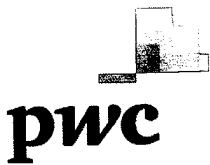


LIBURNIA RIVIERA HOTELI d.d.

**INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015**



Independent Auditor's Report

To the Shareholders and the Management of Liburnia Riviera Hoteli d.d., Opatija

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for qualified opinion

As described in Note 4 to the consolidated financial statements, at the beginning of 2015, the Group determined that the existing depreciation rates do not reflect the estimated useful life of property, plant and equipment and thus it increased them, which led to an increase in depreciation expense by HRK 38 million in that year. The increased depreciation rates comply with Croatian tax regulations but, in our opinion, understate the estimated useful lives of property. We were unable to obtain sufficient audit evidence through our audit procedures to determine appropriate depreciation rates as defined by IAS 16 – Property, plant and equipment. Consequently, we were unable to determine the amount of any required adjustment to the accumulated depreciation in the balance sheet of the Company as at 31 December 2015 and the corresponding adjustment to depreciation expense for the year then ended resulting from this matter.

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LIBURNIA RIVIERA HOTELI d.d.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>2015</u>	<u>2014</u>
Sales	5	371,506	314,553
Other income	6	5,441	10,665
Cost of materials and services	7	(106,385)	(91,780)
Staff costs	8	(95,650)	(101,103)
Amortisation and depreciation		(127,939)	(78,550)
Other operating expenses	9	(31,202)	(18,778)
Other gains – net	10	14,963	23,856
Operating profit		30,734	58,863
Finance income	11	2,526	1,700
Finance costs	11	(13,505)	(9,975)
Net finance costs	11	(10,979)	(8,275)
Profit before tax		19,755	50,588
Income tax	12	(3,279)	-
Profit for the year		16,476	50,588
Other comprehensive income:			
Revaluation gains from available-for-sale financial assets		-	5
Total comprehensive income for the year		16,476	50,593
Attributable to:			
Shareholders of the Company		15,759	49,163
Non-controlling interests		717	1,425
Profit for the year		16,476	50,588
Earnings per share (in HRK) – basic and diluted	13	54.44	167.16

These financial statements set out on pages 3 to 47 were approved by the Management Board of the Company on 29 April 2016.

Igor Šehanović
President of the Management Board

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



Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Emphasis of matter

Without further qualifying our opinion, we draw attention to the Note 14 - Property, plant and equipment and to Note 24 - Contingent liabilities, describing the ongoing procedures related to the registration of ownership of the Company's property. The financial statements have been prepared under the assumption that the registration of ownership of property recognized in the Company's financial statements will be completed successfully.

PricewaterhouseCoopers d.o.o.
Zagreb, 6 May 2016

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.

LIBURNIA RIVIERA HOTELI d.d.**CONSOLIDATED BALANCE SHEET****AS AT 31 DECEMBER 2015**

<i>(all amounts are expressed in thousands of HRK)</i>	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	14	852,373	1,120,040
Intangible assets		1,383	2,060
Investments in subsidiaries and associates	15	529	-
Deferred tax assets	16	3,634	1,416
Available-for-sale financial assets		-	14
Other non-current assets	15	-	19,142
		<u>857,919</u>	<u>1,142,672</u>
Current assets			
Inventories		2,493	3,455
Trade and other receivables	17	8,838	11,319
Income tax receivable		2,158	400
Cash and cash equivalents	18	82,515	96,619
		<u>96,004</u>	<u>111,793</u>
Total assets		<u>953,923</u>	<u>1,254,465</u>
EQUITY			
Share capital	19	696,074	865,553
Legal reserves	19	45,019	43,278
Capital reserves	19	1,511	1,938
Retained earnings		82	56,060
		<u>742,686</u>	<u>966,829</u>
Non-controlling interests		-	16,801
		<u>742,686</u>	<u>983,630</u>
LIABILITIES			
Non-current liabilities			
Borrowings	20	124,162	166,366
Provisions for other liabilities and expenses	21	19,429	18,405
Deferred tax liability	16	-	11,842
		<u>143,591</u>	<u>196,613</u>
Current liabilities			
Trade and other payables	22	23,518	38,070
Borrowings	20	44,128	34,831
Provisions for other liabilities and expenses	21	-	1,321
		<u>67,646</u>	<u>74,222</u>
Total liabilities		<u>211,237</u>	<u>270,835</u>
Total liabilities and equity		<u>953,923</u>	<u>1,254,465</u>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital	Legal reserves	Capital reserves	Revaluation reserves	(Accumulated loss)/retained earnings	Total	Non-controlling interests	Total
<i>(all amounts are expressed in thousands of HRK)</i>									
Balance at 1 January 2014		968,451	-	-	656	(51,723)	917,384	17,210	934,594
Reduction of share capital	19	(102,898)	43,278	1,938	-	57,682	-	-	-
Sale of available-for-sale financial assets		-	-	-	(661)	-	(661)	-	(661)
Reversal of deferred tax liabilities		-	-	-	-	508	508	-	508
Acquisition of additional interest in HC		-	-	-	-	(1,404)	(1,404)	-	(1,404)
Reduction in non-controlling interest due to acquisition of additional interest in HC		-	-	-	-	1,834	1,834	(1,834)	-
Profit for the year		-	-	-	-	49,163	49,163	1,425	50,588
Other comprehensive income		-	-	-	5	-	5	-	5
Total comprehensive income		-	-	-	5	49,163	49,168	1,425	50,593
Balance at 31 December 2014		865,553	43,278	1,938	-	56,060	966,829	16,801	983,630
Increase of share capital	19	33,290	-	(209)	-	(33,081)	-	-	-
Transfer to reserves		-	1,741	-	-	(1,741)	-	-	-
Effect of changes in tax return		-	-	(218)	-	-	(218)	-	(218)
Reduction in non-controlling interest due to acquisition of additional interest in HC		-	-	-	-	6,525	6,525	(6,525)	-
Profit for the year		-	-	-	-	15,759	15,759	717	16,476
Effect of spin-off	26	(202,769)	-	-	-	(43,440)	(246,209)	(10,993)	(257,202)
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	-	-	-
Balance at 31 December 2015		696,074	45,019	1,511	-	82	742,686	-	742,686

