LIBURNIA RIVIERA HOTELI d.d.

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

pwc

Independent Auditor's Report

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

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

Management's Responsibility for the Financial Statements

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

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

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

Basis for qualified opinion

As described in Note 4 to the separate financial statements, at the beginning of 2015, the Company 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 34.6 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.

Qualified opinion

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

Emphasis of matter

Without further qualifying our opinion, we draw attention to the Note 14 - Property, plant and equipment and to Note 23 - 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, 16 March 2016

Our report has been prepared in Croatian and in English languages. In all matters of interpretation of information, views or opinions, the Croatian language version of our report takes precedence over the English language version.

LIBURNIA RIVIERA HOTELI d.d.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of HRK)	Note	2015	2014
Sales	5	252,009	236,801
Other income	6	5,531	9,324
Cost of materials and services	7	(73,113)	(71,211)
Staff costs	8	(70,305)	(78,259)
Depreciation and amortisation		(97,368)	(62,771)
Other operating expenses	9	(24,834)	(14,042)
Other gains – net	10	14,412	23,565
Operating profit		6,332	43,407
Finance income	11	2,416	1,523
Finance costs	11	(8,485)	(10,108)
Net finance costs	11	(6,069)	(8,585)
Profit before tax		263	34,822
Income tax	12	(181)	-
Profit for the year		**82**	**34,822**
Other comprehensive income:			
Revaluation gains from available-for-sale financial assets		-	5
Total comprehensive income for the year		**82**	**34,827**
Earnings per share (in HRK) – basic and diluted	13	0.87	115.06

These financial statements set out on pages 3 to 41 were approved by the Management Board of the Company on 16 March 2016.

Igor Šehanović
President of the Management Board

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

LIBURNIA RIVIERA HOTELI d.d.

SEPARATE BALANCE SHEET

AS AT 31 DECEMBER 2015

(all amounts in thousands of HRK)	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	14	852,373	925,441
Intangible assets		1,383	1,176
Investments in subsidiary	15	529	174,586
Deferred tax assets	12	3,634	1,416
Available-for-sale financial assets		-	14
		857,919	1,102,633
Current assets			
Inventories		2,493	2,804
Trade and other receivables	16	8,838	9,529
Income tax receivable	12	2,158	-
Cash and cash equivalents	17	82,515	84,158
		96,004	96,491
Total assets		**953,923**	**1,199,124**
EQUITY	18		
Share capital		696,074	865,553
Legal reserves		45,019	43,278
Capital reserves		1,511	1,938
Retained earnings		82	34,822
		742,686	945,591
LIABILITIES			
Non-current liabilities			
Borrowings	19	124,162	166,366
Provisions for other liabilities and expenses	20	19,429	18,027
		143,591	184,393
Current liabilities			
Trade and other payables	21	23,518	32,988
Borrowings	19	44,128	34,831
Provisions for other liabilities and expenses	20	-	1,321
		67,646	69,140
Total liabilities		**211,237**	**253,533**
Total liabilities and equity		**953,923**	**1,199,124**

LIBURNIA RIVIERA HOTELI d.d.

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts in thousands of HRK)	**Note**	**Share capital**	**Legal reserves**	**Capital reserves**	**Revaluation reserves**	**Retained earnings/(accumulated loss)**	**Total**
As at 1 January 2014	18	968,451			656	(57,682)	911,425
Reduction of share capital		(102,898)	43,278	1,938	-	57,682	-
Sale of available-for-sale financial assets		-	-	-	(661)	-	(661)
Profit for the year		-	-	-	-	34,822	34,822
Other comprehensive income		-	-	-	5	-	5
Total comprehensive income		-	-	-	5	34,822	34,827
As at 31 December 2014	**18**	**865,553**	**43,278**	**1,938**	-	**34,822**	**945,591**
Increase of share capital		33,290	-	(209)	-	(33,081)	-
Effect of spin-off		(202,769)	-	-	-	-	(202,769)
Transfer to reserves		-	1,741	-	-	(1,741)	-
Effect of changes in tax return		-	-	(218)	-	-	(218)
Profit for the year		-	-	-	-	82	82
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	82	82
As at 31 December 2015	**18**	**696,074**	**45,019**	**1,511**	-	**82**	**742,686**

LIBURNIA RIVIERA HOTELI d.d.

