VALAMAR RIVIERA

ANNUAL REPORT
2016

ANNUAL REPORT OF THE GROUP AND THE COMPANY VALAMAR RIVIERA D.D.

for the period from 1 January 2016 to 31 December 2016


Cava beach, Dubrovnik

Executive Summary

- In 2016, the Group achieved a strong EBITDA growth of 21% resulting in a total of HRK 513 million (HRK 423 million in 2015). This is largely due to a significant 15% increase in sales revenues (from HRK 1,269 million in 2015 to HRK 1,455 million in 2016) and increased operating efficiency as a result of the adjusted EBITDA margin of 35% (34% in 2015).

- Total revenues of HRK 1,579 million represent an 18% increase on 2015 revenues of HRK 1,333 million. Of the total revenues, HRK 1,455 million represented sales revenues, while the remaining part were represented mainly by financial income from foreign exchange gains and the sale of the Group's share portfolio. Sales revenue growth was mainly due to a 13% increase in board revenues to HRK 1,175 million (HRK 1,043.3 million in 2015), a 26% increase in outlet revenues and a 57% increase in revenue generated by other operating segments (laundry, travel agency, equipment-rental services, etc.).

- In 2016, the Group reported 5,144,328 overnights (+8%), and a 4.6% increase in the average daily rate. The increase in board revenues resulted from i) successful realization of large events and groups in the destinations of Dubrovnik and Poreč in preseason, ii) improved Premium and Upscale segments operating performance, iii) better occupancy, iv) increased direct sales channel and active revenue management, and v) acquisition of the hotel group in Baška.

- The increase in operational efficiency as seen through the adjusted EBITDA margin growth from 34% in 2015 to 35% in 2016 also includes the negative effect of the consolidation costs of the Baška destination during the first six months of this year. Without this negative effect, the comparable adjusted EBITDA margin would be 36% thus representing an actual increase in operational efficiency by 2 percentage points.

- In 2016 the Group's net profit grew by HRK 236.9 million and totaled HRK 342.3 million. This is mainly due to i) increased operating profit, ii) positive extraordinary financial result, and iii) one-time recognized deferred tax assets which will burden the gross profit in the forthcoming years of utilization.

- The enterprise value, as calculated by market capitalization plus net debt, continued to positively grow by 40% as a result of increased EBITDA and efficient debt management.

- Valamar Riviera acquired 54.71% of the share capital of Imperial d.d. Rab share capital and concluded a Contract for to the management of Imperial's properties and outlets from 1 January 2017. It also concluded a cooperation agreement with Allianz ZB d.o.o. a company managing obligatory pension funds who own 34.22% of the share capital of Imperial d.d. Rab. The agreement established joint activity towards Imperial d.d. Rab.

- A new set of strategic and development goals for the period to 2020 was presented during Valamar Riviera's Investors Day in 2016, which promote sustainable and responsible development of destinations and include i) HRK 1.5 to 2 billion investments in the existing portfolio, ii) growth of the EBITDA margin of 35 to 38%, and iii) attractive and sustainable dividends to the shareholders.

- Valamar Riviera signed a strategic cooperation agreement with TUI Northern Europe Limited, TUI UK, and TUI Nordic Holding AB. This agreement includes the branding of the Family Life Bellevue Resort 4* in Rabac as the first Family Life concept in Croatia according to TUI's standards with a three-year cooperation (seasons 2017 to 2019). Valamar Riviera also concluded an allotment contract with DER Touristik Köln GmbH for a three-year period (seasons 2017 to 2019) with occupancy guarantee. With this agreements occupancy at the new 4* resorts in Rabac will be additionally secured.

- Valamar Riviera continues with its 2017 investment cycle of HRK 873 million which is proceeding as planned and represents the largest investment in the company's portfolio for a single year. The investments mainly include projects for the Family Life Bellevue Resort 4* and Girandella Resort 4*/5* in Rabac, and the continuation of upgrading campsites towards the Premium segment. There is also a range of smaller investments for improving quality, operational efficiency and energy savings.

- Valamar Riviera fosters transparent relationships and improves the communication of business and financial matters with investors. In 2016, and for the fifth consecutive year, Valamar has received the Share of the Year award by the investing public confirming Valamar's appeal and business excellence.

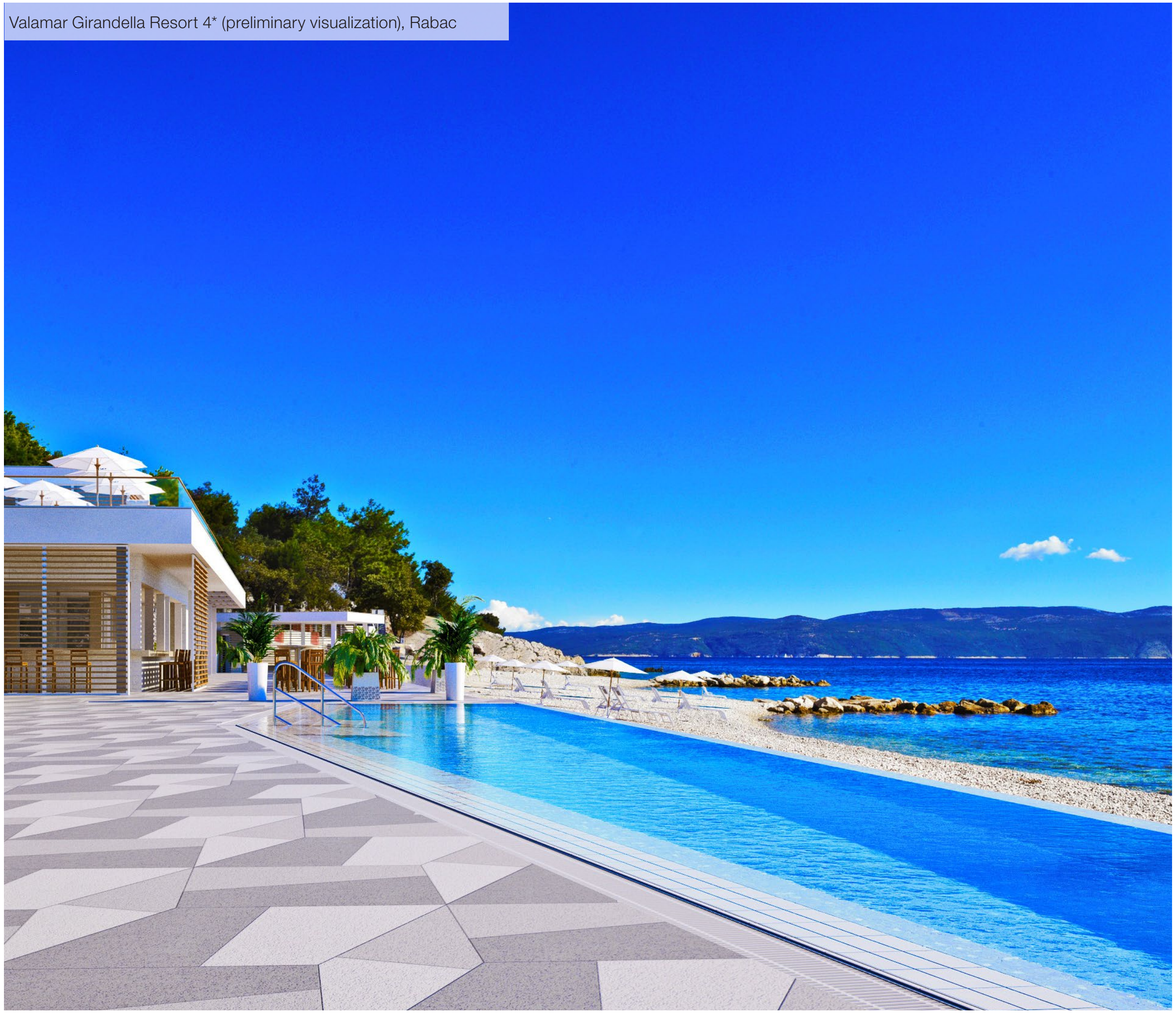
- Valamar Riviera's continual investment in employees and in improving the quality of its products and services was recognized through numerous awards and certificates: Croatia's Leading Resort, Croatia's Leading Boutique Hotel, Croatia's Leading Hotel i Croatia's Leading Business Hotel - World Travel Awards; Camping2be 2016 Award - Camping2be.com; TOP 10 Premium Resort Meeting Hotels - Kongres magazine; Croatia's Best Campsites - KUH; 2016 Travellers' Choice Award i 2016 Certificate of Excellence - Tripadvisor; Best Camping 2016 - ADAC; Best Campsite - ANWB; Camping Award 2016 - DCC Europa Preis; Les plus beax campings d'Europe - Le monde du plein air Caravane - Camping; HolidayCheck Quality selection 2016 - HolidayCheck; 2016 Certificate of Excellence - Hotels.com; 2016 Travellers' Choice winner and award 2016 Certificate of Excellence - Tripadvisor.

- You can find the press release on Valamar Riviera's corporate website (link: valamar-riviera.com/en/1Y2016).

OUTLOOK

- In accordance with our strategic goals until 2020, internal preparations of investment projects are well under way. The projects aim at improving the portfolio facilities, amenities and services. However, the remaining unresolved issues with tourism land, increased VAT and rate of contributions for salaries, (which are both one of the highest on the Mediterranean) hinder further investment potential.
- Following the successful acquisitions of the Baška hotel group on the island of Krk and the Imperial hotel group on the island of Rab, we are considering further expansion by pursuing new partnership and acquisition opportunities in Croatia and in the region.

Valamar Girandella Resort 4* (preliminary visualization), Rabac



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Significant Business Events

Valamar Riviera is the leading Croatian tourism company and one of the leading tourism groups in Croatia. Valamar Riviera is a large tourism investor with more than HRK 3 billion invested in its portfolio over the last 13 years. It owns two brands: Camping Adriatic and Valamar Hotels and Resorts. At the end of 2016, Valamar Riviera acquired a 54.7% stake in Imperial d.d. on the Island of Rab.[1] With this acquisition, the Group operates 30 hotels and resorts and 15 camping resorts in five attractive destinations along the Adriatic coast – from Istria and the islands of Krk and Rab to Dubrovnik. It manages approximately 12% of the total categorized accommodation in Croatia. Valamar's properties can welcome more than 56,000 guests daily in over 21,000 accommodation units. In terms of accommodation capacity, Valamar Riviera is the largest tourism group in Croatia. Valamar Riviera promotes the interests of all its stakeholders: guests, suppliers and partners, local communities and destinations, around 21,000 shareholders, over 4,400 people employed during peak season and the whole community. The stakeholders' interests are actively promoted through Valamar Riviera's principles of sustainable growth, development and corporate social responsibility. The company aims at growing and developing further through portfolio investments, new acquisitions and partnerships, developing its destinations and human resources and increasing operational efficiency.

On 23 March 2016 Valamar Riviera concluded a Loan agreement with the Croatian Bank for Reconstruction and Development in the amount of EUR 24,291,114 (in HRK equivalent) maturing in 2033. The funds are earmarked for improving the quality standards in destinations Poreč, Rabac, Krk and Dubrovnik for the 2016 season.