LIBURNIA RIVIERA HOTELI d.d.**CONSOLIDATED STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 DECEMBER 2015**

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>2015</u>	<u>2014</u>
Cash flow from operating activities			
Cash generated from operations	23	49,411	99,209
Income tax paid		(8,099)	-
Interest paid		(13,651)	(8,434)
Net cash inflow from operating activities		127,661	90,775
Cash flow from investing activities			
Consideration paid for establishment of associate	26	(1,500)	-
Effect of acquisition, net outflow	26	(168,102)	-
Investments in other financial assets	21	-	(19,122)
Purchase of property, plant and equipment	15	(64,784)	(94,336)
Purchase of intangible assets	16	(591)	(91)
Proceeds from sale of property, plant and equipment	23	18,696	24,679
Interest received	6, 12	657	8,679
Net cash used in investing activities		(215,624)	(80,191)
Cash flow from financing activities			
Proceeds from long-term borrowings		153,420	64,539
Repayments of borrowings		(31,417)	(55,442)
Effect of spin-off	19, 26	(41,619)	-
Acquisition of non-controlling interest		(6,525)	-
Net cash inflow/(outflow) from financing activities		73,859	9,097
Net (decrease)/ increase in cash and cash equivalents		(14,104)	19,681
Cash and cash equivalents at beginning of year		96,619	76,938
Cash and cash equivalents at end of year	18	82,515	96,619

LIBURNIA RIVIERA HOTELI d.d.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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 liability 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.

In 2014, the Liburnia Riviera Hoteli Group comprises the company Liburnia Riviera Hoteli d.d., Opatija (the Parent Company) and the subsidiary Hoteli Cavtat d.d., Cavtat. Its new subsidiaries are Hoteli Metropol d.d. as of 10 February 2015, and Remisens d.o.o. as of 5 June 2015. (Note 32). The registered offices and activities of the subsidiaries are as follows:

	<u>Registered office</u>	<u>Activities</u>
Hoteli Cavtat d.d.	Cavtat, Croatia	Accommodation and hospitality
Hoteli Metropol d.d.	Portorož, Slovenia	Accommodation and hospitality
Remisens d.o.o.	Opatija, Croatia	Business consulting and management

Following the decision of the Company's General Assembly of 27 August 2015 and the approval of the Spin-off Plan, the Company's share capital and a portion of its assets, including investments in subsidiaries' shares, was distributed and transferred to the newly established company LRH Hoteli Cavtat d.d. on 2 October 2015 (Note 26). The Parent Company's control over all subsidiaries ceased upon spin-off.

As at 31 December 2015 and 2014, the Company's shares were listed on the Zagreb Stock Exchange.

Management Board and Supervisory Board

Management Board

Igor Šehanović	President (since 1 October 2011)
Giorgio Cadum	Member (since 1 October 2011)
Dino Hrelja	Member (since 1 October 2011)

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

Supervisory Board

Franco Palma, President of the Supervisory Board
Božena Mesec, Deputy President of the Supervisory Board
Bruno Bulić, Member
Ivo Dujmić, Member
Joško Marić, Member
Darko Ostoja, Member
Tin Dolički, Member
Ksenija Juhn Bojadijev, Member
Helena Masarić, Member

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 and the Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets. These financial statements have been prepared under the assumption that the Group will be able to continue as a going concern.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Company's and the Group'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 5.

Reclassification

Agency costs in the amount of HRK 12,922 thousand have been reclassified in the income statement for the year 2014 from sales revenue to external services costs (Note 7). The reclassification does not have any impact on the balance sheet as at 31 December 2014 nor on the net profit and statement of cash flows for the year 2014.

2.1.1 Changes in accounting policies and disclosures

(a) a) Standards and interpretations issued but not yet effective:

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

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

The adoption of these improvements did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) (b) Standards and interpretations issued but not yet effective

Certain new standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Group. None of these is expected to have a significant effect on the Company's financial statements, except for the following standards:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

The Management Board is currently assessing the impact of the new standard IFRS 9 on its financial statements. The Management Board plans to adopt the standard on its effective date and when endorsed by the European Union.

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

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

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

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

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

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

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of consideration transferred, the amount of any non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income (Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the statement of comprehensive income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the statement of comprehensive income where appropriate.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 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 Group operates (the functional currency). The financial statements are presented in Croatian kuna (HRK), which is the Company's functional currency and presentation currency.

(b) Transactions and balances

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of replacement of larger items of property, plant and equipment is capitalised, and the carrying amount of the replaced part is derecognised.

