconto	1,692	1,643	1,548	1,643
Income from donations and other	394	1,518	393	1,499
Dividend income	878	886	26,967	152
Income from interest in joint venture	(29)	69	-	-
Reimbursed costs	2,594	3,223	2,780	2,995
Income from provision release	878	4,071	751	4,071
Income from own consumption	2,316	2,087	2,316	2,087
Other income	8,426	4,810	5,388	3,884
	18,998	**20,954**	**41,848**	**18,978**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 7 – COST OF MATERIALS AND SERVICES

	Group		Company	
(In thousand HRK)	2015	2014*	2015	2014
Raw materials and supplies				
Raw materials and supplies used /i/	122,943	102,502	115,342	101,531
Energy and water used	63,101	60,757	60,045	59,865
Miscellaneous inventories	18,137	18,497	15,034	18,319
	204,181	**181,756**	**190,421**	**179,715**
External services				
Management services	-	-	214	71,960
Maintenance	56,423	55,842	52,782	53,763
Reservation centre services	-	-	3,258	10,657
Utilities	38,140	31,482	35,196	29,689
Telecommunication and transport	7,194	7,723	6,819	6,876
Recreation services	9,045	8,123	8,677	7,741
Marketing, promotion and fairs	28,625	26,764	28,002	26,052
Rent /ii/	14,310	17,778	42,507	42,759
Commission fees (agencies and credit cards)	42,417	32,194	39,772	32,121
Other services	2,665	3,403	2,102	1,808
	198,819	**183,309**	**219,329**	**283,426**
	403,000	**365,065**	**409,750**	**463,141**

*Reclassified as explained in Note 2.1.1

/i/ Cost of materials and services of the Company is comprised of raw materials and supplies used of HRK 15,308 thousand, food and beverage costs of HRK 95,600 thousand and other materials and supplies used of HRK 4,434 thousand (2014: cost of raw materials and supplies used of HRK 16,766 thousand, food and beverage costs of HRK 82,660 thousand and other costs of HRK 2,105 thousand).

/ii/ Rental costs of HRK 42,507 thousand, mainly relate to the lease contract for the hotel Lacroma of HRK 28,642 thousand from subsidiary Elafiti Babin kuk d.o.o.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 8 – STAFF COSTS

	Group		Company	
(In thousand HRK)	2015	2014	2015	2014
Net salaries	194,464	176,440	182,440	154,956
Pension contributions	55,744	49,575	50,474	43,902
Health insurance contributions	45,518	41,701	42,837	37,105
Other (contributions and taxes)	31,161	32,105	31,161	23,119
Termination benefits	5,189	10,961	4,156	8,691
Other staff costs /i/	38,959	39,370	37,769	35,641
	371,035	**350,152**	**348,837**	**303,414**
Number of employees at 31 December	**2,010**	**1,733**	**1,901**	**1,611**

/i/ Other staff costs comprise fees and transportation costs, jubilee awards, as well as remunerations for temporary services and similar.

NOTE 9 – OTHER OPERATING EXPENSES

	Group		Company	
(In thousand HRK)	2015	2014*	2015	2014
Municipal and similar charges and contributions	45,105	37,982	43,488	37,488
Collection of receivables previously written-off	(422)	(1,062)	(390)	(1,269)
Professional services	16,465	22,493	12,105	11,596
Bank charges	2,663	2,765	1,811	1,979
Travel and entertainment	5,200	5,037	4,976	3,823
Insurance premiums	3,626	4,262	3,148	3,672
Write off of property, plant and equipment /i/	3,541	7,721	3,541	7,721
Provisions	5,004	2,375	4,958	1,758
Impairment of assets /ii/	18,708	1,413	18,650	1,196
Other	5,396	16,004	4,935	16,699
	105,286	**98,990**	**97,222**	**84,663**

*Reclassified as explained in Note 2.1.1

/i/ Write off of property, plant and equipment relates to demolition of parts of buildings as a part of new investments. Demolition of buildings amounts to HRK 3,316 thousand, and HRK 225 thousand relates to other write offs.

/ii/ The Group and the Company have recorded a provision for advances given to Glavice d.o.o. in liquidation, since the collection is not probable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 10 – OTHER GAINS/(LOSSES) – NET

	Group		Company	
(In thousand HRK)	**2015**	**2014**	**2015**	**2014**
Net gains/(losses) on sale of property, plant and equipment	(332)	58	226	46
Net foreign exchange gains/(losses)	2,742	2,702	2,784	2,702
Changes in fair value of forwards and interest rate swaps	(1,678)	(1,371)	(1,678)	(1,346)
Gains on disposal of financial assets available for sale	383	3	-	-
Realised net gain from forwards and interest rate swaps	2,452	3,169	2,452	3,169
	3,567	**4,561**	**3,784**	**4,571**

NOTE 11 – FINANCE INCOME/(EXPENSE) – NET

	Group		Company	
(In thousand HRK)	**2015**	**2014**	**2015**	**2014**
Interest income	4,422	9,950	4,374	5,881
	4,422	**9,950**	**4,374**	**5,881**
Interest expense	(30,936)	(29,583)	(25,040)	(23,085)
Net foreign exchange losses on financing activities	(19,606)	(7,345)	(18,786)	(6,585)
	(50,542)	**(36,928)**	**(43,826)**	**(29,670)**
Financial expense - net	**(46,120)**	**(26,978)**	**(39,452)**	**(23,789)**

During 2015 year the Group and the Company capitalized borrowing costs of HRK 811 thousand. Increase in net foreign exchange losses on financing activities is mainly related to the strengthening of Swiss franc (10.8% on annual basis) and consequently increase of debt denominated in Swiss francs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 12 – INCOME TAX

Income tax comprise:

	Group		Company	
(In thousand HRK)	2015	2014	2015	2014
Current tax	2,275	7,382	-	-
Deferred tax	25,190	276	20,955	3,639
Tax expense/(benefit)	**27,465**	**7,658**	**20,955**	**3,639**

Reconciliation of the effective tax rate:

	Group		Company	
(In thousand HRK)	2015	2014	2015	2014
Profit before tax	132,927	59,052	126,809	27,267
Income tax (20%)	26,585	11,810	25,362	5,453
Tax exempt income	(24)	(856)	(5,554)	(366)
Non-deductible expenses	1,631	1,237	1,149	725
Expired tax losses not utilised	-	2,652	-	2,652
Recognition of deferred tax assets previously not recognized	(727)	(7,185)	(2)	(4,825)
Tax	**27,465**	**7,658**	**20,955**	**3,639**
Effective tax rate	20.66%	12.97%	16.52%	13.35%

Croatian tax legislation does not allow tax losses to be transferred among group companies. In accordance with the regulations of the Republic of Croatia, the Tax Authority may at any time inspect the Group Company's books and records within three years following the year in which the tax liability was reported, and may impose additional tax assessments and penalties.

Tax Administration has issued a ruling concerning the tax audit for the year 2010 for the company Rabac d.d. which was merged with the company Valamar Riviera d.d. on 1 September 2011. According to this ruling, there is an increase in the tax liabilities of HRK 4,428 thousand. The Company has appealed the aforementioned decision. The appeal was accepted. In the repeated proceedings Tax Authority issued a ruling which stated that the tax liability should be reduced to the amount of HRK 1,201 thousand. The Company has appealed the aforementioned decision.

Management of the Company believes that the outcome of this matter will not have a material effect on the financial position and performance of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 12 – INCOME TAX (continued)

According to the Act on Investment Incentives, the Company received from the Ministry of Economy a confirmation in respect of the application for tax incentives in the amount of HRK 62 million valid for a period of use up to the year 2024 on the basis of the preliminary planned investment in Valamar Isabella Resort. The investment in the Valamar Isabella Resort is significant and relates to the technologically demanding reconstruction of facilities on the island of St. Nikola in Poreč.

The total value of the investment was higher than initially planned and the Company expects tax incentives totalling approximately HRK 68 million. The investment as completed is subject to inspection of state institutions and the Company has to retain new employees (related to the incentive program requirements) during the utilisation of incentive for a minimum period of 5 years. Due to the uncertainty of fulfilment of legal requirements regarding the investment, including the additional employment of 15 employees, the retention of work places and the investment qualifying asset for minimum of 5 years, the required inspection and approval of submitted documentation, the Company has not recognised a deferred tax assets as of 31 December 2015. Furthermore, the Company has not utilised the tax incentive in the current year, as it utilised prior year tax losses carried forward. The Company will consider criteria for tax incentive recognition in Group's and Company's balance sheet in the future. The Company may have the possibility to utilise these tax incentives for the year ended 31 December 2016 should the defined criteria be very likely to be met. When the Company will start to utilise the incentive, it will analyse the partial or full recognition of the tax incentive as a deferred tax asset which will depend on fulfilment of prescribed legal requirements and expected future taxable profits.

NOTE 13 – EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit/(loss) for the year of the Group by the weighted average number of shares ordinary in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

Diluted

Diluted earnings per share is equal to basic, since the Group/Company did not have any convertible instruments and share options outstanding during both years.