Hotel Padova 4*, Island of Rab

1 Transaction details are described on the next page.

On 31 March 2016, pursuant to the decision of the Commercial Court in Pazin, the company Hoteli Baška d.d. was merged with Valamar Riviera d.d. Valamar Riviera became the universal successor to Hoteli Baška. Since Valamar Riviera was the sole shareholder of Hoteli Baška, Valamar Riviera's General Assembly did not meet pursuant to Article 531(1) of the Companies Act. Please note that on 13 January 2016, the subsidiaries Baškaturist d.o.o., Mirta Baščanska d.o.o., and Vala Baščanska d.o.o., where Valamar Riviera held 100% stake, were merged with the subsidiary Hoteli Baška d.d.; following the mergers, Valamar Riviera d.d. became Hoteli Baška d.d.'s sole shareholder. The consolidation of the portfolio of hospitality properties, management and shareholding structure into a single strategic company has allowed for a more transparent corporate governance and streamlined operations, as well as giving additional boost to the Company's balance sheet assets. This merger created additional value from the synergy of the two companies for both the Hoteli Baška employees and the local community. In destination Baška Valamar Riviera sees a clear potential for applying the experience gained in its other destinations. Continual investments in employees, products, services and experiences have created new shareholder value. In the forthcoming period, the key activities will be focused on planning and elaborating future investments in destination Baška, and developing the whole destination Krk where Valamar Riviera has taken over the leading position.

On 27 April 2016, Valamar Riviera's General Assembly was held, during which the following was determined:

- In 2015 Valamar Riviera d.d.'s realized profit was HRK 105,854,201.03, out of which HRK 5,292,710.05 were allocated to legal reserves and HRK 100,561,490.98 to retained profit;
- The Management Board members were released from the management of Valamar Riviera's business in 2015, and the Supervisory Board Members released from the supervision of Valamar Riviera's business management in 2015;
- The dividend was set at HRK 0.60 (sixty lipa) per share, to be paid out to shareholders from the retained profits made in 2013.
- KPMG Croatia d.o.o. za reviziju, Zagreb was appointed as Valamar Riviera d.d.'s auditor in 2016;
- Other decisions amending the Articles of Association were adopted.

On 2 June 2016 Valamar Riviera conclued strategic cooperation with TUI Northern Europe Limited, TUI UK, and TUI Nordic Holding AB. The purpose of this cooperation is the branding of the Family Life Bellevue Resort as the first Family Life concept in Croatia according to TUI's standards and ensuring a three-year cooperation (seasons 2017-2019) with occupancy guarantee. Over a period of three years, TUI commits to bring about 80,000 guests, thus generating over 400,000 overnights, primarily by creating new air travel markets.

Pursuant to the decision of the Commercial Court in Pazin, on 30 June 2016 the company Bastion upravljanje d.o.o. was merged with the company Valamar Riviera d.d. and Valamar Riviera d.d. became Bastion upravljanje d.o.o.'s universal successor.

On 20 September 2016 Valamar Riviera has concluded an allotment contract with DER Touristik Köln GmbH for a three-year period (seasons 2017-2019) with occupancy guarantee. With this agreement the occupancy of the new Valamar Girandella Resort 4*/5* will be ensured. The two projects, Family Life Bellevue Resort 4* and Valamar Girandella Resort 4*/5*, are part of a strategic development plan to reposition destination Rabac as a 4* vacation destination in the period from 2016 to 2018. For it a HRK 560 million investment framework has been planned, out of which HRK 465 million will be invested during 2016 and 2017. With these investments, Valamar Riviera creates new value for the whole destination: besides creating nearly 400 new job openings, this will have a positive impact on the guest structure and product quality, not to mention the standard of living and quality of life in the destination.

On 20 September 2016 Valamar Riviera concluded a Purchase and Transfer Agreement with the Republic of Croatia, the State Agency For Deposit Insurance And Bank Resolution, the Croatian Pension Insurance Institute and the Restructuring And Sale Center[2] regarding the acquisition of Imperial d.d. shares. On 12 October 2016, the company acquired 318,446 shares (HRK 819 per share) upon payment of the contracted amount of HRK 260,807,274. The acquired shares initially represented 50.08% of Imperial d.d. share capital. Valamar Riviera has also concluded a Cooperation Agreement with Allianz ZB d.o.o. društvo za upravljanje obveznim mirovinskom fondom (a mandatory pension fund management company) from Zagreb, acting in its own name and on behalf of the managed mandatory pension funds (category A and B). With this agreement the two companies establish joint action towards Imperial d.d. Rab, and pursuant to its provisions, on 13 October 2016 Valamar Riviera transferred 63,586 Imperial shares to Allianz ZB d.o.o. The transferred shares represent 10% of Imperial d.d. share capital, while Valamar Riviera retains the other 40.08%. On 13 December 2016, the Management agreement between Valamar Riviera and Imperial d.d. was concluded regarding Imperial's properties and outlets and will be implemented as of 1 January 2017. Pursuant to the Act on the Takeover of Joint Stock Companies, Valamar Riviera and Allianz ZB d.o.o. announced the takeover bid for Imperial on 16 November 2016. On 27 December 2016 the transaction was completed and Valamar Rivera acquired 54.71% of Imperial share capital.

On 7 November 2016 Valamar Riviera conclued a credit agreement with the Croatian Bank for Reconstruction and Development in the amount of EUR 43.6 million in HRK equivalent, maturing by end of 2034. The funds are used for the investments in improving the quality of accommodation and services in the Valamar Girandella Resort 4* in Rabac and investments in the Ježevac, Krk and Škrila campsites on Krk Island and a facility which will be used as accommodation for seasonal employees.

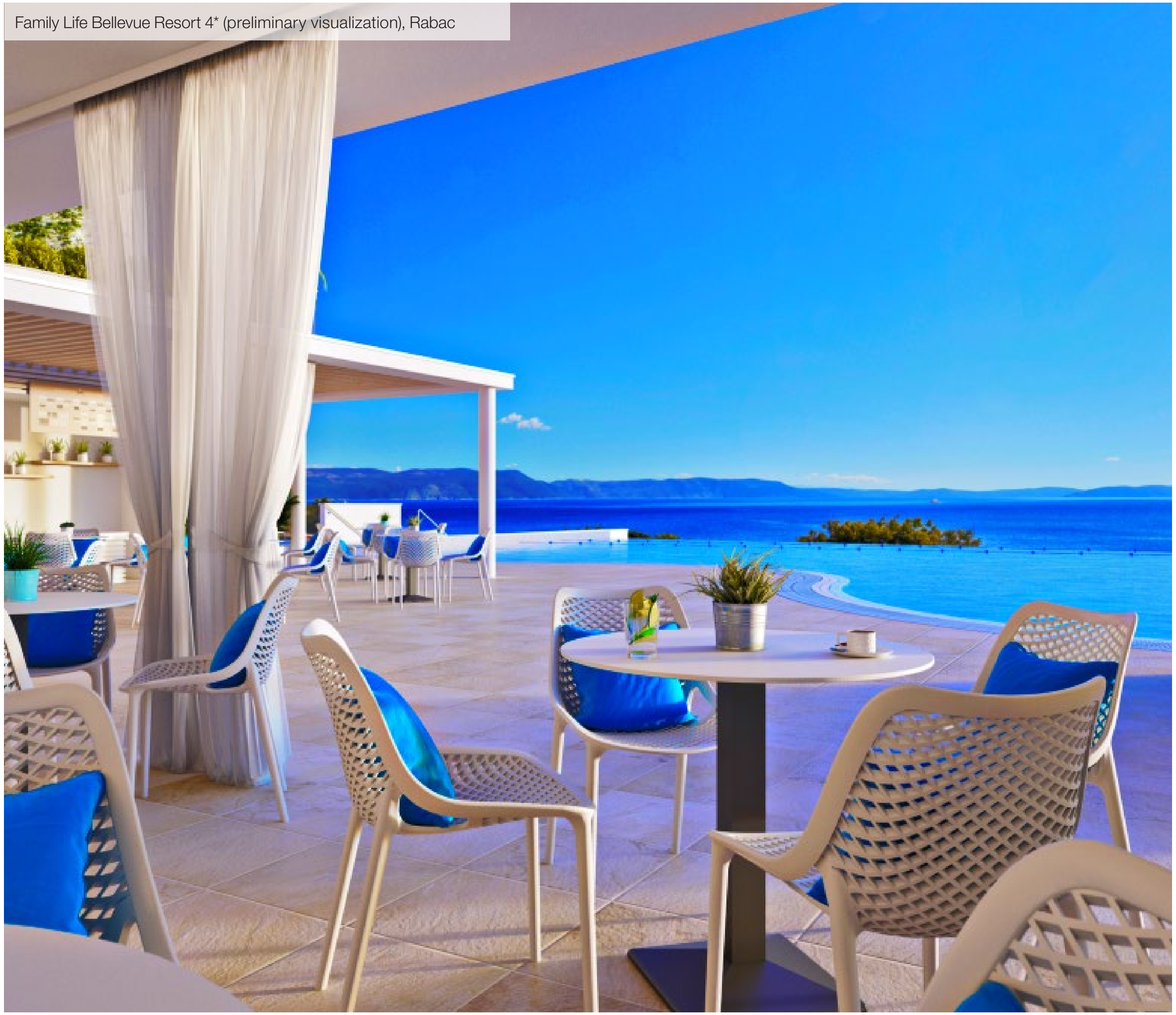
[2] Restructuring and Sale Centre is a public institution that performs professional activities in the scope and competence stipulated under the Law on management and disposal of assets owned by Republic of Croatia and other regulations.

According to the previously announced HRK 1.5-2 billion investments by 2020, at the Supervisory Board session held on 1 December 2016, the Supervisory board approved 2017 investments totaling HRK 873 million. For the most part, the investments are focused on the Family Life Bellevue Resort 4* and Valamar Girandella Resort 4* in Rabac, the Lanterna campsite in Poreč and Krk campsites as well as various upgrade projects. (For more details, see "Investments in 2017" on page 22).

On 15 December 2016 Valamar Riviera conclued the credit agreement with Raiffeisenbank Austria d.d. Zagreb for the amount of EUR 38.0 million, maturing in 2025. The funds are earmarked for improving the quality of accommodation units and creating new facilities, amenities and products in Family Life Bellevue Resort 4* in Rabac, the Lanterna campsite in Poreč and Marina campsite in Rabac.

In order to improve the operating efficiency and rationalize operations, on 6 February 2017 the Management Board of Valamar Riviera d.d. initiated the merger of Puntižela d.o.o. where the Company holds 42,673 business stakes representing 100% of Puntižela equity. The merger will take place in the first half of 2017, pursuant to the provisions of the Companies Act. Valamar Riviera has set its target revenue for 2017 by taking into consideration (i) the Imperial Rab acquisition, (ii) the announced investments for 2017 (totalling HRK 873 million) which are proceeding as planned, and (iii) the initial booking pace from source markets. In its business plan for 2017, Valamar Riviera is targeting a total consolidated net operating revenue (Imperial Rab excluded) of HRK 1.57 billion (which represents a targeted 7% increase compared to 2016) or HRK 1.69 billion including Imperial Rab (based on Imperial's interim business plan which will be reviewed by April 2017). Considering the seasonality of operations and based on past practice, the Company will announce the expected range of EBITDA and consolidated operating revenue for 2017 during October 2017, including variances from the set targets.

Family Life Bellevue Resort 4* (preliminary visualization), Rabac



Note: Our targets and plans are based on currently available information, current assumptions and projections of future events. These plans are not a guarantee of future results and are subject to future events, risks, and uncertainties, many of which are beyond the control of, or currently unknown to Valamar Riviera, as well as potentially erroneous assumptions that could cause the actual results to materially differ from the said plans. Risks and uncertainties include, but are not limited to the ones described in the chapter "Risks of the Company and the Group". Should materially significant changes to the stated target results for the business year 2017 occur, Valamar Riviera shall immediately inform the public thereof, in compliance with Article 459 of the Capital Market Act. The given targets and plans are not an outright recommendation to buy, hold or sell Valamar Riviera's shares.

