FTB TURIZAM d.d.

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2016

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

Content

Management Report to the shareholders of FTB TURIZAM Group for the year 2016

Annual Report of the Management board is composed on the basis of Article 250s of the Companies Act and Article 21 of the Accounting Act.
The report refers to FTB Turizam Group composed of companies Hoteli Cavtat d.d. Cavtat, Hoteli Metropol d.o.o. Portorož, Remisens Hotel Group d.o.o. Zagreb and FTB Turizam d.d. Zagreb, with the aim of presenting the most important achievements in the year 2016 and the review of future expectations.

Review of operations in 2016 with a focus on the most important financial indicators of business operations

Operating results of FTB TURIZAM Group for the year 2016 show that the Group achieved primary goals.

Comparison of the results with last year's level of FTB TURIZAM Group does not represent a comparable size because the company FTB TURIZAM d.d. was founded on October 2 2015, when I became a parent company of the Group composed of Hoteli Cavtat d.d., Hoteli Metropol d.o.o. i Remisens Hotel Group d.o.o. Consequently, the position in this report for the previous year cover the period from 02 October to 31 December 2015 and for 2016 the period from 1 January to 31 December 2016.

In 2016 FTB TURIZAM Group achieved a consolidated profit before tax in the amount of 13 million and income tax in the amount of 0.8 million.

Consolidated operating results for 2016 show that the Group (Hoteli Cavtat d.d. and Hoteli Metropol d.o.o.) generates about 5% more overnight stays than last year, 9% higher operating income and 22% higher GOP (gross operating profit) than last year.

Consolidated EBITDA in 2016 was realized in the amount of HRK 60.7 million. Presented EBITDA is calculated as pre-tax profit increased for depreciation and interest expense.

Within the consolidated depreciation is the amount of 6.58 HRK million depreciation, as the result of fair valuation of assets Hotel Cavtat d.d. and Hotel Metropol d.o.o. on acquisition. The consolidated report includes the effect of income tax for the depreciation and the impact of changes in tax rates on deferred tax liability (20% in 2016 to 18% in 2017, relating to hotels Cavtat d.d.).

Indicators of liquidity and solvency and the ratio of debt to equity and cash flows are of good quality.

Significant events which have occurred after the business year

Hotels Metropol d.o.o. within the FTB Group, in December 2016, signed a loan contract in the amount of 4.5 mil. EUR which will finance investments in the facilities of the Company. Realization of the loan is expected by the end of February 2017.

Management Report to the shareholders of FTB TURIZAM Group for the year 2016 (continued)

Other companies in the Group had no significant events after the reporting date, which would have impact to the last business year.

Research and development activities

Within the framework of activities that the Group and its related companies preform, many opportunities have been revealed for significant investments in research and development of new products and technologies.

Expected development of the Group in the future

In 2016, there have been investments in keeping the Remisens Premium Metropol hotel's categorization and the beginning of Remisens Premium Casa Bel Moretto Depadanse hotel's renovation.

At the beginning of April 2017, renovated hotel Remisens Epidaurus (a part of Hotel Cavtat d.d.) will be in operation, while renovated hotel Remisens Premium Casa Bel Moretto Depadansa (a part of Hotel Metropol d.o.o. Portorož) will be opened for the season 2017.

The future development of the Group is based on the development of the hotel companies and their planned investments.

If investment studies that the Group and its companies are currently analysing, show an acceptable return and investment risk ration, the Group will continue with the intensive investment cycle in the future, according to the business plan until the year 2020.
Thus, an investment in reconstruction of hotel Remisens Albatros, in the amount of about HRK 40 million, is being analysed within Hotel Cavtat d.d. for the year 2018.
Besides that, an investment for the period until 2018, in the amount of EUR 8.8 million, is being analysed within Hotel Metropol d.o.o.

The aim of all future investments is to increase the quality and consequently, to strengthen the market position and recognisability, as well as to continue positive trends of financial results.

Financial instruments

The Group's Financial Instruments policy defines the underlying principles that ensure short-term and long-term liquidity, as well as investment security, with achieving maximum possible income with minimum risk.

The companies' financial assets within the Group consist of cash funds in receivables for short-term borrowings, receivables from customers and other receivables. Of the total financial assets, most of it relates to cash, thus ensuring both short-term and long-term liquidity at the entire Group level.

Financial liabilities are long-term loans, as well as liabilities to suppliers and other liabilities that are settled within the Group within maturities.
The Group's risk management policy and methods of hedging these risks have been determined by the financial instrument management policy.

Management Report to the shareholders of FTB TURIZAM Group for the year 2016 (continued)

Group risk exposure

The Group is exposed to financial risks through the operations of its members, particularly market risk (including currency risk, interest rate cash flow and fair value risk and price risk), credit risk and liquidity risk.

Exchange rate risk

The Group is exposed to foreign exchange risk since credit liabilities, trade payables and trade receivables from the companies in the Group are shown in EUR.

Interest rate risk

The Group is exposed to interest rate risk because debts and deposits are contracted at variable rates.

Credit risk

There are mutually agreed short-term loans to Group members so the Group is not significantly exposed to this risk.

Liquidity risk

At the Group level, liquidity risk is managed by maintaining adequate reserves, bank assets and provisions of borrowed funds, continuous monitoring of forecasted and actual cash flows, and comparing the maturity of financial assets and liabilities.

Management Report to the shareholders of FTB TURIZAM d.d. for the year 2016

Annual Report of the Management board is composed on the basis of Article 250a of the Companies Act and Article 21 of the Accounting Act.

The report refers to the company FTB TURIZAM d.d. Zagreb, Miramarska 24, established as a holding joint stock company exclusively engaged in the ownership and management (as a shareholder) of other tourist companies operating in the market, with the aim of presenting the most important business achievements in 2016 and reviewing future expectations.

FTB TURIZAM d.d., as a holding company, is the dominant (parent) company of the FTB Group, consisted of its hotel subsidiaries - Hotel Cavtat d.d. Cavtat, Hotel Metropol d.o.o. Portorož and Remisens Hotel Group d.o.o. Zagreb.

Review of operations in 2016 with a focus on the most important financial indicators of business operations

Operating results of FTB TURIZAM d.d. for the year 2016 show that the company achieved primary goals.

In 2016 FTB TURIZAM d.d. achieved a profit before tax in the amount of HRK 24 thousand, which is HRK 25 thousand less than in the previous year's profit, in the amount of HRK 49 thousand. In 2016, the income tax amounted to HRK 5 thousand.

EBITDA, calculated as pre-tax profit increased for depreciation and interest expense, was in the amount of HRK 24 thousand, while last year's EBITDA was HRK 49 thousand.

In the audited financial statements for 2015, the profit was reported in the amount of HRK 50 thousand. The difference between the stated profit and the aforementioned profit is in the rounding of data to thousands.

In 2016, the Company acquired the remaining minority share of Hotel Cavtat d.d., thus gaining 100% of the shares of the same company.

Indicators of liquidity and solvency and the ratio of debt to equity and cash flows are of good quality.

Significant events which have occurred after the business year

The Company did not have any significant events, which would affect the previous business year, that have occurred after the reporting date.

Management Report to the shareholders of FTB TURIZAM d.d. for the year 2016 (continued)

Research and development activities

The Company's activity do not reveal any opportunities for significant investment in research and development of new products or technologies.

Expected development of the company in the future

The Company is analysing a number of investment studies within the existing portfolio of Hotel Cavtat d.d. and Hotel Metropol d.d. and hoping to make decisions about them in the future.

Information on the purchase of own shares

The Company does not have its own shares.

Financial instruments

The Company's Financial Instruments policy defines the underlying principles that ensure short-term and long-term liquidity, as well as investment security, with achieving maximum possible income with minimum risk.

The Company’s financial assets consist of cash funds in receivables for short-term borrowings, receivables from customers and other receivables. Of the total financial assets, most of it relates to short term borrowings to the related companies, thus ensuring both short-term and long-term liquidity at the entire Group level.

