LIBURNIA RIVIERA HOTELI d.d.

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 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.

Content

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

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

The report relates to the company Liburnia Riviera Hoteli d.d. Opatija, Maršala Tita 198, whose main activities are accommodation ad hospitality services, travel agencies and tour-operator services, retail and wholesale and sports an recreational activities, with the aim of presenting the most significant operating achievements in 2016 and reference on the future expectations.

Review of business in 2016

After a complete renovation of Remisens Hotel Excelsior in 2015, Liburnia Riviera Hoteli d.d. continues with the investments in renewal and reconstruction and increase in quality of existing facilities in 2016. Renewal of Remisens Hotel Palace-Bellevue was completed in April, thus it becoming one of the most important Remisens brand hotels of the Opatija Riviera. The investment in the amount of approximately HRK 55.0 million included refurbishment of rooms and common areas, new wellness and expansion and increase in quality of content and services.

Total investment in 2016 directed to increase in quality of supply amount to over HRK 80.0 million.

Key financial indicators

Business results of Liburnia Riviera Hotel d.d. in 2016 indicate that the Company is realizing its main goals. Realized total net operating revenues increased by 1% compared to prior year, with 1% increase in overnights. GOP (gross operating profit) increased by 12% compared to prior year, indicating increased business efficiency through reducing the share of costs in revenues. EBITDA in the amount of approximately HRK 122.3 million is 15% or approximately HRK 16.2 million higher than the last year's. Reported EBITDA is calculated as profit before tax increased by depreciation and loan interest expense.

In 2016 Liburnia Riviera Hotel d.d. realized profit before tax in the amount of approximately HRK 17.0 million which, in comparison to profit in the amount of HRK 263 thousand realized in 2015, is HRK 16.7 million higher. In 2016, income tax expense amounts to HRK 4.1 million.

In the reported period, total amount of approximately HRK 14.0 million of net one-off income was realized, while net one-off income for the same period in 2015 amounted to HRK 10.1 million. In May 2016 land in Lovran was sold. Land selling price was HRK 13.5 million, and carrying value was HRK 1.9 million.

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

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

Key events after the year end

The Company did not incur any significant events after the reporting date, which would influence past business year.

Research and development activities

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

Expected development of the Company in the future

By the end of 2016 reconstruction of hotel Ićići has started. The hotel was out of function, and is now transformed into a completely new family hotel Giorgio II of the Remisens brand, with 5 floors, 189 rooms with beach and outdoor pool complex with a sundeck and various facilities for children and adults. Hotel opening is planned in June 2017.

If feasibility studies which are currently analysed by the Company demonstrate acceptable ration of risk and return of the investment, the Company will continue with extensive investment cycle in the future, according to business plan for the period up to 2020. Thus, in the mentioned period till 2020, over HRK 200 million is planned to be invested in renewal and reconstruction of the objects in Liburnia Riviera Hotel d.d. complex.

Based on the above mentioned, significant investment in completely new redesign of auto-camp Medveja and construction of new Hotel Remisens Zagreb in Opatija is analysed, if changes in urban plan of old hotel Zagreb on existing location should occur. Furthermore, investment in Hotel Smart Selection Imperial is analysed, which is expected to become representative Remisens Premium hotel with wide rich offer and high quality. Increase in the capacity of hotel Smart Selection Istra by third compared to current number of accommodation units is also analysed. Subject to analysis hotel Remisens Palace-Bellevue which was renovated this year as part of setting Villa Slatina into commercial function and raising the whole complex to quality level of Remisens Premium. With respect to hotel Remisens Premium Kvarner, construction of representative beach and additional outdoor pool is analysed. Construction of additional accommodation units and additional pool is analysed for hotel Remisens Marina.

The aim of future investments is quality increase, strengthening market position and recognition and continuing positive trends of the financial results.

Information on purchase of own shares

The Company does not have own shares.

Financial instruments

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

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

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

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

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

Company's exposure to risks

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

Currency risk

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

Interest risk

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

Credit risk

The Company has a short-term loan granted to related party so it is not significantly exposed to this risk.

Liquidity risk

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

Statement of implementation of the Corporate Governance Code

Pursuant to Article 272 of the Companies Act (NN 111/93, 34/99, 52/00, 118/03, 107/07 and 148/08, hereinafter referred to as the CA) and Article 22 of the Accounting Act (NN 120/16), the Management Board of Liburnia Riviera Hoteli d.d. Opatija, M. Tita 198 ("The Company") at 10.02.2017, brings the following

STATEMENT
of implementation of the Corporate Governance Code

1. The Company voluntarily applies the Corporate Governance Code prescribed by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d., Zagreb
2. In 2016, the Company followed and applied the recommendations set out in the Code, publishing all the information whose publishing is anticipated by positive regulations and the information that is in the best interests of the Company's shareholders. The Company has an Audit Committee. The Company does not deviate from the Corporate Governance Code.
3. In accordance with a requirement of the Code and with the directives of the CA, the Supervisory Board conducts internal control of the Company through regular audits of the presented reports. The members of the Supervisory Board are regularly (at least once a month) provided with detailed information on the management and operations of the Company. At the Supervisory Boards meetings, all the matters within the competence of that body, prescribed by the CA and the Company's Articles of Association, are discussed and the decisions are made. The Supervisory Board's report on the conducted supervision of the management is a part of the Company's Annual Report, submitted to the General Assembly. In addition, the Supervisory Board performs internal control and oversight through the Audit Committee which provides professional support to the Supervisory Board and the Management Board in the effective performance of corporate governance, risk management, financial reporting and control of the Company. The Management Board is responsible for monitoring that the Company runs its business and other books and documentation, complies the accounting documents, evaluates assets and liabilities and prepares financial and other reports in accordance with accounting rules and standards, as well as applicable laws and regulations.
4. Ten main shareholders as at 31 December 2016

Nr.	Shareholder	Number of shares	Percentage of ownership
1.	SNH ALFA d.d.	93,825	31.0021
2.	NOVA LIBURNIJA d.o.o.	75,661	25.0002
3.	SNH BETA d.d.	57,506	19.0014
4.	SOCIETE GENERALE-SPLITSKA BANKA d.d.	23,450	7.7485
5.	CERP	11,289	3.7302
6.	SNH GAMA d.d.	10,318	3.4093
7.	HPB d.d.	1,659	0.5482
8.	SN PECTINATUS d.d.	1,600	0.5287
9.	PRIVREDNA BANKA ZAGREB d.d., custodial account	1,408	0.4652
10.	ABANKA d.d.	986	0.3258

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

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

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

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

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

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

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

- Franco Palma, president,
- Božena Mesec, vice president,
- Darko Ostoja, member,
- Joško Marić, member,
- Tin Dolički, member,
- Ksenija Juhn – Bojadžijev, member,
- Bruno Bulić, member,
- Helena Masarić, member and
- Dušan Kotur, member.