The Company's Management Board presents the annual financial statements for 2016. These statements provide information on the state of the Company and Group, as well as significant events and must be read in the context of the mentioned mergers and acquisitions, and they.

The Group balance sheet for the reviewed period contains Imperial d.d. Rab's data as of 31 December 2016. Please note that the 2016 data cannot be entirely compared to the same period last year, as the latter did not include Imperial.

The Company's income statement for the reviewed period includes the merged company Valamar hoteli i ljetovališta d.o.o. data for the period following the merger, i.e. as of 28 February 2015, Bastion upravljanje d.o.o. data for the period following the merger i.e. 1 July 2016, as well as the data for the merged company Hoteli Baška d.d. for the period following the merger, i.e. as of 1 April 2016. Please note that the 2016 data are not fully comparable to the data for the previous period, as the latter do not include, until the time of the merger, the data for the mentioned merged companies.

The Group's income statement for the reported period includes the data for the following companies: Puntižela d.o.o., Bastion upravljanje d.o.o., Elafiti Babin kuk d.o.o., Magične stijene d.o.o., Palme turizam d.o.o., Pogača Babin Kuk d.o.o., Bugenvilia d.o.o., and Hoteli Baška d.d. (merged on 31 March 2016), while the data for the companies Mirta Baščanska d.o.o., Vala Baščanska d.o.o., and Baškaturist d.o.o. are included until the day of their merger to the company Hoteli Baška d.d. (until 13 January 2016). Thus, the data for 2016 are not fully comparable to the data for the previous period, as the latter do not include, until the date of consolidation (i.e. 1 July 2015) the data for the following companies: Hoteli Baška d.d., Mirta Baščanska d.o.o., Vala Baščanska d.o.o., and Baškaturist d.o.o. Please note that Imperial's revenues and expenses were not included in the Group's income statement, because they were not deemed materially significant in the period between from the acquisition of control (12 December 2016) to the end of the business year (31 December 2016).


Grand Hotel Imperial 4*, Island of Rab

Results of the Group

Key financial indicators of Valamar Riviera Group[3]

(in HRK)	2015	2016	2016/2015
Total revenues	1,333,493,479	1,579,499,901	18.4%
Sales revenues	1,268,724,937	1,454,867,739	14.7%
Board revenues (accomodation and board revenues)[4]	1,043,250,301	1,174,716,569	12.6%
Operating costs[5]	838,362,755	949,930,753	13.3%
EBITDA[6]	423,364,870	512,583,688	21.1%
Extraordinary operations result and one-off items[7]	-15,106,588	-6,376,909	57.8%
Adjusted EBITDA[8]	438,471,458	518,960,597	18.4%
EBIT	171,792,373	246,704,521	43.6%
Adjusted EBIT[8]	186,898,961	253,081,430	35.4%
EBT	132,926,778	271,909,189	104.6%
Net profit	105,461,478	342,313,778	224.6%
EBT margin	10.3%	18.3%	800 bp
EBITDA margin	32.7%	34.4%	170 bp
Adjusted EBITDA margin[8]	33.9%	34.9%[8]	100 bp

	31/12/2015	31/12/2016	2016/2015
Net debt[9]	1,082,520,078	1,398,102,734	29.2%
Net debt / EBITDA	2.56	2.73	6.5%
Net debt / Adjusted EBITDA	2.47	2.69	9.1%
Cash and cash equivalents	318,755,282	274,650,648	-13.8%
Capital investments (more details in chapters “Investments”)	310,477,293	428,440,048	38.0%
ROE[10]	5.5%	14.4%	890 bp
Adjusted ROCE[11]	6.3%	6.7%	40 bp
Market capitalization[12]	2,970,629,728	4,295,057,872	44.6%
EV[13]	4,053,149,806	5,693,160,606	40.5%
EPS[14]	0.84	2.76	228.6%
DPS[15]	0.55	0.60	9.1%

3 Classified accordiong to the Annual Business Financial Statement (GFI POD-RDG). EBIT, EBITDA and their adjusted values and respective margins are recorded on the basis of operating income.

4 In compliance with the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry).

5 Operating costs include material costs, staff costs, other costs, and other operating costs reduced by extraordinary expenses and one-off items.

6 EBITDA (eng. earnings before interest, taxes, depreciation and amortization) is calculated as: operating income - total operating costs + depreciation and amortisation + value adjustments.

7 The adjustment includes (+) extraordinary income and (-) expenses in accordance with the USALI standard classification and (-) one-off termination benefit costs and (-) administrative costs related to the process of merger and business reorganisation.

8 Adjusted by the result of extraordinary operations and one-off items which does not include negative effect of the consolidation costs of the Baška destination during the first six months of this year . Without this negative effect, the comparable adjusted EBITDA margin would be 36.1%

9 Net debt: non-current and current liabilities to banks and other financial institutions + liabilities for loans, deposits and other– cash and cash equivalents – long-term and short-term investments in securities – current loans given, deposits, etc.

10 ROE refers to return on equity; calculated as: profit for the period / (capital and reserves).

11 Adjusted ROCE refers to return on capital employed; calculated as: adjusted EBIT / (capital and reserves at the end of the period + non-current and current liabilities to banks and other financial institutions - cash and cash equivalents - long-term and short-term investments in securities - loans given, deposits, etc.).

12 The number of shares as at 31 December 2016 net of treasury shares amounts to 124,170,508, while per 31 December 2015 amounts to 124,190,206.

13 EV refers to enterprise value; calculated as market capitalization + net debt.

14 EPS refers to earnings per share calculated on the basis of net profit. Weighted average number of shares as at 31 December 2016: 124,235,079. Weighted average number of shares as at 31 December 2015: 124,784,807.

15 DPS refers to dividends per share.

Key business indicators of Valamar Riviera Group[16]

	2015	2016	2016/2015
Number of accommodation units (capacity)	17,783	18,072	1.6%
Full occupancy days	119	126	6.0%
Annual occupancy (%)	33%	34%	100 bp
Accommodation units sold	2,115,421	2,277,815	7.7%
Overnights	4,750,823	5,144,328	8.3%
ADR[17] (in HRK)	493	516	4.6%
RevPAR[18] (in HRK)	58,665	65,002	10.8%

2016 was marked by strong results, high operating efficiency and increased profitability. A number of factors contributed to this: i) continual investments in raising the competitive edge and the quality of services and products, ii) focus on the guest and operational excellence in sales, marketing and revenue management, iii) the strategic acquisition of the Baška hotel group and iv) continual efforts in developing destinations, products and added-value services.

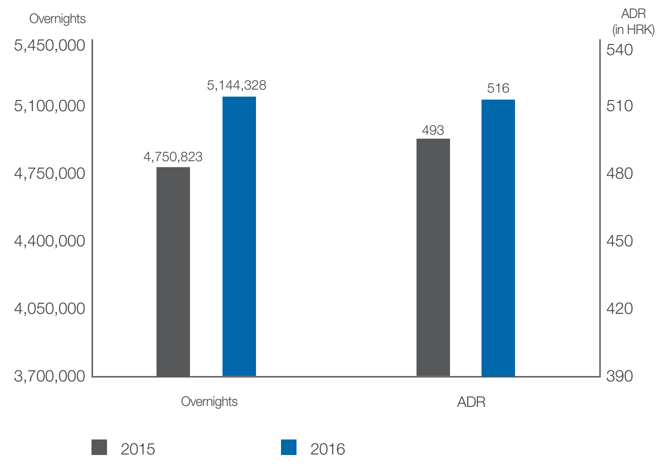
In responding to the increased demand for hospitality products and services, Valamar Riviera was guided by adopted strategic initiatives and the best practices of business excellence. In 2016 the Group reported a 15.0% increase in operating revenues totaling HRK 1,488.6 million by optimizing distribution, sales channels and marketing segments, the average daily rate increased by 4.6% to HRK 516, while the total number of units sold was 2,227,815 (or 162,394 over prior year results).

Despite the increased business volume and the year-round consolidation of the Baška hotel group, operating costs were actively managed and remained under control, thus reporting a 13.3% growth. Excluding costs generated by destination Baška during the first six months of 2016, operating costs reported an 11% growth.

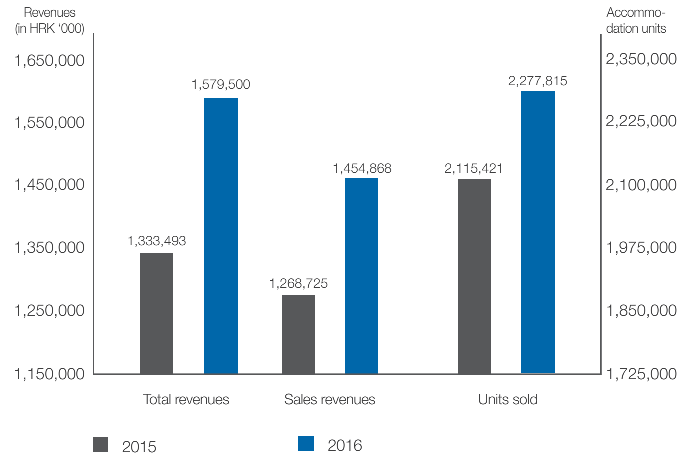
Marketing and sales activities and the upgraded products and services reported excellent market feedback. The increased business volume and higher operating efficiency resulted in a marked profitability growth. EBITDA grew by 21.1% (or: HRK 89.2 million) totaling HRK 512.6 million. Adjusted EBITDA[19] grew by 18.4% totaling HRK 519.0 million. The increase in operational efficiency as seen through the adjusted EBITDA margin growth from 33.9% in 2015 to 34.9% in 2016 also includes the negative effect of the consolidation costs of the Baška destination during the first six months of this year. Without this negative effect, the comparable adjusted EBITDA margin would be 36.1% thus representing an actual increase in operational efficiency by 220 basis points. Operating profit grew by 104.6% and totaled HRK 271.9 million. In 2016 the Group's net profit grew by HRK 236.9 million and totaled HRK 342.3 million. This is mainly due to i) increased operating profit, ii) positive extraordinary financial result, and iii) one-time recognized deferred tax assets which will burden the gross profit in the forthcoming years of utilization[20]. Following these trends, the EBT margin grew by 800 basis points and was 18.3%.

M.I.C.E.[21] events in the pre-season period contributed to increased operating efficiency. Firstminute sales created

Overnights and ADR



Revenues and accommodation units sold



16 Key business indicators of Valamar Riviera Group do not include data of Imperial's d.d. The total capacity with Imperial is 20,931 accomodation units.

17 Average daily rate is recorded on the basis of board revenues (accommodation and board's food and beverage revenues).

18 Revenue per accommodation unit is recorded on the basis of cumulative board revenues (accommodation and board's food and beverage revenues).

19 Adjustments were made for (i) extraordinary income (in the amount of HRK 21.5 million in 2016, and HRK 34.2 million in 2015), (ii) extraordinary expenses (in the amount of HRK 23.6 million in 2016, and HRK 33.9 million in 2015), and (iii) termination benefit costs (in the amount of HRK 4.3 million in 2016, and HRK 15.4 million in 2015). Extraordinary operations result and one-off items amounted to HRK -6.4 million in 2016, and HRK -15.1 million in 2015.

20 Net tax revenue totaled HRK 70.4 million and largely resulted from the recognized deferred tax assets due to tax incentives (prescribed by the Act on Investment Promotion and Investment Improvement).