The Company only has liabilities to suppliers and the state and those are settled in maturity terms.

The Group's risk management policy and methods of hedging these risks have been determined by the financial instrument management policy.

The Company’s risk exposure

The Company may be exposed to financial risks, in particular market risk (including currency risk, interest rate cash flow and fair value risk and price risk), credit risk and liquidity risk.

Exchange rate risk

The Company is not significantly exposed to the exchange rate risk as there is no credit liabilities, thus no liabilities expressed in EUR or any other foreign currency.

Interest rate risk

The Company is not exposed to interest rate risk because it does not have any credit debts.

Credit risk

The Company has short-term loans to Group companies and is not significantly exposed to this risk.

Management Report to the shareholders of FTB TURIZAM d.d. for the year 2016 (continued)

Liquidity risk

The Company manages the liquidity risk by maintaining adequate reserves, bank assets and provisions of borrowed funds, continuous monitoring of forecasted and actual cash flows, and comparing the maturity of 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 **FTB TURIZAM d.d. Zagreb**, Miramarska 24 ("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 shareholder. 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 operation 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. 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 largest shareholders as at 31 December 2016

Nr.	Shareholder	Number of share	Share in the ownership %
1.	SNH GAMA d.d.	187,189	61.8518
2.	SN PECTINATUS d.d.	75,660	24.9999
3.	CERP	11,289	3.7302
4.	HPB d.d.- custodial account	1,659	0.5482
5.	ABANKA d.d.- custodial account	1,003	0.3314
6.	ADDIKO BANK d.d.- custodial account	1,000	0.3304
7.	SOCIETE GENERALE-SPLITSKA BANKA d.d.- custodial account	776	0.2564
8.	CROATIA BANKA d.d.- custodial account	702	0.232
9.	SOCIETE GENERALE-SPLITSKA BANKA d.d– custodial account	587	0.194
10.	RAIFFEISENBANK AUSTRIA d.d.- custodial account	530	0.1751

Statement of implementation of the Corporate Governance Code

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 one member of the Management Board of the Company:

- dr.sc. Igor Šehanović, 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:

- Tin Dolički, president
- Darko Ostoja, vice president
- Joško Marić, 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 20 March 2017 for submission to the Supervisory Board and was signed below by:

Dr.sc. Igor Šehanović

Member of the Management Board

FTB TURIZAM d.d.
Zagreb 1

Independent Auditor's Report to the Shareholders of FTB TURIZAM d.d., Zagreb

Opinion

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

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

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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment and useful lives of tourism properties	
The carrying amount of *property, plant and equipment* of the Group as at 31 December 2016 was HRK 362,060 thousand. Refer to Note 2.4 of *Accounting policies*, Note 4(a) of *Critical accounting estimates*, and Note 12 on *Property, plant and equipment* of the financial statements.	
Key audit matter	**Our response**
As at 31 December 2016, the carrying amount of *property, plant and equipment* represented approximately 86% of the total assets of the Group. These assets, measured 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. In the process, the Group first identifies its tourism properties where there is an indication of impairment.	Our audit procedures included, among others: • evaluating the appropriateness of allocation of assets to cash generating units (CGUs), based on our understanding of the Company's operations and business units; • evaluating the appropriateness of the Group's judgments regarding identification of tourist properties or related CGUs which may require further impairment testing. This included, but was not limited to comparing of actual asset (or CGU) performance to previous forecasts;

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Independent Auditor's Report to the Shareholders of FTB TURIZAM d.d., Zagreb (continued)

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 the 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 exceeds the recoverable amount. The Group's assessment relies on significant judgments and assumptions about tourism cash inflows in 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 Group 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 Group's technical experts as well as the analysis provided by an independent valuer engaged by the Group. Due to the above, accounting for impairment and useful lives of tourism properties were determined 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 Group's technical experts and its finance team members, and also by reference to our understanding of the future utilisation of assets by the Group 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 test's results, in particular in respect of the assumptions with the greatest potential effect on the test results.

Other Matter

The financial statements of the Group and the Company as at and for the year ended 31 December 2015 were audited by another auditor who expressed a unmodified opinion on those statements on 6 June 2016.

Independent Auditor's Report to the Shareholders of FTB TURIZAM d.d., Zagreb (continued)

Other Information

Management is responsible for the other information. The other information comprises the Management Report, 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 except as explicitly stated in this report.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated 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 regard.

With respect to the Management Board report for the Company and Management Board report for the Group ("Management reports") and the Statement of implementation of corporate governance code, we have also performed the procedures required by Article 20 of the Croatian Accounting Act. These procedures include considering whether the Management Reports and the Statement of implementation of corporate governance code include the disclosures required by Articles 21, 22 and 24 of the Croatian Accounting Act and obtaining evidence regarding specified information provided in the Management Reports and the Statement of implementation of corporate governance.

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

- The information given in the Management Reports and the relevant sections of the Statement of implementation of corporate governance code which contain the information referred to in Article 22, paragraph 1, items 3 and 4, and Article 24, paragraph 2 of the Croatian Accounting Act (furthermore, "extracts of the Statement of implementation of corporate governance code") for the financial year for which the separate and consolidated financial statements are prepared, is consistent, in all material respect, with the separate and consolidated financial statements.

- The Management Reports and the extracts of the Statement of implementation of corporate governance have been prepared in all material respect in accordance with the applicable legal requirements of the Croatian Accounting Act.

- The Statement on implementation of corporate governance code includes the information required by Article 22 paragraph 1, items 2, 5, 6 and 7 of the Croatian Accounting Act.

Independent Auditor's Report to the Shareholders of FTB TURIZAM d.d., Zagreb (continued)

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

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

In preparing the separate and consolidated financial statements, management is responsible for assessing the Group's and 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 Group or the Company, cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated 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 Group's and the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report to the Shareholders of FTB TURIZAM d.d., Zagreb (continued)

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

- 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 Group's and 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 separate and consolidated 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 Group and the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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

20 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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CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of HRK)	Note	**2016** **Group**	2 October - 31 December 2015 Group**	**2016** **Company**	2 October - 31 December 2015 Company
Revenue	5	146,521	12,988	-	-
Other income		1,536	98	24	-
		148,057	13,086	**24**	-
Cost of materials and services	6	(36,947)	(6,477)	(335)	(72)
Staff costs	7	(30,599)	(7,411)	-	-
Depreciation and amortisation		(41,271)	(10,552)	-	-
Other operating expenses	8	(21,571)	(8,534)	(345)	-
		(130,388)	(32,974)	**(680)**	(72)
Finance income		1,984	4,999	680	122
Finance costs		(6,637)	(4,761)	-	-
Finance income / (costs) - net	9	**(4,653)**	238	**680**	122
Profit/(loss) before tax		**13,016**	(19,650)	**24**	50
Income tax expense	10	(759)	2,274	(5)	(10)
		-	-	-	-
Profit/(loss) for the year		**12,257**	(17,376)	**19**	40
Attributable to:					
Owners of the parent		12,184	(16,987)	-	-
Non-controlling interests		73	(389)	-	-
Profit/(loss) for the year:		12,257	(17,376)	-	-
Earnings/(loss) per share (in HRK)		40.26	(56.13)		