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

	2015	2014
Buildings (hotels)	10 – 17 years	10 – 30 years
Equipment	2 – 15 years	2 – 15 years

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Intangible assets

(a) Software licences

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.

(b) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on the acquisition of a subsidiary is included in intangible assets. Separately recognised goodwill is tested annually for impairment, or whenever there are indications of impairment, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and depreciation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (19 hotels and 1 campsite as cash-generating units). Non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

2.7.1 Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not 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 and cash and cash equivalents in the balance sheet (Notes 2.10 and 2.11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Available-for-sale financial assets

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

2.7.2 Measurement and recognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

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

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

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

Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the statement of comprehensive income within other income. Dividends on available-for-sale securities are recognised in the statement of comprehensive income within other income when the right to receive payment is established.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

(b) Assets classified as available for sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 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.

2.10 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.

2.11 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.

2.12 Leases

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

2.13 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.

2.14 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Current and deferred income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group 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 Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Group recognises 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 Group recognises a provision for jubilee awards and retirement benefits where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 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 Group. Revenue is shown net of commissions to agencies and value-added tax.

The Group 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 Group's activities as described below.

(a) Sales of services

The Group 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 Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(c) Income from penalties

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 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.

2.21 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.

2.22 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose them to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group 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:

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Assets at the balance sheet date		
<i>Loans and receivables</i>		
Trade receivables	8,022	9,350
Cash and cash equivalents	82,515	96,619
Total loans and receivables	<u>90,537</u>	<u>105,969</u>
Available-for-sale financial assets	-	14
	<u>90,537</u>	<u>105,983</u>
Liabilities at the balance sheet date – at amortised cost		
Trade and other payables	6,845	9,673
Borrowings	168,290	201,197
	<u>175,135</u>	<u>210,870</u>

(a) Market risk**(i) Foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro. 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 (Note 21). Therefore, movements in exchange rates between the euro (EUR) and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow. The Group uses derivative instruments on an occasional basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

<i>(in thousands of HRK)</i>	2015				2014			
	EUR	HRK	Other	Total	EUR	HRK	Other	Total
Financial assets								
Trade receivables	2,464	5,558	-	8,022	2,737	6,613	-	9,350
Cash and cash equivalents	68,751	13,678	86	82,515	69,193	27,394	32	96,619
Available-for-sale financial assets	-	-	-	-	-	14	-	14
	71,215	19,236	86	90,537	73,930	34,021	32	105,983
Financial liabilities								
Trade payables	557	6,288	-	6,845	522	9,151	-	9,673
Borrowings	168,290	-	-	168,290	201,197	-	-	201,197
	168,847	6,288	-	175,135	201,719	9,151	-	210,870

As at 31 December 2015, if the EUR had weakened/strengthened by 1% (2014: 1%), with all other variables held constant, the Group's net profit for the year would have been HRK 780 thousand higher/lower (2014: HRK 1,190 thousand higher/lower), mainly as a result of foreign exchange losses/gains on translation of EUR-denominated borrowings and foreign cash funds.

(ii) Cash flow and fair value interest rate risk

The Group has interest-bearing short-term cash deposits which are contracted at variable rates and expose the Group 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 1.7%-2.6% (2014: 1.1%-3%). The interest rate on funds held on giro and foreign currency accounts was set at 0.15%-0.5%.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. As at 31 December 2015, the borrowings contracted at variable interest rates amount to HRK 144,500 thousand (2014: HRK 166,727 thousand). The remaining borrowings were contracted at fixed interest rates and expose the Group to fair value interest rate risk. The Group 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 2015, if interest rates on borrowings with variable interest rates had been 0.5 % lower/higher (2014: 0.35% lower/higher), with all other variables held constant, the Group's net profit for the year would have been HRK 578 thousand higher/lower (2014: HRK 664 thousand), mainly as a result of lower/higher interest expense on borrowings.

(iii) Price risk

As at 31 December 2015, the Group did not own equity securities and was not exposed to price risk. The Group is not exposed to commodity price risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Loans and receivables		
Trade receivables	8,022	9,350
Cash and cash equivalents	82,515	96,619
Total	90,537	105,969

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

<i>(in thousands of HRK)</i>	Trade receivables	Cash and cash equivalents	Total
2015			
Neither past due nor impaired	4,896	82,515	87,411
Past due but not impaired	3,126	-	3,126
Past due and impaired	4,839	-	4,839
Impairment	(4,839)	-	(4,839)
	<u>8,022</u>	<u>82,515</u>	<u>90,537</u>
2014			
Neither past due nor impaired	6,138	84,158	90,296
Past due but not impaired	3,212	-	3,212
Past due and impaired	5,606	-	5,606
Impairment	(5,606)	-	(5,606)
	<u>9,350</u>	<u>84,158</u>	<u>93,508</u>

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

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Cash at bank		
A-	-	80,896
BBB+	79,575	26
BBB-	2,128	14,921
Other	812	227
	<u>82,515</u>	<u>96,070</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. A provision for impairment of trade receivables is established is performed when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been written down to their recoverable amount.

The Group's trade and other receivables are mainly secured by collaterals. The majority of impaired trade receivables is disputed. 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:

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Up to one month	858	566
One to two months	579	743
Two to three months	703	833
Over three months	986	1,070
	<u>3,126</u>	<u>3,212</u>

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

(c) Liquidity risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

The table below analyses the Group'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.