21 Meetings, incentives, conferencing, exhibitions.

a better basis for the management of sales channels and boosted start bookings in May and June. Optimal management of the group channel boosted the individual channel in May. In June, southern destinations reported a decrease in groups (due to an unfavorable public holiday spread) which was compensated by the M.I.C.E. segment and supported by growth in other sales channels. Peak season saw an improvement in distribution and price management, sales channels and sales activities. Active optimization of allotment occupancy and prices resulted in a 16% growth in the individual segment, which usually carries higher average rates. In the shoulder season the focus was on group and allotment placements, while targeting individual placements in the Christmas/New Year period.

In 2016, board revenues grew by HRK 131.5 million and totaled HRK 1,174.7 million. Sales revenues (outside the Group) grew by HRK 186.1 million and totaled HRK 1,454.9 million. This resulted from i) a 12.6% increase in board revenues, ii) a 26% increase in non-board outlet revenues and iii) a 57% increase in the revenue of other operating departments (laundry, travel agency, equipment-rental services, etc.). Domestic sales revenues totaled HRK 119.0 million and represented 7.5% of total revenues (7.9% in 2015). They reported a 12.3% increase over prior comparable period results. International sales revenues totaled HRK 1,335.8 million and represented 84.6% of total revenues (87.2% in 2015). They grew by HRK 173.1 million over prior comparable period results. Other operating (outside the Group) and financial income represented 7.9% of total revenues (4.9% in 2015). The 33.3% increase in other operating revenues resulted mainly from the one-off income received from cancelling provisions related to legal disputes. Financial income reported a HRK 51.4 million growth, which is mainly due to the share portfolio sales and exchange rate gains. As a result, total revenues grew by HRK 246.0 million and totaled HRK 1,579.5 million.

Valamar Girandella Resort 4* (preliminary visualization), Rabac

Total operating expenses of Valamar Riviera Group[22]

(in HRK)	2015	2016	2016/2015
Operating costs[5]	838,362,755	949,930,753	13.3%
Total operating expenses	1,122,244,561	1,241,906,080	10.7%
Material costs	398,167,101	450,374,430	13.1%
Staff costs	327,901,582	371,316,789	13.2%
Depreciation and amortisation	232,922,484	265,188,188	13.9%
Other costs	124,793,680	128,500,052	3.0%
Provisions and value adjustments	24,003,901	2,545,384	-89.4%
Other operating expenses	14,455,813	23,981,236	65.9%

In 2016 total operating expenses grew by 10.7% due to increased business volume and this year consolidation of the Baška hotel group from 1 January 2016. Excluding costs generated by destination Baška during the first six months of 2016 for comparability's sake, operating expenses reported a low 6.7% growth. This confirmed continual positive trends in operating efficiency, management consolidation and restructuring at all levels, as well as Valamar Riviera's strategic goals.

Material costs grew by 13.1% and totaled HRK 450.4 million, representing 36.3% of total operating expenses (35.5% in 2015), which was largely due to increased business volume which caused higher costs of raw material and maintenance. Staff costs totaled HRK 371.3 million, representing 29.9% of total operating expenses (29.2% in 2015). The 13.2% increase in staff costs was due to several factors: i) longer full occupancy days, ii) takeover of the Baška hotel group staff, and iii) salary increase (a 2% salary increase in June 2016, a 1.5% salary increase and 0.5% salary increment for years of service in June 2015). Amortization and depreciation totaled HRK 265.2 million (HRK 232.9 million in 2015), and represented 21.4% of total operating expenses (20.8% in 2015). Their 13.9% growth was due to a wider consolidation scope and the previously realized large investments. Other operating expenses were HRK 24.0 million, and their 65.9% growth resulted from the operating expenses of previous years and the undepreciated assets due to investments. Value adjustments and provisions were HRK 2.5 million and decreased by HRK 21.5 million mainly due to the 2015 claim write-off in relation to Glavice d.o.o and lower provisions per legal disputes. Other costs grew by 3.0% or HRK 3.7 million primarily due to this year's Baška operations.

In 2016 financial income grew by HRK 51.4 million over prior comparable period results and totaled HRK 90.9 million. Other financial income reported the strongest growth, and rose by HRK 36.5 million, which was mostly due to the Group share portfolio sales totaling HRK 35.2 million. Interest income, foreign exchange differences, dividend and similar third-party related income grew by HRK 11.4 million. Exchange rate gains from settled unrealized balance sheet items and loan payments reported the strongest growth of HRK 23.6 million because of a 1% stronger HRK in relation to the EUR in 2016. This contributed to the decrease in balance sheet liabilities denominated in EUR and disclosed in HRK. Revenues form time deposits, a vista accounts and placements totaled HRK 4.2 million. The lower value is mostly due to a smaller amount of free cash funds during 2016 compared to the same period last year as well as a significant reduction in market interest. Unrealized income (gains) from financial assets grew by HRK 3.6 million, largely due to the valuation of derivative financial instruments contracted for 2017 as FX and interest hedge .

Financial expenses decreased by HRK 12.6 million compared to the same period a year ago and totaled HRK 65.7 million, representing 6.5% of total expenses (5.0% in 2015). Interest, foreign exchange differences, and similar expenses from third parties decreased by HRK 18.8 million. Other financial expenses grew by HRK 2.7 million, out of which HRK 0.9 million refers to the Group share portfolio sales, and HRK 1.7 million refers to interest rate swap early termination payment. The most significant change compared to the same period a year ago is related to exchange rate losses from settling unrealized balance sheet items, which fell by HRK 26.2 million due to the said stronger HRK in relation to EUR. A HRK 8.5 million increase in interest expenses in 2016 was related to the increase of debt resulting from loans contracted for financing investments and the consolidation of the Baška hotel group (from 1 January 2016).

[22] Classified accordiong to the Quarterly Business Financial Statement (GFI POD-RDG.

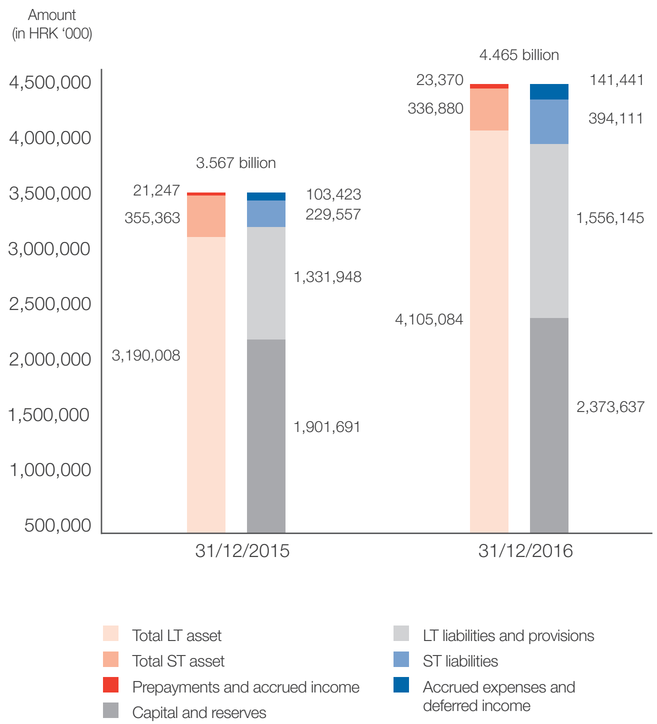
Profitability indicators of Valamar Riviera Group

	2015	2016	2015/2016
EBITDA margin	32.7%	34.4%	170 bp
Adjusted EBITDA margin	33.9%	34.9%	100 bp
EBIT margin	13.3%	16.6%	330 bp
Adjusted EBIT margin	14.4%	17.0%	260 bp
EBT margin	10.3%	18.3%	800 bp
Net profit margin	8.1%	23.0%	1,490 bp
ROA	3.0%	7.7%	470 bp
ROE	5.5%	14.4%	890 bp
Adjusted ROCE	6.3%	6.7%	40 bp

Valuation of Valamar Riviera Group

	31/12/2015	31/12/2016	2016/2015
Average share price per	23.92	34.59	44.6%
Market capitalization (in HRK)	2,970,629,728	4,295,057,872	44.6%
EV (in HRK)	4,053,149,806	5,693,160,606	40.5%
EPS	0.84	2.76	228.6%
DPS	0.55	0.60	9.1%
EV / Sales revenues	3.2x	3.9x	22.3%
EV / EBITDA	9.6x	11.1x	15.7%
EV / Adjusted EBITDA	9.2x	11.0x	19.2%
EV / EBIT	23.6x	23.1x	-2.2%
EV / Adjusted EBIT	21.7x	22.5x	3.7%

Assets and liabilities



Please note that as of 31 Decemeber 2016 the Group balance sheet included Imperial d.d. data which were not included in the comparable period (31 December 2015). As of 31 December 2016 the total value of the Group's assets was 25.2% higher compared to 31 December 2015. The total share capital and reserves grew by HRK 471.9 million, totaling HRK 2,373.6 million. This was mainly due to a HRK 236.9 million increase in generated net profit and the stated minority interest due to the consolidation of Imperial (HRK 235.7 million increase).

The total long-term liabilities were 16.8% higher and as of 31 December 2016 totaled HRK 1,556.1 million due to i) arranged loans for financing investments and ii) the consolidation of Imperial which brought an increase of HRK 210.3 million increase.

The total short-term liabilities were 71.6% higher compared to 31 December 2015 and totaled HRK 394.1 million. This resulted from i) current repayment of long-term debt (HRK 21.0 million increase), ii) trade payables (increased by HRK 103.1 million) due to large investments and iii) the consolidation of Imperial (HRK 27.6 total increase).

Cash and cash equivalents as of 31 December 2016 totaled HRK 274.7 million. This 14% decrease is mainly due to i) investments in Imperial's shares and ii) large investments. The reported cash and cash equivalents indicate a strong further potential from business activities and external borrowings, able to ensure a smooth continuation of future investments and potential acquisitions.

Key operating indicators of Valamar Riviera Group per segments[23]

HOTELS AND RESORTS	Total			Premium			Upscale			Midscale			Economy		
	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015
Number of accommodation units	7,855	7,927	0.9%	1,037	1,037	0.0%	1,422	1,422	0.0%	3,047	3,112	2.1%	2,349	2,356	0.3%
Full occupancy days	147	158	7.6%	166	194	16.5%	157	159	1.5%	148	159	7.9%	130	139	6.7%
Annual occupancy rate (%)	40%	43%	7.3%	46%	53%	16.1%	43%	43%	1.2%	40%	44%	7.6%	36%	38%	6.4%
Accommodation units sold	1,151,809	1,250,795	8.6%	172,599	201,003	16.5%	222,829	226,086	1.5%	449,981	495,689	10.2%	306,400	328,017	7.1%
Overnights	2,503,172	2,668,550	6.6%	343,961	386,163	12.3%	487,576	500,925	2.7%	970,673	1,056,601	8.9%	700,962	724,861	3.4%
ADR[17]	718	735	2.4%	1,070	1,118	4.4%	928	984	6.0%	678	682	0.6%	424	410	-3.3%
Board revenues (in HRK)	826,767,088	919,726,790	11.2%	184,764,002	224,678,769	21.6%	206,882,926	222,521,004	7.6%	305,133,485	338,024,283	10.8%	129,986,675	134,502,733	3.5%
RevPAR[18] (in HRK)	105,257	116,025	10.2%	178,172	216,662	21.6%	145,487	156,485	7.6%	100,142	108,620	8.5%	55,343	57,089	3.2%
Adjusted EBITDA[24] (in HRK)	476,130,680	560,211,649	17.7%	107,849,926	144,730,691	34.2%	122,950,922	138,900,914	13.0%	170,816,094	195,987,797	14.7%	74,513,737	80,592,247	8.2%

Hotels and resorts reported HRK 919.7 million in board revenues. The Premium and Midscale segments were major drivers for the strong HRK 93.0 million increase. These results were largely due to a sales mix optimization, investments in the upgrade of products and services, and the successful realization of a number of business and entertainment events in Dubrovnik and Poreč. It should be noted that this growth was partly influenced by the results of destination Baška. Excluding them, the total board revenues for hotels and resorts reported a 10% growth.