***After reclassifications presented in note 25.*

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of HRK)	Note	31 December 2016 Group	31 December 2015 Group**	31 December 2016 Company	31 December 2015 Company
ASSETS					
Non-current assets					
Intangible assets	13	6,727	6,428	-	-
Property, plant and equipment and investment property	12	362,060	369,176	-	-
Investments in subsidiary	14	-	-	188,962	180,743
Deferred tax assets	10	789	810	-	-
Other assets		144	271	-	-
		369,720	376,685	**188,962**	180,743
Current assets					
Loans given to related parties		-	-	12,070	-
Inventories		1,655	1,755	-	-
Income tax receivable		21	-	21	-
Trade and other receivables	15	7,467	5,121	156	-
Cash and cash equivalents	16	42,370	42,060	1,653	22,133
		51,513	48,936	**13,900**	22,133
Total assets		**421,233**	425,621	**202,862**	202,876
EQUITY					
Share capital	17	202,769	202,769	202,769	202,769
Legal reserves		2	-	2	-
Other reserves	17	37,541	37,480	-	-
Retained earnings/(accumulated loss)		(2,920)	(16,987)	57	40
Non-controlling interests	17	573	10,604	-	-
		237,965	233,866	**202,828**	202,809
Non-current liabilities					
Borrowings	18	119,035	136,285	-	-
Deferred tax liabilities	10	13,082	15,852	-	-
Government grants	21	13,083	13,942	-	-
Provisions	19	2,061	2,556	-	-
		147,261	168,635	-	-
Current liabilities					
Borrowings	18	21,895	16,034	-	-
Income tax liabilities		825	154	-	-
Trade and other payables	20	13,287	6,932	34	67
		36,007	23,120	**34**	67
Total liabilities and equity		**421,233**	425,621	**202,862**	202,876

***After reclassifications presented in note 25.*

Accompanying notes form an integral part of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

GROUP

(in thousands of HRK)	Note	Share capital	Other reserves	Accumulated loss	Non-controlling interest	Total equity
Balance at 2 October 2015	17	202,769	37,360	-	10,993	251,122
Foreign exchange differences		-	120	-	-	120
Loss for the year		-	-	(16,987)	(389)	(17,376)
Balance at 31 December 2015		**202,769**	**37,480**	**(16,987)**	**10,604**	**233,866**
Balance at 1 January 2016	17	202,769	37,480	(16,987)	10,604	233,866
Foreign exchange differences		-	61	-	-	61
Transfer to reserves		-	2	(2)	-	-
Effect of aquisition of non-controlling interests		-	-	1,885	(10,104)	(8,219)
Profit/(loss) for the year		-	-	12,184	73	12,257
Balance at 31 December 2016		**202,769**	**37,543**	**(2,920)**	**573**	**237,965**

COMPANY

(in thousands of HRK)	Note	Share capital	Other reserves	Retained earnings	Total equity
Balance at 2 October 2015	17	202,769	-	-	202,769
Profit for the year		-	-	40	40
Balance at 31 December 2015		**202,769**	**-**	**40**	**202,809**
Balance at 1 January 2016	17	202,769	-	40	202,809
Transfer from retained earnings		-	2	(2)	-
Profit for the year		-	-	19	19
Balance at 31 December 2016		**202,769**	**2**	**57**	**202,828**

FTB TURIZAM d.d.

CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of HRK)		**2016 Grupa**	2015 Grupa	**2016 Društvo**	2015 Društvo
Cash flow from operating activities					
Cash generated from operations	22	66.640	3.269	(155)	106
Income tax paid	10	(2.858)	-	(36)	-
Interest paid		(6.453)	-	-	-
		-	-	-	-
Net cash flow from operating activities		**57.329**	3.269	**(191)**	106
		-	-	-	-
Cash flow from investing activities		-	-	-	-
Purchase of property, plant and equipment		(36.018)	(2.557)	-	-
Purchase of intangible assets		(487)	-	-	-
Proceeds from disposal of property, plant and equipment		224	-	-	-
Purchase of share in Hoteli Cavtat		(8.219)	(271)	(8.219)	-
Loans granted		-	-	(12.070)	-
Net cash used in investing activities		**(44.500)**	(2.828)	**(20.289)**	-
Cash flow from financing activities					
Proceeds from borrowings		6.273	-	-	-
Repayments of borrowings		(18.792)	-	-	-
Net cash used in financing activities		**(12.519)**	-	-	-
Net (decrease)/increase in cash and cash equivalents		**310**	441	**(20.480)**	106
Cash and cash equivalents at beginning of year		42.060	41.619	22.133	22.027
Cash and cash equivalents at end of year	16	**42.370**	42.060	**1.653**	22.133

NOTE 1 – GENERAL INFORMATION

Based on the decision of the Company's General Assembly of 27 August 2015 and with the approval of the Plan of division of Liburnia Riviera Hoteli d.d. from 9 July 2015, the procedure for separating Liburnia Riviera Hotels d.d was determined with the establishment of a new company LRH Hoteli Cavtat d.d. simultaneously transferring part of the property to a newly formed company. Separation of the Company was completed on 2 October 2015 when the new company LRH Hoteli Cavtat d.d. are registered (later renamed FTB TURIZAM d.d.). Based on the division, the newly founded company has gained shares in Hoteli Cavtat d.d. and thus became the parent company of the Group comprised of Hoteli Cavtat d.d., Hoteli Metropol d.o.o. and Remisens Hotel Group d.o.o.

Following the above, comparative figures in the financial report for the FTB Turizam d.d. for 2015. refer to the period from the establishment of the company on 2 October 2015 until 31 December 2015.

FTB Turizam Group consists of FTB Tourism d.d. (parent company) and subsidiaries. The headquarters of subsidiaries, the shares of the parent company in ownership and businesses are as follows:

Name	Share	Headquarters	Business
Hoteli Cavtat d.d.	100%	Cavtat, Croatia	hotels and hospitality
Hoteli Metropol d.o.o.	100%	Portorož, Slovenia	hotels and hospitality
Remisens d.o.o.	67%	Opatija, Croatia	business consulting and management

Management Board and Supervisory Board

Management Board

Dr.sc. Igor Šehanović President (since 22 September 2015)

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

Supervisory Board
Tin Dolički, President of the Supervisory Board
Joško Marić, Member
Darko Ostoja, Member

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These are the first financial statements prepared by the Company in accordance with IFRS adopted by the EU as the Company is listed on the Zagreb Stock Exchange. The effects of the first application of IFRS adopted by the EU on the opening balances are described in more detail in Note 25. The previous financial statements are presented in accordance with Croatian Financial Reporting Standards ("CFRS"). The accounting policies applied by the Company in previous periods do not significantly deviate from IFRSs adopted 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 adopted by the EU requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

These financial statements represent the unconsolidated and consolidated financial position and results of the Company or the Group.

2.1.1 Changes in accounting policies and disclosures

A number of new standards, amendments to standards and interpretations are effective for the Group and the Company, 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 Group and the Company and their early adoption is not planned.

2.2 Consolidation

(a) Subsidiaries

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

The purchase method is used to report the acquisition of subsidiaries. Acquired recognizable assets, liabilities and contingent liabilities in the business combination are initially measured at fair value at the date of acquisition, irrespective of the non-controlling interest. The Group recognizes non-controling interest in the acquired company by proportional share of the non-controlling interest in the net assets of the acquired company.

The transferred benefit for the acquired company is measured at the fair value of the transferred assets, issued equity instruments and liabilities incurred or assumed, including the fair value of the assets or liabilities from potential benefits, but excludes acquisition costs such as advisory, legal services, valuation and similar professional services . Transaction costs related to the acquisition and incurred for issuance of equity securities are deducted from equity; transaction costs incurred for the issue of debt as part of a business combination are deducted from the carrying amount of the debt and all other transaction costs related to the acquisition are recognized as an expense.

b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currencies

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

(b) Transactions and balances
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 'Net finance costs'. All other foreign exchange losses and gains are recorded in the statement of comprehensive income within 'Other gains/ (losses) – net'.

(c) Member of the Group
The business results and the financial postion of all the members of the Group whose functional currency differs from the reporting currency are translated into the reporting currency as follows:
(i) assets and liabilities for each balance sheet are translated at the closing exchange rate at the balance sheet date;
(ii) the income and expenses for each profit and loss account are translated at annual average rates; and
(iii) all foreign exchange gains arising are recognized at a separate position within the equity.

2.4 Property, plant and equipment and investment property

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.

Investment property include property that is held for long-term rental yields or appreciation or for both purposes. Built-in equipment is considered an integral part of investment property. The cost of the purchase includes all costs directly attributable to the acquisition of that property.