Pursuant to the provisions of Article 250.a paragraph 4 and Article 272.p of the CA, this Statement is a separate section and an integral part of the Annual Report on the Company's status for the year 2016.

Statement of Management Board's responsibilities

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

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

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

The Annual report was approved by the Management Board on 16 March 2017 for submission to the Supervisory Board and was signed below by:

Igor Šehanović

President of the Management Board

Giorgio Cadum

Member of the Management Board

Dino Hrelja

Member of the Management Board

LIBURNIA RIVIERA HOTELI
DIONIČKO DRUŠTVO
OPATIJA 13

Independent Auditor's Report to the Shareholders of Liburnia Riviera Hoteli d.d., Opatija

Opinion

We have audited the financial statements of Liburnia Riviera Hoteli d.d. ("the Company"), which comprise the statement of financial position as at 31 December 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

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

Key Audit Matters

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

<table>
<tr><td colspan="2">Impairment and useful lives of tourism properties</td></tr>
<tr><td colspan="2">The carrying amount of property, plant and equipment as at 31 December 2016 was HRK 863,287 thousand.
Refer to Notes 2.3 of Accounting policies, Note 4(a) of Critical accounting estimates, and Note 14 on Property, plant and equipment of the financial statements.</td></tr>
<tr><td>Key audit matter</td><td>Our response</td></tr>
<tr><td>As at 31 December 2016, the carrying amount of property, plant and equipment represented approximately 91% of the total assets of the Company. These assets, carried at cost less any accumulated depreciation and any accumulated impairment losses, consist primarily of tourism properties and related assets, and are subject to annual review to assess whether or not they may be impaired.</td><td>Our audit procedures included, among others:
• Evaluating the appropriateness of allocation of assets to CGUs, based on our understanding of the Company's operations and business units;
• Evaluating the Company's judgments regarding identification of tourism properties or related CGUs which may require further impairment testing. This included, but was not limited to, comparing of the actual asset (or CGU) performance to previous forecasts;</td></tr>
</table>

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Independent Auditor's Report to the Shareholders of Liburnia Riviera Hoteli d.d., Opatija *(continued)*

In the process, the Company first identifies its tourism properties where there is an indication of impairment. These properties are then subjected to a detailed impairment review through analysis of their value-in-use (based on an internal discounted cash flow model) or an estimate of their fair value less costs to sell. Any such impairment would be recognized in the amount by which the carrying amount of the asset (or its cash-generating unit, CGU) exceeds the recoverable amount. The Company's assessment relies on significant judgments and assumptions about tourism flows and the future, including: discount rates, growth rates, occupancy rates, asset useful lives, terminal values and revenue per available room. The magnitude of the property, plant and equipment balance also requires the application of significant judgement in assessing the continued relevance of the assets' useful lives. In conjunction with its year end reporting, the Company has reviewed the remaining useful lives for tourism properties based on the detailed analysis performed for each component of the property, by applying inputs from the Company's technical experts as well as the analysis provided by an independent valuer engaged by the Company. Due to the above, accounting for impairment and useful lives of tourism properties were determined by us to be a key audit matter.	• For the assets or CGUs that required further impairment testing, challenging the key assumptions used in determining their recoverable amounts. This included a comparison of occupancy rates, revenue per available room, market growth with externally derived data including external hotel industry reports and quoted prices for similar assets. We also analysed other key inputs such as estimated future costs, discount rates, asset useful life estimates and terminal multipliers, and considered the historical performance of the properties. • Analysis of the methodology used in determining the remaining useful lives of the tourism properties and challenging the key assumptions used in the area by making enquiries of the management, the Company's technical experts and its finance team members, and also by reference to our understanding of the future utilisation of assets by the Company and by reference to the depreciation policies applied by other market participants operating similar assets; • Evaluating the Company's analysis of the sensitivity of the impairment tests' results, in particular in respect of the assumptions with the greatest potential effect on the test results.

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<table>
<tr><th colspan="2">Litigation and contingent liabilities</th></tr>
<tr><td colspan="2">The carrying amount of provisions for legal proceedings as at 31 December 2016 totalled HRK 16,053 thousand.
Refer to Note 2.16 of Accounting policies, Note 20 on Provisions and Note 23 on Potential obligations.</td></tr>
<tr><th>Key audit matter</th><th>Our response</th></tr>
<tr><td>In the normal course of the Company's business, potential exposures may arise from various court proceedings.
As discussed in Note 23 Contingent liabilities and contractual commitments, as at 31 December 2016, the Company's most significant single exposure relates to a litigation over the ownership of properties.
Whether a liability or a contingent liability is recognized or disclosed in the financial statements is inherently uncertain and is dependent on a number of significant assumptions and judgments. The amounts involved are potentially significant and determining the amount, if any, to be recognized or disclosed in the financial statements, is inherently subjective.
Due to the above factors, we considered this area a key audit matter.</td><td>Our audit procedures in this area included, among others:
• Reading minutes of the meetings of the Management and Supervisory Board to identify additional potential obligations;
• Obtaining and evaluating lawyers' responses to our audit inquiry letters, discussing selected matters with the lawyers, including the disputes regarding the ownership of properties, and making corroborating inquiries of the Company's management in respect of major legal disputes;
• Critically assessing the Company's assumptions and estimates in respect of claims, including the liabilities recognized or contingent liabilities disclosed in the financial statements. This involved assessing the probability of an unfavourable outcome of litigation and the reliability of estimates of related obligations.</td></tr>
</table>

Other Matter

The financial statements of the Company as at and for the year ended 31 December 2015 were audited by another auditor who expressed a qualified opinion on those statements on 16 March 2016 due to their disagreement on the adequacy of the depreciation rates used for property.

