LIBURNIA RIVIERA HOTELI d.d.

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2017

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

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Management Report to the shareholders of Liburnia Riviera Hoteli d.d. Opatija

Annual Report was composed based on the liability arising under article 250a of the Companies Act and article 21 of the Accounting Act.

The report relates to the company Liburnia Riviera Hoteli d.d. Opatija, Maršala Tita 198, whose main activities are accommodation and hospitality services, travel agencies and tour-operator services, retail and wholesale and sports an recreational activities, with the aim of presenting the most significant operating achievements in 2017 and reference on the future expectations.

Review of business in 2017

After renovation of Remisens Hotel Palace-Bellevue was completed in 2016, Liburnia Riviera Hoteli d.d. continues with the investments in renewal and reconstruction and increase in quality of existing facilities in 2017. Renewal of Remisens Hotel Giorgio II was completed in June, thus it becoming one of the most important Remisens brand hotels of the Opatija Riviera. The investment in the amount of approximately HRK 84.0 million included demolition of the old Hotel Ičići, out of commercial function, and construction of new family hotel Giorgio II of the Remisens brand, with 5 floors, 180 rooms with beach and outdoor pool complex with a sundeck and various facilities for children and adults.

Key financial indicators

Business results of Liburnia Riviera Hotel d.d. in 2017 indicate that the Company is realizing its main goals. Realized total net operating revenues increased by 12% compared to prior year, with 9% increase in overnights. GOP (gross operating profit) increased by 19% compared to prior year, indicating increased business efficiency through reducing the share of costs in revenues. EBITDA in the amount of approximately HRK 122.8 million is 0.4% or approximately HRK 486 thousand higher than the last year's. Reported EBITDA is calculated as profit before tax increased by depreciation and loan interest expense.

In 2017 Liburnia Riviera Hotel d.d. realized profit before tax in the amount of approximately HRK 19.6 million which, in comparison to profit in the amount of HRK 17 million realized in 2016, is HRK 2.6 million higher. In 2017, income tax expense amounts to HRK 3.2 million.

In the reported period, total amount of approximately HRK -6.2 million of net one-off expense was realized, while net one-off income for the same period in 2016 amounted to HRK 14.0 million (in May 2016 land in Lovran was sold. Land selling price was HRK 13.5 million, and carrying value was HRK 1.9 million). In 2017 most of the one-off income in the total amount of HRK 15.0 million relates to income from release of provisions (related to hotel Mediteran property) in the amount of HRK 11.5 million. One-off expenses were recognized in the amount of HRK 21.3 million, out of which the most relates to write-off of book value of hotel and annex Belvedere in the amount of HRK 11.4 million, damage compensation to legal entities and individuals in the amount of HRK 4.6 million and provisions for termination benefits and legal disputes in the amount of HRK 2.1 million.

Liquidity and solvency indicators, debt to equity ratio and cash flow are of high quality.

Management Report to the shareholders of Liburnia Riviera Hoteli d.d. Opatija *(continued)*

Key events after the year end

After the date of this report, during January 2018, the Company signed a loan agreement for investments in the amount of EUR 9.3 million.

Research and development activities

In the context of Company's activities possibility of significant investment in research and development of new products and technologies is open.

Expected development of the Company in the future

By the end of 2017 reconstruction of Hotel Smart Selection Imperial has started which, after the investment of over HRK 46.0 million, developed into a representative Remisens Premium Heritage hotel Imperial with wide rich offer and high quality. By the end of 2017 reconstruction of Smart Selection hotel Istra also started, with investments aimed to increase the capacity by third compared to current number of accommodation units. Investments in renovated Remisens hotel Palace-Bellevue expected in the period from winter 2017 until spring 2018 aim to set Villa Slatina into commercial function which becomes Remisens Premium Villa Abbazia and raises the whole complex to quality level of Remisens Premium Grand hotel Palace. Investments started by the end of 2017 further include construction of additional accommodation units and additional pool for hotel Remisens Marina in Mošćenička Draga, construction of rooms in the Remisens hotel Admiral, construction of apartments and outdoor pool for Remisens Villa Belvedere in Lovran and reconstruction of Smart Selection hotel Rezidens, by which the hotel increases its quality and from 2* becomes Smart Selection hotel Lungomare 3*.

Information on purchase of own shares

The Company does not have own shares.

Financial instruments

Company's policy on managing financial instruments defines main principals for maintaining short and long-term liquidity and safety of the investment with realizing maximal possible return with minimal risk.

Financial assets relate to cash and cash equivalents and trade and other receivables. Out of total financial assets, majority relates to cash and cash equivalents, which secure short and long-term liquidity.

Financial liabilities relate to non-current borrowings, trade and other payables, which the Company settles in at maturity.

Company's policy on managing financial instruments defines exposure of the Company to risks and ways to mitigate those risks.

Company's exposure to risks

The Company is exposed to market and financial risks through business operations. Financial risks relate to currency risk, interest risk, credit risk and liquidity risk.

Exchange rate risk

The Company is exposed to currency risk since loans payables are denominated in euro

Interest rate risk

The Company is exposed to interest rate risk as borrowings are agreed with variable interest rates.

Credit risk

The Company does not have short or long-term loans granted to related or other parties so it is not significantly exposed to this risk.

Liquidity risk

The Company manages liquidity risk through maintaining adequate reserves, bank facilities and borrowed funds reserves, continuously monitoring forecasted and actual cash flows and comparing maturity terms for financial assets and liabilities.

Statement of implementation of the Corporate Governance Code

Pursuant to Article 272 of the Companies Act (NN 111/93, 34/99, 52/00, 118/03, 107/07 and 148/08, hereinafter referred to as the CA) and Article 22 of the Accounting Act (NN 120/16), the Management Board of Liburnia Riviera Hoteli d.d. Opatija, M. Tita 198 ("The Company") at 23 February 2018, brings the following

STATEMENT
of implementation of the Corporate Governance Code

1. The Company voluntarily applies the Corporate Governance Code prescribed by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d., Zagreb
2. In 2017, the Company followed and applied the recommendations set out in the Code, publishing all the information whose publishing is anticipated by positive regulations and the information that is in the best interests of the Company's shareholders. The Company has an Audit Committee. The Company does not deviate from the Corporate Governance Code.
3. In accordance with a requirement of the Code and with the directives of the CA, the Supervisory Board conducts internal control of the Company through regular audits of the presented reports. The members of the Supervisory Board are regularly (at least once a month) provided with detailed information on the management and operations of the Company. At the Supervisory Boards meetings, all the matters within the competence of that body, prescribed by the CA and the Company's Articles of Association, are discussed and the decisions are made. The Supervisory Board's report on the conducted supervision of the management is a part of the Company's Annual Report, submitted to the General Assembly. In addition, the Supervisory Board performs internal control and oversight through the Audit Committee which provides professional support to the Supervisory Board and the Management Board in the effective performance of corporate governance, risk management, financial reporting and control of the Company. The Management Board is responsible for monitoring that the Company runs its business and other records and documentation, complies the accounting documents, evaluates assets and liabilities and prepares financial and other reports in accordance with accounting rules and standards, as well as applicable laws and regulations.
4. Ten main shareholders as at 31 December 2017:

Nr.	Shareholder	Number of shares	Percentage of ownership
1.	SNH ALFA D.D.	93,825	31.0021
2.	NOVA LIBURNIJA D.O.O.	75,661	25.0002
3.	SNH BETA D.D.	57,506	19.0014
4.	SPLITSKA BANKA D.D.	24,218	8.0022
5.	CERP	11,189	3.6971
6.	SNH GAMA D.D.	9,318	3.0789
7.	SN PECTINATUS D.D.	2,600	0.8591
8.	HPB D.D.	1,659	0.5482
9.	INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O.	975	0.3222
10.	ABANKA D.D.	967	0.3195

Statement of implementation of the Corporate Governance Code *(continued)*

In accordance with the Company's Articles of Association, the voting right of a shareholder is not limited to a certain percentage or number of votes, nor there are time constraints to gain voting rights. Each regular share entitles to one vote at the General Assembly.