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts in thousands of HRK)	Note	2015	2014
Cash flow from operating activities			
Cash generated from operations	22	92,093	77,403
Income tax paid		(4,557)	-
Interest paid		(9,080)	(8,434)
Net cash flow from operating activities		**78,456**	**68,969**
Cash flow from investing activities			
Effect of spin-off	18	(22,027)	-
Investments in subsidiaries – net outflow		(6,685)	(1,404)
Purchase of property, plant and equipment		(38,620)	(88,594)
Purchase of intangible assets		(1,058)	(60)
Proceeds on sale of property, plant and equipment		18,188	24,542
Interest received		1,520	8,502
Net cash used in investing activities		**(48,682)**	**(57,014)**
Cash flow from financing activities			
Proceeds from long-term borrowings		-	64,539
Repayments of borrowings		(31,417)	(55,442)
Net cash inflow from financing activities		**(31,417)**	**9,097**
Net (decrease)/increase in cash and cash equivalents		**(1,643)**	**21,052**
Cash and cash equivalents at beginning of year		84,158	63,106
Cash and cash equivalents at end of year	17	82,515	84,158

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.

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 18). After the spin-off, the Company ceased to have control over all subsidiaries, but it retained significant influence over the company Remisens d.o.o. (Note 15).

As at 31 December 2015 and 2014, the 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 Bojađijev, 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 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. These financial statements have been prepared under the assumption that the Company will be able to continue as a going concern.

The Company has issued these separate financial statements in accordance with Croatian regulations. The Company will also prepare consolidated financial statements as at 31 December 2015 for the Company and its subsidiaries (the Group) in accordance with applicable legislation and IFRS. In the consolidated financial statements, subsidiaries (listed in Note 15) - which are those companies in which the Group indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2015 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

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 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.

Reclassification
Agency costs in the amount of HRK 11,954 thousand have been reclassified in the statement of comprehensive income 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 Company has adopted the following new and amended standards for their annual reporting period commencing 1 January 2015 which were endorsed by the European Union and which are relevant for the Company's financial statements:

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(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 Company. None of these is expected to have a significant effect on the Company's financial statements, except for the following standards:

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

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

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

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

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

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

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

- *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 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 Croatian kuna (HRK), which is the Company's functional currency and presentation currency.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies (continued)

(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.

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'.

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:

	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 Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.5).

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)

2.4 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 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation 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 (23 hotels and 1 campsite as cash-generating units). Non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

2.6 Investments in subsidiaries and associates

Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are de-consolidated from the date that control ceases. Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment.

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets

2.7.1 Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not 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).

(b) Available-for-sale financial assets

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

2.7.2 Measurement and recognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are recognised initially at fair value, plus transaction costs incurred. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred all substantial 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 non-monetary securities 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'.

2.8 Impairment of financial assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of financial assets (continued)

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.

(b) Assets classified as available-for-sale
The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 LEASES

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

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 Company 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 the 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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.

2.19 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 Company. Revenue is shown net of value-added tax.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition (continued)

(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.

(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.

2.20 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.

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)	2015	2014
Assets at the balance sheet date		
Loans and receivables		
Trade receivables	8,022	8,461
Cash and cash equivalents	82,515	84,158
Total loans and receivables	90,537	92,619
Available-for-sale financial assets	-	14
	90,537	**92,633**
Liabilities – *at amortised cost*		
Trade and other payables	6,845	10,002
Borrowings	168,290	201,197
	175,135	**211,199**

(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)