	Group	
	2015	**2014**
Profit attributable to equity holders (in thousands of HRK)	105,442	51,381
Weighted average number of shares	124,784,807	108,769,757
Basic/diluted earnings per share (in HRK)	**0.84**	**0.47**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

Group (In thousand HRK)	**Land**	**Buildings**	**Plant and equipment**	**Furniture, tools and horticulture**	**Assets under con-struction**	**Total**
At 1 January 2014						
Cost	567,406	3,627,256	433,649	209,436	103,207	4,940,954
Accumulated depreciation and impairment	-	(2,099,651)	(305,391)	(154,548)	-	(2,559,590)
Carrying amount	**567,406**	**1,527,605**	**128,258**	**54,888**	**103,207**	**2,381,364**
Year ended 31 December 2014						
Opening carrying amount	567,406	1,527,605	128,258	54,888	103,207	2,381,364
Merger of parent company	650	2,722	143	840	-	4,355
Subsidiaries intragroup transfer	15,864	7,498	1,836	1,691	638	27,527
Additions	1,094	250,851	71,009	32,088	24,963	380,005
Disposals and write offs	(23)	(6,879)	(420)	(203)	(295)	(7,820)
Depreciation	-	(148,835)	(34,993)	(15,714)	-	(199,542)
Carrying amount at year end	**584,991**	**1,632,962**	**165,833**	**73,590**	**128,513**	**2,585,889**
At 31 December 2014						
Cost	584,991	3,874,492	491,029	238,572	128,513	5,317,597
Accumulated depreciation and impairment	-	(2,241,530)	(325,196)	(164,982)	-	(2,731,708)
Carrying amount	**584,991**	**1,632,962**	**165,833**	**73,590**	**128,513**	**2,585,889**
Year ended 31 December 2015						
Opening carrying amount	584,991	1,632,962	165,833	73,590	128,513	2,585,889
Acquisition of subsidiary at fair value /i/	73,012	286,420	22,137	1,832	61	383,462
Additions	1,345	305,995	56,569	33,132	(90,770)	306,271
Disposals and write offs	(20)	(3,315)	(140)	(393)	-	(3,868)
Depreciation	-	(169,193)	(40,577)	(18,430)	-	(228,200)
Carrying amount at year end	**659,328**	**2,052,869**	**203,822**	**89,731**	**37,804**	**3,043,554**
Year ended 31 December 2015						
Cost	659,328	4,456,095	565,245	267,318	37,804	5,985,791
Accumulated depreciation and impairment	-	(2,403,226)	(361,423)	(177,587)	-	(2,942,237)
Carrying amount at year end	**659,328**	**2,052,869**	**203,822**	**89,731**	**37,804**	**3,043,554**

/i/ Effect of acquisition of the Hoteli Baška d.d., details in Note 38.

As at 31 December 2015, the carrying amount of land and buildings pledged as collateral for borrowings amounted to HRK 1,432,391 thousand (2014: HRK 1,085,810 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company (In thousand HRK)	**Land**	**Buildings**	**Plant and equipment**	**Furniture, tools and horticulture**	**Assets under con-struction**	**Total**
At 1 January 2014						
Cost	516,607	3,293,039	433,649	209,436	103,094	4,555,825
Accumulated depreciation and impairment	-	(2,025,759)	(305,391)	(154,548)	-	(2,485,698)
Carrying amount	**516,607**	**1,267,280**	**128,258**	**54,888**	**103,094**	**2,070,127**
Year ended 31 December 2014						
Opening carrying amount	516,607	1,267,280	128,258	54,888	103,094	2,070,127
Merger of parent company	650	2,594	18	820	-	4,082
Additions	1,094	250,690	71,011	32,088	24,963	379,846
Disposals and write offs	(23)	(6,879)	(420)	(203)	(295)	(7,820)
Depreciation	-	(134,499)	(33,896)	(15,653)	-	(184,048)
Carrying amount	**518,328**	**1,379,186**	**164,971**	**71,940**	**127,762**	**2,262,187**
At 31 December 2014						
Cost	518,328	3,522,509	486,345	235,098	127,762	4,890,042
Accumulated depreciation and impairment	-	(2,143,323)	(321,374)	(163,158)	-	(2,627,855)
Carrying amount	**518,328**	**1,379,186**	**164,971**	**71,940**	**127,762**	**2,262,187**
Year ended 31 December 2015						
Opening carrying amount	518,328	1,379,186	164,971	71,940	127,762	2,262,187
Merger of subsidiary (Note 37)	-	-	132	1,328	-	1,460
Additions	1,269	295,720	63,636	33,438	(90,132)	303,931
Disposals and write offs	(19)	(3,315)	(137)	(256)	-	(3,727)
Depreciation	-	(145,688)	(38,920)	(17,910)	-	(202,518)
Carrying amount	**519,578**	**1,525,903**	**189,682**	**88,540**	**37,630**	**2,361,333**
At 31 December 2015						
Cost	519,578	3,807,417	547,898	265,585	37,630	5,178,108
Accumulated depreciation and impairment	-	(2,281,514)	(358,216)	(177,045)	-	(2,816,775)
Carrying amount	**519,578**	**1,525,903**	**189,682**	**88,540**	**37,630**	**2,361,333**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Assets under construction of the Group in amount of HRK 37,804 thousand mainly relate to the investment in hotels and apartments of HRK 10.166 million, investment in camping of HRK 9.294 million, the reconstruction, extension and adaptation of commercial buildings of HRK 11.182 million, advances paid to suppliers for investments of HRK 5.072 million and other investments of HRK 2.090 million.

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

(In thousand HRK)	2015	2014
Cost	121,310	106,846
Accumulated depreciation as at 1 January	(95,899)	(81,804)
Depreciation charge for the year	(4,182)	(4,133)
Carrying amount	**21,229**	**20,909**

The operating lease relates to the lease of hospitality facilities and shops to third parties. During 2015, the Group realised rental income of HRK 34,521 thousand (2014: HRK 34,769 thousand). All lease agreements are renewable, usually for period of 1 to 3 years and there is no purchase option.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 15 – INVESTMENT PROPERTY

(In thousand HRK)	Group	Company
At 31 December 2014		
Cost	33,755	30,145
Accumulated depreciation and impairment	(10,823)	(10,637)
Carrying amount	**22,932**	**19,508**
Year ended 31 December 2015		
Opening carrying amount	22,932	19,508
Depreciation	(1,191)	(1,046)
Carrying amount	**21,741**	**18,462**
At 31 December 2015		
Cost	33,755	30,145
Accumulated depreciation and impairment	(12,014)	(11,683)
Carrying amount	**21,741**	**18,462**

As at 31 December 2015, the fair value of investment property (office space) approximates carrying value. As at 31 December 2015, properties pledged as collateral for loans amounted to HRK 18,462 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 16 – INTANGIBLE ASSETS

Group (in thousands of HRK)	Goodwill /i/	Software	Total
At 1 January 2014			
Cost	-	24,237	24,237
Accumulated amortisation	-	(15,835)	(15,835)
Carrying amount	**-**	**8,402**	**8,402**
Year ended 31 December 2014			
Opening carrying amount	-	8,402	8,402
Subsidiaries intragroup transfer	6,568	703	7,271
Additions	-	1,657	1,657
Amortisation	-	(2,244)	(2,244)
Closing carrying amount	**6,568**	**8,518**	**15,086**
At 31 December 2014			
Cost	6,568	24,633	31,201
Accumulated amortisation	-	(16,115)	(16,115)
Carrying amount	**6,568**	**8,518**	**15,086**
Year ended 31 December 2015			
Opening carrying amount	6,568	8,518	15,086
Acquisition of subsidiary at fair value	-	1,246	1,246
Additions	-	4,206	4,206
Amortisation	-	(3,531)	(3,531)
Closing carrying amount	**6,568**	**10,439**	**17,007**
At 31 December 2015			
Cost	6,568	39,118	45,686
Accumulated amortisation	-	(28,679)	(28,679)
Carrying amount	**6,568**	**10,439**	**17,007**

/i/ Impairment tests for goodwill
Goodwill is allocated to cash-generating unit (CGUs) for transferred subsidiary Puntižela d.o.o., Pula. The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on 5-year financial projections approved by Management. The discount rates of 10% used are pre-tax and reflect specific risks relating to the relevant segment (hotels).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 16 – INTANGIBLE ASSETS (continued)

Company (in thousands of HRK)	Software
At 1 January 2014	
Cost	24,733
Accumulated amortisation	(16,117)
Carrying amount	**8,616**
Year ended 31 December 2014	
Opening carrying amount	8,616
Additions	1,657
Amortisation	(2,116)
Closing carrying amount	**8,157**
At 31 December 2014	
Cost	23,350
Accumulated amortisation	(15,193)
Carrying amount	**8,157**
Year ended 31 December 2015	
Opening carrying amount	8,157
Merger of subsidiary	320
Additions	3,934
Amortisation	(3,209)
Closing carrying amount	**9,202**
At 31 December 2015	
Cost	28,703
Accumulated amortisation	(19,501)
Carrying amount	**9,202**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 17 – INVESTMENT IN SUBSIDIARIES

	Company	
(in thousands of HRK)	**2015**	**2014**
At beginning of the year	400,478	347,233
Purchase of Hoteli Baška d.d.	188,226	-
Merger of subsidiary	(5,630)	(98,870)
New subsidiaries from merger (Note 37)	189	152,115
At end of the year	**583,263**	**400,478**