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Independent Auditor’s Report to the Shareholders of Liburnia Riviera Hoteli d.d., Opatija *(continued)*

Other Information

Management is responsible for the other information. The other information comprises the Management Report and the Statement of implementation of corporate governance code, included in the Annual Report but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this respect.

With respect to the Management Report and the Statement of implementation of corporate governance code, we have also performed the procedures required by the Article 20 of the Croatian Accounting Act. These procedures include considering whether the Management Report and the Statement of implementation of corporate governance code includes the disclosures required by Articles 21 and 22 of the Croatian Accounting Act and obtaining evidence regarding specified information provided in the Statement of implementation of corporate governance code.

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

- The information given in the Management Report and the relevant sections of the Statement of implementation of corporate governance code, containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Croatian Accounting Act (furthermore, "extracts of Statement of implementation of corporate governance code) for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements.
- The Management Report and the extracts of the Statement of implementation of corporate governance have been prepared, in all material respects, in accordance with the applicable legal requirements of the Croatian Accounting Act.
- The Statement on implementation of corporate governance code includes information required by Article 22 paragraph 1, items 2, 5, 6 and 7 of the Croatian Accounting Act.

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

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

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

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

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Independent Auditor's Report to the Shareholders of Liburnia Riviera Hoteli d.d., Opatija *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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Independent Auditor's Report to the Shareholders of Liburnia Riviera Hoteli d.d., Opatija *(continued)*

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

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

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

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

KPMG Croatia d.o.o.

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

16 March 2017

For and on behalf of KPMG Croatia d.o.o. za reviziju:

Domagoj Hrkać
Croatian Certified Auditor
Member of the Management Board

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LIBURNIA RIVIERA HOTELI d.d.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of HRK)	Note	2016	2015*
Revenue from sales	5	264,805	244,107
Other income	6	12,221	16,714
Cost of materials and services	7	(76,428)	(73,113)
Staff costs	8	(73,611)	(70,305)
Depreciation and amortisation		(98,420)	(97,368)
Other operating expenses	9	(18,374)	(28,115)
Other gains – net	10	11,731	14,316
Operating profit		21,924	6,236
Finance income	11	3,339	2,834
Finance costs	11	(8,267)	(8,807)
Finance costs – net	11	(4,928)	(5,973)
Profit before tax		16,996	263
Income tax expense	12	(4,106)	(181)
Profit for the year		**12,890**	**82**
Total comprehensive income for the year		**12,890**	**82**
Earnings per share (in HRK) - basic and diluted	13	42.59	0.27

*Reclassified – for details please see note 2.1.

LIBURNIA RIVIERA HOTELI d.d.
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

(in thousands of HRK)	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	14	863,287	852,373
Intangible assets		816	1,383
Investments	15	500	529
Deferred tax assets	12	1,404	3,744
		866,007	858,029
Current assets			
Inventories		3,161	2,493
Loan receivables	24	5,986	-
Trade and other receivables	16	10,674	8,838
Income tax receivable	12	2,459	2,048
Cash and cash equivalents	17	62,389	82,515
		84,669	95,894
Total assets		**950,676**	**953,923**
EQUITY			
Share capital	18	696,074	696,074
Legal reserves	18	45,019	45,019
Capital reserves	18	1,511	1,511
Retained earnings		12,972	82
		755,576	742,686
LIABILITIES			
Non-current liabilities			
Borrowings	19	89,174	124,162
Provisions for other liabilities and expenses	20	16,712	19,429
		105,886	143,591
Current liabilities			
Trade and other payables	21	32,046	23,518
Borrowings	19	57,168	44,128
		89,214	67,646
Total liabilities		**195,100**	**211,237**
Total liabilities and equity		**950,676**	**953,923**

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

(in thousands of HRK)	Note	2016	2015
Cash flow generated from operating activities			
Cash from operations	22	113,178	92,093
Income tax paid		(2,177)	(4,557)
Interest paid		(7,396)	(9,080)
Net cash generated from operating activities		**103,605**	**78,456**
Cash flow from investing activities			
Effect of demerger	18	-	(22,027)
Investments in subsidiaries – net outflow		-	(6,685)
Purchase of property, plant and equipment		(111,653)	(38,620)
Purchase of intangible assets		(57)	(1,058)
Proceeds from disposal of property, plant and equipment		13,657	18,188
Sale of shares in Hoteli Cavtat		29	-
Interest received		-	1,520
Loans granted		(5,986)	-
Net cash used in investing activities		**(104,010)**	**(48,682)**
Cash flow from financing activities			
Repayments of borrowings		(19,721)	(31,417)
Net cash used in financing activities		**(19,721)**	**(31,417)**
Net decrease in cash and cash equivalents		**(20,126)**	**(1,643)**
Cash and cash equivalents at beginning of year		82,515	84,158
Cash and cash equivalents at end of year	17	62,389	82,515

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 Demerger 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 demerger, 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 2016 and 2015, 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 2015)
Giorgio Cadum	Member (since 1 October 2015)
Dino Hrelja	Member (since 1 October 2015)

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

Supervisory Board

Franco Palma, President since 22 September 2015
Božena Mesec, Deputy President since 22 September 2015
Bruno Bulić, Member since 14 December 2001
Joško Marić, Member since 27 August 2015
Darko Ostoja, Member since 27 August 2015
Tin Dolički, Member since 27 August 2015
Ksenija Juhn Bojađijev, Member since 27 August 2015
Helena Masarić, Member since 7 September 2015
Dušan Kotur, Member since 8 November 2016
Ivo Dujmić, Member since 7 September 2015 until 4 November 2016

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 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.