The Company's rights and obligations arising from the acquisition of its own shares are achieved in accordance with the directives of the CA.

5. The Management Board of the Company is composed of three members of the Management Board of the Company:

- dr.sc. Igor Šehanović, president of the Management Board
- Mr. Giorgio Cadum, member of the Management Board
- Mr. Dino Hrelja, member of the Management Board

The Management manages the Company's business in accordance with the Company's Articles of Association and legal regulations.

The Management Board appoints and revokes the Supervisory Board in accordance with the Company's Articles of Association and the CA and it is composed of the following members as at 31 December 2017:

- Franco Palma, president,
- Božena Mesec, vice president,
- Darko Ostoja, member,
- Joško Marić, member,
- Tin Dolički, member,
- Ksenija Juhn – Bojadžijev, member,
- Andreja Rudančić, member,
- Helena Masarić, member and
- Domijan Mršić, member.

The Supervisory Board appoints and revokes the Audit Board in accordance with the Company's Articles of Association and the CA and it is composed of the following members as at 31 December 2017:

- Franco Palma, president,
- Helena Masarić, member and
- Bruno Bulić, member.

Pursuant to the provisions of Article 250.a paragraph 4 and Article 272.p of the CA, this Statement is a separate section and an integral part of the Annual Report on the Company's status for the year 2017.

Statement of Management Board's responsibilities

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

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

The Management is also responsible for the preparation and content of the Management Report and the Statement of the implementation of corporate governance code, as required by the Croatian Accounting Act. The Management Report and the Statement of implementation of the corporate governance code set out on pages 1 to 5, were authorised for issuance by the Management Board. The Management Board is responsible for submitting the Annual Report to the Supervisory Board, including financial statements, and the Supervisory Board is required to approve the financial statements for submission to the General Assembly of Shareholders for adoption.

The Annual report was approved by the Management Board on 23 February 2018 for submission to the Supervisory Board and was signed below by:

Igor Šehanović

President of the Management Board

Giorgio Cadum

Member of the Management Board

LIBURNIA RIVIERA HOTELI
DIONIČKO DRUŠTVO
OPATIJA 13

Dino Hrelja

Member of the Management Board

Independent Auditors' Report to the shareholders of Liburnia Riviera Hoteli d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Liburnia Riviera Hoteli d.d. ("the Company"), which comprise the statement of financial position of the Company as at 31 December 2017, and the statements of comprehensive income, cash flows and changes in equity of the Company for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report to the shareholders of Liburnia Riviera Hoteli d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters

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

Impairment and useful lives of tourism properties

The carrying amount of *property, plant and equipment* as at 31 December 2017 was HRK 850,070 thousand (*2016: HRK 863,287 thousand*).

Refer to Notes 2.3 of *Accounting policies*, Note 4(a) of *Critical accounting estimates*, and Note 14 on *Property, plant and equipment* of the financial statements.

Key audit matter	How our audit addressed the matter
As at 31 December 2017, the carrying amount of property, plant and equipment represented approximately 94% of the Company's total assets. These assets, carried at cost less accumulated depreciation and any accumulated impairment losses, consist primarily of tourism properties and related assets, and are subject to annual review to assess whether or not they may be impaired. In the process, the Company first identifies its tourism properties where there is an indication of impairment. These properties are then subjected to a detailed impairment review through analysis of their value-in-use (based on an internal discounted cash flow model) or an estimate of their fair value less costs to sell. Any such impairment would be recognized in the amount by which the carrying amount of the asset (or its cash-generating unit, CGU) exceeds the recoverable amount. The Company's assessment relies on significant judgments and assumptions about tourism flows and the future, including: discount rates, growth rates, occupancy rates, asset useful lives, terminal values and revenue per available room. The magnitude of the property, plant and equipment balance also requires the application of significant judgement in assessing the continued relevance of the assets' useful lives. In conjunction with its	Our audit in this area procedures included, among others: • Evaluating the appropriateness of allocation of assets to CGUs, based on our understanding of the Company's operations and business units; • Evaluating the Company's judgments regarding identification of tourism properties or related CGUs which may require further impairment testing. This included, but was not limited to, comparing of the asset's (or CGU's) actual performance to previous forecasts; • For the assets or CGUs that required further impairment testing, challenging the key assumptions used in determining their recoverable amounts. This included a comparison of occupancy rates, revenue per available room, market growth with externally derived data including external hotel industry reports and quoted prices for similar assets. We also analysed other key inputs such as estimated future costs, discount rates, asset useful life estimates and terminal multipliers, and considered the historical performance of the properties. • Analysing the methodology used in determining the remaining useful lives of the tourism properties and challenging the key assumptions used in the area by

year end reporting, the Company has reviewed the remaining useful lives for tourism properties based on the detailed analysis performed for each component of the property, by applying inputs from the Company's technical experts as well as the analysis provided by an external appraiser engaged by the Company. Due to the above, accounting for impairment and useful lives of tourism properties were determined by us to be a key audit matter.	making enquiries of the management, the Company's technical experts and its finance team members, and also by reference to our understanding of the future utilisation of assets by the Company and the depreciation policies applied by other market participants operating similar assets; • Evaluating the Company's analysis of the sensitivity of the impairment tests' results, in particular in respect of the assumptions with the greatest potential effects on the test results.

Litigations and claims

The carrying amount of *provisions for legal proceedings* as at 31 December 2017 totalled HRK 4,324 thousand *(2016: 16,053 thousand)*.

Refer to Note 2.16 of *Accounting policies*, Note 20 on *Provisions* and Note 23 on *Potential obligations*.

Key audit matter	How our audit addressed the matter
In the normal course of the Company's business, potential exposures may arise from various court proceedings. Whether a liability or a contingent liability is recognized or disclosed in the financial statements is inherently uncertain and is dependent on a number of significant assumptions and judgments. The amounts involved are potentially significant and determining the amount, if any, to be recognized or disclosed in the financial statements, is inherently subjective. Due to the above factors, we considered this area a key audit matter.	Our audit procedures in this area included, among others: • Reading minutes of the meetings of the Management and Supervisory Boards to identify additional potential obligations; • Obtaining and evaluating the Company's lawyers' responses to our audit inquiry letters, discussing selected matters with the lawyers, including the disputes regarding the ownership of properties, and making corroborating inquiries of the Company's management in respect of major legal disputes; • Critically assessing the Company's assumptions and estimates in respect of claims, including the liabilities recognized or contingent liabilities disclosed in the financial statements. This involved assessing the probability of an unfavourable outcome of litigation and the reliability of estimates of related obligations.

Independent Auditors' Report to the shareholders of Liburnia Riviera Hoteli d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Other Information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act,
- the specific information in the Corporate Governance Statement required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Corporate Governance Statement") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22, paragraph 1, items 2, 5 and 6 of the Accounting Act.