Buildings that are an integral part of investment property are valued at cost less accumulated depreciation and impairment. Land that form an integral part of the investment property is valued at cost less impairment losses.

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)

2.4 Property, plant and equipment and investment property (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:

	2016	2015
Buildings (hotels)*	12 years	13 years
Buildings (hotels)	16-77 years	16-77 years
Plant and equipment	4 years	4 years
Hotel and office furniture	4-5 years	4-5 years

* Average estimated useful lives is determined on the basis of the estimated useful lives of individual building components for Hoteli Cavtat d.d .

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'.

2.4.1. Investment property

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

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

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Intangible assets

(a) Goodwill

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

(b) Other 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.

2.6 Investments in subsidiaries and associates

Impairment of investments in subsidiaries and associates

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

2.7 Financial assets

2.7.1 Classification

The Group and the Company classifies its financial assets in the following categories: loans and receivable. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

2.7.2 Measurement and recognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are recognised initially at fair value, plus transaction costs incurred. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred all substantial risks and rewards of ownership. Available-for-sale financial assets are subsequently measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

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

2.7.3 Impairment of financial assets

Assets carried at amortised cost

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

2.8 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 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.

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

2.10 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.

2.11 Leases

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

2.12 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.

2.13 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Borrowings

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

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

2.15 Current and deferred income tax

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

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 or loss.

Deferred tax assets and liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.16 Employee benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

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

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

(d) Long-term employee benefits
The Group recognises a provision for jubilee awards and termination benefits where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Provisions

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

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

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

2.18 Government grants

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received. Consequently, the Group does not recognise government grants until there is reasonable assurance that the Group will comply either the conditions attaching to them, and the grants will be received..

Government grants are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable. Grants related to tangible assets are recognised in profit or loss over the periods and in the proportions in which depreciation on those assets is recognised. In the statement of financial position, government grant is recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asses.

2.19 Revenue recognition

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

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

(a) Sales of services
The Group sells hotel and tourism services. These services are provided based on fixed-price contracts. Revenues from hotel and tourism services are recognised when the services are provided.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition (continued)

(b) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group and 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 Group is refurbishing parts of its hotels. Construction contracts concluded with the contractors include clauses on penalties paid to the Group for delays in performing the works. In respect of any delays, the Group has agreed penalties with the contractors of 0.5% of the contracted investments for each day of the delay. The Group recognises income from penalties related to construction when the rights from the agreements are established.

2.20 Earnings per share

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

2.21 Value added tax

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

2.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-maker is the Group'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 Group's and 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 Group and Company does not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Group's and Company's Management Board.

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

(in thousands of HRK)	**31 December 2016 Group**	31 December 2015 Group	**31 December 2016 Company**	31 December 2015 Company
Loans given and trade receivables				
Trade and other receivables	7,467	5,121	156	-
Loans given to related parties	-	-	12,070	-
Cash and cash equivalents	42,370	42,060	1,653	22,133
Total	**49,837**	**47,181**	**13,879**	**22,133**
Borrowings and other payables				
Trade payables	13,287	6,932	34	67
Borrowings	140,930	152,319	-	-
Total	**154,217**	**159,251**	**34**	**67**

(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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

Group	31 December 2016			31 December 2015		
(in thousands of HRK)	**EUR**	**HRK**	**Total**	**EUR**	**HRK**	**Total**
Financial assets						
Trade and other receivables	5,448	2,019	7,467	2,873	2,248	5,121
Cash and cash equivalents	38,334	4,036	42,370	19,361	22,699	42,060
Other assets	-	144	144	-	271	271
Financial liabilities						
Trade and other payables	5,828	7,459	13,287	3,533	3,399	6,932
Borrowings	140,930	-	140,930	152,319	-	152,319
Net exposure	**(102,976)**	**(1,260)**	**(104,236)**	**(133,618)**	**21,819**	**(111,799)**

Company	31 December 2016			31 December 2015		
(in thousands of HRK)	**EUR**	**HRK**	**Total**	**EUR**	**HRK**	**Total**
Financial assets						
Trade and other receivables	-	156	156	-	-	-
Loans given to related parties	-	12,070	12,070	-	-	-
Cash and cash equivalents	350	1,303	1,653	-	22,133	22,133
Financial liabilities						
Trade and other payables	-	34	34	-	67	67
Net exposure	**350**	**13,495**	**13,845**	**-**	**22,066**	**22,066**

As at 31 December 2016, if the euro had weakened/strengthened by 1% (2015: 1%), with all other variables held constant, the Group's net profit for the year would have been HRK 1,030 thousand higher/lower (2015: HRK 1,336 thousand higher/lower), mainly as a result of foreign exchange gains /losses on translation of EURO-denominated borrowings and foreign cash funds.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(ii) Cash flow and fair value interest rate risk

The Group has interest-bearing short-term cash deposits which are contracted at variable rates and expose the Group to risk of changes in interest rates. This risk is not material given the low interest rates. The interest rate for time deposits for the Group was set at 0.2%-2.6% (2015: 0.4%-2.6%). The interest rate for time deposits for the Company was set at 2.5%-2.6% (2015: 1.5%-2.5%).

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. As at 31 December 2016, the borrowings contracted at variable interest rates amount to HRK 140,930 thousand (2015: HRK 152,319 thousand). The remaining borrowings were contracted at fixed interest rates and expose the Group to fair value interest rate risk. The Group has no objectives or policies with respect to interest rate risk management. The interest rates on borrowings from the banks are 3M EURIBOR plus 4.7% and on the borrowings from the related parties are 5.14%.

As at 31 December 2016, if interest rates on borrowings with variable interest rates had been 0.5 % lower/higher (2015: 0.35% lower/higher), with all other variables held constant, the Group’s net profit for the year would have been HRK 762 thousand higher/lower (2015: HRK 705 thousand).

(iii) Price risk

As at 31 December 2016, the Group did not had investment in equity securities and was not exposed to price risk. The Group is not exposed to commodity price risk.

(b) Credit risk

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

(in thousands of HRK)	**31 December 2016 Group**	31 December 2015 Group	**31 December 2016 Company**	31 December 2015 Company
Loans given and trade receivables				
Trade and other receivables	7,467	5,121	156	-
Loans given to related parties	-	-	12,070	-
Cash and cash equivalents	42,370	42,060	1,653	22,133
Total	**49,837**	**47,181**	**13,879**	**22,133**
Borrowings and other payables				
Trade payables	13,287	6,932	34	67
Borrowings	140,930	152,319	-	-
Total	**154,217**	**159,251**	**34**	**67**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

	Group			Company		
(in thousands of HRK)	**Trade receivables**	**Cash and cash equivalents**	**Total**	**Trade receivables**	**Cash and cash equivalents**	**Total**
2016						
Neither past due nor impaired	1,789	42,370	**44,159**	156	1,653	**1,809**
Past due but not impaired	3,238	-	**3,238**	-	-	-
Past due and impaired	542	-	**542**	-	-	-
Impairment	(542)	-	**(542)**	-	-	-
	5,027	42,370	**47,397**	156	1,653	**1,809**
2015						
Neither past due nor impaired	2,262	42,060	**44,322**	-	22,133	**22,133**
Past due but not impaired	1,331	-	**1,331**	-	-	-
Past due and impaired	462	-	**462**	-	-	-
Impairment	(462)	-	**(462)**	-	-	-
	3,593	42,060	**45,653**	-	22,133	**22,133**

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

(in thousands of HRK)	**31 December 2016 Group**	31 December 2015 Group	**31 December 2016 Company**	31 December 2015 Company
Cash at bank				
BBB+	41,279	40,733	1,302	22,085
BBB-	174	68	-	-
Other or without rating	917	1,259	351	48
	42,370	42,060	1,653	22,133

The Group 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)

(b) Credit risk (continued)

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Group's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers, i.e. natural persons).
The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. Trade receivables are impaired when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been impaired to their recoverable amount.
The Group's trade and other receivables are mainly secured by collaterals. The majority of impaired trade receivables is subject to legal proceedings. Both the outcome of the proceedings related to disputed receivables or the extent to which they will be collected cannot be anticipated with certainty.