(in thousands of HRK)	Ownership	2015	2014
Elafiti Babin kuk d.o.o., Dubrovnik	100.00%	182,036	182,036
Palme turizam d.o.o., Dubrovnik	100.00%	115,448	115,448
Magične stijene d.o.o., Dubrovnik	100.00%	11,207	11,207
Bugenvilia d.o.o., Dubrovnik	100.00%	38,542	38,542
Puntižela d.o.o., Pula /i/	99.39%	35,881	35,881
Bastion upravljanje d.o.o., Zagreb /i/	100.00%	11,734	11,734
Valamar hoteli i ljetovališta d.o.o., Zagreb /i/	100.00%	-	5,630
Hoteli Baška d.d., Baška /ii/	100.00%	12,804	-
Mirta Bašćanska d.o.o., Baška /ii/	100.00%	49,465	-
Vala Bašćanska d.o.o., Baška /ii/	100.00%	73,506	-
Baškaturist d.o.o., Baška /ii/	100.00%	52,451	-
Valamar Hotels & Resorts GmbH, Beč /i/	100.00%	189	-
		583,263	**400,478**

/i/ Companies Puntižela d.o.o., Bastion upravljanje d.o.o. (100% owner of Citatis savjetovanje d.o.o.), Valamar hoteli i ljetovališta d.o.o. (100% owner of Valamar Hotels & Resorts GmbH) were recognised upon merger of companies Valamar Adria holding d.d. and Valamar grupa d.d.. As at 27 February 2015, Valamar hoteli i ljetovališta d.o.o. were merged into parent company and shares of Valamar Hotels & Resorts GmbH were transferred.

/ii/ During 2015 the Company acquired the following companies: Hoteli Baška d.d., Mirta Bašćanska d.o.o., Vala Bašćanska d.o.o. and Baškaturist d.o.o.

Subsidiaries Bugenvilia d.o.o., Elafiti Babin kuk d.o.o., Palme turizam d.o.o. generate revenue from rent of property to the Company while Magične stijene d.o.o. and Valamar Hotels & Resorts GmbH do not have business activity. Pogača Babin kuk d.o.o. performs bakery services. Puntižela d.o.o. generates revenue from performing hospitality activities (camp and hostel accomodation), while Bastion upravljanje d.o.o. generates revenue from investments and rental of property.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 18 – INTEREST IN JOINT VENTURE

According to the agreement, the Group controls 33.33% of Pogača Babin kuk d.o.o. During 2015 there were no changes with respect to the interests in the joint venture. At the Company's incorporation the Group invested 49.67% of share capital or HRK 1,490 thousand but has right to 1/3 of realised profit or loss.

	Group	
(in thousands of HRK)	2015	2014
At beginning of year on equity basis	1,340	1,329
Dividends paid	(69)	(58)
Share in net profit	(29)	69
At end of year on equity basis	**1,242**	**1,340**

	Company	
(in thousands of HRK)	2015	2014
At beginning of year at cost	1,490	1,490
Change	-	-
At end of year at cost	**1,490**	**1,490**

Adjustment of share in joint venture with share in net assets of Pogača Babin kuk d.o.o.

	Group	
(in thousands of HRK)	2015	2014
At beginning of year	4,193	3,986
Net profit/(loss) for the period	(88)	207
At end of year	**4,105**	**4,193**
Share in net assets from joint venture (33.33%)	1,369	1,398
Dividends paid related to previous year	(58)	-
Dividends paid related to current year	(69)	(58)
Carrying amount	**1,242**	**1,340**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 18 – INTEREST IN JOINT VENTURE (continued)

(in thousands of HRK)	Pogača Babin kuk d.o.o. (100%) 2015	2014
Assets:		
Non-current assets	737	898
Current assets	2,999	3,176
	3,736	**4,074**
Liabilities:		
Short-term liabilities	824	819
	824	**819**
Net assets	**2,912**	**3,255**
Income	8,748	9,198
Expenses	(8,836)	(8,938)
Profit /(loss) before tax	**(88)**	**260**
Profit /(loss) after tax	**(88)**	**207**
Share in profit /(loss) of joint venture (33.33%)	**(29)**	**69**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

Group (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2015				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables	17,444	-	-	17,444
Loans and deposits	1,424	-	-	1,424
Cash and cash equivalents	318,755	-	-	318,755
Financial assets measured at fair value				
Available-for-sale financial assets	-	44,902	-	44,902
Derivative financial instruments	-	-	141	141
Total	**337,623**	**44,902**	**141**	**382,666**

Group (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2014				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables	24,250	-	-	24,250
Loans and deposits	1,964	-	-	1,964
Cash and cash equivalents	195,201	-	-	195,201
Financial assets measured at fair value				
Available-for-sale financial assets	-	42,092	-	42,092
Financial assets at fair value through profit or loss	-	-	1,091	1,091
Total	**221,415**	**42,092**	**1,091**	**264,598**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2015				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables /i/	182,014	-	-	182,014
Loans and deposits	1,041	-	-	1,041
Cash and cash equivalents	301,797	-	-	301,797
Financial assets measured at fair value				
Derivative financial instruments	-	-	141	141
Available-for-sale financial assets	-	41,124	-	41,124
Total	**484,852**	**41,124**	**141**	**526,117**

Company (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2014				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables /i/	214,127	-	-	214,127
Loans and deposits	1,715	-	-	1,715
Cash and cash equivalents	166,189	-	-	166,189
Financial assets measured at fair value				
Available-for-sale financial assets	-	39,032	-	39,032
Financial assets at fair value through profit or loss	-	-	1,091	1,091
Total	**382,031**	**39,032**	**1,091**	**422,154**

/i/ Mainly relates to the receivable from subsidiary Elafiti d.o.o. of HRK 164,817 thousand (2014: 191,056 thousand).

The above-mentioned amounts of financial assets represent the Group's maximum exposure to credit risk at the reporting date. The carrying values approximate their fair value due to their short-term maturity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Group		Company	
(in thousands of HRK)	**2015**	**2014**	**2015**	**2014**
Liabilities at reporting date				
Financial liabilities – at amortised cost:				
Trade and other payables	82,801	99,338	74,841	103,193
Borrowings	1,446,062	925,977	1,284,244	916,255
	1,528,863	**1,025,315**	**1,359,085**	**1,019,448**
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	3,305	3,938	3,305	3,938
	1,532,168	**1,029,253**	**1,362,390**	**1,023,386**

NOTE 19b – CREDIT QUALITY OF FINANCIAL ASSETS

	Group		Company	
(in thousands of HRK)	**2015**	**2014**	**2015**	**2014**
Loans and deposits				
Loans and deposits	1,400	1,057	996	1,057
	1,400	**1,057**	**996**	**1,057**

The credit quality of other financial assets is presented in the following notes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
Listed equity securities /i/	44,762	41,952	40,984	38,892
Other	140	140	140	140
	44,902	**42,092**	**41,124**	**39,032**

/i/ Investments in securities represent less than 1% ownership interests.

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
At beginning of year	42,092	1,854	39,032	1,854
Merger effect	-	36,345	-	38,094
Change in fair value recognised in other comprehensive income	2,203	4,090	2,101	(720)
Disposal	(578)	(197)	-	(196)
Business combination (Note 38)	1,194	-	-	-
Transfer	(9)	-	(9)	-
At end of year	**44,902**	**42,092**	**41,124**	**39,032**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 21 – LOANS AND DEPOSITS

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
Loans	690	372	307	890
Deposits	734	1.592	734	825
Total	**1,424**	**1,964**	**1,041**	**1,715**
Less: non-current portion	(945)	(733)	(645)	(733)
Current portion	**479**	**1.231**	**396**	**982**

Loans include an amount of HRK 286 thousand (2014: HRK 372 thousand) due from employees for housing loans at an interest rate of 1% payable by year 2025. The loans are not secured with any collateral. Loans include amount of HRK 404 thousand which relate to long term loan which is due in year 2019. Net deposits are interest-free and given as a collateral for operating leases of vehicles for a 5-year term.
All given loans and deposits are denominated in HRK.

The carrying amounts of short-term loans and deposits approximate their fair value. The fair value of non-current loans and deposits of Group is HRK 876 thousand (2014: HRK 647 thousand) and fair value of non-current loans and deposits of the Company is HRK 598 thousand (2014: HRK 647 thousand). The fair value is calculated based on the cash flows discounted with a rate of 4.50% (2014: 5.75%) (interest rate on bonds of the Republic of Croatia with maturity in year 2025).