Independent Auditors' Report to the shareholders of Liburnia Riviera Hoteli d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Other Information (continued)

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21 and 22 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Independent Auditors' Report to the shareholders of Liburnia Riviera Hoteli d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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Independent Auditors' Report to the shareholders of Liburnia Riviera Hoteli d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 11 May 2017 to audit the financial statements of Liburnia Riviera Hoteli d.d. for the year ended 31 December 2017. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2016 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 23 February 2018;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit;

The engagement partner on the audit resulting in this independent auditors' report is Domagoj Hrkać.

KPMG Croatia d.o.o.

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Croatian Certified Auditors
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23 February 2018

Domagoj Hrkać
Director, Croatian Certified Auditor

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(in thousands of HRK)	**Note**	**2017**	**2016**
Revenue from sales	5	297,739	264,805
Other income	6	19,802	12,221
Cost of materials and services	7	(80,829)	(76,428)
Staff costs	8	(78,986)	(73,611)
Depreciation and amortisation		(98,355)	(98,420)
Other operating expenses	9	(36,366)	(18,374)
Other gains – net	10	247	11,731
Operating profit		23,252	21,924
Finance income	11	2,247	3,339
Finance costs	11	(5,899)	(8,267)
Finance costs – net	11	(3,652)	(4,928)
Profit before tax		19,600	16,996
Income tax expense	12	(3,244)	(4,106)
Profit for the year		**16,356**	**12,890**
Total comprehensive income for the year		**16,356**	**12,890**
Earnings per share (in HRK) - basic and diluted	13	54.04	42.59

The accompanying notes form a part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

(in thousands of HRK)	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	14	850,070	863,287
Intangible assets		478	816
Investments	15	500	500
Deferred tax assets	12	1,404	1,404
		852,452	866,007
Current assets			
Inventories		2,961	3,161
Loan receivables	24	-	5,986
Trade and other receivables	16	8,097	10,674
Income tax receivable	12	-	2,459
Cash and cash equivalents	17	43,763	62,389
		54,821	84,669
Total assets		**907,273**	**950,676**
EQUITY			
Share capital	18	696,074	696,074
Legal reserves	18	45,019	45,019
Capital reserves	18	1,511	1,511
Retained earnings		29,328	12,972
		771,932	755,576
LIABILITIES			
Non-current liabilities			
Borrowings	19	69,425	89,174
Provisions for other liabilities and expenses	20	6,879	16,712
		76,304	105,886
Current liabilities			
Trade and other payables	21	34,776	32,046
Borrowings	19	22,166	57,168
Income tax liability		2,095	-
		59,037	89,214
Total liabilities		**135,341**	**195,100**
Total liabilities and equity		**907,273**	**950,676**

The accompanying notes form a part of these financial statements.

(in thousands of HRK)	**Note**	**Share capital**	**Legal reserves**	**Capital reserves**	**Retained earnings**	**Total**
Balance at 1 January 2015	18	865,553	43,278	1,938	34,822	945,591
Share capital increase		33,290	-	(209)	(33,081)	-
Effect of demerger		(202,769)	-	-	-	(202,769)
Transfer to reserves		-	1,741	-	(1,741)	-
Effect of changes in corporate profit tax form		-	-	(218)	-	(218)
Total comprehensive income		-	-	-	82	82
Balance at 31 December 2015	**18**	**696,074**	**45,019**	**1,511**	**82**	**742,686**
Balance at 1 January 2016		696,074	45,019	1,511	82	742,686
Total comprehensive income		-	-	-	12,890	12,890
Balance at 31 December 2016	**18**	**696,074**	**45,019**	**1,511**	**12,972**	**755,576**
Stanje 1. siječnja 2017. godine		696,074	45,019	1,511	12,972	755,576
Ukupna sveobuhvatna dobit		-	-	-	16,356	16,356
Stanje 31. prosinca 2017. godine		**696,074**	**45,019**	**1,511**	**29,328**	**771,932**

LIBURNIA RIVIERA HOTELI d.d.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of HRK)	**Note**	**2017**	**2016**
Cash flow generated from operating activities			
Cash from operations	22	134,736	113,178
Income tax paid		(709)	(2,177)
Interest paid		(6,493)	(7,396)
Net cash generated from operating activities		**127,534**	**103,605**
Cash flow from investing activities			
Purchase of property, plant and equipment		(105,924)	(111,653)
Purchase of intangible assets		(18)	(57)
Proceeds from disposal of property, plant and equipment		8,547	13,657
Loans collected		5,986	-
Sale of shares in Hoteli Cavtat		-	29
Loans granted		-	(5,986)
Net cash used in investing activities		**(91,409)**	**(104,010)**
Cash flow from financing activities			
Repayments of borrowings		(54,751)	(19,721)
Net cash used in financing activities		**(54,751)**	**(19,721)**
Net decrease in cash and cash equivalents		**(18,626)**	**(20,126)**
Cash and cash equivalents at beginning of year		62,389	82,515
Cash and cash equivalents at end of year	17	43,763	62,389

The accompanying notes form a part of these financial statements.

NOTE 1 – GENERAL INFORMATION

Liburnia Riviera Hoteli d.d. (hereinafter: the Company or LRH) with its registered office in Opatija, Maršala Tita 198, Croatia was established as a result of the transformation of the socially-owned company Liburnia Riviera Hoteli to a public limited company on 1 January 1993, when the transformation was registered at the Commercial District Court in Rijeka. The Company's principal activities are accommodation and hospitality services, travel agency and tour operator services, retail and wholesale as well as sports and recreational activities.

As at 31 December 2017 the Company's shares were listed on the Zagreb Stock Exchange.

Management Board and Supervisory Board

Management Board

Igor Šehanović	President (since 1 October 2015)
Giorgio Cadum	Member (since 1 October 2015)
Dino Hrelja	Member (since 1 October 2015)

The President and the members of the Management Board represent the Company solely and independently.

Supervisory Board

Franco Palma, President since 22 September 2015
Božena Mesec, Deputy President since 22 September 2015
Bruno Bulić, Member since 14 December 2001 until 30 May 2017
Domijan Mršić, Member since 23 August 2017
Joško Marić, Member since 27 August 2015
Darko Ostoja, Member since 27 August 2015
Tin Dolički, Member since 27 August 2015
Ksenija Juhn Bojađijev, Member since 27 August 2015
Helena Masarić, Member since 7 September 2015
Andreja Rudančić, Member since 13 July 2017
Dušan Kotur, Member since 8 November 2016 until 13 July 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared under the historical cost convention. These financial statements have been prepared under the assumption that the Company will be able to continue as a going concern.

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

2.1.1 Changes in accounting policies and disclosures

A number of new standards, among which the most significant are IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers, as well as amendments to standards and interpretations are effective but not mandatory for annual periods beginning on or after 1 January 2016 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 Company and their early adoption is not planned.

2.2 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income within 'Other gains/ (losses) –net'.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Property, plant and equipment

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

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

Land, artwork 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 to their residual values over their estimated useful lives, as follows:

	2017	**2016**
Buildings (hotels)*	12 years	13 years
Buildings (hotels) – Giorgio II**	25 years	13 years
Equipment	2-15 years	2-15 years

*Average remaining useful life is defined based on the rest of weighted average useful life of individual building components.

**The hotel was fully renovated in 2017.

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of comprehensive income within 'Other gains/(losses) – net'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Property, plant and equipment *(continued)*

2.3.1 Impairment of non-financial assets

The Company determines indicators for impairment of property, plant and equipment by applying the method of multiplying net carrying value and operating profit of the segment, in the way that the net carrying value of certain asset or its segment (identified as a cash generating unit) is put in a relationship with realized operating profit of the asset or segment.