Changes in presentation of financial statements for the year 2015

During 2016 the Company decided to change the presentation of foreign exchange gains and losses, income from reversal of provision for legal disputes and retirement benefits and collected receivables previously written-off in statement of comprehensive income. Part of foreign exchange losses was presented within foreign exchange gains, and above mentioned provisions and collected receivables decreased other operating expenses. Also, the Company reclassified rental income from revenue from sales to other income.

Effects of mentioned reclassification on comparative data in statement of comprehensive income are shown in the table below:

	Note	**Previously reported**	**Reclassification**	**Reclassified**
Company			*(in thousands of HRK)*	
Revenue from sales	5	252,009	(7,902)	244,107
Other income	6	5,531	11,183	16,714
Other operating expenses	9	(24,834)	(3,281)	(28,115)
Foreign exchange gains	11	(8,389)	(418)	(8,807)
Foreign exchange losses	11	2,416	418	2,834

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

2.1.1 Changes in accounting policies and disclosures

A number of new standards, amendments to standards and interpretations are effective but not mandatory for annual periods beginning on or after 1 January 2016 and earlier application is permitted, and have not been applied in preparing these financial statements. The application of new standards is not expected to have a significant influence on the financial statements of the Company and their early adoption is not planned.

2.2 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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.

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

2.3 Property, plant and equipment *(continued)*

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:

Buildings (hotels)	5-60 years
Equipment	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.

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'.

2.3.1 Impairment of non-financial assets

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

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

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

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

2.3 Property, plant and equipment *(continued)*

2.3.1 Impairment of non-financial assets (continued)

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

2.4 Intangible assets

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

2.5 Investments in associates

Associates

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

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)*

2.6 Financial assets

2.6.1 Classification

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

Loans and receivables

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

2.6.2 Measurement and recognition

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

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

2.6.3 Impairment of financial assets

Assets carried at amortised cost

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

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

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

2.7 Inventories

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

2.8 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment.

2.9 Cash and cash equivalents

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

2.10 Leases

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

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

2.11 Share capital

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

2.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Borrowings

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

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

2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In that case the tax is recognised directly in equity. The current income tax charge is calculated at a rate of 20% *(2015: 20%)* according to Croatian laws and regulations. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions, where appropriate, on the basis of amounts expected to be paid to the Tax Administration.

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

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

2.15 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

(c) Short-term employee benefits

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

(b) Long-term employee benefits

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

2.16 Provisions

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

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

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

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

2.17 Revenue recognition

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

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

(a) Sales of services

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

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

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

(b) Interest income

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

(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.

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

2.18 Earnings per share

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

2.19 Value added tax

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

2.20 Segment reporting

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(in thousands of HRK)	**2016**	**2015**
Assets at the balance sheet date		
Loans and receivables		
Trade receivables	10,011	8,022
Loans granted	5,986	-
Cash and cash equivalents	62,389	82,515
	78,386	**90,537**
Liabilities – *at amortised cost*		
Trade and other payables	11,931	6,845
Borrowings	146,342	168,290
	158,273	**175,135**

(a) Market risk

(i) Foreign exchange risk

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

	2016				2015			
(in thousands of HRK)	EUR	HRK	Other	Total	EUR	HRK	Other	Total
Financial assets								
Trade receivables	507	9,504	-	10,011	2,464	5,558	-	8,022
Loans granted	5,986	-	-	5,986	-	-	-	-
Cash and cash equivalents	60,591	1,714	84	62,389	68,751	13,678	86	82,515
	67,084	**11,218**	**84**	**78,386**	**71,215**	**19,236**	**86**	**90,537**
Financial liabilities								
Trade and other payables	774	11,157	-	11,931	557	6,288	-	6,845
Borrowings	146,342	-	-	146,342	168,290	-	-	168,290
	147,116	**11,157**	**-**	**158,273**	**168,847**	**6,288**	**-**	**175,135**

As at 31 December 2016, if the euro had weakened/strengthened by 1% (2015: 1%), with all other variables held constant, the Company's net profit for the year would have been HRK 783 thousand higher/lower (2015: HRK 780 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 1.5%-2.5% (2015: 1.7%-2.6%). The interest rate on funds held on giro and foreign currency accounts was set at 0.15%-0.5% (2015: 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 2016, the borrowings contracted at variable interest rates amount to HRK 133,020 thousand (2015: HRK 144,500 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 2016, if interest rates on borrowings with variable interest rates had been 0.5 % lower/higher (2015: 0.5% lower/higher), with all other variables held constant, the Company's net profit for the year would have been HRK 665 thousand higher/lower (2015: HRK 578 thousand), mainly as a result of lower/higher interest expense on borrowings.

(iii) Price risk

As at 31 December 2016, 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)	2016	2015
Loans and receivables		
Trade receivables	10,011	8,022
Loans granted	5,986	-
Cash and cash equivalents	62,389	82,515
Total	**78,386**	**90,537**

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

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

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

(in thousands of HRK)	2016	2015
Cash at bank		
BBB+	60,734	79,575
BBB-	289	2,128
Other or without rating	1,366	812
	62,389	**82,515**

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)	2016	2015
Up to one month	995	858
One to two months	847	579
Two to three months	1,004	703
Over three months	649	986
	3,495	**3,126**

(c) Liquidity risk

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

as at 31 December 2015 (in thousands of HRK)	**Carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-interest bearing assets						
Other receivables	816	816	816	-	-	-
Trade receivables	8,022	8,022	8,022	-	-	-
	8,838	8,838	8,838	-	-	-
Interest bearing assets						
Cash and cash equivalents	82,515	82,515	82,515	-	-	-
	82,515	82,515	82,515	-	-	-
	91,353	**91,353**	**91,353**	**-**	**-**	**-**

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

as at 31 December 2015 (in thousands of HRK)	**Carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-interest bearing liabilities						
Other payables	16,673	16,673	16,673	-	-	-
Interest payables	2,497	2,497	2,497	-	-	-
Trade payables	6,845	6,845	6,845	-	-	-
	26,015	26,015	26,015	-	-	-
Interest bearing liabilities						
Loan liabilities	165,793	190,503	48,816	39,283	60,440	41,964
	165,793	190,503	48,816	39,283	60,440	41,964
	191,808	**216,518**	**74,831**	**39,283**	**60,440**	**41,964**

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

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

3.3 Fair value estimation

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

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

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

The useful lives of property, plant and equipment will periodically be revised to reflect any changes in circumstances since the previous assessment. An analysis performed at the beginning of 2015 determined that the existing depreciation rates do not reflect estimated useful life of these assets in the accounting records. Taking into account the current capacity utilisation and the assessment of assets used in future periods, and based on the experience with similar hotels and market practice, the remaining useful life of building components was changed to 5-60 years. Useful life was assessed for equipment and other assets also as described in policy in note 2.3.