	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
At 31 December 2015					
Trade payables	6,845	-	-	-	6,845
Borrowings	48,816	39,283	60,440	41,964	190,503
Total liabilities	55,661	39,283	60,440	41,964	197,348
At 31 December 2014					
Trade payables	9,697	-	-	-	9,697
Borrowings	40,385	41,214	82,086	68,187	231,872
Total liabilities	50,082	41,214	82,086	68,187	241,569

3.2 Capital risk management

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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 Group 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 Group 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. The analysis carried out at the beginning of 2015 found that existing depreciation rates do not reflect the estimated useful life of assets. 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 useful life of the property was reduced to 10-17 years. The useful lives of equipment and other assets have also been reassessed in accordance with the policy specified in Note 2.5.

In 2015, the effect of changes in depreciation rates, which are based on the newly estimated useful life of assets, resulted in an overstated depreciation charge in the amount of HRK 38 million.

If the useful life of property had been 10% longer (2014: 25% longer), with all other variables held constant, the net profit for the year and the net carrying amount of property would have been HRK 7 million higher (2014: HRK 10 million higher).

If the useful life of property had been 10% shorter (2014: 25% shorter), with all other variables held constant, the net profit for the year and the net carrying amount of property would have been HRK 8 million lower (2014: HRK 15 million lower).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(b) Land ownership

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. Until 31 December 2014, none of the initiated disputes under the provisions of the above Act have been finalised.

The Group is not in a position to estimate reliably the outcome of these disputes and contingencies in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – SEGMENT INFORMATION

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

The Group 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 provided to the Company's Management Board for the year ended 31 December 2015 is as follows:

<i>(in thousands of HRK)</i>	Hotels	Other business segments	Total
Total sales	361,088	10,511	371,599
Inter-segment revenue	(93)		(93)
Revenue from external customers	360,995	10,511	371,506
GOP			159,861
Depreciation and amortisation (Note 14)			127,939
Income tax	3,279		3,279
Total assets	875,001	78,922	953,923
Total liabilities	208,982	2,255	211,237

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

<i>(in thousands of HRK)</i>	Hotels	Other business segments	Total
Total sales	304,701	9,927	314,628
Inter-segment revenue	(75)	-	(75)
Revenue from external customers	304,626	9,927	314,553
GOP			121,534
Depreciation and amortisation	74,608	3,942	78,550
Income tax	-	-	-
Total assets	1,057,927	78,947	1,136,874
Total liabilities	237,135	2,131	239,266

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of restated GOP with profit before tax is as follows:

	<u>2015</u>	<u>2014</u>
Restated GOP by hotels	160,496	122,279
Restated GOP by other segments	(635)	(745)
Total restated GOP	159,861	121,534
Depreciation of property, plant and equipment	(127,075)	(77,741)
Amortisation of intangible assets	(864)	(809)
Monument annuity	(1,000)	(1,069)
Utility fees	(4,995)	(3,843)
Water management fee	(1,919)	(1,741)
Insurance premium	(1,981)	(1,701)
Concession	(678)	(680)
Other fees – leasing	(505)	(771)
Other fixed costs	(3,342)	(7,866)
Net finance costs	(10,979)	(8,275)
Other	13,232	33,550
Profit before tax	(23,791)	50,588

The Group reports to the Management Board using the Uniform System of Accounts for the Lodging Industry (USALI) method. This methodology supports the demanding system of monitoring and reporting in the hotel industry and obtaining appropriate and better information. According to the USALI standards, subject to observation and hence reporting are the responsibility centres that may be organised as cost, revenue, profit and investment centres, taking into account the specific nature of the hotel business. The Group's responsibility centres are organised as profit centres. Reporting under the USALI method is possible at the Group, due to the fact that the Group already operates according to the methodology that requires a developed accounting system, developed and comprehensive IT support, a decentralized organisational system and management that is interested in performance or non-performance and the place of their generation. The operating performance indicator based on this method is the restated GOP (Gross operating profit) as stated above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Segment assets/liabilities	865,087	191,808	1,136,874	1,126,275
Unallocated:	88,836	19,429	117,591	79,546
- available-for-sale financial assets	-	-	14	832
- other financial assets	529	-	19,142	-
- cash and cash equivalents	82,515	-	96,619	76,938
- income tax receivable	2,158	-	400	360
- deferred tax assets	3,634	19,429	1,416	1,416
Total	953,923	211,237	1,254,465	1,205,821

All the Group's services relate to hospitality.

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

<i>(in thousands of HRK)</i>	2015	2014
Domestic sales	73,009	68,077
Foreign sales	298,497	246,476
	371,506	314,553

Foreign sales	2015	%	2014	%
Germany	61,341	21	44,366	18
Austria	57,274	19	32,042	13
Italy	26,865	9	19,718	8
United Kingdom	11,380	4	22,183	9
Slovenia	18,730	6	12,324	5
Russia	2,985	1	7,394	3
France	15,447	5	27,112	11
Other EU members*	59,140	20	46,830	19
Other*	45,335	15	34,507	14
	298,497	100	246,476	100

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 6 – OTHER INCOME

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Write-off of liabilities	856	670
Insurance claims recovered	215	67
Penalty interest income /i/	657	6,979
Income from donations	18	217
Sale of available-for-sale financial assets	-	697
Recharged expenses	1,224	-
Other revenue	2,471	2,035
	<u>5,441</u>	<u>10,665</u>

/i/ Penalty interest income in 2014 largely relates to penalty interest income realised after the resolution of a legal dispute in favour of the Company.