In case that, for certain assets or segments (cash generating unit) multiplier of net carrying value and segment’s operating profit exceeds set values, it’s recoverable amount is determined as greater of its value in use and its fair value less costs to sell, whichever is higher.

Determining impairment indicators, together with assessing future cash flows and determining fair value of assets (or group of assets) requires significant judgement from management when recognizing and estimating impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values.

Calculation of fair value less costs to sell is based on the method of market approach which uses prices and other relevant information from market transactions for the same or comparable (similar) assets, the same or comparable liabilities or group of assets or liabilities, for example certain business segment. The Company uses internal and external valuations.

2.4 Intangible assets

Intangible assets comprising investments in technical documentation and the value of computer software licences are stated at cost. These costs are amortised over their estimated useful lives of 5 years. Assets under construction are not amortised.

2.5 Investments in associates

Associates

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Investments in associates (continued)

Impairment of investments in subsidiaries and associates

The net carrying amount of investments in subsidiaries and associates is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income.

2.6 Financial assets

2.6.1 Classification

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

Loans and receivables

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

2.6.2 Measurement and recognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

Fail values of investments listed on stock exchange are based on current supply prices. If the market for certain financial asset is not active (as for unlisted securities), the Company determines fair value using valuation techniques which take into account recent transactions under usual trading conditions and comparison with other similar instruments, taking full use of market information and relaying minimally on information specific to business subject.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Financial assets (continued)

2.6.3 Impairment of financial assets

Assets carried at amortised cost

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

Trade receivables are impaired when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that trade receivables are impaired. The impairment amount is the difference between the asset's carrying amount and the recoverable amount of receivables; more precisely, it is the present value of estimated cash inflows discounted at the effective interest rate. The impairment amount is recognised in the statement of comprehensive income within 'Other operating expenses'. Subsequent recoveries of the impairment of trade receivables are credited against 'Other operating expenses' in the statement of comprehensive income.

2.7 Inventories

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

2.8 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.

2.9 Cash and cash equivalents

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Leases

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Assets leased out under operating leases are included in 'Property, plant and equipment' in the balance sheet. Assets are depreciated on the straight-line basis equal to other property and equipment. Rental income is recognised over the period of the lease using the straight-line method.

2.11 Share capital

Ordinary shares are classified as equity. Gains directly attributable to the issue of new shares are shown in equity as a deduction, net of transactions costs and income tax, from the proceeds.

2.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired 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 payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Borrowings

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

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

2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In that case the tax is recognised directly in equity. The current income tax charge is calculated at a rate of 18% *(2016: 20%)* according to Croatian laws and regulations. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions, where appropriate, on the basis of amounts expected to be paid to the Tax Administration.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.14 Current and deferred income tax (continued)

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

2.15 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(c) Short-term employee benefits

The Company recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Company recognises liabilities for accumulated compensated absences based on unused vacation days at the balance sheet date, as well as labour hours realised from the reorganisation of working hours not utilised up to the balance sheet date.

(d) Long-term employee benefits

The Company recognises a provision for jubilee awards and termination benefits where contractually obliged or where there is a past practice that has created a constructive obligation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Provisions

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

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

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

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in hotels and apartments, campsites and restaurants of the Company. Revenue is shown net of agency fees and value-added tax.

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

(a) Sales of services

The Company sells hotel and tourism services. These services are provided based on fixed-price contracts. Revenues from hotel and tourism services are recognised when the services are provided.

Revenue from fixed-price contracts with contracted deadlines ranging to 12 months are concluded mainly with tourist agencies and tour operators. Revenue from services provided is based on prescribed tariffs (usually for individual guests that pay in cash or credit cards – credit card commissions are recognised within operating expenses).

If circumstances arise that may change the original estimate of revenues, costs or extent of progress toward completion estimates are revised. These revisions may result in an increase or decrease in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to revision become known to the Management Board.

(b) Interest income

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Revenue recognition (continued)

(c) Income from penalties

The Company is refurbishing parts of its hotels. Construction contracts concluded with the contractors include clauses on penalties paid to the Company for delays in performing the works. In respect of any delays, the Company has agreed penalties with the contractors of 0.5% of the contracted investments for each day of the delay. The Company recognises income from penalties related to construction when the rights from the agreements are established.

2.18 Earnings per share

Earnings per share are 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.

2.19 Value added tax

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

2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-maker is the Company's Management Board which is in charge of managing hotel and tourist facilities and contents.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Financial assets		
Loans and receivables		
Trade receivables	6,840	10,011
Loans granted	-	5,986
Cash and cash equivalents	43,763	62,389
	50,603	**78,386**
Financial liabilities		
Trade and other payables	12,560	11,931
Borrowings	91,591	146,342
	104,151	**158,273**

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro (EUR). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The majority of foreign sales revenues and long-term debt is denominated in EUR. Therefore, movements in exchange rates between the euro and kuna may have an impact on the results of future operations and future cash flow. The Company uses derivative instruments on an occasional basis.

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

	2017				2016			
(in thousands of HRK)	**EUR**	**HRK**	**Other**	**Total**	**EUR**	**HRK**	**Other**	**Total**
Financial assets								
Trade receivables	369	6,471	-	6,840	507	9,504	-	10,011
Loans granted	-	-	-	-	5,986	-	-	5,986
Cash and cash equivalents	35,597	8,068	98	43,763	60,591	1,714	84	62,389
	35,966	**14,539**	**98**	**50,603**	**67,084**	**11,218**	**84**	**78,386**
Financial liabilities								
Trade and other payables	700	11,860	-	12,560	774	11,157	-	11,931
Borrowings	91,591	-	-	91,591	146,342	-	-	146,342
	92,291	**11,860**	**-**	**104,151**	**147,116**	**11,157**	**-**	**158,273**

As at 31 December 2017, if the euro had weakened/strengthened by 1% (2016: 1%), with all other variables held constant, the Company's net profit for the year would have been HRK 563 thousand higher/lower (2016: HRK 783 thousand higher/lower), mainly as a result of foreign exchange gains /losses on translation of EURO-denominated borrowings and foreign cash funds.

(ii) Cash flow and fair value interest rate risk

The Company has interest-bearing short-term cash deposits which are contracted at variable rates and expose the Company to risk of changes in interest rates. This risk is not material given the low interest rates. The interest rate for time deposits was set at 0.5%-0.75% (2016: 1.5%-2.5%). The interest rate on funds held on giro and foreign currency accounts was set at 0.15%-0.5% (2016: 0.15% - 0.5%).

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. As at 31 December 2017, the borrowings contracted at variable interest rates amount to HRK 84,852 thousand (2016: HRK 133,020 thousand). The remaining borrowings were contracted at fixed interest rates and expose the Company to fair value interest rate risk. The Company has no objectives or policies with respect to interest rate risk management. The interest rates on borrowings are 4 per annum, 3M EURIBOR plus 4.7% and 6M EURIBOR plus 4.2%.

As at 31 December 2017, if interest rates on borrowings with variable interest rates had been 0.5 % lower/higher (2016: 0.5% lower/higher), with all other variables held constant, the Company's net profit for the year would have been HRK 385 thousand higher/lower (2016: HRK 665 thousand), mainly as a result of lower/higher interest expense on borrowings.

(iii) Price risk

As at 31 December 2017, the Company did not had investment in equity securities and was not exposed to price risk. The Company is not exposed to commodity price risk.