NOTE 22 – INVENTORIES

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
Raw materials and supplies	8,836	6,336	8,719	6,336
Trade goods and packaging material	358	380	319	225
Apartments	567	563	567	563
	9,761	**7,279**	**9,605**	**7,124**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 23 – TRADE AND OTHER RECEIVABLES

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
Domestic receivables	16,788	17,982	16,391	15,544
Foreign receivables	7,766	13,251	7,724	13,237
Related parties receivables	2	4	164,999	191,941
Provision for impairment of trade receivables	(11,408)	(11,935)	(11,352)	(11,500)
Trade receivables – net	13,148	19,302	177,762	209,222
Accrued income	3,242	2,950	3,198	2,910
Interest receivables	1,054	1,998	1,054	1,995
Total financial assets	17,444	24,250	182,014	214,127
Less: non-current portion	-	-	(135,815)	(162,454)
Current portion	17,444	24,250	46,199	51,673
Prepaid expenses	8,327	8,689	8,295	8,066
VAT receivable	7,685	9,472	6,741	8,987
Advances to suppliers	9,085	13,461	8,485	12,624
Receivables from employees	486	346	485	324
Receivables from state institutions	(10)	198	(209)	78
Other receivables	2,952	1,824	1,628	1,943
Total current receivables	45,969	58,240	71,624	83,695
Total trade and other receivables	**45,969**	**58,240**	**207,439**	**246,149**

Movements in provisions for impairment of trade and other receivables:

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
At 1 January	11,935	12,186	11,500	12,094
Increase of impairment	1,843	1,631	2,131	1,196
Collected receivables	(862)	(1,404)	(771)	(1,404)
Receivables written-off	(1,508)	(478)	(1,508)	(386)
At 31 December	**11,408**	**11,935**	**11,352**	**11,500**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
Trade receivables:				
Neither past due nor impaired	3,468	4,652	168,391	194,468
Past due, but not impaired	9,680	14,650	9,371	14,754
	13,148	**19,302**	**177,762**	**209,222**

Trade and other receivables are carried at amortised cost. As at 31 December 2015 receivables neither past due nor impaired of the Company consists of receivables from subsidiary Elafiti Babin kuk d.o.o. of HRK 164,817 thousand (2014: HRK 191,056 thousand) which mainly relate to the reimbursed investment cost of hotel Valamar Lacroma Dubrovnik to subsidiary Elafiti Babin kuk d.o.o. which will be settled in following years. Receivables will be netted of against the rent from the Elafiti Babin kuk d.o.o.

As of 31 December 2015, the maturities of the trade receivables which are past due but not impaired are as follows:

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
Up to one month	2,571	2,069	2,495	2,435
One to two months	2,242	3,363	2,149	3,173
Two to three months	1,500	3,055	1,393	2,988
Over three months up to 1 year	3,367	6,163	3,334	6,158
	9,680	**14,650**	**9,371**	**14,754**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
EUR	7,719	13,582	7,710	13,569
HRK	9,725	10,668	174,304	200,558
	17,444	**24,250**	**182,014**	**214,127**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group holds advances, bills of exchange and promissory notes and periodically mortgage for collection security. The carrying amounts of trade and other receivables approximate their fair value since they are short term.

NOTE 24 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
Bonds of the Republic of Croatia	-	1,091	-	1,091
	-	**1,091**	**-**	**1,091**

Bonds of the Republic of Croatia (rate 4.25%) are denominated in EUR (balance in 2014) were due and fully redeemed in July 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS

Group

(in thousands of HRK)	2015 Receivables	2015 Liabilities	2014 Receivables	2014 Liabilities
Fair value of interest rate swap	83	2,833	-	3,938
Market value of foreign currency forward contracts	58	472	-	-
Total	**141**	**3,305**	**-**	**3,938**
Less non-current portion:	(141)	(1,569)	-	(2,390)
Fair value of interest rate swap	-	1,264	-	1,548
Market value of foreign currency forward contracts	-	472	-	-
Current portion	**-**	**1,736**	**-**	**1,548**

Company

(in thousands of HRK)	2015 Receivables	2015 Liabilities	2014 Receivables	2014 Liabilities
Fair value of interest rate swap	83	2,833	-	3,938
Market value of foreign currency forward contracts	58	472	-	-
Total	**141**	**3,305**	**-**	**3,938**
Less non-current portion:	(141)	(1,569)	-	(2,390)
Fair value of interest rate swap	-	1,264	-	1,548
Market value of foreign currency forward contracts	-	472	-	-
Current portion	**-**	**1,736**	**-**	**1,548**

Interest rate swaps

As at 31 December 2015, the contracted value of outstanding interest rate swaps amounts to HRK 180,913 thousand (2014: HRK 72,665 thousand).

As at 31 December 2015, interest rates fixed by interest rate swap contracts for loans in EUR ranged from 0.44% to 2.64%, while key variable interest rates (EURIBOR) for EUR borrowings were at the level of -0.042%. For loans in CHF interest rates fixed by interest rate swap contracts were 2.32%, while key variable interest rates (CHF LIBOR) for CHF borrowings were at the level of -0.77%. Fair value gains and losses on interest rate swaps are recognised directly in Statement of comprehensive income within finance costs until the repayment of borrowings with final maturity as at 30 September 2022.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 26 – DEFERRED TAX ASSET / LIABILITY

DEFERRED TAX ASSET

Group (in thousands of HRK)	**Property, plant and equipment**	**Financial assets**	**Trade re-ceivables and inven-tories**	**Provisions**	**Tax losses**	**Impair-ment of other re-ceivables**	**Total**
At 1 January 2014	37,600	1,114	166	3,375	24,261	-	66,516
Increase of tax assets – merger effect	-	1,784	3,122	-	12,270	-	17,176
Credited to the income	-	5,336	1,044	713	4,085	-	11,178
Debited to the income	(88)	(626)	(9)	(205)	(10,526)	-	(11,454)
At 31 December 2014	**37,512**	**7,608**	**4,323**	**3,883**	**30,090**	**-**	**83,416**
Increase of tax assets – acquisition of subsidiary	-	49	-	-	2,540	-	2,589
Credited to the income	-	273	4	545	727	3,368	4,917
Debited to the income	(88)	(540)	(9)	(85)	(29,687)	-	(30,409)
At 31 December 2015	**37,424**	**7,390**	**4,318**	**4,343**	**3,670**	**3,368**	**60,513**

As at 31 December 2015, the Group and the Company had an unused tax incentive with a carrying amount of approximately HRK 68 million which has not been recognised as a deferred tax asset, as explained in Notes 4 and 12.

Company (in thousands of HRK)	**Financial assets**	**Trade receivables and inven-tories**	**Provisions**	**Tax losses**	**Impairment of other receivables**	**Total**
At 1 January 2014	1,114	166	3,375	19,235	-	23,890
Increase of tax assets – merger effect (Note 37)	1,789	3,122	-	15,495	-	20,406
Credited to the income	4,381	9	713	-	-	5,103
Debited to the income	(626)	(9)	(205)	(7,903)	-	(8,743)
At 31 December 2014	**6,658**	**3,288**	**3,883**	**26,827**	**-**	**40,656**
Increase of tax assets – merger effect	-	-	-	637	-	637
Credited to the income	273	4	545	-	3,368	4,190
Debited to the income	(398)	(9)	(85)	(24,653)	-	(25,145)
At 31 December 2015	**6,533**	**3,283**	**4,343**	**2,811**	**3,368**	**20,338**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 26 – DEFERRED TAX ASSET / LIABILITY (continued)

DEFERRED TAX LIABILITY

Group

(in thousands of HRK)	Financial assets held for sale	Fair value of property, plant and equipment	Total
At 1 January 2015	2,298	-	2,298
Acquisition of subsidiary	-	20,380	20,380
Debited to the other comprehensive income	493	-	493
Credited to the income	-	(302)	(302)
Credited to the other comprehensive income	(65)	-	(65)
At 31 December 2015	**2,726**	**20,078**	**22,804**

Company

(in thousands of HRK)	Financial assets available-for-sale
At 1 January 2015	2,298
Credited to the other comprehensive income	420
At 31 December 2015	**2,718**

Deferred tax liabilities relate to accumulated fair value gains/(losses) of available-for sale financial assets recorded in fair value reserves.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 27 – CASH AND CASH EQUIVALENTS

	Group		Company	
(in thousands of HRK)	**2015**	**2014**	**2015**	**2014**
Giro-accounts and current accounts	20,745	34,218	16,718	6,151
Cash in hand	4	15	-	4
Foreign currency accounts	18,182	17,778	5,255	16,844
Time deposits up to one month	279,824	143,190	279,824	143,190
	318,755	**195,201**	**301,797**	**166,189**

The interest rate on cash and cash equivalents is up to 3.80% (2014: up to 3.90%).

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	Group		Company	
(in thousands of HRK)	**2015**	**2014**	**2015**	**2014**
HRK	20,749	33,082	16,718	6,155
EUR	297,398	159,193	284,490	157,108
CHF	71	2,152	71	2,152
Other	537	774	518	774
	318,755	**195,201**	**301,797**	**166,189**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 28 – SHARE CAPITAL

The authorised and registered share capital of the Company in 2015 amounts to HRK 1,672,021 thousand (2014: 1,672,021 thousand) and comprises 126,027,542 ordinary shares (2014: 126,027,542) with no prescribed nominal value. All shares are fully paid.