The Premium segment reported the strongest growth in board revenues (HRK 39.9 million) and totaled HRK 224.7 million. This was mainly due to an increase in accommodation units sold (i.e. 28,404 more, or 201,003 total) and the 4.4% increase in the average daily rate. The Valamar Isabella Island Resort 4* & 5* was the main revenue driver. By focusing on direct sales channel, a longer operating period and M.I.C.E events it reported a strong growth of over HRK 17 million. Daimler AG-Mercedes-Benz organized the M.I.C.E. event "Global Training Experience" at the Valamar Dubrovnik President 5* and the Valamar Lacroma 4* in the February-mid April period and contributed to the prolongation of the operating period and high occupancy rates. The high-season growth of the Dubrovnik Premium segment was mainly due to the excellent positioning of the Valamar Dubrovnik President 5* in the individual channel. The adequate distribution of marketing segments ensured the significant growth of the Valamar Lacroma 4*, mainly through allotment and M.I.C.E. placements.

The Upscale segment reported a HRK 15.6 million board revenue growth. The increased average daily rate (+HRK 56) contributed to the HRK 222.5 million in board revenues. The Valamar Club Tamaris 4* owed its strong results to a successful firstminute allotment distribution and a stronger individual sales channel which was responsible for over two thirds of the total growth. The increase in the individual segment and occupancy contributed to a significant growth of Hotel & Casa Sanfior 4*. The management of the marketing segments and prices received a good market feedback and boosted the individual segment of the Valamar Zagreb 4*. Similarly, the Valamar Riviera 4* hotel owed its robust growth and high occupancy primarily to an increase in capacity (10 new accommodation units) which resulted in higher occupancy.

The Midscale segment of hotels and resorts reported a growth of HRK 32.9 million and contributed to a large extent to the total board revenue growth. The HRK 338.0 million board revenues were partially influenced by the business done in destination Baška during the first half-year of 2016. Excluding Baška, the Midscale board revenue growth exceeded HRK 15 million. The main revenue drivers were the Valamar Diamant 4* and the Valamar Club Dubrovnik 3*. The prolonged operating period, high occupancy rates, the new multifunctional hall which was an important feature for the M.I.C.E. channel as well as an improved realization of the group channel during the season resulted in a significant increase in the business volume and strong growth of the Valamar Diamant 4* board revenue. On the other hand, the Valamar Club Dubrovnik 3* grew in all its marketing segments due to an adequate placement of allotments and group. The Valamar Crystal 4* grew further mainly because of a strategic shift towards long-term charter partners which ensured additional occupancy through flights

[23] According to the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry). Business operations of Baška properties are included for the period January – December 2016, while in the comparable period of 2015 are included in the period July - December 2015. Destination Pula - Puntižela business is included in destination Poreč. A detailed comparison of the new portfolio segmentation is on page 18.

[24] When calculating adjusted EBITDA, internal allocation of revenues and expenses as well as inter-segment revenues and expenses are excluded from the calculation. Adjusted EBITDA of other segments amounts to HRK -229.6 million in 2016, i.e. HRK -189.9 million in 2015. Other segments include business of central operations, laundry, sport, central kitchen, strategic rentals, etc.

to Istria during the shoulder season and a longer operating period. The competitive price policy in defined periods that was focused mainly on occupancy resulted in increased board revenues in the Valamar Rubin 3*. The Allegro and the Miramar 3* in destination Rabac reported strong growth mainly due to a significant increase of the individual channel and adequate group and allotment placement in the pre-season period.

The Economy segment of hotels and resorts reported HRK 134.5 million in board revenues, representing a 3.5% increase. The Pical 3* board revenue increase was the result of a stronger individual sales channel, and an active price management, both contributing to a higher average daily rate. The Tirena 3* results grew due to the performance of the individual sales channel and optimal allotment placement.

An increased group volume and pre-season events led to the Lanterna's 2* increased board revenue. Fewer operating days reduced the Girandella Tourist Village 2* occupancy, although board revenues remained the same due to increased average daily rates.

Key operating indicators of Valamar Riviera Group per segments (continued)[23]

CAMPING RESORTS	Total			Premium			Upscale			Midscale			Economy		
	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015
Number of accommodation units	9,929	10,145	2.2%	475	511	7.6%	4,449	4,437	-0.3%	3,378	3,387	0.3%	1,626	1,810	11.3%
Full occupancy days	97	101	4.3%	137	132	-3.3%	101	106	5.0%	91	98	7.8%	87	87	-1.0%
Annual occupancy rate (%)	27%	28%	4.0%	38%	36%	-3.5%	28%	29%	4.7%	25%	27%	7.5%	24%	24%	-1.3%
Accommodation units sold	963,612	1,027,020	6.6%	65,054	67,694	4.1%	447,846	469,121	4.8%	308,523	333,531	8.1%	142,189	156,674	10.2%
Overnights	2,247,651	2,475,778	10.1%	186,363	197,491	6.0%	1,071,940	1,198,905	11.8%	668,609	721,187	7.9%	320,739	358,195	11.7%
ADR[17]	225	248	10.5%	288	361	25.4%	243	280	15.0%	203	209	2.9%	184	189	2.7%
Board revenues (in HRK)	216,483,213	254,989,779	17.8%	18,741,250	24,448,224	30.5%	108,877,309	131,206,913	20.5%	62,667,820	69,686,153	11.2%	26,196,835	29,648,489	13.2%
RevPAR[18] (in HRK)	21,804	25,134	15.3%	39,449	47,844	21.3%	24,472	29,571	20.8%	18,549	20,575	10.9%	16,111	16,380	1.7%
Adjusted EBITDA[24] (in HRK)	152,259,096	188,350,077	23.7%	13,718,824	17,245,497	25.7%	80,851,341	102,671,633	27.0%	38,672,507	46,834,312	21.1%	19,016,424	21,598,635	13.6%

Camping resorts reported HRK 255.0 million in total board revenue. The HRK 38.5 million increase was due to the strong positive market feedback that the newly invested properties received and to a lesser extent, to the results of the Baška camping resort operations in the first half of 2016. Excluding the Baška operations results, the total camping resort board revenues reported a solid 15% growth.

The Premium segment of camping resorts includes the Krk 5* campsite, which reported a strong 30.5% board revenue growth totaling HRK 24.5 million. This growth resulted from a HRK 73 increase in the average daily rate due to this years' investment in new mobile homes, improved quality and service as well as intensive promotional activities.

A 15.0% increase of the average daily rate in the Upscale segment of camping resorts resulted in a HRK 22.3 million increase in board revenues. The Lanterna 4* campsite contributed most to the reported board revenues total of HRK 131.2 million. The leading Istrian camping resort owed its 24% growth in board revenues to investments in new mobile homes, quality and service upgrades and promotional activities. The campsites Marina 4* and Ježevac 4*, owed their increased board revenues to a higher average rate. This years' Bunculuka 4* performance contributed to stronger Upscale results totaling HRK 3.6 million in additional board revenues.

The camping resort Midscale segment reported a HRK 69.7 million in board revenues. The Zablaće 3* campsite year-round consolidation is mainly the result of the 11.2% increase in board revenues. This is because early Easter holidays do not benefit camping operations and cause fewer operating days and lower board revenues.

The Economy segment reported HRK 29.7 million in board revenues. The HRK 3.5 million increase is mainly due to investments in the Brioni 2* campsite and the new Tunarica 2* campsite operations.

Key operating indicators of Valamar Riviera Group per destinations[23]

DESTINATION	Poreč			Rabac			Island of Krk			Dubrovnik		
	2015	**2016**	**2016/ 2015**	**2015**	**2016**	**2016/ 2015**	**2015**	**2016**	**2016/ 2015**	**2015**	**2016**	**2016/ 2015**
Number of accommodation units	10,592	10,632	0.4%	1,913	2,065	7.9%	3,318	3,414	2.9%	1,961	1,961	0.0%
Full occupancy days	113	116	2.9%	138	136	-0.8%	107	128	18.7%	153	166	8.6%
Annual occupancy rate (%)	31%	32%	2.6%	38%	37%	-1.1%	29%	35%	18.4%	42%	45%	8.3%
Accommodation units sold	1,195,798	1,234,697	3.3%	263,064	281,750	7.1%	356,269	435,348	22.2%	300,290	326,020	8.6%
Overnights	2,716,812	2,881,737	6.1%	598,486	642,552	7.4%	863,065	1,010,914	17.1%	572,460	609,125	6.4%
ADR[17]	430	465	8.1%	546	538	-1.5%	376	384	2.3%	838	864	3.2%
Board revenues (in HRK)	514,060,909	574,077,286	11.7%	143,606,002	151,518,687	5.5%	134,035,119	167,341,883	24.8%	251,548,271	281,778,713	12.0%
RevPAR[18] (in HRK)	48,534	53,995	11.3%	75,068	73,375	-2.3%	40,402	49,016	21.3%	128,276	143,691	12.0%
Adjusted EBITDA[24] (in HRK)	303,823,058	368,687,622	21.3%	79,821,108	85,462,089	7.1%	88,965,226	109,627,842	23.2%	155,780,384	184,784,174	18.6%

Destination Poreč reported HRK 574.1 million in board revenues. The average daily rate growth of HRK 35 and the 3.3% increase in the number of accommodation units sold resulted in a HRK 60.0 million increase in board revenues. The most significant contribution to the board revenue growth in this destination was attributed to the excellent performance of the Valamar Isabella Island Resort 4* & 5*, the Lanterna 4* campsite and the Valamar Diamant 4* hotel. A solid occupancy was mainly due to group and allotment placements in the shoulder season, and individual placements in the Christmas/ New Year period.

Destination Rabac owed its HRK 7.9 million increase in board revenue to an increase in accommodation units sold (+18,686). The reported HRK 151.5 million in board revenues was mostly attributed to the strong performance of the Hotel & Casa Valamar Sanfior 4*, the Allegro hotel 3* and the Miramar hotel 3*, as well as the Marina campsite 4*.

Destination Krk reported board revenues amounting to HRK 167.3 million (+24.8%), mainly due to the destination Baška 2016 yearlong consolidation. Excluding the performance of hotels, resorts and camping resorts in destination Baška, board revenues rose by 10.5%, while the rest of the growth is mainly due to the strong performance of the Krk 5* campsite.

Destination Dubrovnik reported a growth in the average daily rate (+HRK 26) and an 8.6% rise in accommodation units sold. This resulted in a robust HRK 30.2 million increase in board revenues, totaling HRK 281.8 million, mostly due to the excellent performance of two hotels: the Valamar Dubrovnik President 5* and the Valamar Lacroma 4* (which stayed open the whole year round) and good group and allotment placements in the shoulder season.

Over the years Valamar Riviera has consolidated its portfolio in order to clearly differentiate, develop and reposition its tourism products. A precise definition of market segments, innovative development of service concepts, brand management, profitability increase and return-on- investment optimization demanded a revised segmentation of the portfolio of hospitality properties to provide for an improved portfolio management.