	2015				2014			
(in thousands of HRK)	EUR	HRK	Other	Total	EUR	HRK	Other	Total
Financial assets								
Trade receivables	2,464	5,558	-	8,022	1,169	7,292	-	8,461
Cash and cash equivalents	68,751	13,678	86	82,515	56,784	27,342	32	84,158
Available-for-sale financial assets	-	-		-	-	14	-	14
	71,215	**19,236**	**86**	**90,537**	**57,953**	**34,648**	**32**	**92,633**
Financial liabilities								
Trade payables	557	6,288		6,845	309	9,693	-	10,002
Borrowings	168,290	-		168,290	201,197	-	-	201,197
	168,847	**6,288**	**-**	**175,135**	**201,506**	**9,693**	**-**	**211,199**

As at 31 December 2015, if the euro had weakened/strengthened by 1% (2014: 1%), with all other variables held constant, the Company's net profit for the year would have been HRK 780 thousand higher/lower (2014: HRK 1,360 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 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 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 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 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 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 Company'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 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)	2015	2014
Loans and receivables		
Trade receivables	8,022	8,461
Cash and cash equivalents	82,515	84,158
Total	**90,537**	**92,619**

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

(in thousands of HRK)	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)**
	8,022	82,515	**90,537**
2014			
Neither past due nor impaired	6,136	84,158	**90,294**
Past due but not impaired	2,325	-	**2,325**
Past due and impaired	5,150	-	**5,150**
Impairment	(5,150)	-	**(5,150)**
	8,461	84,158	**92,619**

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

(in thousands of HRK)	2015	2014
Cash at bank		
A-	-	80,896
BBB+	79,575	1
BBB-	2,128	2,486
Other or without rating	812	775
	82,515	84,518

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)	2015	2014
Up to one month	858	551
One to two months	579	543
Two to three months	703	285
Over three months	986	946
	3,126	**2,325**

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 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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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.

	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
As 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**
As 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 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 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 higher depreciation charge in the amount of HRK 32 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 15 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 2015, none of the initiated disputes under the provisions of the above Act have been finalised.

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

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

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

(in thousands of HRK)	**Hotels & apartments**	**Other business segments**	**Total**
Total sales	241,498	10,511	252,009
Inter-segment revenue	(93)	-	(93)
Revenue from external customers	241,405	10,511	251,916
GOP			**104,017**
Depreciation and amortisation (Note 14)	94,912	2,456	97,368
Income tax	118	-	118
Total assets	**786,165**	**78,922**	**865,087**
Total liabilities	**189,553**	**2,255**	**191,808**

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

(in thousands of HRK)	**Hotels & apartments**	**Other business segments**	**Total**
Total sales	226,874	9,927	236,801
Inter-segment revenue	(75)	-	(75)
Revenue from external customers	226,799	9,927	236,726
GOP			**87,927**
Depreciation and amortisation (Note 14)	58,829	3,942	62,771
Income tax	-	-	-
Total assets	**860,003**	**78,947**	**938,950**
Total liabilities	**232,053**	**2,131**	**234,184**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2015	2014
Restated GOP by hotels	104,652	88,672
Restated GOP by other segments	(635)	(745)
Total restated GOP	**104,017**	**87,927**
Depreciation of property, plant and equipment	(96,719)	(62,148)
Amortisation of intangible assets	(649)	(623)
Monument annuity	(1,000)	(1,069)
Utility fees	(3,594)	(3,214)
Water management fee	(1,693)	(1,693)
Insurance premium	(1,195)	(1,336)
Concession	(614)	(608)
Other fees – leasing	(499)	(654)
Other fixed costs	(2,564)	(3,512)
Net finance costs	(6,070)	(6,585)
Other /i/	10,843	28,337
Profit before tax	**263**	**34,822**

The Company 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 Company's responsibility centres are organised as profit centres. Reporting under the USALI method is possible at the Company, due to the fact that the Company 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.