The ownership structure as at 31 December is as follows:

2015	Number of shares	%
Epic, Goldscheider und Wurmbock M.B.H., Wien	54,267,510	43.06
Satis d.o.o., Zagreb	6,475,884	5.14
Enitor d.o.o., Zagreb	2,720,950	2.16
Bakić Nenad	1,900,000	1.51
Zagrebačka banka d.d./Skrbnik, Zagreb	1,899,642	1.51
Bilbija Igor	1,869,626	1.48
Hrvatska poštanska banka d.d./Skrbnik, Zagreb	1,846,184	1.46
PBZ d,d,/The Bank of New York as custodian/Skrbnik, Zagreb	1,722,899	1.37
PBZ d,d,/State street client account/Skrbnik, Zagreb	1,511,065	1.20
Societe Generale-Splitska banka d,d,/Skrbnik, Split	1,167,031	0.93
Treasury shares	1,404,394	1.11
Other shareholders - free float	49,242,357	39.07
Total	**126,027,542**	**100.00**

2014	Number of shares	%
Epic, Goldscheider und Wurmbock M.B.H., Wien	54,267,510	43.06
Raiffeisenbank Austria d.d./Satis d.o.o./Skrbnik, Zagreb	3,774,534	3.00
Enitor d.o.o., Zagreb	2,720,950	2.16
Satis d.o.o., Zagreb	2,572,539	2.04
Zagrebačka banka d.d./Skrbnik, Zagreb	2,105,649	1.67
Bakić Nenad	2,000,000	1.59
Bilbija Igor	1,869,626	1.48
Hrvatska poštanska banka d.d./Kapitalni fond d.d./Skrbnik, Zagreb	1,846,184	1.46
PBZ d.d./Skrbnik, Zagreb	1,431,496	1.14
Hypo Alpe-Adria-Bank d.d./Skrbnik, Zagreb	1,198,462	0.95
Treasury shares	480,816	0.38
Other shareholders - free float	51,759,776	41.07
Total	**126,027,542**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 28 – SHARE CAPITAL (continued)

In 2015, there were no changes in share/equity capital of the Company. The last changes in the share capital were carried out in 2014 when, for the merger of Valamar Adria Holding d.d. and Valamar grupa d.d., the Company increased the share capital of the Company from the amount of HRK 1,117,663 thousand for the amount of HRK 204,358 thousand to the amount of HRK 1,322,021 thousand by issuing 19,481,202 new ordinary shares. At the same time the share capital was increased from the funds of the Company's conversion of capital reserves in the Company's share capital from the amount of HRK 1,322,021 thousand for the amount of HRK 350,000 thousand to the amount of HRK 1,672,021 thousand.

As previously reported, based on the decision of the Company's General Assembly held on 24 July 2013 registered capital was increased by conversion of reinvested profit of the year 2012 from HRK 1,065,463 thousand by HRK 52,200 thousand to HRK 1,117,663 thousand. The distribution of reinvested profit of HRK 52,200 thousand in future periods may result in tax obligations given it is based on a tax incentive.

The Company has acquired and released treasury shares during 2015. Based on the decision of the Company's General Assembly held on 17 October 2014, the Company has acquired 971,176 treasury shares at cost of HRK 21,140,090. The Company effectively re-issued treasury shares of 47,598 totalling HRK 930 thousand.

As at 31 December 2015, the Company owned 1,404,394 of their treasury shares (2014: 480,816) which represents 1.11% (2014: 0.38%) of the registered capital of the Company.

As at 31 December 2015, the Group owned 1,837,336 of their treasury shares (2014: 913,758) which represents 1.46% (2014: 0.73%) of the registered capital of the Company.

NOTE 29 – RESERVES AND RETAINED EARNINGS

a) Capital reserves

Capital reserves of the Group decreased for the amount of HRK 483 thousand (Note 38) and as at 31 December 2015 are negative and amount to HRK 374 thousand (2014: HRK 18,595 thousand negative) As at 31 December 2015 capital reserves of the Company are negative and amount to HRK 109 thousand (2014: HRK 8,394 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 29 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings

(in thousands of HRK)	Group 2015	Group 2014
Legal reserves	61,906	60,724
Fair value reserves	31,188	29,413
Other reserves	58,381	79,029
Retained earnings	111,984	74,356
	263,459	**243,522**
Changes in reserves:		
Legal reserves		
At beginning of the year	60,724	-
Transfer from retained earnings	1,182	2,932
Transfer from other reserves (reclassification)	-	57,792
At end of the year	**61,906**	**60,724**
Fair value reserves		
At beginning of the year	29,413	-
Transfer from other reserves (reclassification)	-	79
Change in fair value of financial assets available for sale	1,775	3,272
Merger of subsidiary	-	26,062
At end of the year	**31,188**	**29,413**
Other reserves		
At beginning of the year	79,029	167,682
Transfer to capital reserves	(8,394)	-
Transfer to reserves for treasury shares	10,000	-
Merger of subsidiary	-	31,977
Transfer to fair value reserves (reclassification)	-	(79)
Transfer to legal reserves (reclassification)	-	(57,792)
Dividends paid	(22,254)	(62,759)
At end of the year	**58,381**	**79,029**
Retained earnings		
At beginning of the year	74,356	25,658
Result for the year	105,442	51,381
Effect of subsidiary merger	-	(3,209)
Subsidiaries intragroup transfer	-	3,458
Transfer to legal/other reserves	(1,182)	(2,932)
Transfer to other reserves	(10,000)	
Dividends paid	(46,431)	-
Transfer to capital reserves	(10,201)	-
At end of the year	**111,984**	**74,356**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 29 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings (continued)

(in thousands of HRK)	Company 2015	Company 2014
Legal reserves	61,906	60,724
Other reserves	178,143	254,711
Fair value reserve	31,432	29,750
Retained earnings	174,017	79,345
	445,498	**424,530**
Changes in reserves:		
Legal reserves		
At beginning of the year	60,724	57,792
Transfer from retained earnings	1,182	2,932
At the end of the year	**61,906**	**60,724**
Fair value reserves		
At beginning of the year	29,750	-
Transfer from other reserves (reclassification)	-	79
Change in fair value of financial assets available for sale	1,682	(576)
Merger effect of parent companies and subsidiary	-	30,247
At end of the year	**31,432**	**29,750**
Other reserves		
At beginning of the year	254,711	285,789
Merger of subsidiary	(9,251)	31,977
Transfer from retained earnings	10,000	-
Transfer to fair value reserves (reclassification)	-	(79)
Capital loss cover	(8,394)	-
Dividends paid	(68,923)	(62,976)
At the end of the year	**178,143**	**254,711**
Retained earnings		
At beginning of the year	79,345	58,649
Result for the year	105,854	23,628
Transfer to legal reserves	(1,182)	(2,932)
Transfer to other reserves	(10,000)	-
At the end of the year	**174,017**	**79,345**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 29 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings (continued)

Legal reserves
The legal reserve is required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. As at 31 December 2015, legal reserves of the Group and the Company amounted to HRK 61,906 thousand or 3.70% of the share capital (31 December 2014: 60,724 thousand or 3.63% of the share capital). This reserve is not distributable.

Other reserves
Based on the decision of the Management Board on 28 September 2015, HRK 10 million was transferred from retained earnings treasury share reserve.

As at 31 December 2015 other reserves of the Group amounted to HRK 58,381 thousand. As at 31 December 2015 other reserves of the Company amounted to HRK 178,143 thousand.

Other reserves of the Group and the Company include treasury shares reserve in the amount of HRK 34,344 thousand which are not distributable and remaining amount to the retained earnings which are distributable.

Based on the Decision of the General Assembly held on 8 June 2015 the Company has paid out a dividend of HRK 0.55 per share, which amounted to HRK 22,492 thousand from the retained earnings realized in the financial years 2007, 2008 and 2009, and the remaining amount of HRK 46,431 thousand from retained earnings in 2013.

Fair value reserves
As at 31 December 2015 fair value reserves of the Group amounted to HRK 31,188 thousand. As at 31 December 2015 fair value reserves of the Company amounted to HRK 31,432 thousand. This reserves are not distributable and relate to the fair value of available for sale financial assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 30 – BORROWINGS

(in thousands of HRK)	Group 2015	Group 2014	Company 2015	Company 2014
Current				
Bank borrowings	139,573	103,565	125,091	102,320
Finance lease	265	249	265	249
	139,838	**103,814**	**125,356**	**102,569**
Non-current				
Bank borrowings	1,305,874	821,547	1,158,538	813,070
Finance lease	350	616	350	616
	1,306,224	**822,163**	**1,158,888**	**813,686**
Total borrowings	**1,446,062**	**925,977**	**1,284,244**	**916,255**

All banks have secured their borrowed funds with a pledge over hotel facilities with a net book value of HRK 1,432,391 thousand (2014: HRK 1,085,810 thousand).