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

(in thousands of HRK)	**31 December 2016 Group**	31 December 2015 Group	**31 December 2016 Company**	31 December 2015 Company
Up to one month	218	154	-	-
One to two months	336	123	-	-
Two to three months	833	667	-	-
Over three months	1,851	387	-	-
	3,238	1,331	**-**	**-**

(c) Liquidity risk

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

The table below analyses the Group's financial liabilities and assets 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 HRK)	**Net carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Assets non-interest bearing						
Other receivables	2,440	2,440	2,440	-	-	-
Trade receivables	5,027	5,027	5,027	-	-	-
	7,467	7,467	7,467	-	-	-
Assets bearing interest						
Cash and cash equivalents	42,370	42,370	42,370	-	-	-
	42,370	42,370	42,370	-	-	-
	49,837	**49,837**	**49,837**	**-**	**-**	**-**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

As at 31 December 2015 (in thousands HRK)	**Net carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Assets non-interest bearing						
Other receivables	1,528	1,528	1,528	-	-	-
Trade receivables	3,593	3,593	3,593	-	-	-
	5,121	5,121	5,121	-	-	-
Assets bearing interest						
Cash and cash equivalents	42,060	42,060	42,060	-	-	-
	42,060	42,060	42,060	-	-	-
	47,181	**47,181**	**47,181**	**-**	**-**	**-**

As at 31 December 2016 (in thousands HRK)	**Net carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Liabilities non-interest bearing						
Other liabilities	5,890	5,890	5,890	-	-	-
Trade payables	7,397	7,397	7,397	-	-	-
	13,287	13,287	13,287	-	-	-
Liabilities bearing interest						
Borrowings	140,930	170,038	28,147	21,228	59,398	61,265
	140,930	170,038	28,147	21,228	59,398	61,265
	154,217	**183,325**	**41,434**	**21,228**	**59,398**	**61,265**

As at 31 December 2016 (in thousands HRK)	**Net carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Liabilities non-interest bearing						
Other liabilities	4,760	4,760	4,760	-	-	-
Trade payables	2,172	2,172	2,172	-	-	-
	6,932	6,932	6,932	-	-	-
Liabilities bearing interest						
Borrowings	152,319	188,393	22,888	22,167	62,171	81,167
	152,319	188,393	22,888	22,167	62,171	81,167
	159,251	**195,325**	**29,820**	**22,167**	**62,171**	**81,167**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Group's and Company's objectives when managing capital are to safeguard the Group's and 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 Group and 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 Group and 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 1 October 2015 for Hoteli Cavtat d.d. determined that the existing depreciation rates do not reflect estimated useful life of these assets in the accounting records. Taking into account the current capacity utilisation and the assessment of assets used in future periods, and based on the experience with similar hotels and market practice, the useful life of the property was reduced to weighted average of 13 years.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(b) Land ownership

Problems with respect to land ownership disputes are common for tourism entities in the Republic of Croatia. Their resolution is expected in accordance with and pursuant to the provisions of the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process, which entered into force on 1 August 2010 and which mandated companies to submit the relevant requirements under this Act within six months from the date of its entry into force (up to 1 February 2011). On 28 January 2011, regulations were issued elaborating in more detail the manner of complying with the above Act. On 31 January 2011, the Company submitted the relevant requirements to the relevant authorities in respect of the property on which the above-mentioned law can be applied. Until the date of this financial statements, eight disputes have been finalised, of which seven are legally binding in favour of the Group.

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

(c) Recognition of deferred tax assets

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference and grants can be utilised.

Deferred tax is recognised on temporary differences that arose on investments in subsidiaries and associates, except where the timing of the reversal of temporary difference is controlled by the Group, and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis.

NOTE 5 – SEGMENT INFORMATION

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

The Group records its operating revenue and costs by the type of services rendered in 2 basic segments: domestic and foreign market (Slovenia).

The segment information provided to the Group's Management for the year ended 31 December 2016 is as follows:

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

(in thousands of HRK)	**Croatia**	**Foreign market**	**Total**
Total sales	85,020	61,501	146,521
Inter-segment revenue	(436)	-	(436)
Revenue from external customers	84,584	61,501	146,085
GOP			63,027
Depreciation and amortisation			41,271
Income tax			(759)
Total assets	184,264	193,789	378,053
Total liabilities	156,501	10,799	167,300

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

(in thousands of HRK)	**Croatia**	**Foreign market**	**Total**
Total sales	6,162	6,826	12,988
Inter-segment revenue	(42)	-	(42)
Revenue from external customers	6,120	6,826	12,946
GOP			4,063
Depreciation and amortisation			10,552
Income tax			2,274
Total assets	221,448	161,303	382,751
Total liabilities	171,934	3,169	175,103

NOTE 5 – SEGMENT INFORMATION (continued)

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

	31 December 2016		31 December 2015	
(in thousands of HRK)	**Assets**	**Liabilities**	Assets	Liabilities
Segment assets/liabilities	378,053	167,300	382,751	175,103
	-	-	-	0
Unallocated:	43,180	15,968	42,870	16,652
- cash and cash equivalents	42,370	-	42,060	-
- income tax receivable	21	-	-	-
- deferred tax assets	789	-	810	-
- income tax liabilities	-	825	-	154
- deferred tax liabilities	-	13,082	-	13,942
- provisions	-	2,061	-	2,556
Total	**421,233**	**183,268**	425,621	191,755

All the Group's services relate to hospitality.
The Group's sales revenues can be classified according to the customers' origin.

(in thousands of HRK)	**2016** **Group**	2 October - 31 December 2015 Group
Domestic sales	21.961	3.514
Foreign sales	124.560	9.474
	146.521	12.988

Foreign sales	**2016**	**%**	2 October - 31 December 2015	**%**
Germany	9,681	8	1,421	15
Austria	10,891	9	474	5
Italy	14,749	12	1,989	21
United Kingdom	21,843	18	2,179	23
Russia	2,692	2	95	1
France	22,607	18	758	8
Other EU members*	26,874	22	758	8
Other*	15,223	11	1,800	19
	124,560	**100**	**9,474**	**100**

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

NOTE 6 – COST OF MATERIALS AND SERVICES

	2016	2 October - 31 December 2015	**2016**	2 October - 31 December 2015
(in thousands of HRK)	**Group**	Group	**Company**	Company
Food, beverages and other supplies	17.352	2.099	-	-
Energy and water used	8.586	1.940	-	-
	25.938	4.039	**-**	-
Maintenance costs	1.138	323	-	1
Advertising and promotion	1.357	587	-	-
Laundry services	3.240	432	-	-
Utility services	1.993	198	-	-
Rental expenses	167	23	3	1
Other expenses	3.114	875	332	70
	11.009	2.438	**335**	72
	36.947	6.477	**335**	72

NOTE 7 – STAFF COSTS

(in thousands of HRK)	**2016**	2 October - 31 December 2015	**2016**	2 October - 31 December 2015
	Group	Group	**Company**	Company
Net salaries and wages	19,619	4,699	-	-
Tax expense and contributions from salaries	6,729	1,651	-	-
Contributions on salaries	4,251	1,061	-	-
	30,599	7,411	**-**	-
Number of employees	274	116	-	-

NOTE 8 – OTHER OPERATING EXPENSES

(in thousands of HRK)	**2016**	2 October - 31 December 2015	**2016**	2 October - 31 December 2015
	Group	Group	**Company**	Company
Bank charges and membership fees	504	99	27	-
Utility and similar fees	2,604	518	2	-
Other staff costs /i/	4,408	1,405	-	-
Insurance premiums	837	112	-	-
Professional services	2,497	580	316	-
Write-off of property, plant and equipment and intangible assets	634	3,572	-	-
Agency provision	4,695	362	-	-
Provisions	-	1,267	-	-
Other expenses	4,527	391	-	-
Other external services	865	228	-	-
	0	0	-	-
	21,571	8,534	**345**	-

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

Other operating expenses mainly comprise of student costs, recharged costs, representation, etc.