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2015		2014	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	865,087	191,808	938,950	234,184
Unallocated:	88,836	19,429	260,174	19,348
- available-for-sale financial assets	-	-	14	-
- investments in subsidiary	529	-	174,586	-
- cash and cash equivalents	82,515	-	84,158	-
- income tax receivable	2,158	-		-
- deferred tax assets	3,634	-	1,416	-
- provisions	-	19,429	-	19,348
Total	**953,923**	**211,237**	**1,199,124**	**253,532**

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)	2015	2014
Domestic sales	61,717	62,854
Foreign sales	190,292	173,947
	252,009	**236,801**

Foreign sales	**2015**	**%**	**2014**	**%**
Germany	41,864	22	38,048	22
Austria	39,961	21	33,860	19
Italy	17,126	9	15,565	9
United Kingdom	3,806	2	3,459	2
Slovenia	13,320	7	13,836	8
Russia	1,903	1	3,459	2
France	5,709	3	5,189	3
Other EU members*	34,253	18	36,318	21
Other*	32,350	17	24,213	14
	190,292	**100**	**173,947**	**100**

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

NOTE 6 – OTHER INCOME

(in thousands of HRK)	2015	2014
Write-off of liabilities	690	360
Insurance claims recovered	215	63
Penalty interest income /i/	650	6,979
Income from donations	-	183
Sale of available-for-sale financial assets	-	697
Expenses recharged to lessees and others	3,329	221
Other income	647	821
	5,531	**9,324**

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

NOTE 7 – COST OF MATERIALS AND SERVICES

(in thousands of HRK)	2015	2014
Food, beverages and other supplies	26,128	25,298
Energy and water used	14,932	14,799
	41,060	40,097
Tourist agency services	12,783	11,954
Maintenance costs	3,127	3,136
Advertising and promotion	2,613	2,650
Laundry services	5,502	5,277
Utility services	2,346	2,130
Rental expenses	1,443	1,588
Entertainment of guests	1,894	1,986
Other expenses	2,345	2,393
	32,053	31,114
	73,113	**71,211**

NOTE 8 – STAFF COSTS

(in thousands of HRK)	2015	2014
Gross salaries and wages	54,548	56,973
Contributions on salaries	9,370	9,513
Other staff costs /i/	6,387	11,773
	70,305	**78,259**
Number of employees	558	598

/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)	2015	2014
Professional services	3,269	3,121
Utility and similar fees	6,805	6,661
Write-off of property, plant and equipment and intangible assets	11,097	1,696
Insurance premiums	1,195	1,336
Impairment of trade receivables (Note 16)	203	281
Collection of receivables previously written-off (Note 16)	(205)	(3,761)
Provisions for legal disputes (Note 20)	326	987
Income from reversal of provisions for legal disputes (Note 20)	(245)	(103)
Income from reversal of provisions for termination benefits	(2,745)	-
Bank charges and membership fees	926	913
Travel and entertainment	993	910
Other expenses	3,214	2,001
	24,834	**14,042**

NOTE 10 – OTHER GAINS - NET

(in thousands of HRK)	2015	2014
Net gain on sale of property, plant and equipment	14,316	23,568
Net foreign exchange gains – other	96	(3)
	14,412	**23,565**

NOTE 11 – NET FINANCE COSTS

(in thousands of HRK)	2015	2014
Finance income		
Interest income – short-term cash deposits	1,520	1,523
Net foreign exchange gains	896	-
	2,416	1,523
Finance costs		
Interest expense	(8,485)	(9,377)
Net foreign exchange losses	-	(731)
	(8,485)	(10,108)
Net finance costs	**(6,069)**	**(8,585)**

NOTE 12 – INCOME TAX

(in thousands of HRK)	2015	2014
Current tax expense	2,399	-
Deferred tax income	(2,218)	-
Income tax	**181**	-

As of 31 December 2015, deferred tax assets amount HRK 3,634 thousand (2014: HRK 1,416 thousand) and is increased by 2,218 thousand based on deferred tax income recognized on temporary non-deductible impairment expenses.

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:

(in thousands of HRK)	2015	2014
Profit before tax	263	34,822
Tax rate of 20%	53	6,964
Effect of expenses not deductible for tax purposes	473	379
Effects of reinvested profit /i/	-	(6,633)
Effect of previously unrecognised tax losses	(345)	(710)
Tax charge	181	-
Income tax prepayments	2,158	-
Effective tax rate	69%	-

/i/ In 2014, the Company used the possibility of not calculating income tax as set forth in the Income Tax Act, since it will reinvest profit into equity.