The carrying amount of borrowings is denominated in EUR and CHF. Effective interest rates at reporting date were as follows:

Group

Borrowings:	2015 (in thousands of HRK)	2015 %	2014 (in thousands of HRK)	2014 %
EUR	1,343,240	1.0%-5.96%	749,560	0.88%-4.0%
CHF	88,822	0.594%	173,835	1.18%-1.5%
HRK	14,000	2.0%	2,582	3.55%-4.0%
	1,446,062		**925,977**	

Company

Borrowings:	2015 (in thousands of HRK)	2015 %	2014 (in thousands of HRK)	2014 %
EUR	1,195,422	1.0%-3.07%	739,838	0.88%-4.0%
CHF	88,822	0.594%	173,835	1.18%-1.5%
HRK	-	-	2,582	3.55%-4.0%
	1,284,244		**916,255**	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 30 – BORROWINGS (continued)

Maturities of non-current borrowings are as follows:

	Group		Company	
(in thousands of HRK)	2015	2014	2015	2014
1-3 years	277,268	185,562	246,031	182,631
3-6 years	410,055	251,305	335,557	249,108
Over 6 years	618,901	385,296	577,300	381,947
	1,306,224	**822,163**	**1,158,888**	**813,686**

The carrying amounts and fair value of non-current borrowings are as follows:

	Borrowings			
	Carrying amounts		Fair value	
(in thousands of HRK)	2015	2014	2015	2014
Group	1,306,224	822,163	1,278,759	818,615
Company	1,158,888	813,686	1,127,813	809,893

The fair value is based on discounted cash flows discounted using a rate based on the weighted average interest rate on Group's borrowings of 2.44% (2014: 2.25%). The carrying amounts of current borrowings approximate their fair value due to short term maturity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 31 – TRADE AND OTHER PAYABLES

	Group		Company	
(in thousands of HRK)	**2015**	**2014**	**2015**	**2014**
Trade payables	47,406	76,975	43,275	75,973
Trade payables – related parties	405	191	306	5,119
Interest payable	2,464	1,717	1,426	1,646
Concession fees payable	32,526	20,455	29,834	20,455
Total financial liabilities	82,801	99,338	74,841	103,193
Liabilities for dividend	46	-	-	-
Liabilities to employees	28,707	28,607	26,971	26,422
Liabilities for taxes and contributions and similar charges	8,301	9,176	7,045	6,085
Advances received	14,789	12,627	12,945	12,574
Other current liabilities	4,864	4,297	3,470	2,717
	139,508	**154,045**	**125,272**	**150,991**

The carrying amount of financial liabilities are denominated in the following currencies:

	Group		Company	
(in thousands of HRK)	**2015**	**2014**	**2015**	**2014**
EUR	4,768	3,227	3,711	2,851
GBP	229	-	229	-
CHF	7	167	7	167
HRK	77,797	95,944	70,894	100,175
	82,801	**99,338**	**74,841**	**103,193**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 32 – PROVISIONS

Group (in thousands of HRK)	Termination benefits	Legal proceedings	Bonuses	Total
At 1 January 2015	**10,257**	**26,807**	**8,446**	**45,510**
Additional provisions	5,189	4,958	16,523	26,670
Used during year	(10,257)	(751)	(7,923)	(18,931)
At 31 December 2015	**5,189**	**31,014**	**17,046**	**53,249**
2015				
Current portion	5,189	-	17,046	**22,235**
Non-current portion	-	31,014	-	**31,014**

Company (in thousands of HRK)	Termination benefits	Legal proceedings	Bonuses	Total
At 1 January 2015	**8,468**	**26,807**	**6,672**	**41,947**
Merger effect (Note 37)	-	-	1,774	1,774
Additional provisions	4,156	4,958	15,898	25,012
Used during year	(8,468)	(751)	(7,923)	(17,142)
At 31 December 2015	**4,156**	**31,014**	**16,421**	**51,591**
2015				
Current portion	4,156	-	16,421	**20,577**
Non-current portion	-	31,014	-	**31,014**

Provisions for legal proceedings, from previous years, primarily relate to land sold for construction purposes in Dubrovnik in 1995 with a total surface area of 11,239 sq.m., which was not included in the share capital of subsidiary Dubrovnik – Babin kuk d.d. during transformation and privatisation. A number of buyers were not able to register their ownership title over the stated land, and consequently initiated legal proceedings at the Municipal Court in Dubrovnik with the aim of terminating their sales contract and on the basis of expectation of future payments recorded based on the value of the aforementioned land according to the sales contracts.

In 2015 additional provision was recorded in respect of invoices received in 2015 for a portion of the concession fee at the Lanterna and Vrsar campgrounds, and carrying on from 2014 when a provision was made regarding the dispute with the Republic of Croatia/Ministry of Tourism relating to the partial payment of the advance concession fee in accordance with Law on land for touristic and other construction purposes which was not evaluated during transformation and privatisation (hereinafter: ZOTZ) and this for the portion of the land in the Lanterna and Vrsar campgrounds, which are registered as properties of the Municipality of Tar-Vabriga and the Municipality of Vrsar and for which the Company, before the enactment of ZOTZ, made payment to these Municipalities for a lease for several years in advance, based on a lease contract concluded with these Municipalities.

The second largest part of the provision is related to several disputes with the company Glavice d.o.o., Dubrovnik „in bankrupcy" through arbitration, aiming to disengage all mutual relations with respect to the upgrade and reconstruction of the hotel Valamar Lacroma Dubrovnik. These provisions were made because the company Glavice d.o.o. has declared bankruptcy and in case of a positive outcome for the Company from these disputes, the possibility of collection from the bankruptcy estate is uncertain. In 2015, additional provisions were recorded in respect of two of Glavice d.o.o.'s subcontractors with whom special assignation agreements were concluded.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 33 – CONSOLIDATED SUBSIDIARIES

	Country	Ownership at 31 December	
		2015	2014
Palme turizam d.o.o.	Croatia	100.00%	100.00%
Elafiti Babin kuk d.o.o.	Croatia	100.00%	100.00%
Magične stijene d.o.o.	Croatia	100.00%	100.00%
Bugenvilia d.o.o.	Croatia	100.00%	100.00%
Puntižela d.o.o. /i/	Croatia	99.39%	99.39%
Bastion upravljanje d.o.o.	Croatia	100.00%	100.00%
Valamar hoteli i ljetovališta d.o.o	Croatia	-	100.00%
Citatis savjetovanje d.o.o.	Croatia	-	100.00%
Valamar hotels & resorts GmbH	Austria	100.00%	100.00%
Hoteli Baška d.d.	Croatia	100.00%	-
Mirta Bašćanska d.o.o.	Croatia	100.00%	-
Vala Bašćanska d.o.o.	Croatia	100.00%	-
Baškaturist d.o.o.	Croatia	100.00%	-

/i/ Minority interest in Group's profit of HRK 20 thousand and Group's assets of HRK 98 thousand relate to the minority interest of the company Puntižela d.o.o. of 0.61% (2014: 0.61%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 34 – CONTINGENCIES AND COMMITMENTS

Legal proceedings

In the ordinary course of business, the Company is plaintiff and defendant in various legal actions. In the financial statements for the year ended 31 December 2015, provisions for certain legal proceedings have been made for which the Company anticipates outflows of HRK 31,014 thousand.

Transformation and privatisation audit and ownership over land

A transformation and privatisation audit was carried out for the Company during 2002 and 2003, with a separate audit for Riviera Poreč d.d. (formerly Riviera Holding d.d., Riviera Adria d.d., now Valamar Riviera d.d.) and for companies merged into Valamar Riviera d.d.: Rabac d.d., Zlatni Otok d.d. and Dubrovnik Babin kuk d.d. The reports claim that the transformation and privatisation process had not been performed entirely in accordance with legal regulations, primarily in relation to properties that are not evaluated in the Company's equity but are owned by the Company and are partly recorded in the land records, as well as properties that are reported in the Company's equity but have not yet been recorded in the land registry. The Company, as well as its legal predecessors, submitted timely objections to the transformation and privatisation audit reports to the State Audit Office, but at the date of issue of these financial statements they had not received any response from the State Audit Office with respect to the objection of the Company and/or the legal predecessors of the Company.

The outcome of these proceedings is not expected to have a significant impact on the financial position or results of the Company or the Group.

To protect their interests, the Company is conducting a number of legal and / or administrative procedures which are primarily related to land which was excluded from the valuation in the process of transformation and privatization, but was partially registered by the Company and on a portion of which catering and other facilities have been built or are in function (in the Lanterna and Solaris resorts and the Lanterna, Solaris, Istra, Ježevac, Krk and Škrila campgrounds) as well as procedures in relation to land in Dubrovnik, which was evaluated but not registered, and land which has been sold, but was not evaluated.

The outcome and the result of the legal and other proceedings cannot be predicted with any degree of certainty, but a resolution is expected in accordance with the Act on tourist and other construction land not evaluated in transformation and privatisation processes, and in relation to land in the area of Dubrovnik, through settlement. On 1 August 2010, the Act on tourist and other construction land not evaluated in transformation and privatisation processes ("the ZOTZ") entered into force, on the basis of the provisions of which the ownership and co-ownership over land not evaluated in transformation and privatisation processes should finally be determined, and in the spirit of the provisions of which all disputes which are ongoing in relation to unevaluated tourist land, primarily land in the area of Poreč, Rabac and Krk, will be resolved. The Company initiated procedures in accordance with the provisions of the ZOTZ within the prescribed period, through submission of a request on 31 January 2011 for concessions on tourist land in campgrounds and tourist land in tourist resorts, as well as requests for verification of plots/land ground-plan surface area of appraised buildings (hotels, apartments and other appraised buildings) and other prescribed requests. The ownership and/or co-ownership of the Company of the portion of land not evaluated in the transformation and privatisation procedures will be determined by the outcome of these procedures. The aforementioned procedures have not been completed yet, however, the Company makes so-called advance payments of concession fees for tourist land to the competent authorities.