NOTE 9 – FINANCE INCOME / (COSTS) - NET

(in thousands of HRK)	**2016**	2 October - 31 December 2015	**2016**	2 October - 31 December 2015
	Group	Group	**Company**	Company
Finance income				
Interest income	249	127	678	122
Net foreign exchange gains	1,735	4,872	2	-
	-	-	-	-
	1,984	4,999	**680**	122
Finance costs				
Interest expense	6,637	1,814	-	-
Net foreign exchange losses	-	2,947	-	-
	-	-	-	-
	6,637	4,761	**-**	-
Finance income / (costs) - net	**(4,653)**	238	**680**	122

NOTE 10 – INCOME TAX

	2016	2 October - 31 December 2015	2016	2 October - 31 December 2015
	Group	Group	**Company**	Company
(in thousands of HRK)				
Current tax income/(expense)	(3,508)	1,993	(5)	(10)
Deferred tax	2,749	281	-	-
Tax benefit/(expense)	**(759)**	**2,274**	**(5)**	**(10)**

Deferred tax assets and liability is shown below:

	Assets		Liabilities		Net	
(in thousands of HRK)	**31 December 2016**	31 December 2015	**31 December 2016**	31 December 2015	**31 December 2016**	31 December 2015
Impairment of property, plant and equipment	-	-	**(13,082)**	(15,852)	**(13,082)**	(15,852)
Other	**789**	810	-	-	**789**	810
	789	810	**(13,082)**	(15,852)	**(12,293)**	(15,042)

The rest relates to temporary differences arising from the impairment of inventories and other assets.

	31 December 2015	Recognized in profit or loss	**31 December 2016**
(in thousands of HRK)			
Impairment of property, plant and equipment	(15,852)	2,770	**(13,082)**
Other	810	(21)	**789**
Total	(15,042)	2,749	**(12,293)**

The tax on the Group's and 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:

	2016	2 October - 31 December 2015	2016	2 October - 31 December 2015
	Group	Group	**Company**	Company
(in thousands of HRK)				
Profit/(loss) before tax	13,016	(19,650)	24	50
Tax rate of 20%	2,603	(3,930)	5	10
Income tax at merger	-	3,098	-	-
Tax income after merger	-	(1,442)	-	-
Non-deductible expenses	47	-	-	-
Tax exempt income	(197)	-	-	-
Effect of tax rate change	(1,377)	-	-	-
Effect of previously unrecognised tax losses	(280)	-	-	-
Effect of different tax rates	(37)	-	-	-
Income tax	759	(2,274)	5	10
Effective tax rate	5.8%	11.6%	20.0%	20.0%

NOTE 10 – INCOME TAX (continued)

As of 31 December 2016, carry forward tax losses amounting to HRK 685 thousand (31 December 2015: HRK 964 thousand) have not been recognised as a deferred tax asset and their utilization has no time limitation.

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 11 – 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. Share capital of the Company as at 31 December 2016 comprises 302,641 ordinary shares *(31 December 2015: 302,641).*

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 12 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

(in thousands of HRK)	Land	Buildings	Equipment	Assets under construction	Investment property	Artwork	Total
As at 2 October 2015							
Cost	99,517	707,298	96,374	2,945	18,415	-	924,549
Accumulated depreciation and impairment	-	(451,534)	(82,953)	-	(12,335)	-	(546,822)
Net carrying amount	**99,517**	**255,764**	**13,421**	**2,945**	**6,080**	**-**	**377,727**
Year ended 31 December 2015							
Opening net carrying amount	99,517	255,764	13,421	2,945	6,080	-	377,727
Additions	-	565	-	861	-	-	1,426
Transfers from assets under construction	-	1,191	-	(1,191)	-	-	-
Foreign exchange differencies	45	-	-	-	2	-	47
Depreciation	-	(8,279)	(1,664)	-	(81)	-	(10,024)
Closing net carrying amount	**99,562**	**249,241**	**11,757**	**2,615**	**6,001**	**-**	**369,176**
As at 31 December 2015							
Cost	99,562	751,963	94,811	2,615	18,471	-	967,422
Accumulated depreciation and impairment	-	(502,722)	(83,054)	-	(12,470)	-	(598,246)
Net carrying amount	**99,562**	**249,241**	**11,757**	**2,615**	**6,001**	**-**	**369,176**
As at 1 January 2016							
Cost	99,562	751,963	94,811	2,615	18,471	-	967,422
Accumulated depreciation and impairment	-	(502,722)	(83,054)	-	(12,470)	-	(598,246)
Net carrying amount	**99,562**	**249,241**	**11,757**	**2,615**	**6,001**	**-**	**369,176**
For the year ended 31 December 2016							
Opening net carrying amount	99,562	249,241	11,757	2,615	6,001	-	369,176
Additions	-	422	10,595	23,585	-	83	34,685
Disposals and write offs	-	(4)	(733)	-	-	-	(737)
Depreciation	-	(33,898)	(6,844)	-	(322)	-	(41,064)
Closing net carrying amount	**99,562**	**215,761**	**14,775**	**26,200**	**5,679**	**83**	**362,060**
As at 31 December 2016							
Cost	99,562	752,381	104,673	26,200	18,471	83	1,001,370
Accumulated depreciation and impairment	-	(536,620)	(89,898)	-	(12,792)	-	(639,310)
Net carrying amount	**99,562**	**215,761**	**14,775**	**26,200**	**5,679**	**83**	**362,060**

As at 31 December 2016, land and buildings in the amount of HRK 95,811 thousand (2015: HRK 136,748 thousand) have been pledged as collateral for the repayment of borrowings (Note 18).

The land surface included in the Group's records as at 31 December 2016 comprised 188,837 m^2 (2015: 188,837 m^2) and together with the respective buildings has a net carrying value of HRK 315,323 thousand (2015: HRK 348,803 thousand).

Of the total land surface, a surface of 16,722 m^2 (2015: 17,114 m^2) are not legally owned by the Company (according to land registry data) (see Note 23), while 172,115 m^2 (2015: 171,723 m^2) is legally owned by the Company.

Asset under construction refers to investment in project documentation for Hotel Ruža, Barbara I Hotel Metropol, and project documentation and preparatory works for Hotel Epidaurus.

As at 31 December 2016, investment property is without pledge.
The Group has estimated the value of investment property and considers that the carrying amounts are equal to their fair value. Investment property refers to various premises, which are rented, such as a hair salon, a casino restaurant and a part of the beach.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (continued)

The operating lease relates to the lease of hospitality facilities and stores. During 2016, the Group realised rental income in the amount of HRK 1,264 thousand (2015: HRK 261 thousand).

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

(in thousands of HRK)	**31 December 2016**
Up to 1 year	1,335
Between 2 and 5 years	217
	1,552

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 13 – INTANGIBLE ASSETS

(in thousands of HRK)	**Goodwill**	**Other intangible assets**	**Total**
As at 2 October 2015			
Cost	5,136	1,297	6,433
Accumulated depreciation and impairment	-	(609)	(609)
Net carrying amount	**5,136**	**688**	**5,824**
Year ended 31 December 2015			
Opening net carrying amount	5,136	688	5,824
Additions	-	1,130	1,130
Foreign exchange differences	-	2	2
Depreciation	(428)	(100)	(528)
Closing net carrying amount	**4,708**	**1,720**	**6,428**
As at 31 December 2015			
Cost	5,136	2,429	7,565
Accumulated depreciation and impairment	(428)	(709)	(1,137)
Net carrying amount	**4,708**	**1,720**	**6,428**
As at 1 January 2016			
Cost	5,136	2,429	7,565
Accumulated depreciation and impairment	(428)	(709)	(1,137)
Net carrying amount	**4,708**	**1,720**	**6,428**
For the year ended 31 December 2016			
Opening net carrying amount	4,708	1,720	6,428
Additions	-	556	556
Disposals and write offs	-	(50)	(50)
Depreciation	-	(207)	(207)
Closing net carrying amount	**4,708**	**2,019**	**6,727**
As at 31 December 2016			
Cost	5,136	2,935	8,071
Accumulated depreciation and impairment	(428)	(916)	(1,344)
Net carrying amount	**4,708**	**2,019**	**6,727**

In 2016, the Group is required to prepare financial statements according to IFRS (International Financial Reporting Standards adopted by the EU). Until then, the reports were compiled according to CFRS (Croatian Financial Reporting Standards). Due to the difference between IFRS and CFRS Goodwill ceases to amortize in 2016. Goodwill refers to investment in Hoteli Metropol d.o.o. The Group annually tests the impaired goodwill using the discounted cash flow method of a related entity that generates cash flows.