(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. Up to the date of this report, none of the initiated disputes under the provisions of the above Act have been finalised.

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

NOTE 5 – SEGMENT INFORMATION

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

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

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

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

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	233,596	10,511	244,107
Inter-segment revenue	(93)	-	(93)
Revenue from external customers	233,503	10,511	244,014
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**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2016		2015	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	883,924	178,388	865,087	191,808
Unallocated:	66,752	16,712	88,836	19,429
- investments	500	-	529	-
- cash and cash equivalents	62,389	-	82,515	-
- income tax receivable	2,459	-	2,048	-
- deferred tax assets	1,404	-	3,744	-
- provisions	-	16,712	-	19,429
Total	**950,676**	**195,100**	**953,923**	**211,237**

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)	**2016**	**2015* Reclassified**
Domestic sales	59,049	53,815
Foreign sales	205,756	190,292
	264,805	**244,107**

Foreign sales	**2016**	**%**	**2015**	**%**
Germany	45,267	22	41,864	22
Austria	45,266	22	39,961	21
Italy	18,518	9	17,126	9
United Kingdom	4,115	2	3,806	2
Slovenia	14,403	7	13,320	7
Russia	2,058	1	1,903	1
France	4,115	2	5,709	3
Other EU members*	45,266	22	34,253	18
Other*	26,748	13	32,350	17
	205,756	**100**	**190,292**	**100**

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

NOTE 6 – OTHER INCOME

(in thousands of HRK)	**2016**	**2015**
Write-off of liabilities	571	690
Insurance claims recovered	323	215
Penalty interest income	634	650
Recharged costs to lessees and others	1,073	3,329
Collection of receivables previously written-off (note 16)	138	205
Incom from reversal of provision for legal disputes (note 20)	203	246
Incom from reversal of provision for retirement benefits	-	2,745
Rental income	6,548	7,902
Other income	2,731	732
	12,221	**16,714**

In 2016 other income mainly consists of income from technical documentation (HRK 1,368 thousand) and joint advertising (HRK 600 thousand).

NOTE 7 – COST OF MATERIALS AND SERVICES

(in thousands of HRK)	**2016**	**2015**
Food, beverages and other supplies	28,058	26,128
Energy and water used	14,305	14,932
	42,363	**41,060**
Tourist agency services	14,631	12,783
Maintenance	3,122	3,127
Advertising and promotion	2,852	2,613
Laundry services	5,729	5,503
Utilities	2,550	2,346
Rent	1,351	1,443
Entertainment of guests	1,703	1,894
Other expenses	2,127	2,344
	34,065	**32,053**
	76,428	**73,113**

NOTE 8 – STAFF COSTS

(in thousands of HRK)	**2016**	**2015**
Gross salaries and wages	-	-
Contributions on salaries	9,773	9,370
Other staff costs /i/	6,987	6,387
	73,611	**70,305**
Number of employees at year end	626	558

/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)	2016	2015* Reclassified
Professional services	3,435	3,269
Utility and similar fees	7,039	6,805
Write-off of property, plant and equipment and intangible assets	1,019	11,097
Insurance premiums	1,185	1,195
Impairment of trade receivables (note 16)	164	203
Provisions for legal disputes (note 20)	107	327
Termination benefits	116	-
Bank charges and membership fees	1,043	926
Travel and entertainment	904	993
Insurance premiums	-	258
Other expenses	3,362	3,042
	18,374	**28,115**

Change in write-off of property, plant and equipment in 2016. compared to 2015. is a result of demolition of hotel Ićići in 2015.

NOTE 10 – OTHER GAINS - NET

(in thousands of HRK)	2016	2015
Net gains on sale of property, plant and equipment	11,731	14,316
	11,731	**14,316**

NOTE 11 – NET FINANCE COSTS

(in thousands of HRK)	2016	2015* Reclassified
Finance income		
Interest income	1,271	1,520
Net foreign exchange gains	2,068	1,314
	3,339	**2,834**
Finance costs		
Interest expense	(7,632)	(8,485)
Net foreign exchange losses	(635)	(322)
	(8,267)	**(8,807)**
Net finance costs	**(4,928)**	**(5,973)**

NOTE 12 – INCOME TAX

(in thousands of HRK)	**2016**	**2015**
Current tax expense	931	2,399
Deferred tax income	3,175	(2,218)
Income tax	4,106	181

(in thousands of HRK)	**2016**	**2015**
Current tax expense		
Current period	931	2,399
	931	2,399
Deferred tax (income)/expenses		
Recognition and reversal of temporary differences	2,340	(2,218)
Understated/(overstated) expenses in prior period	835	-
	3,175	(2,218)
Income tax	**4,106**	**181**

As of 31 December 2016, deferred tax assets amount to HRK 1,404 thousand (2015: HRK 3,744 thousand) and is decreased by 3,175 thousand based on deferred tax expenses recognized on previously non-deductible impairment expenses and on effect of change in the tax rate (2015: increased by HRK 2,218 thousand based on deferred tax on non-deductible amortization).

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 20% (2015: 20%). 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)	**2016**	**2015**
Profit before tax	16,996	263
Tax rate of 20%	3,399	53
Effect of expenses not deductible for tax purposes	110	473
Effect of temporary differences for which deferred tax assets are not recognized	441	-
Effect of previously unrecognised tax losses	-	(345)
Effect of change in tax rate	156	-
Tax expense	4,106	181
Effective tax rate	24%	69%

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.