NOTE 7 – COST OF MATERIALS AND SERVICES

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Food, beverages and other supplies	40,094	35,969
Energy and water used	23,117	19,379
	<u>63,211</u>	<u>55,348</u>
Tourist agency services	17,037	12,922
Maintenance	3,952	3,780
Advertising and promotion	3,223	2,737
Laundry services	7,975	6,591
Utility services	3,616	2,789
Rental expenses	1,519	1,705
Entertainment of guests	2,349	2,365
Other expenses	3,503	3,543
	<u>43,174</u>	<u>36,432</u>
	<u>106,385</u>	<u>91,780</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 8 – STAFF COSTS

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Gross salaries and wages	73,736	74,321
Contributions on salaries	12,588	12,402
Other staff costs /i/	9,326	14,380
	<u>95,650</u>	<u>101,103</u>
Number of employees	<u>558</u>	<u>559</u>

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

NOTE 9 – OTHER OPERATING EXPENSES

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Professional services	5,395	4,272
Utility and similar fees	8,609	7,904
Write-off of property, plant and equipment and intangible assets	11,134	1,974
Insurance premiums	1,982	1,701
Impairment of trade receivables (Note 17)	203	281
Collection of receivables previously written-off (Note 17)	(205)	(3,761)
Provisions for legal disputes (Note 21)	326	580
Reversal of provisions for legal disputes	(245)	-
Reversal of provisions for termination benefits	(4,361)	-
Bank charges and membership fees	1,758	1,231
Travel and entertainment	1,183	1,137
Other expenses	5,386	3,459
	<u>31,202</u>	<u>18,778</u>

NOTE 10 – OTHER GAINS – NET

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Net gain on sale of property, plant and equipment	14,824	23,705
Net foreign exchange gains – other	139	151
	<u>14,963</u>	<u>23,856</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 11 – NET FINANCE COSTS

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Finance income		
Interest income – short-term cash deposits	1,630	1,700
Net foreign exchange gains	896	-
	<u>2,526</u>	<u>1,700</u>
Finance costs		
Interest expense	(13,505)	(9,377)
Net foreign exchange losses	-	(598)
	<u>(13,505)</u>	<u>(9,975)</u>
Net finance costs	<u>(10,979)</u>	<u>(8,275)</u>

NOTE 12 – INCOME TAX

	<u>2015</u>	<u>2014</u>
Current tax	6,341	-
Deferred tax	(3,062)	-
	<u>3,279</u>	<u>-</u>

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 20% (2014: 20%). 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:

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Profit before tax	19,755	50,588
Tax rate of 20%	3,951	10,118
Effect of non-taxable income	(800)	(77)
Effect of non-deductible expenses	473	389
Effects of reinvested profit /i/	-	(9,659)
Effect of previously unrecognised tax losses	(345)	(771)
Tax charge	<u>3,279</u>	<u>-</u>
Income tax prepayments	2,158	400
Effective tax rate	17%	-

/i/ In 2014, the Company and its subsidiary used the possibility of not calculating income tax as set forth in the Income Tax Act, since they reinvested profit into equity in 2015.

In accordance with the regulations of the Republic of Croatia, 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 was reported, and may impose additional tax liabilities and penalties. The Company's Management Board is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 13 – EARNINGS PER SHARE

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.

	<u>2015</u>	<u>2014</u>
Profit for the year (<i>in thousands of HRK</i>)	16,476	50,588
Weighted average number of shares (basic and diluted)	<u>302,641</u>	<u>302,641</u>
Earnings per share (basic and diluted) (<i>in HRK</i>)	<u>54.44</u>	<u>167.16</u>

Diluted

Diluted earnings per share for 2015 and 2014 are equal to basic earnings per share, since the Company did not have any convertible instruments nor share options outstanding during either 2015 or 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipme nt and furniture	Assets under constructi on	Artwork	Total
At 1 January 2014						
Cost	174,458	1,597,441	295,470	10,944	3,490	2,081,803
Accumulated depreciation and impairment	-	(813,388)	(222,886)	-	-	(1,036,274)
Net carrying amount	174,458	784,053	72,584	10,944	3,490	1,045,529
Adjustment of acquisition of subsidiary (Note 3)	20,628	41,123	-	-	-	61,751
Closing net carrying amount - restated	195,086	825,176	72,584	10,944	3,490	1,107,280
Year ended 31 December 2014						
Opening net carrying amount	195,086	825,176	72,584	10,944	3,490	1,107,280
Direct additions	223	612	18,774	74,547	180	94,336
Transfer from assets under construction	-	51,567	22,951	(74,518)	-	-
Transfer to intangible assets	-	(217)	(353)	(138)	-	(708)
Disposals and write-offs	(975)	(321)	(1,675)	-	(106)	(3,077)
Depreciation charge	-	(57,882)	(19,909)	-	-	(77,791)
Closing net carrying amount	194,334	818,935	92,372	10,835	3,564	1,120,040
At 31 December 2014						
Cost	194,334	1,672,843	340,080	10,835	3,564	2,221,656
Accumulated depreciation and impairment	-	(853,908)	(247,708)	-	-	(1,101,616)
Net carrying amount	194,334	818,935	92,372	10,835	3,564	1,120,040
Year ended 31 December 2015						
Opening net carrying amount	194,334	818,935	92,372	10,835	3,564	1,120,040
Effect of acquisition (Note 26)	17,183	176,977	2,359	47	-	196,566
Additions	583	30,477	30,804	2,920	-	64,784
Disposals	-	(10,942)	(651)	(1,466)	(5)	(13,064)
Effect of spin-off (Note 26)	(100,197)	(261,161)	(13,425)	(2,943)	-	(77,726)
Disposals and write-offs	(1,062)	(10,048)	-	(24)	-	(11,134)
Depreciation charge	-	(100,542)	(26,551)	-	-	(127,093)
Closing net carrying amount	110,841	643,696	84,908	9,369	3,559	852,373
At 31 December 2015						
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2015, land and buildings in the amount of HRK 255,707 thousand (2014: HRK 275,295 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 2015 comprised 208,318 m² (2014: 213,118 m²) and together with the respective buildings has a net carrying value of HRK 754,537 thousand (2014: HRK 826,946 thousand).