NOTE 14 INVESTMENTS IN SUBSIDIARIES

(in thousands of HRK)	**31 December 2016 Company**	31 December 2015 Company
Investment in subsidiary Hoteli Cavtat d.d.	188,962	180,743
	188,962	180,743

Hoteli Cavtat has 100% ownership in Hoteli Metropol d.o.o. and 33% in Remisens d.o.o. Hoteli Metropol d.o.o. has 33% share in Remisens d.o.o

NOTE 15 – TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	**31 December 2016 Group**	31 December 2015 Group	**31 December 2016 Company**	31 December 2015 Company
Trade receivables	5,569	4,055	156	-
Impairment of trade receivables	(542)	(462)	-	-
	-	-	-	-
Trade receivables - net	5,027	3,593	156	-
	-	-	-	-
Receivables from employees and members of the Compa	346	265	-	-
State and other receivables	1,955	922	-	-
Other receivables	139	341	-	-
	7,467	5,121	**156**	-

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

(in thousands of HRK)	**2016 Group**	2015 Group	**2016 Company**	2015 Company
As at 1 January/2 October	462	458	-	-
Increase	80	4	-	-
As at 31 December	**542**	462	-	-

NOTE 16 – CASH AND CASH EQUIVALENTS

(in thousands of HRK)	**31 December 2016 Group**	31 December 2015 Group	**31 December 2016 Company**	31 December 2015 Company
Deposits up to 90 days	24,762	35,940	1,200	22,070
Foreign currency accounts	564	1,224	-	-
Cash in hand	139	102	2	47
Giro-accounts	16,905	4,794	451	16
	42,370	42,060	**1,653**	22,133

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

NOTE 17 – CAPITAL AND RESERVES

Share capital

As at 31 December 2016, the Group's and the Company's share capital amounted to HRK 202,769 thousand (2015: HRK 202,769 thousand) and comprises 302,641 ordinary shares with a nominal value of HRK 670 per share (2015: HRK 670 per share). Ordinary shares have equal voting rights and rights to receive dividend.
The Company was formed by the division of the company Liburnia Riviera Hotels d.d. Opatija, on the basis of the General Assembly's decision on the division, which has been shared since 1 September 2015.

Split of the company Liburnia Riviera Hoteli d.d.

Based on the decision of the Company's General Assembly of 27 August 2015 and with the approval of the Plan of split of Liburnia Riviera Hoteli d.d. from 9 July 2015, the procedure for demerger of Liburnia Riviera Hotels d.d was determined with the establishment of a new company LRH Hoteli Cavtat d.d. simultaneously transferring part of the property to a newly formed company. Demerger of the Company was completed on 2 October 2015. The share capital of the newly founded company consists of 302,641 shares with a nominal amount of HRK 670 per share and with total value of HRK 202,769 thousand.
In January 2016, the Company changed its name from Liburnia Hoteli Cavtat d.d. to FTB Turizam d.d. On 8 November 2016, the Company was listed on the regular quotation of the Zagreb Stock Exchange.

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

	Number of shares	HRK	%
SNH Gama d.d.	187,189	125,416,630	61.85
SN Pectinatus d.d.	75,660	50,692,200	25.00
CERP Republic of Croatia	11,289	7,563,630	3.73
Others	28,503	19,097,010	9.42
	302,641	202,769,470	100.00

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

	Number of shares	HRK	%
Nonnullus d.d., Zagreb	187,189	125,416,630	61.85
Nova Liburnija d.o.o., Opatija	75,660	50,692,200	25.00
CERP, Zagreb	11,289	7,563,630	3.73
Small shareholders	28,503	19,097,010	9.42
	302,641	202,769,470	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 Group's share capital. Legal reserves are not distributable.

Other reserves

Other reserves relate mainly to the reserves from the division of the Liburnia Riviera Hoteli d.d. and FTB Turizam d.d. The remainder refers to foreign exchange differences arising from the consolidation of a foreign subsidiary and amounts to HRK 181 thousand at 31 December 2016 (31 December 2015: HRK 120 thousand).

NOTE 17 – CAPITAL AND RESERVES (continued)

Non-controlling interest

The following table shows the information regarding the members of the Group in which there are non-controlling interests.

Hoteli Cavtat d.d.

(in thousands of HRK)	**31 December 2016**	31 December 2015
% of non-controlling interest (%)	0.00%	4.36%
Current assets	28,712	19,211
Non-current assets	299,703	309,737
Current liabilities	(23,594)	(19,480)
Non-current liabilities	(119,230)	(136,480)
Net assets	**185,591**	**172,988**
Net assets attributable to non-controling interest	-	7,542
Profit/(loss) for the year	12,603	(8,922)
Profit attributable to non-controlling interest	-	(389)
Cash flow from operating activities	38,903	*
Cash flow from investing activities	(11,502)	*
Cash flow from financing activities	(18,792)	*
Net increase in cash and cash equivalents	8,609	-

Remisens d.o.o.

(in thousands of HRK)	**31 December 2016**	31 December 2015
% of non-controlling interest (%)	33.3%	33.3%
Current assets	797	571
Non-current assets	990	975
Current liabilities	(68)	(44)
Net assets	**1,719**	**1,502**
Net assets attributable to non-controling interest	573	500
Profit/(loss) for the year	220	7
Profit attributable to non-controlling interest	73	2

The remaining net assets belonging to non-controlling interests at 31 December 2015 referred to Hoteli Metropol and amounted to HRK 2,562 thousand.

* The Company did not prepare an individual Cash Flow Statement for the last quarter of 2015 so the mentioned information was unpractical to display.

NOTE 18 – BORROWINGS

Bank borrowings are secured by a mortgage over land and a building (Note 12).

Maturities of borrowings are as follows:

	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
(in thousands of HRK)	**Group**	Group	**Company**	Company
Up to 1 year	21,895	16,034	-	-
Between 1 and 3 years	31,742	32,067	-	-
Between 3 and 5 years	31,742	32,067	-	-
Over 5 years	55,551	72,151	-	-
Total	140,930	152,319	-	-

The carrying amount of the borrowings is denominated in euro. Effective interest rates on the balance sheet date were as follows: 4.7% + 3m Euribor, and 5.14% for borrowings among affiliated companies.

The maturity of loans from affiliated companies is classified under borrowings and amounts to HRK 6,024 thousand at 31 December and matures within one year.

NOTE 19 – PROVISIONS

Group

(in thousands of HRK)	Termination benefits and jubilee awards	Other provisions	**Total**
As at 1 January 2016	2,474	82	2,556
Increase	642	37	679
Used during the year	(438)	-	(438)
Unused amounts reversed	(736)	-	(736)
As at 31 December 2016	**1,942**	**119**	**2,061**

NOTE 20 – TRADE AND OTHER PAYABLES

(in thousands of HRK)	**31 December 2016 Group**	31 December 2015 Group	**31 December 2016 Company**	31 December 2015 Company
Domestic trade payables	6,968	1,605	33	-
Foreign trade payables	429	567	-	-
Total trade payables	**7,397**	2,172	**33**	-
Due to employees	1,808	1,818	-	-
Taxes and contributions payable	782	464	1	10
Advances payable	1,970	1,537	-	-
Other liabilities	1,330	941	-	57
	5,890	4,760	**1**	67
Total trade and other payables	**13,287**	6,932	**34**	67

NOTE 21 – GRANTS

Grants relate to the financial resources which Hoteli Metropol d.d. aquired from Hotel Lucia in 2008. The grant is released annually in proportion to the amount of depreciation charged. Release of the entire grant is expected by the end of 2034.