	2016	**2015**
Profit for the year *(in thousands of HRK)*	12,890	82
Weighted average number of shares (basic and diluted)	302,641	302,641
Earnings per share (basic and diluted) *(in HRK)*	42.59	0.27

Diluted

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

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land**	**Buildings**	**Equipment**	**Assets under construction**	**Artwork**	**Total**
As at 1 January 2015						
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**
As at 1 January 2016						
Cost	110,841	1,442,358	283,262	9,369	3,559	1,849,389
Accumulated depreciation and impairment	-	(798,662)	(198,354)	-	-	(997,016)
Net carrying amount	**110,841**	**643,696**	**84,908**	**9,369**	**3,559**	**852,373**
Year ended 31 December 2016						
Opening net carrying amount	110,841	643,696	84,908	9,369	3,559	852,373
Additions	-	1,930	20,714	89,008	-	111,652
Disposals and write-offs	(1,891)	(662)	(391)	-	-	(2,944)
Depreciation	-	(76,446)	(21,348)	-	-	(97,794)
Transfer	-	44,051	18,627	(62,678)	-	-
Closing net carrying amount	**108,950**	**612,569**	**102,510**	**35,699**	**3,559**	**863,287**
As at 31 December 2016						
Cost	108,950	1,480,475	308,783	35,699	3,559	1,937,466
Accumulated depreciation and impairment	-	(867,906)	(206,273)	-	-	(1,074,179)
Net carrying amount	**108,950**	**612,569**	**102,510**	**35,699**	**3,559**	**863,287**

As at 31 December 2016, land and buildings in the amount of HRK 289,689 thousand (2015: HRK 275,707 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 2016 comprised 202,946 m^2 (2015: 208,318 m^2) and together with the respective buildings has a net carrying value of HRK 721,519 thousand (2015: HRK 754,537 thousand).

Of the total land surface, a surface of 35,515 m^2 (2015: 31,035 m^2) or land and buildings with a value of HRK 42,468 thousand (2015: HRK 44,302 thousand) are not legally owned by the Company (according to land registry data) (see note 23), while 167,431 m^2 (2015: 177,283 m^2) or HRK 678,570 thousand (2015: HRK 710,235 thousand) is legally owned by the Company.

Assets under construction relate to advance for reconstruction of hotel Giorgio II in Ićići and to project documentation and started work on the same.

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

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

(in thousands of HRK)	2016	2015
Cost	18,209	9,202
Accumulated depreciation as at 1 January	(7,617)	(3,202)
Depreciation for the year	(1,259)	(311)
Net carrying amount	**9,333**	**5,689**

The operating lease relates to the lease of hospitality facilities and stores. During 2016, the Company realised rental income in the amount of HRK 6,548 thousand (2015: HRK 7,902 thousand).

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

	2016	2015
Up to 1 year	5,747	4,944
Between 2 and 5 years	10,503	10,372
	16,250	**15,316**

In 2016 and 2015, 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.

NOTE 15 INVESTMENTS

(in thousands of HRK)	2016	2015
Investments in Remisens	500	500
Investments in Hoteli Cavtat	-	29
Balance as at 31 December	500	529

At the demerger date, the investment in Hoteli Cavtat d.d. represents 95.64% of total shares. After demerger, 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. During 2016, the Company sold the rest of the shares in Hoteli Cavtat d.d.

NOTE 16 – TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	**2016**	**2015**
Domestic receivables	6,182	6,027
Foreign receivables	4,243	3,649
Uninvoiced receivables /i/	4,451	3,185
Provision for impairment of trade receivables	(4,865)	(4,839)
Trade receivables – net	**10,011**	**8,022**
State and other receivables	663	816
	10,674	**8,838**

/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)	**2016**	**2015**
At 1 January	4,839	5,150
Increase	164	203
Collectection	(138)	(205)
Write-off	-	(309)
At 31 December	**4,865**	**4,839**

NOTE 17 – CASH AND CASH EQUIVALENTS

(in thousands of HRK)	**2016**	**2015**
Deposits up to 90 days	59,019	79,173
Foreign currency accounts	1,656	2,229
Cash on hand	963	656
Giro accounts	751	457
	62,389	**82,515**

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

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.

Demerger of Liburnia Riviera Hoteli d.d.

The decision of the Company's General Assembly of 27 August 2015 and the approval of the Demerger 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 2016, the Company's share capital amounted to HRK 696,074 thousand (2015: HRK 696,074 thousand) and comprises 302,641 ordinary shares with a nominal value of HRK 2,300 per share (2015: HRK 2,300 per share). Ordinary shares have equal voting rights and rights to receive dividend. The Company's share capital has been fully paid in cash.

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

	Number of shares	HRK	%
SNH Alfa d.d., Zagreb	93,825	215,797,651	31.00
Nova Liburnija d.o.o., Opatija	75,661	174,019,967	25.00
SNH Beta d.d., Zagreb	57,506	132,263,862	19.00
Societe Generale-Splitska banka d.d., custodial account	23,450	53,935,317	7.75
Small shareholders	52,199	120,057,503	17.25
Total	**302,641**	**696,074,300**	**100.00**

NOTE 18 – 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**

Legal reserves

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

Capital reserves

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

NOTE 19 – BORROWINGS

(in thousands of HRK)	**2016**	**2015**
Bank borrowings	146,342	168,290
Less: non-current portion	(89,174)	(124,162)
Current portion	**57,168**	**44,128**

Bank borrowings are secured by a mortgage over land and a building (note 14). Of the total amount of current borrowings, HRK 2,004 thousand relates to interest payable *(2015: HRK 2,497 thousand).*

Maturities of long-term borrowings are as follows:

(in thousands of HRK)	**2016**	**2015**
Between 1 and 2 years	19,341	34,076
Between 2 and 5 years	46,555	50,893
Over 5 years	23,278	39,193
	89,174	**124,162**

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

	2016		**2015**	
	(in thousands of HRK)	%	(in thousands of HRK)	%
EUR	144,338	4%- EURIBOR+4.7%	165,793	4%- EURIBOR+4.7%