The Company is in the process of harmonization and negotiations with the Agency for State Property Management and the Croatian State Prosecution related to land in Dubrovnik.

The outcome of these procedures is not expected to have a significant impact on the financial statements or results of the Company or the Group.

Capital commitments

Contracted capital commitments in respect to investments in tourism facilities as at 31 December 2015 amounted to HRK 77,917 thousand (2014: HRK 131,317 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 34 – CONTINGENCIES AND COMMITMENTS (continued)

Operating leases commitments - where the Group is the lessee.

The future minimum lease payments under non-cancellable leases are payable as follows:

	Group		Company	
(in thousands of HRK)	**2015**	**2014**	**2015**	**2014**
Up to 1 year	120	257	120	238
From 2 to 5 years	26	94	26	23
Total	**146**	**351**	**146**	**261**

The lease agreements represent operating lease for motor vehicles for the period between 1 and 5 years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 35 – CASH GENERATED FROM OPERATIONS

Adjustment of profit with cash generated from operations:

	Group		Company	
(in thousands of HRK)	**2015**	**2014**	**2015**	**2014**
Profit before taxation	132,927	59,052	126,809	27,267
Adjustments for:				
Depreciation and amortization	232,922	202,977	206,773	186,426
Net (gains)/losses on sale of property, plant and equipment and intangible assets	332	(58)	(226)	(46)
Write off of property, plant and equipment	3,541	7,721	3,541	7,721
Provision for impairment of trade and other receivables – net	(527)	(251)	(148)	(594)
Finance (income)/costs – net	46,120	26,978	39,452	23,789
Fair value losses/(gains) on financial assets	(58)	15	(58)	15
Fair value losses from financial instruments – net	(716)	(1,825)	(716)	(1,823)
Increase in provisions – net	7,739	5,870	7,870	5,870
Share of (profit)/loss in joint venture - net	29	(11)	-	-
Effect of presentation of merged companies	-	(17,140)	-	-
Effect of presentation of subsidiaries intragroup transfer	-	(24,340)	-	-
Changes in:				
- Trade and other receivables	27,279	3,591	44,628	22,389
- Inventories	(1,444)	(109)	(2,327)	46
- Trade and other payables	(20,956)	(1,315)	(14,332)	3,238
Cash generated from operations	**427,188**	**261,155**	**411,266**	**274,298**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 36 – RELATED PARTY TRANSACTIONS

Related parties are those companies which have the power to exercise control over the other party or are under common control or which have a significant influence on the other party in making business or financial decisions or is directly or indirectly involved in management or supervising.

Related parties in the Valamar Group are and were: Valamar grupa d.d., Zagreb, Valamar Adria holding d.d., Zagreb (merged 30 September 2014), Dubrovnik-Babin kuk d.d., Dubrovnik (merged 31 October 2013), Puntižela d.o.o., Pula, Valamar hoteli i ljetovališta d.o.o., Zagreb (merged 27 February 2015), Valamar turistički projekti d.o.o., Zagreb (merged 29 April 2014), Epima d.o.o., Zagreb (merged 14 July 2014), Epic GmbH, Wien, Bugenvilia d.o.o., Dubrovnik , Bastion upravljanje d.o.o., Zagreb., Valamar poslovni razvoj d.o.o., Zagreb (merged 28 November 2014), Scapus d.o.o., Zagreb, Satis d.o.o., Zagreb, Enitor d.o.o., Zagreb, Linteum savjetovanje d.o.o., Zagreb (merged 14 December 2014), Elafiti Babin kuk d.o.o., Magične stijene d.o.o., Palme turizam d.o.o., Valamar Hotels and Resorts GmbH, Frankfurt am Main, Citatis savjetovanje d.o.o., Zagreb (merged 12 November 2015), Hoteli Baška d.d., Baška, Baškaturist d.o.o., Baška, Mirta Bašćanske d.o.o., Baška, Vala Bašćanska d.o.o., Baška and Valovito d.o.o.

Valamar Riviera d.d., Poreč is the parent company of the subsidiaries:

- Elafiti Babin kuk d.o.o., Dubrovnik, Palme turizam d.o.o., Dubrovnik, Magične stijene d.o.o., Dubrovnik as of 1 November 2013 upon merger of Dubrovnik Babin kuk d.d.;
- Bugenvilia d.o.o., Dubrovnik as of 12 June 2013 when the Company Valamar Riviera d.d. acquired 100% of share in Bugenvilia d.o.o., Dubrovnik;
- Upon merger of Valamar Adria holding d.d., Zagreb and Valamar grupa d.d., Zagreb, the company Valamar Riviera d.d., Poreč has become parent company of the subsidiaries: Valamar hoteli i ljetovališta d.o.o., Zagreb (27 February 2015), Bastion d.o.o., Zagreb, Citatis d.o.o., Zagreb (12 November 2015), Puntižela d.o.o., Pula and Linteum d.o.o., Zagreb (merged 14 December 2014).
- Valamar Hotels and Resorts GmbH, Frankfurt am Mein (in the liquidation) as of 27 February 2015 upon merger of the company Valamar hoteli i ljetovališta d.o.o., Zagreb,
- Hoteli Baška d.d., Baška, Baškaturist d.o.o., Baška, Mirta Bašćanska d.o.o., Baška and Vala Bašćanska d.o.o., Baška as of 18 June 2015 when the company Valamar Riviera d.d. acquired 100% of share in the companies Baškaturist d.o.o., Baška, Mirta Bašćanska d.o.o., Baška and Vala Bašćanska d.o.o., Baška and directly and indirectly acquired 85,22% share of Hoteli Baška d.d., and subsequently from 15 December 2015, 100% share in Hoteli Baška d.d.

The ultimate controlling company is Epic GmbH, Wien, Austria which holds 43.06% of shares in Valamar Riviera d.d.

Related party transactions were as follows:

Group

(in thousands of HRK)	2015	2014
Sale of services		
Epic GmbH, Wien	-	27
Satis d.o.o.	6	1
Scapus d.o.o.	12	1
Valovito d.o.o.	67	-
	85	**29**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Group (continued)

(in thousands of HRK)	2015	2014
Purchase of services		
Epic GmbH, Wien	447	1,973
Satis d.o.o.	-	138
Valovito d.o.o.	820	-
	1,267	**2,111**

(in thousands of HRK)	2015	2014
Receivables		
Epic GmbH, Wien	-	4
Valovito d.o.o.	2	-
	2	**4**
Liabilities		
Epic GmbH, Wien	71	191
Valovito d.o.o.	334	-
	405	**191**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Company

(in thousands of HRK)	2015	2014
Sale of services		
Valamar hoteli i ljetovališta d.o.o., Zagreb	483	2.567
Puntižela d.o.o., Pula	214	43
Valamar poslovni razvoj d.o.o., Zagreb	-	78
Valamar Adria holding d.d., Zagreb	-	22
Epic GmbH, Wien	-	27
Elafiti Babin kuk d.o.o.	71	71
Bugenvilia d.o.o., Dubrovnik	10	10
Palme turizam d.o.o.	10	10
Magične stijene d.o.o.	9	9
Bastion upravljanje d.o.o.	36	-
Citatis savjetovanje d.o.o.	10	-
Hoteli Baška d.d.	149	-
Scapus d.o.o.	12	1
Satis d.o.o.	6	1
Valovito d.o.o.	67	-
	1,077	**2,839**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Company (continued)

(in thousands of HRK)	2015	2014
Purchase of services		
Valamar Adria holding d.d., Zagreb	-	678
Valamar hoteli i ljetovališta d.o.o., Zagreb	3,517	99,927
Valamar grupa d.d., Zagreb	-	160
Valamar poslovni razvoj d.o.o., Zagreb	-	1,827
Bugenvilia d.o.o., Dubrovnik	80	80
Puntižela d.o.o., Pula	1	2
Elafiti Babin kuk d.o.o.	28,641	29,557
Palme turizam d.o.o.	201	201
Epic GmbH, Wien	374	83
Linteum savjetovanje d.o.o.	-	115
Hoteli Baška d.d.	24	-
Valovito d.o.o.	483	-
	33,321	**132,630**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Company (continued)

(in thousands of HRK)	2015	2014
Financial income		
Valamar hoteli i ljetovališta d.o.o., Zagreb	24,038	-
Puntižela d.o.o., Pula	2,144	-
Pogača Babin kuk, d.o.o.	69	-
	26,251	**-**
Trade and other receivables		
Valamar hoteli i ljetovališta d.o.o., Zagreb	-	868
Valamar Poslovni razvoj d.o.o., Zagreb	-	2
Puntižela d.o.o., Pula	13	-
Elafiti Babin kuk d.o.o.	164,817	191,056
Magične stijene d.o.o.	22	11
Bastion upravljanje d.o.o.	1	-
Hoteli Baška d.d.	144	-
Epic GmbH, Wien	-	4
Valovito d.o.o.	2	-
	164,999	**191,941**
Trade and other payables		
Valamar hoteli i ljetovališta d.o.o., Zagreb	-	3,995
Bugenvilia d.o.o., Dubrovnik	25	25
Elafiti Babin kuk d.o.o.	-	916
Palme turizam d.o.o.	100	100
Epic GmbH, Wien	71	83
Hoteli Baška d.d.	9	-
Valovito d.o.o.	101	-
	306	**5,119**
Loans given		
Magične stijene d.o.o.	20	17
Elafiti Babin kuk d.o.o.	-	622
	20	**639**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

	Group		Company	
(in thousands of HRK)	**2015**	**2014**	**2015**	**2014**
Salaries	6,587	6,893	5,109	5,114
Pension contributions	1,125	1,068	747	665
Health insurance contribution	1,372	1,595	980	1,265
Other costs (contribution and taxes)	3,859	4,683	3,226	3,550
	12,943	**14,239**	**10,062**	**10,594**

Group Management consists of:
Management of the parent Company comprise
Željko Kukurin and Marko Čižmek.