The acquisition of Imperial d.d. added 5 new hotels and resorts and 2 camping resorts to Valamar Riviera's portfolio. The additional 2,855 accommodation units with daily capacities for 7,513 guests will contribute to the growth of the Group's business volume and profitability in 2017. The resulting Group's total accommodation capacity in 2017 will include 20,948 keys. The Group's properties will be able to welcome 56,774 guests daily.

Hotels and Resorts Overview[25]

	Categorization		Segment		Destination
	2015	2016	2015	2016	
Valamar Dubrovnik President Hotel	*****	*****	Premium	Premium	Dubrovnik
Valamar Isabella Island Resort	****+	**** / *****	Premium	Premium	Poreč
Valamar Lacroma Hotel	****+	****+	Premium	Premium	Dubrovnik
Valamar Club Tamaris	****	****	Upscale	Upscale	Poreč
Valamar Riviera Hotel & Residence	****	****	Upscale	Upscale	Poreč
Valamar Zagreb Hotel	****	****	Upscale	Upscale	Poreč
Hotel & Casa Valamar Sanifor	****	****	Upscale	Upscale	Rabac
Valamar Argosy Hotel	****	****	Upscale	Upscale	Dubrovnik
Hotel Padova	/	****	/	Upscale	Island of Rab
Valamar Diamant Hotel & Residence	****	****	Midscale	Midscale	Poreč
Valamar Crystal Hotel	****	****	Midscale	Midscale	Poreč
Valamar Pinia Hotel & Residence	***	***	Midscale	Midscale	Poreč
Valamar Rubin Hotel	***	***	Midscale	Midscale	Poreč
Valamar Bellevue Hotel & Residence Albona	****	****	Midscale	Midscale	Rabac
Allegro Hotel	***	***	Midscale	Midscale	Rabac
Miramar Hotel	***	***	Midscale	Midscale	Rabac
Hotel Corinthia	***	***	Midscale	Midscale	Island of Krk
Zvonimir Hotel, Atrium & Villa Adria	**** / *****	**** / *****	Midscale	Midscale	Island of Krk
Valamar Koralj Romantic Hotel	***	***	Midscale	Midscale	Island of Krk
Valamar Club Dubrovnik	***	***	Midscale	Midscale	Dubrovnik
Grand Hotel Imperial	/	***	/	Midscale	Island of Rab
Hotel & Ville Carolina	/	***	/	Midscale	Island of Rab
Tourist Village San Marino	/	***	/	Midscale	Island of Rab
Naturist Resort Solaris	***	***	Economy	Economy	Poreč
Pical Hotel	***	***	Economy	Economy	Poreč
Tirena Hotel	***	***	Economy	Economy	Dubrovnik
Girandella Tourist Village	**	**	Economy	Economy	Rabac
Lanterna Apartments	**	**	Economy	Economy	Poreč
Hotel Eva & Apartments Suha Punta	/	**	/	Economy	Island of Rab
Marina Hotel & Mediteran Residence	**	**	Economy	Economy	Rabac

Camping Resorts Overview[25]

	Categorization		Segment		Destination
	2015	2016	2015	2016	
Camping Krk	*****	*****	Premium	Premium	Island of Krk
Camping Ježevac	****	****	Upscale	Upscale	Island of Krk
Camping Lanterna	***	****	Upscale	Upscale	Poreč
Camping Marina	****	****	Upscale	Upscale	Rabac
Naturist Camping Bunculuka	****	****	Upscale	Upscale	Island of Krk
Camping Orsera	***	***	Midscale	Midscale	Poreč
Naturist Resort Solaris	***	***	Midscale	Midscale	Poreč
Camping Zablaće	***	***	Midscale	Midscale	Island of Krk
Camping Škrila	***	***	Midscale	Midscale	Island of Krk
Camping Solitudo	***	***	Midscale	Midscale	Dubrovnik
Camping & Residence San Marino	/	***	/	Midscale	Island of Rab
Camping Padova 3	/	***	/	Midscale	Island of Rab
Naturist Camping Istra	***	**	Economy	Economy	Poreč
Camping Brioni	**	**	Economy	Economy	Pula - Puntižela
Camping Tunarica	/	**	/	Economy	Rabac

25 Business operations of Imperial's properties are not included in 2015 and 2016. Business operations of Baška's properties are included in 2016, while in the comparable period of 2015 are included in the period July - December 2015.

Results of the Company

It should be noted that the data provided in the current year's financial statements are not fully comparable to prior comparable period data because of the said mergers. The items in the prior comparable period until the time of the merger, that is i) until 27 February 2015 do not include the data for the merged company Valamar hoteli i ljetovališta d.o.o., ii) until 31 March 2016 do not include the data for the merged company Hoteli Baška d.d., and iii) until 30 June 2016 do not include data for the merged company Bastion upravljanje d.o.o. All significant changes in the Company's financial statements should be viewed in the context of the said transactions in the previous period.

During 2016, total revenues increased by HRK 289.8 million, totaling HRK 1,559.1 million. Sales revenues totaled HRK 1,440.4 million, representing 93% of total revenues (92% in 2015), They were HRK 257.2 million higher compared to the same period last year. Sales revenues between parties within the group were HRK 0.6 million (HRK 4.4 million in 2015) while sales revenues outside the group were HRK 1,439.8 (HRK 1,178.8 million in 2015).

Domestic sales revenues grew by 22% compared to the same period last year, totaling HRK 117.4 million and representing 8% of total revenues (8% in 2015). International sales revenue grew by 22% compared to the same period last year, totaling HRK 1,323.0 million, representing 85% of total revenues (86% in 2015). Other operating and financial income comprised 8% of the total revenues (7% in 2015). Other operating revenues grew by 40%, totaling HRK 30.5 million and represent 2% of the total revenues (2% in 2015).

Material costs grew by HRK 64.6 million, totaling HRK 474.1 million and represented 38% of operating expenses (38% in 2015). Staff costs amounted to HRK 365.3 million, representing 30% of operating expenses (29% in 2015). Compared to the same period last year, they grew by HRK 57.7 million. This growth was attributed to increased business volume, the merged companies' staff takeover, and to a lesser extent, employees' salary increase. Amortization and depreciation represented 20% of operating expenses (19% in 2015) and totaled HRK 243.2 million (HRK 206.8 million in 2015). The 18% growth is the result of earlier large investments.

Compared to the same period last year, financial income grew by HRK 23.8 million and totaled HRK 88.1 million. Other financial income reported the strongest growth, with a HRK 36.4 million increase mainly due to the Company's share portfolio sales totaling HRK 34.8 million. Interest income, foreign exchange differences, dividends and similar third-party related income grew by HRK 10.0 million. As a result of a 1% stronger HRK in relation to the EUR during 2016, exchange rate gains in settled unrealized balance sheet items and loan payments reported HRK 23.5 million. This contributed to the decrease in balance sheet items denominated in EUR and disclosed in HRK. Revenues form time deposits, a vista accounts and placements totaled HRK 4.1 million. A smaller amount of free cash funds during 2016 compared to the same period last year as well as a significant reduction in market interest rates resulted in a decrease in these revenue levels. In 2016, dividend revenues from the related company Valamar hoteli i ljetovališta d.o.o. (merged to Valamar Riviera d.d. on 27 February 2015) totaling HRK 24.0 million were not paid out. Unrealised revenues (gains) from financial assets grew by HRK 4.1 million, resulting from the valuation of euro/kuna forward transactions contracted for 2016 as FX hedge.

Financial expenses decreased by HRK 10.2 million compared to the same period a year ago and totaled HRK 60.8 million, representing 5% of total expenses (6% in 2015). Expenses resulting from interest and foreign exchange differences decreased by HRK 14.5 million. Other financial expenses grew by HRK 1.7 million. The most significant change compared to the same period a year ago is related to exchange rate losses from settling unrealized balance sheet items, which fell by HRK 25.3 million due to the said stronger HRK in relation to the EUR in 2016. A HRK 10.5 million increase in interest expenses is related to the increase of debt resulting from loans contracted for financing the investments and the merger of Hoteli Baška d.d. and its debt carryover.

Valamar Lacroma Dubrovnik 4*, Dubrovnik

The Company's strategical focus on key expansion drivers and long-term goals and the increased business volume and more efficient business activities resulted in a 109% increase in profit before tax compared to last year, totaling HRK 265.1 million. Operating profit increased by 78% totaling HRK 237.7 million. The Company gross margin increased by 700 basis points and amounted to 18% (11% in 2015). Net income increased by HRK 230.8 million and totaled HRK 336.7 million. This is mainly due to i) increased operating profit, ii) positive extraordinary financial result, and iii) one-time recognized deferred tax assets which will burden the gross profit in the forthcoming years of utilization[26].

The total Company assets as of 31 December 2016 amounted to HRK 4,148.0 million and increased by 17% in relation to the prior comparable period.

[26] Net tax revenue totaled HRK 71.6 million and largely resulted from the recognized deferred tax assets due to tax incentives (prescribed by the Act on Investment Promotion and Investment Improvement).

2016 Investments

In 2016 over HRK 428 million investments were focused on upgrading Valamar Riviera's long–term asset portfolio. It should be noted that HRK 159.8 million refers to pipeline projects. In 2016 over HRK 260 million were invested in the upgrade of the portfolio hotels, apartments, and campsites. Over 50% of the total 2016 investments was earmarked for developing accommodation, services and amenities in campsites operating under the Camping Adriatic by Valamar brand.

After completing the HRK 34 million investment in the Krk campsite, it became the first five-star camping resort in Croatia. This unique, eco-friendly, family camping resort is one of the three Croatian member campsites of the prestigious association "Leading Campings of Europe". It includes a number of attractive features such as heated swimming pool, wellness oasis, and promenade with entertainment amenities, children's swimming pool, children's water playground and fully refurbished sanitary units. The numerous amenities include Maro Mini and Midi clubs for younger children, as well as Teens Club and Hobby Club for older children. The "Bella Vista Premium Village", a complex of 63 designer mobile homes with sea view, increased the accommodation capacity. Special attention was devoted to energy efficiency and sustainable development: the campsite has a unique system for wastewater purification and landscape irrigation by utilizing purified wastewater. Over 300 trees were planted and the beach boasts a Blue Flag.