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

The maximum exposure of the Company to credit risk as at the reporting date:

(in thousands of HRK)	31 December 2017	31 December 2016
Loans and receivables		
Trade receivables	6,840	10,011
Loans granted	0	5,986
Cash and cash equivalents	43,763	62,389
Total	**50,603**	**78,386**

The credit quality of the Company's exposure is as follows:

(in thousands of HRK)	Trade receivables	Cash and cash equivalents	Loans grated	Total
2017				
Neither past due nor impaired	5,080	43,763	-	**48,843**
Past due but not impaired	1,760	-	-	**1,760**
Past due and impaired	3,388	-	-	**3,388**
Impairment	(3,388)	-	-	**(3,388)**
	6,840	43,763	-	**50,603**

(in thousands of HRK)	Trade receivables	Cash and cash equivalents	Loans grated	Total
2016				
Neither past due nor impaired	6,516	62,389	5,986	**74,891**
Past due but not impaired	3,495	-	-	**3,495**
Past due and impaired	4,865	-	-	**4,865**
Impairment	(4,865)	-	-	**(4,865)**
	10,011	62,389	5,986	**78,386**

The Company deposits its cash at banks with the following credit ratings by Standard & Poor's:

(in thousands of HRK)	31 December 2017	31 December 2016
Cash at bank		
BBB+	40,465	60,734
BBB-	1,554	289
Other or without rating	1,744	1,366
	43,763	**62,389**

The Company has policies that limit the amount of credit exposure to any financial institution.

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Company's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers, i.e. natural persons).

The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. Trade receivables are impaired when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been impaired to their recoverable amount.

The Company's trade and other receivables are mainly secured by collaterals. The majority of impaired trade receivables is subject to legal proceedings. Both the outcome of the proceedings related to disputed receivables or the extent to which they will be collected cannot be anticipated with certainty.

Receivables past due but not impaired as at the balance sheet date have the following maturities:

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Up to one month	491	995
One to two months	161	847
Two to three months	85	1,004
Over three months	1,023	649
	1,760	**3,495**

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Company aims to maintain flexibility in funding by keeping committed credit lines available. The Management Board monitors available cash resources based on reports on the balance of cash and liabilities on a daily basis.
The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

as at 31 December 2017 (in thousands of HRK)	**Carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-interest bearing assets						
Other receivables	1,257	1,257	1,257	-	-	-
Trade receivables	6,840	6,840	6,840	-	-	-
	8,097	8,097	8,097	-	-	-
Interest bearing assets						
Loans granted	-	-	-	-	-	-
Cash and cash equivalents	43,763	43,763	43,763	-	-	-
	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
	51,860	**51,860**	**51,860**	**-**	**-**	**-**

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

as at 31 December 2016 (in thousands of HRK)	Carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
Non-interest bearing assets						
Other receivables	663	663	663	-	-	-
Trade receivables	10,011	10,011	10,011	-	-	-
	10,674	10,674	10,674	-	-	-
Interest bearing assets						
Loans granted	5,986	6,173	6,173	-	-	-
Cash and cash equivalents	62,389	62,389	62,389	-	-	-
	68,375	68,562	68,562	-	-	-
	79,049	**79,236**	**79,236**	**-**	**-**	**-**

as at 31 December 2017 (in thousands of HRK)	Carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
Non-interest bearing liabilities						
Other payables	22,216	22,216	22,216	-	-	-
Interest payables	359	359	359	-	-	-
Trade payables	12,560	12,560	12,560	-	-	-
	35,135	35,135	35,135	-	-	-
Interest bearing liabilities						
Loan liabilities	91,232	94,657	23,017	16,265	47,612	7,763
	126,367	**129,792**	**58,152**	**16,265**	**47,612**	**7,763**

as at 31 December 2016 (in thousands of HRK)	Carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
Non-interest bearing liabilities						
Other payables	20,115	20,115	20,115	-	-	-
Interest payables	2,004	2,004	2,004			
Trade payables	11,931	11,931	11,931	-	-	-
	34,050	34,050	34,050	-	-	-
Interest bearing liabilities						
Loan liabilities	144,338	163,016	61,488	23,352	53,788	24,388
	178,388	**197,066**	**95,538**	**23,352**	**53,788**	**24,388**

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the owner and to maintain an optimal capital structure to reduce the cost of capital. In accordance with the Companies Act, the Company is committed to maintain the level of capital above HRK 200 thousand as required for public limited companies.

3.3 Fair value estimation

Fair value represents the amount at which an asset could be exchanged or a liability settled between knowledgeable and willing parties acting in their best interest.

The carrying amounts of current trade and other receivables and trade payables approximate their fair value. The carrying amount of borrowings approximates their fair value due to market interest rates on borrowings.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

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

By using a certain asset, the Company uses the economic benefits contained in this asset, which diminish more intensely with economic and technological ageing. Consequently, in the process of determining the useful life of an asset, in addition to assessing the expected physical utilisation, it is necessary to consider the changes in demand on the tourist market, which will cause a faster economic obsolescence as well as a more intense development of new technologies. Current business operations in the hotel industry impose the need for more frequent investments, and this circumstance contributes to the fact that the useful life of an asset is decreasing.

The useful lives of property, plant and equipment will periodically be revised to reflect any changes in circumstances since the previous assessment. An analysis performed at the beginning of 2015 determined that the existing depreciation rates do not reflect estimated useful life of these assets in the accounting records. Taking into account the current capacity utilisation and the assessment of assets used in future periods, and based on the experience with similar hotels and market practice, the remaining useful life of building components was changed to weighted average of 12 years.

The Company regularly assess useful lives of properties for new properties and significant reconstructions. Taking into consideration current capacity utilisation, estimation of property usage in the upcoming period, and based on experience with similar hotels and market practice, useful life of building components for newly build hotel Giorgio II in 2017 was estimated at 25 years.

(b) Land ownership and legal disputes

Problems with respect to land ownership disputes are common for tourism entities in the Republic of Croatia. Their resolution is expected in accordance with and pursuant to the provisions of the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process, which entered into force on 1 August 2010 and which mandated companies to submit the relevant requirements under this Act within six months from the date of its entry into force (up to 1 February 2011). On 28 January 2011, regulations were issued elaborating in more detail the manner of complying with the above Act. On 31 January 2011, the Company submitted the relevant requirements to the relevant authorities in respect of the property on which the above-mentioned law can be applied. Up to the date of this report, none of the initiated disputes under the provisions of the above Act have been finalised.

It is not expected that the outcome of mentioned disputes will have a significant effect on the financial statements or the performance of the Company.

NOTE 5 – SEGMENT INFORMATION

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

The Company records its operating revenue and costs by the type of services rendered in 2 basic segments: hotels & apartments and other business segments. Other business segments include campsite services, tourist agency services, rental services, central kitchen services and other similar services as well as central sector services.