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

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.

	2015	2014
Profit for the year *(in thousands of HRK)*	263	34,822
Weighted average number of shares (basic and diluted)	302,641	302,641
Earnings per share (basic and diluted) *(in HRK)*	**0.87**	**115.06**

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.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Assets under construction	Artwork	Total
As at 1 January 2014						
Cost	112,654	1,430,671	242,998	10,454	3,490	1,800,267
Accumulated depreciation and impairment	-	(722,154)	(176,449)	-	-	(898,603)
Net carrying amount	**112,654**	**708,517**	**66,549**	**10,454**	**3,490**	**901,664**
Year ended 31 December 2014						
Opening net carrying amount	112,654	708,517	66,549	10,454	3,490	901,664
Additions	223	52,157	35,653	381	180	88,594
Disposals and write-offs	(974)	(313)	(1,276)	-	(106)	(2,669)
Depreciation	-	(45,318)	(16,830)	-	-	(62,148)
Closing net carrying amount	**111,903**	**715,043**	**84,096**	**10,835**	**3,564**	**925,441**
As at 31 December 2014						
Cost	111,903	1,463,892	282,480	10,835	3,564	1,872,674
Accumulated depreciation and impairment	-	(748,849)	(198,384)	-	-	(947,233)
Net carrying amount	**111,903**	**715,043**	**84,096**	**10,835**	**3,564**	**925,441**
Year ended 31 December 2015						
Opening net carrying amount	111,903	715,043	84,096	10,835	3,564	925,441
Additions	-	18,117	20,502	-	1	38,620
Disposals	-	(2,400)	-	(1,466)	(6)	(3,872)
Disposals and write-offs	(1,062)	(10,035)	-	-	-	(11,097)
Depreciation	-	(77,029)	(19,690)	-	-	(96,719)
Closing net carrying amount	**110,841**	**643,696**	**84,908**	**9,369**	**3,559**	**852,373**
As 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**

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:

(in thousands of HRK)	**2015**	**2014**
Cost	9,202	10,019
Accumulated depreciation as 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 Company realised rental income in the amount of HRK 7,902 thousand (2014: HRK 8,391 thousand).

Operating leases commitments - where the Company 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 thelease period at market prices, i.e. the best bidder is selected after publishing the invitation to tender.

NOTE 15 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Company	
(in thousands of HRK)	**2015**	**2014**
Subsidiaries		
As at 1 January	174,586	173,182
Investment in subsidiary Hoteli Cavtat d.d.	6,185	1,404
Effect of spin-off (Note 18) /i/	(180,771)	-
As at 31 December	**-**	**174,586**
Associates		
As at 1 January	-	-
Effect of spin-off (Note 18) /i/ shares of the Hoteli Cavtat d.d.	29	-
Establishment of the company Remisens d.o.o. /ii/	500	-
As at 31 December	**529**	**-**

/i/ At the spin-off date, the investment in Hoteli Cavtat d.d. represents 95.64% of total shares. 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.

/ii/ In June 2015, the companies Hoteli Cavtat d.d., Hoteli Metropol d.d. (subsidiary of Hoteli Cavtat d.d.) and Liburnia Riviera Hoteli d.d. established the 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.

NOTE 16 – TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	2015	2014
Domestic trade receivables	6,027	7,598
Foreign trade receivables	3,649	2,590
Uninvoiced receivables /i/	3,185	3,423
Impairment of trade receivables	(4,839)	(5,150)
Trade receivables – net	**8,022**	**8,461**
State and other receivables	816	1,068
	8,838	**9,529**

/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)	2015	2014
As at 1 January	5,150	9,302
Increase	203	281
Collection	(205)	(3,761)
Write-off	(309)	(672)
As at 31 December	**4,839**	**5,150**

NOTE 17 – CASH AND CASH EQUIVALENTS

(in thousands of HRK)	2015	2014
Deposits up to 90 days	79,173	79,047
Foreign currency accounts	2,229	3,769
Cash on hand	656	548
Giro accounts	457	794
	82,515	**84,158**

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 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 share, 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 a decrease of the following items:

	2 October 2015
	(in thousands of HRK)
Investments in subsidiaries (Note 15)	180,742
Cash (Note 17)	22,027
Share capital	**202,769**

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**

NOTE 18 – CAPITAL AND RESERVES (continued)

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.