Annual use of provisions in the Statement of Comprehensive Income is recorded through the position of other operating income and in 2016 amounts to HRK 859 thousand (2 October to 31 December 2015: HRK 181 thousand).

NOTE 22 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

(in thousands of HRK)	**2016**	2015	**2016**	2015
	Group	Group	**Company**	Company
Profit/(loss) before tax	13,016	(19,650)	24	50
Adjustments for:				
Depreciation and amortisation	41,271	10,552	-	-
Write-off of disposed property, plant and equipment	634	3,572	-	-
Gains on sale of property, plant and equipment	(102)	-	-	-
Provision for impairment of trade receivables – net (note 15)	80	4	-	-
Net finance income/(costs) (note 9)	4,653	238	(680)	(122)
Changes in provisions - net	(495)	-	-	-
Unrealized foreign exchange differences	61	-	-	-
Changes in working capital:	-	-	-	-
- trade and other receivables	(3,158)	24,724	524	122
- inventories	100	761	-	-
- trade and other payables	10,580	(16,932)	(23)	56
Cash generated from operations	**66,640**	3,269	**(155)**	106

NOTE 23 – CONTINGENCIES AND COMMITMENTS

Legal disputes

The Group is involved in a number of legal disputes, both as defendant and as plaintiff, arising from the ordinary course of business. The Group considers that disputes will not result in financial losses for the Group.

Land ownership

Cadastral plot no. 1902 k.o. Obod with area of 3.937 m^2 and no. 1903 k.o. Obod, with area of 14,639 m^2, was incorporated into the company's share capital of Hoteli Cavtat d.d., by decision of CFP no. 93-247/1 on 15 April 1996. The mentioned land was taken away from large number of natural persons in 1986 by the decision of the then Municipality of Dubrovnik and allocated for the right to use and dispose of or to build a tourist resort to the predecessor HTP Dubrovnik. During 1994, the Office for Property and Legal Affairs of the County Dubrovačko-neretvanska brought many decisions for returning confiscated properties to natural persons. Likewise, a land registry procedure was conducted at the ordinary court for the registration of ownership rights and a decision was made to register ownership rights in favor of natural persons, on the basis of which decision entry of the ownership rights is executed in favour of several natural persons. HC initiated litigation in 2015 and filed 26 lawsuits to establish ownership rights in favor of HC against registered owners in land registers on the respective properties and on 20 March 2017 eight disputes have been finalised in favour of the Group, of which seven are legally binding, and one is in appeal procedure before the competent County Court.

Capital and loan commitments

As at 31 December 2016, future commitments of the Group with respect to investments in tourist facilities amount to HRK 53,416 thousand (2015: HRK 15,300 thousand). As at 31 December 2016, the Company has no future commitments.

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 is controlled several owners, but there is no ultimate parent and controlling company (Note 17). There is no significant changes in ownership structure compared to 31 December 2016.

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

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Sales of services:				
Liburnia Riviera Hoteli	**19**	11	**-**	-
	-	-	**-**	-
Interest income:				
Hoteli Metropol	**-**	-	**526**	-
	-	-	**-**	-
Other operating expenses:				
Liburnia Riviera Hoteli	**1,440**	314	**15**	5
	-	-	**-**	-
Trade and other payables:				
Liburnia Riviera Hoteli	**54**	49	**4**	1
	-	-	**-**	-
Trade and other receivables:				
Hoteli Metropol	**1**	-	**156**	-
Loans receivables:				
Hoteli Metropol	**-**	-	**12,070**	-
Liabilities for loans:				
Liburnia Riviera Hoteli	**6,024**	-	**-**	-

In 2016, the Group has a total of 6 members of administrative, management and supervisory bodies (2015: 6 members). Fees for administrative, management and supervisory bodies in 2016 amount to HRK 1,696 thousand (2015: HRK 1,647 thousand) and relate to the gross salary, benefits and bonuses.

NOTE 25 – FIRST APPLICATION OF IFRS AND RECLASSIFICATION

As noted in Note 2, these reports have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. The accounting policies disclosed in Note 2 have been used in preparing the financial statements for the year ended 31 December 2016, comparative balances for the year ended 31 December 2015 and in the presentation of the opening balances at 1 January 2015. When preparing the opening balances of the financial statements in accordance with IFRS, the Company has carried out certain reclassifications from previously disclosed reports in accordance with CFRS. An overview of the impact of these reclassifications on the financial statements and their impact on financial position and financial performance is presented below.

(in thousands of HRK)	**Note**	2 October - 31 December 2015 Group*	Effect of IFRS	2 October - 31 December 2015 Group**
Revenue		12,988	-	12,988
Other income		98	-	98
		13,086	-	13,086
Cost of materials and services	7	(6,477)	-	(6,477)
Staff costs	8	(7,411)	-	(7,411)
Depreciation and amortisation		(10,552)	-	(10,552)
Other expenses		(3,636)	3,636	-
Provisions		(1,267)	1,267	-
Other operating expenses	9	(3,632)	(4,902)	(8,534)
		(32,974)	-	(32,974)
Finance income	11	4,999	-	4,999
Finance costs	11	(4,761)	-	(4,761)
Finance income / (costs) - net	11	238	-	238
Profit before tax		(19,650)	-	(19,650)
Income tax expense	12	2,274	-	2,274
Loss for the year		(17,376)	-	(17,376)
Attributable to:				
Owners of the parent		(16,987)	-	(16,987)
Non-controlling interests		(389)	-	(389)
Loss for the year:		(17,376)	-	(17,376)

** Previously published*
*** After implemented reclassifications*

NOTE 25 – FIRST APPLICATION OF IFRS AND RECLASSIFICATION (continued)

(in thousands of HRK)	**Note**	2 October - 31 December 2015 Group*	Effect of IFRS and reclasification	2 October - 31 December 2015 Group**
ASSETS				
Non-current assets				
Intangible assets	13	6,428	-	6,428
Property, plant and equipment and inves	12	369,176	-	369,176
Investments in subsidiary	14	-	-	-
Deferred tax assets	10	810	-	810
Other assets		271	-	271
		376,685	-	376,685
Current assets				
Inventories		1,755	-	1,755
Trade and other receivables	15	5,062	59	5,121
Income tax receivable		-	-	-
Cash and cash equivalents	16	42,060	-	42,060
Prepaid expenses and accrued income		59	(59)	-
		48,936	-	48,936
Total assets		425,621	-	425,621
EQUITY				
Share capital	17	202,769	-	202,769
Legal reserves		-	-	-
Other reserves	17	37,480	-	37,480
Retained earnings/(accumulated loss)		-	(16,987)	(16,987)
Profit/(loss) for the year		(16,987)	16,987	-
Non-controlling interests	17	10,604	-	10,604
		233,866	-	233,866
Non-current liabilities				
Borrowings	18	136,285	-	136,285
Deferred tax liabilities	10	15,852	-	15,852
Grants	21	-	13,942	13,942
Provisions	19	16,498	(13,942)	2,556
		168,635	-	168,635
Current liabilities				
Borrowings	18	16,034	-	16,034
Trade and other payables	20	6,329	603	6,932
Income tax liabilities		-	154	154
Accrued expenses and deferred income		757	(757)	-
		23,120	-	23,120
Total liabilities and equity		425,621	-	425,621

** Previously published*
*** After implemented reclassifications*