The segment information for the year ended 31 December 2017 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Other business segments**	**Total**
Total sales	286,507	11,232	297,739
Inter-segment revenue	(143)	-	(143)
Revenue from external customers	286,364	11,232	297,596
GOP			**139,948**
Depreciation and amortisation (note 14)	96,275	2,080	98,355
Income tax	3,244	-	3,244
Total assets	**798,066**	**63,540**	**861,606**
Total liabilities	**124,211**	**2,156**	**126,367**

The segment information for the year ended 31 December 2016 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Other business segments**	**Total**
Total sales	254,283	10,522	264,805
Inter-segment revenue	(121)	-	(121)
Revenue from external customers	254,162	10,522	264,684
GOP			**117,680**
Depreciation and amortisation (note 14)	96,249	2,171	98,420
Income tax	4,106	-	4,106
Total assets	**815,512**	**68,412**	**883,924**
Total liabilities	**176,469**	**1,919**	**178,388**

NOTE 5 – SEGMENT INFORMATION (continued)

Segment assets and liabilities are reconciled to the Company's assets and liabilities as follows:

	2017		2016	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	861,606	126,367	883,924	178,388
Unallocated:	45,667	8,974	66,752	16,712
- investments	500	-	500	-
- cash and cash equivalents	43,763	-	62,389	-
- income tax receivable	-	2,095	2,459	-
- deferred tax assets	1,404	-	1,404	-
- provisions	-	6,879	-	16,712
Total	**907,273**	**135,341**	**950,676**	**195,100**

All the Company's services relate to hospitality.

The Company's sales revenues can be classified according to the customers' origin.

(in thousands of HRK)	**2017**	**2016**
Domestic sales	62,251	59,049
Foreign sales	235,488	205,756
	297,739	**264,805**

Foreign sales	**2017**	**%**	**2016**	**%**
Germany	51,807	22	45,267	22
Austria	51,807	22	45,266	22
Italy	18,839	8	18,518	9
United Kingdom	4,710	2	4,115	2
Slovenia	16,484	7	14,403	7
Russia	2,355	1	2,058	1
France	7,065	3	4,115	2
Other EU members*	56,517	24	45,266	22
Other*	25,904	11	26,748	13
	235,488	**100**	**205,756**	**100**

*None of the customers' share in sales exceeds 10%.

NOTE 6 – OTHER INCOME

(in thousands of HRK)	**2017**	**2016**
Write-off of liabilities	429	571
Insurance claims recovered	17	323
Penalty interest income	74	634
Recharged costs to lessees and others	948	1,073
Collection of receivables previously written-off (note 16)	152	138
Incom from reversal of provision for legal disputes (note 20)	8,539	203
Rental income	7,155	6,548
Other income	2,488	2,731
	19,802	**12,221**

In 2017 other income mainly consists of income from technical documentation in the amount of HRK 1,404 thousand (2016: HRK 1,369 thousand) and joint advertising in the amount of HRK 258 thousand (HRK 634 thousand).

NOTE 7 – COST OF MATERIALS AND SERVICES

(in thousands of HRK)	**2017**	**2016**
Food, beverages and other supplies	30,734	28,058
Energy and water used	15,595	14,305
	46,329	**42,363**
Tourist agency services	14,535	14,631
Maintenance	2,972	3,122
Advertising and promotion	2,643	2,852
Laundry services	6,222	5,729
Utilities	2,902	2,550
Rent	1,216	1,351
Entertainment of guests	1,766	1,703
Other expenses	2,244	2,127
	34,500	**34,065**
	80,829	**76,428**

NOTE 8 – STAFF COSTS

(in thousands of HRK)	**2017**	**2016**
Gross salaries and wages	61,330	56,851
Contributions on salaries	10,340	9,773
Other staff costs /i/	7,316	6,987
	78,986	**73,611**
Number of employees at year end	646	626

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

NOTE 9 – OTHER OPERATING EXPENSES

(in thousands of HRK)	**2017**	**2016**
Professional services	3,557	3,435
Utility and similar fees	7,620	7,039
Write-off of property, plant and equipment and intangible assets	12,842	1,019
Insurance premiums	1,251	1,185
Impairment of trade receivables (note 16)	1,285	164
Provisions for legal disputes (note 20)	61	107
Termination benefits	2,012	116
Bank charges and membership fees	1,038	1,043
Travel and entertainment	954	904
Insurance premiums	1,310	-
Other expenses	4,436	3,362
	36,366	**18,374**

Write-off of property, plant and equipment in 2017. is a result of terminated legal dispute with the company GHB d.o.o. in bankruptcy, and subsequently transfer of ownership and write-off of book value of hotel and annex Belvedere in the amount of HRK 11,400 thousand, as well as demolition and removal of hotel and annex Splendid in the amount of HRK 759 thousand.

NOTE 10 – OTHER GAINS - NET

(in thousands of HRK)	**2017**	**2016**
Net gains on sale of property, plant and equipment	247	11,731
	247	**11,731**

NOTE 11 – NET FINANCE COSTS

(in thousands of HRK)	**2017**	**2016**
Finance income		
Interest income	483	1,271
Net foreign exchange gains	1,764	2,068
	2,247	**3,339**
Finance costs		
Interest expense	(5,163)	(7,632)
Net foreign exchange losses	(736)	(635)
	(5,899)	**(8,267)**
Net finance costs	**(3,652)**	**(4,928)**

NOTE 12 – INCOME TAX

(in thousands of HRK)	**2017**	**2016**
Current tax expense	3,244	931
Deferred tax income	-	3,175
Income tax	3,244	4,106

(in thousands of HRK)	**2017**	**2016**
Current tax expense		
Current period	3,244	931
	3,244	931
Deferred tax (income)/expenses		
Recognition and reversal of temporary differences	-	2,340
Understated/(overstated) expenses in prior period	-	835
	-	3,175
Income tax	**3,244**	**4,106**

As of 31 December 2017, deferred tax assets amount to HRK 1,404 thousand (2016: HRK 1,404 thousand).

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 18% (2016: 20%). The reconciliation of the tax expense of the Company per the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

(in thousands of HRK)	**2017**	**2016**
Current tax expense	3,244	931
Deferred tax (income)/expenses	-	3,175
Income tax	3,244	4,106

(in thousands of HRK)	**2017.**	**2016**
Profit before tax	19,600	16,996
Tax rate of 20%	3,528	3,399
Effect of expenses not deductible for tax purposes	73	110
Effect of temporary differences for which deferred tax assets are not recognized	288	441
Effect of recognizing temporary differences previously not recognized as deferred tax assets	(645)	-
Effect of change in tax rate	-	156
Tax expense	3,244	4,106
Effective tax rate	17%	24%

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

NOTE 13 – EARNINGS PER SHARE (basic and diluted)

Basic

Basic earnings per share are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2017	**2016**
Profit for the year *(in thousands of HRK)*	16,356	12,890
Weighted average number of shares (basic and diluted)	302,641	302,641
Earnings per share (basic and diluted) *(in HRK)*	54.04	42.59