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 2015	543	18,805	19,348
Increase	-	327	327
Released during the year	-	(246)	(246)
As at 31 December 2015	**543**	**18,886**	**19,429**
Current portion	**-**	**-**	**-**
Non-current portion	**543**	**18,886**	**19,429**
As at 1 January 2016	**543**	**18,886**	**19,429**
Increase	116	107	223
Paid during the year	-	(2,737)	(2,737)
Released during the year	-	(203)	(203)
As at 31 December 2016	**659**	**16,053**	**16,712**
Current portion	**-**	**-**	**-**
Non-current portion	**659**	**16,053**	**16,712**

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

NOTE 21 – TRADE AND OTHER PAYABLES

(in thousands of HRK)	**2016**	**2015**
Domestic trade payables	11,157	6,288
Foreign trade payables	774	557
Total financial liabilities	11,931	6,845
Due to employees	6,167	5,217
Taxes and contributions payable	1,860	2,151
Advances payable	7,644	5,598
Other liabilities	4,444	3,707
	32,046	**23,518**

NOTE 22 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

(in thousands of HRK)	**2016**	**2015**
Profit before taxation	16,996	263
Adjustments for:	-	-
Depreciation and amortization	98,420	97,368
Write-off of disposed property, plant and equipment and intangible assets	1,019	11,097
Gains on sale of property, plant and equipment (note 10)	(11,731)	(14,316)
Provision for impairment of trade receivables – net (note 9)	26	(2)
Net finance costs (note 11)	4,928	5,973
Increase in provisions-net	(2,717)	(2,664)
Changes in working capital:	-	-
- trade and other receivables	(256)	1,357
- inventories	(668)	311
- trade and other payables	7,161	(7,294)
Cash generated from operations	**113,178**	**92,093**

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

(in thousands of HRK)	**2016**	**2015**
Net carrying value of sold property, plant and equipment	1,926	3,872
Gains on sale of property, plant and equipment (note 11)	11,731	14,316
Proceeds from sale of property, plant and equipment	**13,657**	**18,188**

NOTE 23 – CONTINGENCIES AND COMMITMENTS

Legal disputes

The Company is involved in a number of legal disputes arising from the ordinary course of business. In the financial statements for the year ended 31 December 2016, provisions for legal disputes have been made for which the Company anticipates outflow of economic benefits in the amount of HRK 16,053 thousand (2014: HRK 18,886 thousand), as set out in note 20.

Historical review of incorporation of the company G.H.B. d.o.o. and legal course of events in the same company

Based on the public tender for share capital increase of complex Belvedere and decision of the Supervisory Board of 30 August 1996, on 7 February 1997, association act on the establishment of a limited liability company was signed which established the company G.H.B. Ltd., Opatija from the founder S.P.E.F., Livorno, with the stake of HRK 15,000 or 75% stake and business share and business share of the Company, the stake of HRK 5,000 or 25% stake and business share. With this association act the Company committed to transfer to the newly established company hotel and annex Belvedere and Villa Rosalia, after becoming a land registry owner of the respective properties. The company S.P.E.F. committed to transfer to the established company the possession and ownership of the project documentation for reconstruction of Hotel and annex Belvedere and Villa Rosalia, immediately by increasing the share capital for the respective properties, as well as equipment and construction works at the same facilities. At the same time, the agreement of 7 February 1997 committed S.P.E.F. to issue a bank or insurance company guarantee in the amount of at least DEM 20 million for the works on the same properties after the registration of the Company in the land registry as the owner of the said property.

On 30 August 1996, prior to the establishment of G.H.B. Ltd., contract on the establishment of secret company was signed between S.P.E.F and Mr. Josip Španjol, in which in Article 2 it is determined that a secret member (Mr. Josip Španjol) invests in a establishing company G.H.B. Ltd. the amount of HRK 15,000, which will constitute 75% of the share capital of the company G.H.B. Ltd., pursuant to which the secret member will have the right and obligation to participate in the profits and the loss of the company G.H.B. Ltd.

On 24 December 1997 agreement governing the mutual relations was signed, governing the question of transfer of ownership and use of property of the Hotel Belvedere, annex Belvedere and Villa Rosalia until dispute on property ownership is settled with the City of Opatija, based on which transfer of the Villa Rosalia was executed for investment in the same. After that, the agreement on the transfer of shares and the takeover of the principal stake in the company G.H.B. Ltd. was signed on 12 February 1998 and S.P.E.F. Ltd. transferred its business stake in the amount of HRK 15,000, representing 75% of share capital to Mr. Josip Španjol. On the same day he signed the Agreement on the termination of a secret company.

On 20 October 1998, the decision to increase the share capital of the company G.H.B. from the amount of HRK 20,000 for the amount of HRK 27,563,000 so that the share capital amounts to HRK 27,583,000. The share capital is increased by cash payment of HRK 73 and in kind (reconstructed real estate Villas Rosalia) which is valued by the certified auditor Peter Lončarić to the amount of HRK 27,562,927. This decision determines Company's business share of 99.9456118% and business share of Mr. Josip Španjol of 0.054381% of the share capital. On 20 October 1998 a contract was signed on the transfer of shares by which the Company transfer to Mr. Josip Španjol business share of 69.385619% of the share capital with a total nominal value of HRK 19,139,000. On 20 October 1998 contract on the transfer of property rights was signed by which the Company has issued a tabular statement allowing that the Land Registry performs registration of property rights to b.p. 248, cadastre Volosko i.e. Villa Rosalia. (Based on this agreement after issuing tabular statements by the City to the trustee, registration of property rights of G.H.B. Ltd. in bankruptcy was performed).

NOTE 23 – CONTINGENCIES AND COMMITMENTS *(continued)*

Historical review of incorporation of the company G.H.B. d.o.o. and legal course of events in the same company *(continued)*

On 20 October 1998 Association act on the establishment of a limited liability company was signed - revised text in accordance with the previously mentioned decision and contracts.