Management of the subsidiary comprise:
Elafiti Babin kuk d.o.o.: Nikola Koncul, Mišo Matana
Palme turizam d.o.o.: Nikola Koncul, Mišo Matana
Magične stijene d.o.o.: Nikola Koncul, Mišo Matana
Bugenvilia d.o.o.: Edi Černjul, Nikola Koncul
Bastion upravljanje d.o.o.: Ljubica Grbac
Puntižela d.o.o.: Darko Grbac, David Poropat
Hoteli Baška d.d.: Tihomir Nikolaš, Josipa Cvelić Bonifačić,
Mirjana Galović
Baškaturist d.o.o.: Ljubica Grbac
Mirta Bašćanska d.o.o.: Ljubica Grbac
Vala Bašćanska d.o.o.: Ljubica Grbac

Joint venture:
Pogača Babin kuk d.o.o.: Mario Perović

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 37 – MERGER OF ENTITIES UNDER COMMON CONTROL

As at 27 February 2015, a merger Agreement was concluded, whereby the company Valamar hoteli i ljetovališta d.o.o., Zagreb was merged into Valamar Riviera d.d., Poreč with legal effects as of 28 February 2015. Valamar hoteli i ljetovališta d.o.o., Zagreb ceased to exist and the company Valamar Riviera d.d. took over all assets, all rights and all liabilities of the merged company.

As at 12 November 2015, a merger Agreement was concluded, whereby the company Citatis savjetovanje d.o.o., Zagreb was merged into Bastion upravljanje d.o.o., Zagreb with legal effects as of 13 November 2015.

Statement of comprehensive income of the Group includes the results of the merged companies for the whole current year.

Statement of comprehensive income of the Company includes the results of the merged companies from the merger date.

Assets and liabilities at merger date are:

	Valamar hoteli i ljetovališta d.o.o. 28 February 2015
Assets	
Property, plant and equipment (Note 14)	1,460
Intangible assets (Note 16)	320
Inventories	154
Trade and other receivables	6,711
Deferred tax assets	637
Cash and cash equivalents	14,234
Financial assets	189
Income tax receivables	298
Liabilities	
Provisions (Note 32)	(1,774)
Payables and other liabilities	(1,812)
Dividend liability	(24,038)
Net assets acquired	**(3,621)**
Share capital	1,000
Accumulated losses	(4,621)
	(3,621)
Less: elimination of the Company's share in subsidiary (Note 17)	**(5,630)**
Net effect on equity at merger (Note 29)	**(9,251)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 38 – BUSINESS COMBINATION HOTELI BAŠKA D.D.

As described in Note 1, on 18 June 2015 company Valamar Riviera d.d. acquired 100% shares in companies Baškaturist d.o.o., Mirta Bašćanska d.o.o. and Vala Bašćanska d.o.o., seated in Baška and 1,40% shares in the company Hoteli Baška d.d. (all together: "acquisition Hoteli Baška d.d."). Due to the fact that aforementioned companies owned 83,82% of share capital of the company Hoteli Baška d.d. Valamar Riviera d.d. thereby acquired 85,22% shares in Hoteli Baška d.d..

For the period from 18 June until 31 December 2015, Hoteli Baška d.d. contributed revenue of HRK 76,062 thousand and profit of HRK 15,164 thousand to the Group's result. If the acquisition had occurred on 1 January 2015, management estimates that consolidated revenue would have been HRK 1,316,300 thousand, and consolidated profit for the year would have been HRK 95,154 thousand. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2015.

a) Acquisition cost

Acquisition cost was formed based on fair value of consideration transferred in the amount of HRK 178,458 thousand.

b) Other acquisition relating costs

The Company incurred acquisition relating cost of HRK 491 thousand on legal fees and due diligence costs. These cost have been included in other operating expenses.

c) Identifiable assets acquired and liabilities assumed

(in thousands of HRK)	**Hoteli Baška d.d. consolidated 18 June 2015**	**Fair value adjustment**	**Fair value at acquisition date**
Intangible assets	1,246	-	1,246
Land	46,526	26,486	73,012
Property, plant and equipment	211,005	75,415	286,420
Other tangible assets	24,030	-	24,030
Long term financial assets available for sale	394	800	1,194
Long term financial assets - other	455	-	455
Deferred tax assets	209	2,380	2,589
Inventories	1,038	-	1,038
Trade and other receivables	11,977	(424)	11,553
Short term financial assets	758	(758)	-
Cash and cash equivalents	5,669	-	5,669
Prepaid expenses	3,872	-	3,872
Long term liabilities	(157,102)	-	(157,102)
Deferred tax liabilities	-	(20,380)	(20,380)
Short term liabilities	(39,772)	(1,156)	(40,928)
Accrued revenue	(4,924)	-	(4,924)
Total identifiable assets acquired	**105,381**	**82,363**	**187,744**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 38 – BUSINESS COMBINATION HOTELI BAŠKA D.D. (continued)

Description	Fair value at acquisition date
Fair value of identifiable assets acquired	187,744
Adjustment for companies in which Valamar Riviera d.d. has 100% ownership	(1,520)
Fair value after adjustment:	**186,224**
Non-controlling interest	(9,286)
Fair value after non-controlling interest:	176,938
Acquisition cost (in HRK thousand):	178,458
Non-controlling interest	9,286
Fair value of net assets acquired	187,744
Acquisition cost (in HRK thousand):	178,458
Cash acquired Baska	5,669
Acquisition cost, net of cash acquired	172,789

Additionally the Company acquired non-controlling interest of Hoteli Baška d.d. and became 100% owner for the amount of HRK 9,769 thousand which resulted in a decrease of capital reserves in the amount of HRK 483 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

NOTE 39 – SUBSEQUENT EVENTS

As of 13 January 2016, subsidiaries Baškaturist d.o.o., Mirta Bašćanska d.o.o. and Vala Bašćanska d.o.o. merged with the subsidiary Hoteli Baška d.d. and upon completion of the mergers, the company Valamar Riviera d.d. is the sole shareholder and indirectly holds all 268,518 shares of Hoteli Baška d.d.

During February 2015, the process of merger of Hoteli Baška d.d. to the company Valamar Riviera d.d. has been initiated. On 10 February 2016, the merger Agreement was concluded, which was submitted to the Commercial Court in Rijeka and Pazin on 11 February 2016 and the completion is expected in late March 2016.

On 22 January 2016, the Company received a court ruling from the Permanent Court of Arbitration at the Croatian Chamber of Commerce, and on 29 January 2016, a court ruling of correction of the court ruling of 22/01/2016 in the case of the plaintiff Glavice d.o.o. in bankruptcy, Opuzen versus the defendant, the Company (as legal successor of the original defendant company Dubrovnik-Babin Kuk d.d. from Dubrovnik) with which the arbitral tribunal entirely dismissed the claim of Glavica d.o.o. regarding payment in the amount of HRK 64,058,078.29, and in relation to the counterclaim request to confirm the Company's bankruptcy claims, confirmed claims in the total amount of HRK 20,932 thousand as founded and awarded the Company litigation costs in the amount of HRK 822 thousand. As the company Glavice d.o.o. is in bankruptcy, except for the costs of the dispute of HRK 822 thousand, which have been collected, it is not known whether the Company will be able to collect the confirmed claims and the impairment of the prepayment is included in the current year in other operating expenses.

Independent auditors' report to the shareholders of Valamar Riviera d.d., Poreč on the consistency of the annual report

The accompanying annual report for the year ended 31 December 2015, contains information derived from the audited financial statements of Valamar Riviera d.d. ("the Company") as of and for the year ended 31 December 2015. We expressed an unmodified audit opinion on those financial statements in our report dated 4 March 2016. Those financial statements do not reflect the effects of events that occurred subsequent to that date.

This annual report does not contain all the information and disclosures applied in the preparation of the audited financial statements of the Company. Accordingly, this annual report should be read together with the audited financial statements of the Company.

Management is responsible for the preparation and content of the annual report in accordance with legal and regulatory requirements as applicable for reporting periods ending 31 December 2015, in accordance with Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia).

Our responsibility is to report on the consistency of the information in the annual report with the financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia).

The information given in the accompanying annual report for the financial year for which the financial statements are prepared is consistent with those financial statements.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb,
Croatia

14 March 2016

This version of our report is a translation from the original, which was prepared in the 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 the report takes precedence over this translation.

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