Diluted

Diluted earnings per share are equal to basic earnings per share, since the Company did not have any convertible instruments nor share options outstanding.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land**	**Buildings**	**Equipment**	**Assets under construction**	**Artwork**	**Total**
As at 1 January 2016						
Cost	110,841	1,442,358	283,262	9,369	3,559	1,849,389
Accumulated depreciation and impairment	-	(798,662)	(198,354)	-	-	(997,016)
Net carrying amount	**110,841**	**643,696**	**84,908**	**9,369**	**3,559**	**852,373**
Year ended 31 December 2016						
Opening net carrying amount	110,841	643,696	84,908	9,369	3,559	852,373
Additions	-	1,930	20,714	89,008	-	111,652
Disposals and write-offs	(1,891)	(662)	(391)	-	-	(2,944)
Depreciation	-	(76,446)	(21,348)	-	-	(97,794)
Transfer	-	44,051	18,627	(62,678)	-	-
Closing net carrying amount	**108,950**	**612,569**	**102,510**	**35,699**	**3,559**	**863,287**
As at 31 December 2016						
Cost	108,950	1,480,475	308,783	35,699	3,559	1,937,466
Accumulated depreciation and impairment	-	(867,906)	(206,273)	-	-	(1,074,179)
Net carrying amount	**108,950**	**612,569**	**102,510**	**35,699**	**3,559**	**863,287**
As at 1 January 2017						
Cost	108,950	1,480,475	308,783	35,699	3,559	1,937,466
Accumulated depreciation and impairment	-	(867,906)	(206,273)	-	-	(1,074,179)
Net carrying amount	**108,950**	**612,569**	**102,510**	**35,699**	**3,559**	**863,287**
Year ended 31 December 2017						
Opening net carrying amount	108,950	612,569	102,510	35,699	3,559	863,287
Additions	-	1,146	23,803	80,975	-	105,924
Disposals and write-offs	(8,072)	(3,346)	(1,143)	(8,528)	(53)	(21,142)
Depreciation	-	(74,968)	(23,031)	-	-	(97,999)
Transfer	-	73,617	10,284	(83,901)	-	-
Closing net carrying amount	**100,878**	**609,018**	**112,423**	**24,245**	**3,506**	**850,070**
As at 31 December 2017						
Cost	100,878	1,551,892	341,727	24,245	3,506	2,022,248
Accumulated depreciation and impairment	-	(942,874)	(229,304)	-	-	(1,172,178)
Net carrying amount	**100,878**	**609,018**	**112,423**	**24,245**	**3,506**	**850,070**

As at 31 December 2017, land and buildings in the amount of HRK 209,694 thousand (2016: HRK 289,689 thousand) have been pledged as collateral for the repayment of borrowings (note 19).

The land surface included in the Company's records as at 31 December 2017 comprised 190,145 m^2 (2016: 202,946 m^2) and together with the respective buildings has a net carrying value of HRK 709,896 thousand (2016: HRK 721,519 thousand).

Of the total land surface, a surface of 22,714 m^2 (2016: 35,515 m^2) or land and buildings with a value of HRK 27,735 thousand (2016: HRK 42,468 thousand) are not legally owned by the Company (according to land registry data) (see note 23), while 167,431 m^2 (2016: 167,431 m^2) or HRK 682,161 thousand (2016: HRK 678,570 thousand) is legally owned by the Company.

Assets under construction relate to advance for reconstruction of hotel Imperijal, Istra and Rezidens and to project documentation and started work on the same.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

(in thousands of HRK)	2017	2016
Cost	18,212	18,209
Accumulated depreciation as at 1 January	(8,879)	(7,617)
Depreciation for the year	(689)	(1,259)
Net carrying amount	**8,644**	**9,333**

The operating lease relates to the lease of hospitality facilities and stores. During 2017, the Company realised rental income in the amount of HRK 7,155 thousand (2016: HRK 6,548 thousand).

The aggregate lease payments receivable from operating leases is as follows:

	2017	2016
Up to 1 year	5,853	5,747
Between 2 and 5 years	5,051	10,503
	10,904	**16,250**

Lease agreements have been concluded for a period from 1 to 3 years (mainly 3 years) and are renewable at the end of the lease period at market prices, i.e. the best bidder is selected after publishing the invitation to tender.

NOTE 15 – INVESTMENTS

(in thousands of HRK)	2017	2016
Investments in Remisens	500	500

The Company owns 33% of total shares in Remisens d.o.o. (2016: 33%).

NOTE 16 – TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Domestic receivables	3,656	6,182
Foreign receivables	2,679	4,243
Uninvoiced receivables /i/	3,893	4,451
Provision for impairment of trade receivables	(3,388)	(4,865)
Trade receivables – net	**6,840**	**10,011**
State and other receivables	1,257	663
	8,097	**10,674**

/i/ Uninvoiced receivables relate to receivables from guests staying at the hotel as at 31 December.

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

(in thousands of HRK)	**2017**	**2016**
At 1 January	4,865	4,839
Increase	1,285	164
Collectection	(152)	(138)
Write-off	(2,610)	-
At 31 December	**3,388**	**4,865**

NOTE 17 – CASH AND CASH EQUIVALENTS

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Deposits up to 90 days	37,482	59,019
Foreign currency accounts	4,361	1,656
Cash on hand	965	963
Giro accounts	955	751
	43,763	**62,389**

During the term of the deposit, the Company may call the funds with a prior notification of three days.

NOTE 18 – CAPITAL AND RESERVES

Share capital

As at 31 December 2017, the Company's share capital amounted to HRK 696,074 thousand (2016: HRK 696,074 thousand) and comprises 302,641 ordinary shares with a nominal value of HRK 2,300 per share (2016: HRK 2,300 per share). Ordinary shares have equal voting rights and rights to receive dividend. The Company's share capital has been fully paid in cash.

The ownership structure as at 31 December 2017 was as follows:

	Number of shares	HRK	%
SNH Alfa d.d., Zagreb	93,825	215,797,500	31.00
Nova Liburnija d.o.o., Opatija	75,661	174,020,300	25.00
SNH Beta d.d., Zagreb	57,506	132,263,800	19.00
Societe Generale-Splitska banka d.d., custodial account	24,218	55,701,400	8.00
Small shareholders	51,431	118,291,300	17.00
Total	**302,641**	**696,074,300**	**100.00**

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

	Number of shares	HRK	%
SNH Alfa d.d., Zagreb	93,825	215,797,500	31.00
Nova Liburnija d.o.o., Opatija	75,661	174,020,300	25.00
SNH Beta d.d., Zagreb	57,506	132,263,800	19.00
SNH Delta d.d., Zagreb	23,450	53,935,000	7.75
Small shareholders	52,199	120,057,700	17.25
Total	**302,641**	**696,074,300**	**100.00**

NOTE 18 – CAPITAL AND RESERVES (continued)

Legal reserves

Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until total reserves together with the capital reserves reach 5% of the Company's share capital. Legal reserves are not distributable.

Capital reserves

As at 2 June 2014, the Company's General Assembly made a decision on the simplified reduction of share capital for the purpose of covering losses and forming legal reserves. The reduction of share capital in the amount of HRK 102,898 thousand was performed by reducing the nominal amount of a share. After the share capital reduction and coverage of accumulated losses, the Company allocated an amount of HRK 43,278 thousand into legal reserves, and an amount of HRK 2 thousand into capital reserves.

NOTE 19 – BORROWINGS

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Bank borrowings	91,591	146,342
Less: non-current portion	(69,425)	(89,174)
Current portion	**22,166**	**57,168**

Bank borrowings are secured by a mortgage over land and a building (note 14). Of the total amount of current borrowings, HRK 359 thousand relates to interest payable (2016: HRK 2,004 thousand).

Maturities of long-term borrowings are as follows:

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Between 1 and 2 years	15,428	19,341
Between 2 and 5 years	46,284	46,555
Over 5 years	7,713	23,278
	69,425	**89,174**

Carrying value of borrowings is denominated in EUR. Effective interest rates at the reporting date are:

	2017		**2016**	
	(in thousands of HRK)	%	(in thousands of HRK)	%
EUR	91,232	4%- EURIBOR+4.7%	144,338	4%- EURIBOR+4.7%
	91,232		144,338	

NOTE 20 – PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

(in thousands of HRK)	**Termination benefits and jubilee awards**	**Legal disputes /i/**	**Total**
As at 1 January 2016	**543**	**18,886**	**19,429**
Increase	116	107	223
Paid during the year	-	(2,737)	(2,737)
Released during the year	-	(203)	(203)
As at 31 December 2016	**659**	**16,053**	**16,712**
Current portion	**-**	**-**	**-**
Non-current portion	**659**	**16,053**	**16,712**
As at 1 January 2017	659	16,053	16,712
Increase	2,012	61	2,073
Paid during the year	(116)	(3,251)	(3,367)
Released during the year	-	(8,539)	(8,539)
As at 31 December 2017	**2,555**	**4,324**	**6,879**
Current portion	-	-	-
Non-current portion	**2,555**	**4,324**	**6,879**

/i/ The Company made provisions for legal disputes for the potential payment of the fee to the former property owners which is expected to be settled within 2 to 4 years.