Based on the foregoing, the Company's share amounted to a total of HRK 8,429,000, or 30.55%, and the share Mr. Španjol was a total of HRK 19,154,000, or 69.44%, and the ratio of shares has not changed up to the opening of bankruptcy proceedings in 2010. Since capital can not be increased if there is no proof of ownership, in the case of Villa Rosalia a decision made by the Opatija Municipal Court on 2 August 1996 in the land registry procedure to register right of ownership of the Company on the mentioned property and to attach such land registry extract with registered ownership rights to application for share capital increase on the Commercial Court in Rijeka was used until decision of Rijeka County Court was made.

At the beginning of 2000, Casino started working with the prior approval (concession) from the Ministry of Finance of the Republic of Croatia, at the end of 1999, to perform the games of chance. For the purpose of obtaining a concession for performance of games of chance, Director Branko Vukušić submits a statement from the book of business shares to the competent Ministry, since for legal reasons the individual shares could not exceed 25% of the share capital. According to these changes, the holders of the shares were as follows:

- 25% Mr. Branko Vukušić,
- 25% Mr. Mladen Matijević,
- 25% Mr. Josip Španjol i
- 25% the Company

The Company has never signed a contract on the transfer of shares of 5.55% and the share of the Company today amounts to 30.55%.

After that, shareholders Mr. Branko Vukušić and Mr. Mladen Matijević transferred their shares to Relax d.o.o., Kranjska Gora, Slovenia, owned by Mr. Miroslav Brković and Immobilia investment co. Ltd., Bellinzona, Switzerland, owned by Mr. Ivan Pušnik. New shareholders did not long remain in the ownership structure, so the shares were returned to Mr. Josip Španjol and Mr. Mladen Matijević.

Subsequently, on the basis of the Contract on transfer and takeover of the business share and the fundamental share of May 3, 2001, 50% of Mr. Josip Španjol and 19.44% of Mr. Mladen Matijević are transferred to Mrs. Edina Delibegović and Mrs. Dubravka Šnel Delibegović.

By the decision of the Government of the Republic of Croatia on 29 May 2003, a concession for the performance of games of chance was revoked.

On 31 August 2001, Mr. Josip Španjol issued a statement terminating the mentioned contract with Mrs. Edina Delibegović and Mrs. Dubravka Šnel Delibegović, and the Assembly decision on appointing Mrs. Edina Delibegović for the Director was not carried out in the Court Registry of the Commercial Court in Rijeka.

On 16 October 2001, the Assembly of G.H.B. d.o.o. makes a decision on appointing Mr. Miroslav Brkovič as Director of the Company.

Considering this overall presented situation in G.H.B. d.o.o., the Management Board and the Supervisory Board of the Company did not see any interest in the Company remaining as a shareholder in G.H.B. d.o.o. so they launched a number of initiatives that have not been accepted. The proposal of the Management Board to the Supervisory Board was to sell the total share of HRK 8,429,000 at a price that could amount to at least the value of the share, i.e. HRK 8,429,000, and to delete the obligation to increase the capital of the hotel and its anex Belvedere. With the conclusion of the Supervisory Board no. 03/02 of 12 and 22 April 2002 the proposal was supported.

NOTE 23 – CONTINGENCIES AND COMMITMENTS *(continued)*

Historical review of incorporation of the company G.H.B. d.o.o. and legal course of events in the same company *(continued)*

On 1 January 2000, the Director of G.H.B. do.o. Mr. Branko Vukušić concluded an Agreement on hort-term credit with Hrvatska poštanska banka d.d. on behalf of and for the account of the Company in the amount of DEM 7 million. Property of Villa Rosalia and the share of Mr. Josip Španjol were given as an insurance as it is determined in the Credit Insurance Agreement of 1 January 2000. The aforementioned case is a criminal case proceeded at the Rijeka County Court and until today no first-instance decision has been made. Meanwhile, the CPF redeemed receivables of Hrvatska poštanska banka d.d. towards G.H.B., and today has a receivable as a bankruptcy creditor.

On December 15, 2006, the Contract on the transfer of the business share to G.H.B. d.o.o. Opatija was made between Mr. Josip Španjol as a conveyor and Mr. Miroslav Brkovič from Portorož as the acquirer. Miroslav Brkovič became the holder of the share of 69.44%.

In September 2010 bankruptcy proceedings were opened on G.H.B. d.o.o. Opatija and the Company impaired the total value of the investment.

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

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

The Company did not make a reservation for the above-mentioned dispute. At 31 December 2016 the net book value of the property in the dispute is HRK 13.2 million.

Land ownership

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

Capital and loan commitments

As at 31 December 2016, future commitments with respect to investments in tourist facilities amount to HRK 61,136 thousand (2015: HRK 46,197 thousand).

NOTE 23 – CONTINGENCIES AND COMMITMENTS *(continued)*

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

(in thousands of HRK)	2016	2015
Up to 1 year	386	405
From 2 to 5 years	478	652
	864	**1,057**

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 2016, the Company has several owners but does not have ultimate parent and controlling company (note 18).
There were no significant changes in the ownership structure as compared to 31 December 2015.

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

(in thousands of HRK)	2016	2015
Sales of services:		
Subsidiaries	1,394	1,128
City of Opatija	78	77
Municipality of Lovran	38	35
Municipality of Mošćenička Draga	10	8
	1,520	**1,248**
Other income – income from recharging – subsidiaries	**-**	**2,105**
Cost of materials and services:		
City of Opatija	295	395
	295	**395**
Other operating expenses:		
Municipality of Opatija	2,890	2,660
Municipality of Lovran	1,272	1,331
Municipality of Mošćenička Draga	580	520
Subsidiaries	38	26
	4,780	**4,537**

NOTE 24 – RELATED PARTY TRANSACTIONS *(continued)*

(in thousands of HRK)	2016	2015
Trade and other receivables:		
Municipality of Lovran	1	4
Subsidiaries	193	-
	194	**4**
Trade and other receivables:		
Loans granted	5,986	-

	2016	2015
Key management compensation (Management Board)		
Net salaries	1,601	1,324
Pension contributions	443	382
Health insurance contribution	438	365
Other costs (contribution and taxes)	891	779
	3,373	**2,850**

Loans granted relate to loan granted to related company HOTELI METROPOL d.o.o., Slovenija, with interest rate in the amount of 5.14%.

The Management Board comprises three members (2015: three members).