HRK 87 million were invested in upscaling the Lanterna campsite (from 3* to 4*). The Lanterna is the leading Istrian campsite and a member of the association „Leading Campings of Europe". New accommodation units were introduced as part of the Istrian Village project. Besides, innovative accommodation for Glamping (i.e. luxury camping) fans were also added, as well as two brand-new theme accommodation zones with a total number of 119 new mobile


Camping Lanterna 4*, Poreč

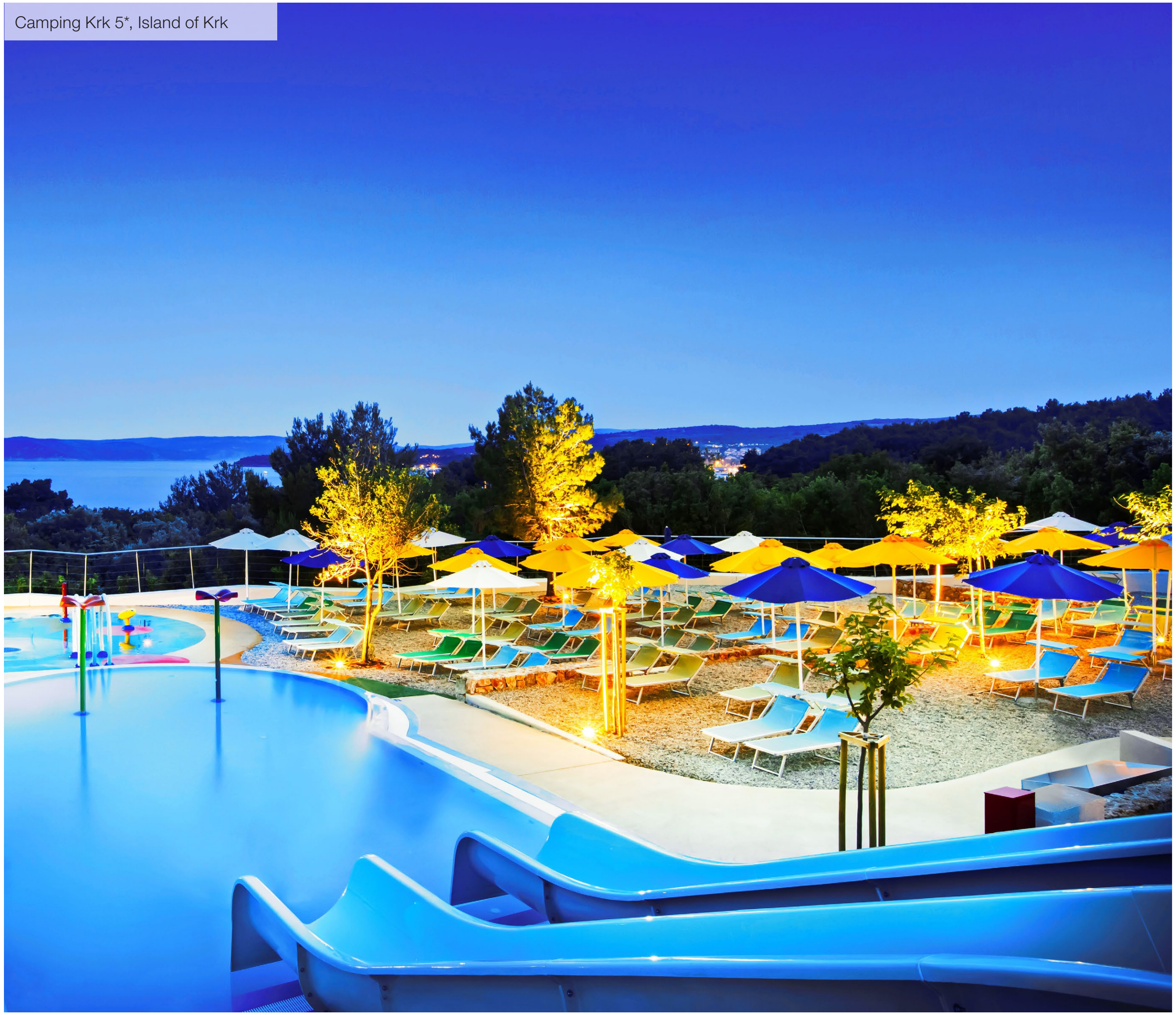
homes. Numerous plots were renovated, the landscape was redesigned and the reception area refurbished. There are also various new facilities such as the Adria sand beach featuring the new "Beach Bar" , the new "Cafe Belvedere" and many more. The campsite's guests can enjoy the new water park featuring four swimming pools, numerous slides and other children attractions on a total water surface area of 1,350 m^2. The main swimming pool near the beach and two sanitary units were refurbished.

Investments into quality improvement were also carried out in other campsites on the island of Krk, in Istria and Dubrovnik – the investment focus was improving accommodation, beach amenities and outlets. The camping segment shows considerable potential for developing innovative camping resorts, i.e. resorts offering higher value-added accommodation and services targeting high-end guests. However, the development of such projects is hindered due to unresolved legal issues regarding tourism land. Thus, Valamar Riviera's investment scope is still restricted to partial investments in campsite facilities and amenities. Were these issues resolved, a repositioning potential would open up not only in Valamar Riviera's portfolio, but also elsewhere in Croatia, thus improving the campsites' position in relation to the top European competitors.

2015 successful Valamar Isabella Island Resort project continued with HRK 12 million invested in turning part of the products and services into premium segments (53 accomodation units in total: the Miramare annex, the Castle and 7 villas).

In 2016 Valamar Riviera refurbished a number of restaurants: the Delfin, the Orsera and the former "Slavija" restaurant which was turned into three new facilities – the "La Pentola II" restaurant, the "Craft" alehouse, and "The Beat" beach club. There was a number of successful projects aiming at creating new and improving present amenities, thus enhancing the quality and experience of a destination. Among the numerous projects carried out is the Valamar Diamant 4* hotel sports hall which was turned into a multifunctional facility for sports and other kinds of events. Further investments in improving beaches and staff accommodation were also carried out, along with IT and business digitalization projects, improvements in technological processes and energy savings in laundry operations, as well as other projects related to energy efficiency.

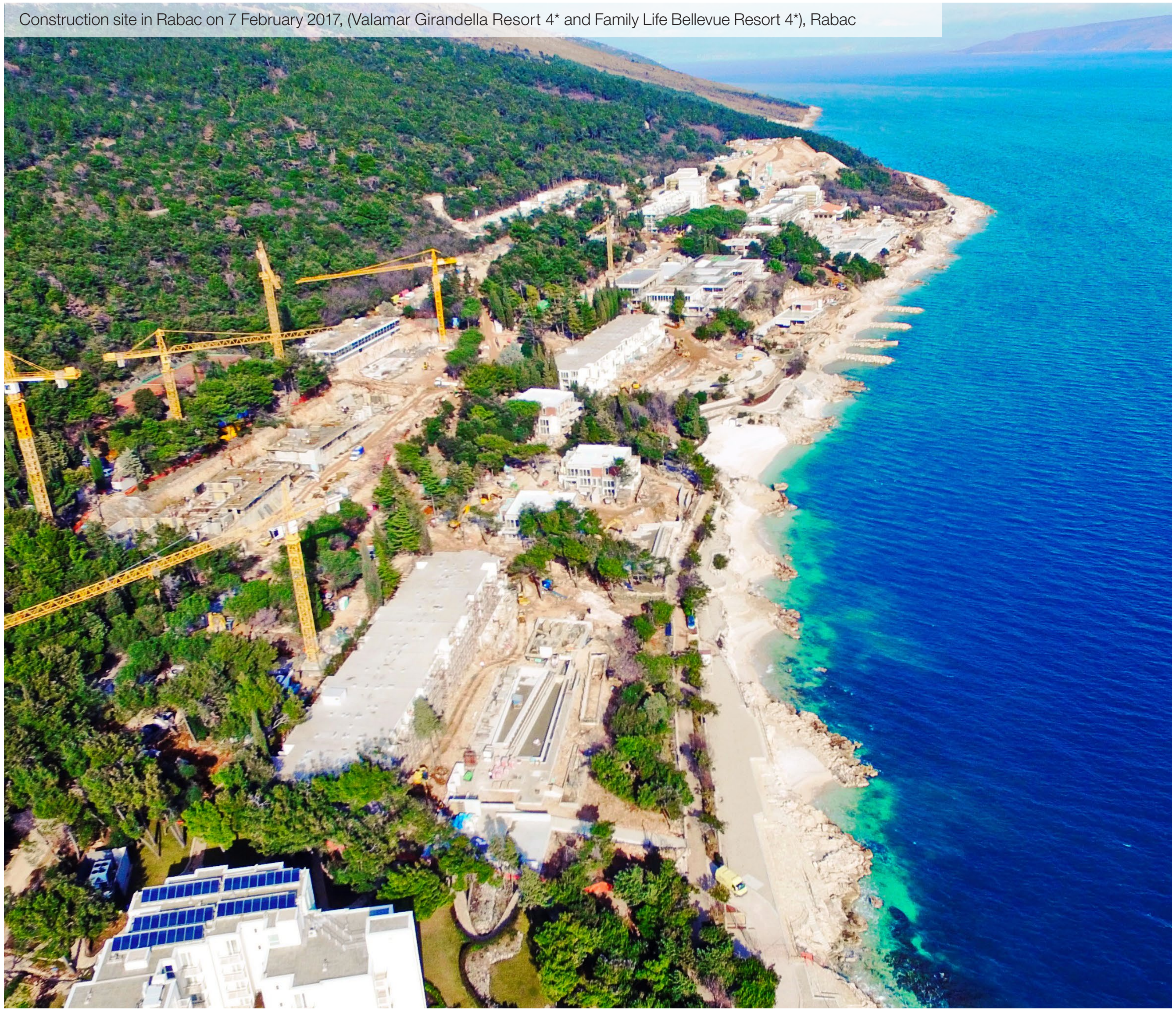
Camping Krk 5*, Island of Krk



2017 Investments

Valamar Riviera's Supervisory Board approved a total of HRK 873 million for investments planned in 2017[27]. This is the largest series of investments focused on the Company's hospitality portfolio so far. HRK 465 million were earmarked for improving products and services in destination Rabac (Family Life Bellevue Resort 4* and Valamar Girandella Resort 4*/5*). Besides investing in hotels and resorts, a series of investments totaling HRK 188 million will be focused on campsites. The most significant are investments in the Lanterna camping resort and the Zablaće and Ježevac campsites. Investment maintenance totals HRK 71 million, while other individual investments total HRK 149 million.

Two luxury resorts, a brand new Family Life Bellevue Resort 4* (the first TUI Family Life hotel in Croatia) and a fully renovated Valamar Girandella Resort 4*/5* will welcome Rabac's guests at the start of season 2017. This large investment project in Rabac includes the total reconstruction of the two resorts totaling 764 accommodation units, the construction of 17 restaurants and bars, and 13 pools with total water surface of more than 2,000m². The new features include Maro club and various children playgrounds, two entertainment centers, spa, indoor and outdoor fitness facilities, bike center and other sports amenities. More than 600 staff members will attend to 2,700 guests daily. The investments include various improvements of beaches and promenades as well as a total landscape redesign of the whole area. Croatian contractors and suppliers have been hired to carry out most of the construction work and 50% of them are local, Istrian entrepreneurs. These investments will reposition destination Rabac as a leading upscale vacation destination. The resorts will be opened in early June 2017, and the work is proceeding as planned. The strategic partnerships with the leading European tour operators – TUI and DER Touristik Köln will ensure occupancy (for details, see "Significant Business Events" on page 7). With this, more than 100,000 guests are



Construction site in Rabac on 7 February 2017, (Valamar Girandella Resort 4* and Family Life Bellevue Resort 4*), Rabac

[27] A portion already recorded in 2016.

expected to visit Rabac in the next three years, thus improving the promotion of Istrian tourism. Moreover, the number of guests from air travel markets will increase, thus creating opportunities for season prolongation.

Besides key investments in Rabac, Valamar Riviera continues investing in the concept of premium camping. Investments totaling HRK 98 million are focused on upgrades in the leading European campsite, the Lanterna 4* camping resort. The reception area together with the shops and hospitality outlets will be renovated, while the campsite will feature new high quality mobile homes and new amenities for children. Valamar Riviera will invest HRK 68 million in upgrading accommodation and services on the island of Krk and in new high quality mobile homes for the Ježevac 4* and Zablaće 3*/4* campsites. In order to improve the quality of other campsites on the island of Krk, in Istria, and in Dubrovnik a range of investments will be focused on improving accommodation, beach amenities, and hospitality outlets.