Of the total land surface, a surface of 31,035 m² (2014: 39,848 m²) or land and buildings with a value of HRK 44,302 thousand (2014: HRK 77,600 thousand) are not legally owned by the Company (according to land registry data) (see Note 32), while 177,283 m² (2014: 173,270 m²) or HRK 710,235 thousand (2014: HRK 749,346 thousand) is legally owned by the Company.

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

<i>(in thousands of HRK)</i>	2015	2014
Cost	9,202	10,019
Accumulated depreciation at 1 January	(3,202)	(3,907)
Depreciation for the year	(311)	(246)
Net carrying amount	5,689	5,866

The operating lease relates to the lease of hospitality facilities and stores. During 2015, the Group realised rental income in the amount of HRK 7,902 thousand (2014: HRK 8,391 thousand).

Operating leases commitments - where the Group is the lessor. The aggregate lease payments receivable from operating leases is as follows:

	2015	2014
Up to 1 year	4,944	5,032
Between 2 and 5 years	10,372	4,612
	15,316	9,644

In 2015 and 2014, there were no contingent rents recognised as income in the statement of comprehensive income. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 15 – INVESTMENTS IN ASSOCIATES

As at 31 December, the Group holds a share in the company Remisens d.o.o. in the amount of HRK 500 thousand, i.e. 33.3% of the company's share capital. The associate was established in June 2015 and has had no activities during the year.

The investment in the company Hoteli Cavtat d.d. amounts to 95.64% share in this company at the spin-off date. After spin-off, the Company retained 0.02% of shares of the company Hoteli Cavtat d.d. and significant influence over the company, reflected in several same members of the Management Board and Supervisory Board of both companies. As at 31 December 2015, the share amounted to HRK 29 thousand.

NOTE 16 – DEFERRED TAX

Deferred tax assets

As at 31 December 2015, deferred tax assets amounts to HRK 3,634 thousand (2014: HRK 1,416 thousand) and has been increased by HRK 2,218 thousand on the basis of deferred tax income recognised on temporary non-deductible expenses arising from impairment of assets.

Deferred tax liability

A deferred tax liability is calculated on temporary differences between the tax base of tangible assets in the acquired subsidiary and its fair value in the consolidated financial statements.

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
At 1 January	11,842	12,350
Effect of acquisition (Note 26)	5,136	-
Effect of spin-off (Note 26)	(16,081)	-
Charged to profit or loss	(897)	(508)
At 31 December	<u>-</u>	<u>11,842</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 17 – TRADE AND OTHER RECEIVABLES

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Domestic trade receivables	6,027	7,141
Foreign trade receivables	3,649	4,392
Uninvoiced receivables /i/	3,185	3,423
Provision for impairment of trade receivables	<u>(4,839)</u>	<u>(5,606)</u>
Trade receivables – net	8,022	9,350
State and other receivables	<u>816</u>	<u>1,969</u>
	8,838	11,319

/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:

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
At 1 January	5,606	9,757
Effect of spin-off	(456)	-
Additions	241	281
Collection	(206)	(3,761)
Write-off	<u>(346)</u>	<u>(671)</u>
At 31 December	4,839	5,606

NOTE 18 – CASH AND CASH EQUIVALENTS

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Deposits up to 90 days	79,173	90,156
Foreign currency accounts	2,229	5,068
Cash on hand	656	549
Giro accounts	<u>457</u>	<u>846</u>
	82,515	96,619

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 19 – CAPITAL AND RESERVES

Share capital

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 1,938 thousand into capital reserves.

Following the decision of the General Assembly of 15 May 2015, the Company's share capital was increased by HRK 33,290 thousand from the profit for the year 2014 and retained earnings. The increase of share capital did not change the number of shares, but rather their value increased to HRK 2,970 per share.

Spin-off of Liburnia Riviera Hoteli d.d.

The decision of the Company's General Assembly of 27 August 2015 and the approval of the Spin-off Plan of 9 July 2015 set out the separation of the company Liburnia Riviera Hoteli d.d. by simultaneously establishing a new company, LRH Hoteli Cavtat d.d., and transferring a part of the assets to the newly established company. The Company's separation was finalised on 2 October 2015.