NOTE 19 – BORROWINGS

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

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

Maturities of long-term borrowings are as follows:

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

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 2014	545	17,921	18,466
Increase	-	987	987
Used during the year	-	(103)	(103)
Unused amounts reversed	(2)	-	(2)
As at 31 December 2014	**543**	**18,805**	**19,348**
Current portion	-	**1,321**	**1,321**
Non-current portion	**543**	**17,484**	**18,027**
As at 1 January 2014	543	18,805	19,348
Increase	-	326	326
Used during the year	-	(245)	(245)
As at 31 December 2015	**543**	**18,886**	**19,429**
Current portion	-	-	-
Non-current portion	**543**	**18,886**	**19,429**

/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

	2015	**2014**
Domestic trade payables	6,288	9,693
Foreign trade payables	557	309
Total financial liabilities	6,845	10,002
Due to employees	5,217	11,916
Taxes and contributions payable	2,151	1,959
Advances payable	5,598	5,635
Other liabilities	3,707	3,476
	23,518	**32,988**

NOTE 22 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

(in thousands of HRK)	2015	2014
Profit before tax	263	34,822
Adjustments for:		
Depreciation and amortisation (Note 14)	97,368	62,771
Write-off of disposed property, plant and equipment and intangible assets	11,097	1,696
Gains on sale of property, plant and equipment (Note 10)	(14,316)	(23,568)
Provision for impairment of trade receivables – net (Note 9)	(2)	(3,480)
Income from disposal of available-for-sale financial assets (Note 6)	-	(697)
Interest income (Note 6)	(650)	(6,979)
Net finance costs (Note 11)	6,070	8,585
Changes in provisions (Note 20)	81	884
Income from reversal of provisions for termination benefits	(2,745)	-
Income from write-off of liabilities (Note 6)	(690)	(360)
Other non-monetary items	(16)	1,242
Changes in working capital:		
- trade and other receivables	1,357	1,189
- inventories	311	(134)
- trade and other payables	(6,035)	1,432
Cash generated from operations	**92,093**	**77,403**

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

(in thousands of HRK)	2015	2014
Net carrying value of sold property, plant and equipment	3,872	974
Gains on sale of property, plant and equipment (Note 11)	14,316	23,568
Proceeds from sale of property, plant and equipment	**18,188**	**24,542**

NOTE 23 – 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 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 Company is the lessee (Note 8). Future aggregate lease payments receivable from operating leases are as follows:

(in thousands of HRK)	**2015**	**2014**
Up to 1 year	405	471
From 2 to 5 years	652	1,001
	1,057	**1,472**

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 2014, the Company is controlled by the company Nonnullus d.d., Zagreb, its ultimate parent and controlling company. As of 31 December 2015, the Company has several owners but does not have ultimate parent and controlling company (Note 18).

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:

(in thousands of HRK)

	2015	2014
Sales of services:		
Subsidiaries	1,128	712
City of Opatija	77	48
Municipality of Lovran	35	29
Municipality of Mošćenička Draga	8	1
	1,248	**790**
Other income – income from recharging – subsidiaries	**2,105**	**712**
Cost of materials and services:		
City of Opatija	395	464
	395	**464**
Other operating expenses:		
Municipality of Opatija	2,660	2,475
Municipality of Lovran	1,331	1,103
Municipality of Mošćenička Draga	520	582
Subsidiaries	26	37
	4,537	**4,197**
Trade and other payables:		
Municipality of Opatija	-	353
	-	**353**
Trade and other receivables:		
Municipality of Lovran	4	-
Subsidiaries	-	798
	4	**798**

Key management compensation (Management Board)	2015	2014
Net salaries	1,324	1,169
Pension contributions	382	372
Health insurance contribution	365	321
Other costs (contribution and taxes)	779	711
	2,850	**2,573**

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