NOTE 21 – TRADE AND OTHER PAYABLES

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Domestic trade payables	11,860	11,157
Foreign trade payables	700	774
Total financial liabilities	12,560	11,931
Due to employees	7,691	6,167
Taxes and contributions payable	1,920	1,860
Advances payable	8,555	7,644
Other liabilities	4,050	4,444
	34,776	**32,046**

NOTE 22 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

(in thousands of HRK)	**2017**	**2016**
Profit before taxation	16,356	12,890
Adjustments for:		
Depreciation and amortization	98,355	98,420
Write-off of disposed property, plant and equipment and intangible assets (note 9)	12,842	1,019
Gains on sale of property, plant and equipment (note 10)	(247)	(11,731)
Provision for impairment of trade receivables – net	1,133	26
Net finance costs (note 11)	3,652	4,928
Increase in provisions-net	(9,833)	(2,717)
Income tax	3,244	4,106
Changes in working capital (without the effects of acquisitions and disposals):		
- trade and other receivables	1,927	(256)
- inventories	200	(668)
- trade and other payables	7,107	7,161
Cash generated from operations	**134,736**	**113,178**

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Net carrying value of sold property, plant and equipment	8,300	1,926
Gains on sale of property, plant and equipment (note 10)	247	11,731
Proceeds from sale of property, plant and equipment	**8,547**	**13,657**

NOTE 23 – CONTINGENCIES AND COMMITMENTS

Legal disputes

The Company is involved in a number of legal disputes arising from the ordinary course of business. In the financial statements for the year ended 31 December 2017, provisions for legal disputes have been made for which the Company anticipates outflow of economic benefits in the amount of HRK 4,324 thousand (2016: HRK 16,053 thousand), as set out in note 20.

Dispute G.H.B. d.o.o. in bankruptcy

The claim was filed by G.H.B. d.o.o. (1st prosecutor) and Mr. Miroslav Brković (2nd prosecutor). After the bankruptcy was opened, the bankruptcy trustee G.H.B. d.o.o. in bancruptcy continued proceeding due to the fulfilment of the contractual obligations (deliver and transfer of the right of ownership of the property) in connection with the hotels and annex Belvedere in Opatija. A first-instance verdict was issued on August 8, 2014, which granted the claim of the 1st prosecutor, and the defendant was ordered to conclude with the 1st prosecutor a contract on the transfer of ownership of the property. The 2nd prosecutor’s claim was dismissed in its entirety. The Company filed an appeal on 18 August 2014 against the verdict as well as the 2nd prosecutor. The respondent filed a response to the appeal of the 2nd prosecutor, and the 1st prosecutor filed a response to the Appellant's appeal. The second-instance proceedings before the High Commercial Court in Zagreb are pending.

Second-instance verdict no. 91. Pž-9806/2014 was issued on 31 May 2017 by High Commercial Court of Republic of Croatia and delivered to the attorney of the defendant on 6 July 2017, by which the defendant’s appeal was rejected and above quoted first-instance verdict by the Commercial Court in Rijeka confirmed in its entirety. The defendant filed a revision against the above mentioned second-instance verdict to the Supreme Court of Republic of Croatia, by his attorney and within the statutory deadline. On 16 October 2017, based on the above mentioned final verdict, the Company handed over the hotel and annex Belvedere in Opatija to G.H.B. d.o.o. in bancruptcy, free of persons and things.

Land ownership

Pursuant to the Agreement on the resolution of legal ownership rights and the transfer of 25% + 1 shares concluded on 14 June 2007 with the Croatian Privatisation Fund, Zagreb (CPF) and the City of Opatija (which concluded the Agreement in its own name and for the account of the Municipalities of Lovran, M. Draga and Matulji), the Company acquired the ownership right over the properties entered into the Company’s share capital based on the Decision of CPF dated 5 July 1995, the Conclusion of CPF dated 30 April 1998, the Conclusion of CPF dated 10 June 1998 and the Conclusion of CPF dated 27 February 1998. In line with the stated Agreement, legal documentation has been issued for most of the properties subject to the Agreement, except for the cases where the land plot division process is still ongoing, since they have been entered into the Company's share capital as part of the cadastral plot, and not as the entire cadastral plot. It is not expected that the outcome of mentioned disputes will have a significant effect on the financial statements or the performance of the Company.

Capital and loan commitments

As at 31 December 2017, future commitments with respect to investments in tourist facilities amount to HRK 81,765 thousand (2016: HRK 61,136 thousand).

NOTE 23 – CONTINGENCIES AND COMMITMENTS *(continued)*

Operating leases commitments – where the Company is the lessee. Future aggregate lease payments receivable from operating leases are as follows:

(in thousands of HRK)	**2017**	**2016**
Up to 1 year	416	386
From 2 to 5 years	961	478
	1,377	**864**

Lease agreements have been concluded for a period from 1 to 4 years and most of the agreements are renewable at the end of the lease period at market prices. The leases relate to operating leases of buildings and cars.

NOTE 24 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the power to exercise control over the other party or under common control or if it has significant influence over the other party in making financial or operational decisions. As of 31 December 2017, the Company has several owners but does not have ultimate parent and controlling company (note 18).
There were no significant changes in the ownership structure as compared to 31 December 2016.

Related party transactions at the year-end are as follows:

(in thousands of HRK)	**2017**	**2016**
Sales of services:		
Subsidiaries	1,395	1,458
City of Opatija	82	78
Municipality of Lovran	48	38
Municipality of Mošćenička Draga	1	10
	1,526	**1,584**
Other income – income from recharging – subsidiaries	**-**	**-**
Cost of materials and services:		
City of Opatija	429	295
	429	**295**
Other operating expenses:		
Municipality of Opatija	3,383	2,890
Municipality of Lovran	1,309	1,272
Municipality of Mošćenička Draga	604	580
Subsidiaries	533	465
	5,829	**5,207**

***NOTE 24 – RELATED PARTY TRANSACTIONS* (continued)**

(in thousands of HRK)	**2017**	**2016**
Trade and other payables:		
Subsidiaries	11	27
Municipality of Opatija	15	-
	26	**27**
Trade and other receivables:		
Municipality of Lovran	3	1
Subsidiaries	172	193
	175	**194**
Trade and other receivables:		
Loans granted	-	5,986

	2017	**2016**
Key management compensation (Management Board)		
Net salaries	1,651	1,601
Pension contributions	379	443
Health insurance contribution	377	438
Other costs (contribution and taxes)	759	891
	3,166	**3,373**

The Management Board comprises three members (2016: three members).

	2017	**2016**
Naknade članovima Nadzornog odbora	477	524

NOTE 25 – EVENTS AFTER THE REPORTING DATE

After the date of this report, during January 2018, the Company signed a loan agreement for investments in the amount of EUR 9.3 million.