The Company's share capital is distributed among 302,641 shares, with a nominal value of HRK 2,300 and total value of HRK 696,074, and the share capital of the newly established company LRH Hoteli Cavtat d.d., comprising 302,641 shares, with a nominal value of HRK 670 and total value of HRK 202,769 thousand. The owners of all shares of the company LRH d.d. received in exchange for the decrease in equity and share value the same number of shares of the new company LRH Hoteli Cavtat d.d.

As at 31 December 2015, the Company's share capital amounted to HRK 696,074 thousand (2014: HRK 865,553 thousand) and comprises 302,641 ordinary shares with a nominal value of HRK 2,300 per share (2014: HRK 2,860 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 effect of the spin-off on the Company is reflected in the reduction of the following item:

	2 October 2015
	<i>(in thousands of HRK)</i>
Investments in subsidiaries (Note 15)	180,742
Cash (Note 18)	22,027
Share capital	202,769

The effect of the spin-off on the Group is reflected in the reduction of the following item:

	2 October 2015
	<i>(in thousands of HRK)</i>
Net assets (Note 26)	235,176
Cash	22,027
Non-controlling interests	(10,993)
Share capital	(202,769)
Effect of spin-off – recognised in capital and reserves	(43,440)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 19 – CAPITAL AND RESERVES (continued)

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

	Number of shares	HRK	%
SNH Alfa d.d., Zagreb	93,819	215,783,033	31.00
Nova Liburnija d.o.o., Opatija	75,660	174,018,575	25.00
SNH Beta d.d., Zagreb	57,502	132,254,117	19.00
SNH Delta d.d., Zagreb	23,939	55,059,477	7.91
Small shareholders	51,721	118,959,098	17.09
Total	302,641	696,074,300	100.00

The ownership structure as at 31 December 2014 was as follows:

	Number of shares	HRK	%
Nonnullus d.d., Zagreb	187,189	535,360,540	61.85
Nova Liburnija d.o.o., Opatija	75,661	216,390,460	25.00
CERP, Zagreb	11,289	32,286,540	3.73
Small shareholders	28,502	81,515,720	9.42
Total	302,641	865,553,260	100.00

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 20 – BORROWINGS

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Bank borrowings	168,290	201,197
Less: non-current portion	<u>(124,162)</u>	<u>(166,366)</u>
Current portion	<u>44,128</u>	<u>34,831</u>

Bank borrowings are secured by a mortgage over land and a building (Note 14).

Maturities of long-term borrowings are as follows:

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Between 1 and 2 years	34,076	33,910
Between 2 and 5 years	50,893	85,263
Over 5 years	<u>39,193</u>	<u>47,193</u>
	<u>124,162</u>	<u>166,366</u>

NOTE 21 – PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

<i>(in thousands of HRK)</i>	Termination benefits and jubilee awards	Legal disputes /i/	Total
At 1 January 2014	1,175	17,971	19,146
Increase	-	1,201	1,201
Used during the year	-	(104)	(104)
Unused amounts reversed	<u>(517)</u>	<u>-</u>	<u>(517)</u>
At 31 December 2014	658	19,068	19,726
Current portion	-	1,321	1,321
Non-current portion	658	17,747	18,405
At 1 January 2015	658	19,068	19,726
Effect of acquisition (Note 26)	-	15,779	15,779
Increase	-	326	326
Effect of spin-off (Note 26)	(115)	(15,294)	(15,409)
Used during the year	<u>-</u>	<u>(993)</u>	<u>(993)</u>
At 31 December 2015	543	18,886	19,429
Current portion	-	-	-
Non-current portion	543	18,886	19,429

/i/ The Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 22 – TRADE AND OTHER PAYABLES

	<u>2015</u>	<u>2014</u>
Domestic trade payables	6,288	9,151
Foreign trade payables	557	522
<i>Total financial liabilities</i>	<u>6,845</u>	<u>9,673</u>
Due to employees	5,217	14,428
Taxes and contributions payable	2,151	2,066
Advances payable	5,598	7,759
Other liabilities	<u>3,707</u>	<u>4,144</u>
	23,518	38,070

LIBURNIA RIVIERA HOTELI d.d.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2015**

NOTE 23 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Profit before tax	19,755	50,588
Adjustments for:		
Depreciation and amortisation (Note 14)	127,939	78,550
Write-off of disposed property, plant and equipment and intangible assets (Note 14)	11,134	3,077
Gains on sale of property, plant and equipment (Note 10)	(14,824)	(23,705)
Provision for impairment of trade receivables - net (Note 9)	35	(3,480)
Income from disposal of available-for-sale financial assets (Note 6)	-	(697)
Interest income (Note 6)	(657)	(6,979)
Net finance costs (Note 11)	12,609	8,275
Increase/(decrease) in provisions	81	580
Income from write-off of liabilities (Note 6)	(856)	(670)
Other non-monetary items	5,491	(1,154)
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade and other receivables	(8,696)	3,859
- inventories	(1,123)	1,916
- trade and other payables	(1,477)	(10,951)
Cash generated from operations	149,411	99,209

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

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Net carrying value of sold property, plant and equipment	3,872	974
Gains on sale of property, plant and equipment (Note 10)	14,824	23,705
Proceeds from sale of property, plant and equipment	18,696	24,679

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 24 – CONTINGENCIES AND COMMITMENTS

Legal disputes

The Company is involved in a number of legal disputes, both as defendant and as plaintiff, arising from the ordinary course of business. In the financial statements for the year ended 31 December 2015, provisions for legal disputes have been made for which the Company anticipates an outflow of economic benefits in the amount of HRK 18,886 thousand (2014: HRK 18,805 thousand), as set out in Note 20.

Investment in G.H.B. d.o.o.

During 1998, the Company contributed share capital to the company G.H.B. d.o.o. – assets in the amount of HRK 8,429 thousand or 30.55% of the share capital. The stated company is not active in organising games of chance because in 2003 its concession for organising games of chance was revoked. The current account of the company G.H.B. d.o.o. is currently blocked. As at 13 May 2009, the Company submitted a claim against G.H.B. d.o.o. for the purpose of declaring the agreement on the transfer of ownership title and surrender the possession over villa Rosalia null and void. The Company also submitted a claim against Josip Španjol for the purpose of declaring the agreement on the transfer of shares null and void with the aim of protecting the Company's interest in the company GHB d.o.o. Bankruptcy proceedings were initiated over the company in September 2010. In 2010, the Company impaired the value of the share in the amount of HRK 8,429 thousand.

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.

Capital and loan commitments

As at 31 December 2015, future commitments with respect to investments in tourist facilities amount to HRK 46,197 thousand (2014: HRK 29,609 thousand).

Operating leases commitments – where the Group is the lessee (Note 8). Future aggregate lease payments receivable from operating leases are as follows:

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Up to 1 year	405	471
From 2 to 5 years	<u>652</u>	<u>1,001</u>
	<u>1,057</u>	<u>1,472</u>

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.

FOR THE YEAR ENDED 31 DECEMBER 2015**NOTE 25 – 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 at 31 December 2014, the Group is controlled by the company Nonnullus d.d., Zagreb, its ultimate parent and controlling company. As at 31 December 2015, the parent company has several owners but does not have an ultimate parent and controlling company.

The Company did not have any transactions with the company Nonnullus d.d. or the owners of the company.

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

<i>(in thousands of HRK)</i>	<u>2015</u>	<u>2014</u>
Sales of services:		
City of Opatija	77	48
Municipality of Lovran	35	29
Municipality of Mošćenička Draga	8	1
	<u>120</u>	<u>78</u>
Cost of materials and services:		
City of Opatija	395	533
	<u>395</u>	<u>533</u>
Other operating expenses:		
Municipality of Opatija	2,660	2,475
Municipality of Lovran	1,331	1,103
Municipality of Mošćenička Draga	520	582
	<u>4,511</u>	<u>4,160</u>
 <i>(in thousands of HRK)</i>	 <u>2015</u>	 <u>2014</u>
Trade and other payables:		
Municipality of Opatija	-	353
	<u>-</u>	<u>353</u>
Trade and other receivables:		
Municipality of Lovran	4	-
	<u>4</u>	<u>-</u>
	<u>2015</u>	<u>2014</u>
Key management compensation (Management Board)		
Net salaries	1,324	1,169
Pension insurance contributions	382	372
Health insurance contributions	365	321
Other costs (contribution and taxes)	779	711
	<u>2,850</u>	<u>2,573</u>

The Management Board comprises three members (2014: three members).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 26 – BUSINESS COMBINATIONS

1.) Acquisition of Hoteli Metropol d.d.

In February 2015, Hoteli Cavtat d.d. acquired a 100% share in the company Hoteli Metropol d.d., Portorož, Slovenia for HRK 187,262 thousand. As at 31 December 2014, Hoteli Cavtat d.d. gave a deposit in the amount of HRK 19,122 thousand in accordance with the Contract on the purchase of Hoteli Metropol d.d.

Acquisition details are as follows:

	10 February 2015
	<i>(in thousands of HRK)</i>
Acquisition cost – paid in cash	187,262
Fair value of net assets acquired	(182,126)
Goodwill	5,136

Details on the assets acquired are as follows:

	Carrying value	Fair value
Property, plant and equipment	170,888	196,566
Investment property	6,346	6,346
Deferred tax assets	96	96
Inventories	430	430
Trade and other receivables	9,451	9,452
Cash and cash equivalents	18	18
Trade and other payables	(9,867)	(9,867)
Provisions	(15,779)	(15,779)
Deferred tax liability	-	(5,136)
Net assets	161,583	182,126
Goodwill		5,136
Total		187,262

2.) Establishment of the company Remisens d.o.o.

In June 2015, Hoteli Cavtat d.d., Hoteli Metropol d.d. and Liburnia Riviera Hoteli d.d. established Remisens d.o.o. by making a payment of HRK 500 thousand each. Each of the investors became the owner of a 33.3% share in the newly established company.

LIBURNIA RIVIERA HOTELI d.d.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 26 – BUSINESS COMBINATIONS (continued)

3.) Spin off of Liburnia Riviera Hoteli d.d.

The effect of spin off of the Company (Note 19) on the Group's net assets is as follows:

	2 October 2015
	<i>(in thousands of HRK)</i>
Intangible assets	688
Goodwill	5,136
Property, plant and equipment	377,726
Investment property	6,080
Investment in associates	1,000
Deferred tax assets	96
Inventories	2,515
Trade and other receivables	29,786
Cash and cash equivalents	19,592
Borrowings	(153,868)
Trade and other payables	(22,086)
Deferred tax liability	(16,081)
Provisions	(15,409)
Net assets	231,175