Moreover, a range of other projects to create new and improve existing features is in the pipeline. They will considerably improve the quality and experience in all destinations. They will focus on beaches, IT and business digitalization, technological processes and energy efficiency.

As stated in our strategic goals, by continuously raising the quality of portfolio facilities, services, and contents, we are creating the basis for generating added value both for our guests and for all Valamar Riviera's stakeholders. However, the still unresolved issue of tourism land, VAT and the rate of total contributions to salaries, which are both one of the highest on the Mediterranean, hinder further investment potential. Unfortunately, tourism is still not sufficiently recognized as an opportunity for the Croatian economy. Apart from the current HBOR loans (Croatian Bank for Reconstruction and Development), tax incentives prescribed by the Act on Investment Promotion and Improvement, and the decrease in the income tax rate (from 20% to 18%, January 2017) there are no other measures that could significantly increase the growth pace and contribute to level Croatia's position with other destinations on the Mediterranean.

Family Life Bellevue Resort 4* (preliminary visualization), Rabac

The Risks of the Company and the Group

Tourism is a global industry, closely connected with the real and financial economy, geopolitical position and environmental sustainability. The integrity of this industry will determine its future growth. The Company and Group monitor and assess risks at micro and macro levels. Moreover, when defining the strategy, particular attention is given to the short and medium–term risk impact in order to maintain business sustainability over time.

When monitoring and assessing risks the Company and Group use a proactive approach thus assessing the potential impact of each individual risk. The Company and Group consider risk management to be a key factor of differentiation among competitors. Risk management aims at creating sustainable value, thus offering reliability and security to numerous stakeholders.

There are five key steps in a risk management process:
1) Identifying potential risks;
2) Assessing identified risks;
3) Determining actions and responsibilities for efficient risk management;
4) Monitoring and overseeing preventive actions;
5) Exchanging information on risk management results conducted by the Management board.

The different types of risks facing Valamar Riviera can be classified into the following groups:
- Financial risks
  - related to financial variables, can have a negative

Valamar Isabella Island Resort 4* & 5*, Poreč

impact on meeting liabilities for the company and the Group, liquidity, debt management etc.;

- Business risks
  - related to the way company business is conducted in terms of supply and demand, competition, adapting to market trends, investments, growth etc.;
- Operational risks
  - can arise form errors in business operations, human error, IT system etc.;
- Global risks
  - can arise from natural disasters, pandemics, food shortage, social unrest, wars and other force majeure events beyond Valamar Riviera's control;
- Compliance risks
  - can arise from failure to comply with state laws and local regulations; risks related to changes in tax and other regulations.

Financial risks

In their day-to-day business activities, the Company and Group face a number of financial threats, especially:

1) Foreign exchange risk;
2) Interest rate risk;
3) Price risk;
4) Credit risk;
5) Liquidity risk;
6) Share-related risks.

The Company and Group have a proactive approach in mitigating interest rate and foreign exchange risks, by employing available market instruments. Internal risk management goals and policies aim at protecting foreign currency inflows during seasonal activity and partial interest hedging of the principal loan amount.

1) Foreign exchange risk

The Company and Group conduct their business operations across national borders and are exposed to foreign exchange risks. They mainly result from changes in the euro/ kuna exchange rate. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. Most of our sales revenue generated abroad and long-term debt is denominated in euros. Hence, for the most part the Company and Group are naturally hedged from exchange rate risks. Since some liabilities are denominated in kunas, the Company and Group actively manage risks by using derivative instruments available on the financial market. The instruments are used according to operating assessments and expected market trends. In this way the assets, liabilities and cash flow are protected from the risk impact.

2) Interest rate risk

Variable rate loans expose the Company and Group to cash flow interest rate risk. Periodically, the Company and Group resort to derivative instruments in order to hedge cash flow and interest rate by applying interest rate swaps. The economic effect of such swaps is the conversion of variable interest rate loans into fixed interest rate loans for a pre-committed hedged part of the loan principal. The Company and Group have interest-bearing assets (cash assets and deposits) so their revenue and cash flow depend on changes in market interest rates. This becomes evident especially during the season when the Company and Group have significant cash surpluses at their disposal.

3) Credit risk

Credit risk arises from cash assets, time deposits and receivables. According to the Company and Group sales policy, business transactions are conducted only with customers with suitable credit history, i.e. by agreeing advances, bank securities and (for individual customers) payments made through major credit card companies. The Company and Group continuously strive to monitor their exposure towards other parties and their credit rating as well as obtain security instruments (bills of exchange, promissory notes) in order to reduce bad debt risks related to services provided.

4) Price risk

The Company and Group hold equity and debt securities and are exposed to equity price risk due to security price volatility. Valamar Riviera is not an active participant in the market trade in terms of investing in equity and debt securities. However, with the HRK 285 million invested in buying shares of Imperial d.d., the company is exposed to the said risk to a certain extent.

5) Liquidity risk

The Company and Group have a sound liquidity risk management. Sufficient funds for meeting liabilities are available at any given moment through adequate amounts from contracted credit lines and by ensuring credit line availability in the future. Liquidity risk is managed by generating strong positive net operating cash flows, while capital investments are financed by credit lines. All the credit lines in 2017 have already been arranged with financial institutions. The repayment of the major credit lines coincides with periods of strong cash inflows from operations. The Company and Group monitor the level of available funds through daily cash and debt reports. Long-term cash flow forecasts as well as annual (monthly) forecasts are based on the set budget. After meeting the needs of working capital management the surplus is deposited in the treasury. From there the funds are invested in interest-bearing current accounts, time deposits, money market deposit accounts and marketable securities. Only instruments with suitable maturities and sufficient liquidity are selected, according to the forecast needs for liquid funds.

6) Share-related risks

The market value of shares is the riskiest asset class due to its volatility resulting from the volatile nature of the whole capital market, macroeconomic trends on markets where the Company and Group operate and discrepancies between the expectations of financial analysts and the actual results. Furthermore, other contributing factors are also changes in the dividend policy, various activities in the segment of consolidations, mergers, acquisitions and forming of strategic partnership, the instability of the business model of the Company and Group as well as the fluctuations in the financial results for the Company and Group. In case any negative implications happen to be associated with these factors there is a considerable risk of market value drop that will in turn prevent investors from selling their shares at a fair market price.

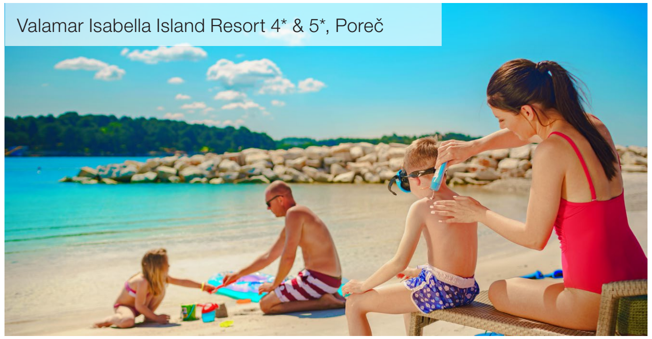
Business risk

The Company and Group are constantly exposed to risks threatening its competitiveness and future stability. Since the Company and Group own real estate, this business model requires a large amount of capital in order to maintain high product and service standards. Various large capital investments in the upgrade of products and services can surpass budget expectations, delay the end of construction works, as well as the town-planning regulations and fiscal policy may be changed. These risks can increase costs for the Company and Group, and have a negative impact on the cash flow and revenues. In the previous period, the company and Group's business decisions improved their results and operating efficiency in the demanding Mediterranean market. These positive trends are expected to continue in the future through a prudent long-term strategic management.

Over 95% of Valamar Riviera's guests come from other countries and they are very careful when choosing their vacation destination in the competitive Mediterranean environment. Stable country macroeconomic indicators are important decision-making factors especially those relating to exchange rates and the price of goods and services because they directly affect the guests' purchasing power. However small, the share of domestic guests is also important; it is a segment directly influenced by various other macroeconomic indicators: employment/ unemployment rate, GNP rise/ fall, industrial production and others. They all have a direct impact not only on the purchasing power of Croatian residents but they also determine whether they will choose to spend their vacation on the Adriatic.

When considering risks related to the tourism and hospitality industry, in previous years, the Croatian economy has been afflicted by the consequences of a global financial crisis and economic standstill. In this period, the tourism and hospitality industry has been among the rare growing industries in Croatia. Moreover, the marked seasonality of this industry leads to insufficient use of the Company and Group's resources. After joining the European Union, the Croatian market became part of a large European market, while safety risks decreased after joining the NATO. The Croatian Tourism Development strategy until 2020 (a government document published in the Official Gazette no. 55/13) defines the kind of tourism Croatia wants and needs to develop using the country's comparative advantages and expertise in order to improve the competitiveness of Croatian tourism. Maintaining the current tourism growth rates in the following years is of vital importance. It can be achieved by strategically developing tourism products and investing in the creation of additional values, which will help distinguish Croatian tourism from its competitors by emphasizing its uniqueness, appeal and quality.

Good management of human resources is vital for the future growth of the Company and Group. Risks related to shortages of specific skills, expertise and jobs are connected with the opening and expansion of the labor market. Valamar Riviera is one of the largest and most desirable employers in tourism. The active approach towards HR management develops key talents and supports investments in training opportunities (over HRK 3 million invested in training and professional development in 2016). We determine the needs for new skills and expertise by following emerging global trends in tourism. In this way, we are able to respond to challenges effectively. Through a continual dialogue with our social partners, we have ensured a high level of workers' rights in terms of competitive salaries, reward systems, career development, employees' wellbeing and cooperation with training institutions from all parts of Croatia.



Valamar Isabella Island Resort 4* & 5*, Poreč

Operational risks

Operational risks are risks connected with direct or indirect losses that arise form inadequate or wrong internal or external processes within the Company and the Group. They include the creation, analysis and insufficient or inadequate internal and external information exchange. When implementing the system of operational risk management, the Company and Group focused on its continuity and complexity due to the size of the organization. The benefits of the system include i) defining and identifying the Company and Group risk profile in relation to the operating risk ii) identifying and managing the known risk occurrences in order to decrease the Company and Group costs and iii) data analysis which indicates the business trends for the Company and Group and trends in the domestic economy.

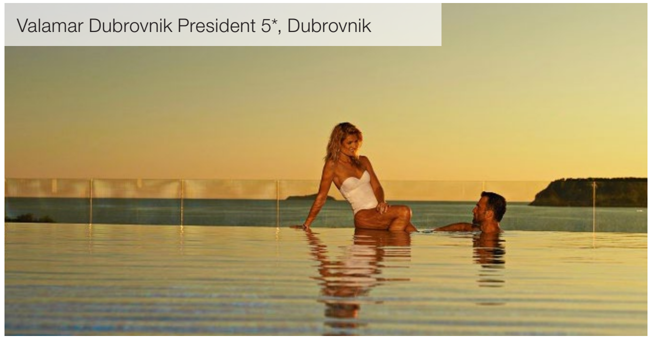
The Company and Group are aware of the reliability of IT business solutions and safety in the cyber world. Hence, they continually upgrade, develop and implement new technologies in everyday business operations. A special focus is given to providing sufficient resources for the development and implementation of new technologies related to ICT, energy efficiency, data protection, and upgrade of the current business systems and implementation of new ones.

Global risks

Despite improved security and political conditions, which have encouraged to a certain extent investments into tourism and hospitality, there are challenges that the Croatian tourism has to face, such as:

- Periods of global financial crisis which reduce the purchasing power of the travelling-prone population;
- Security issues related to globally escalating terrorism threats;
- Security and political instability in the immediate environment of the neighboring countries.

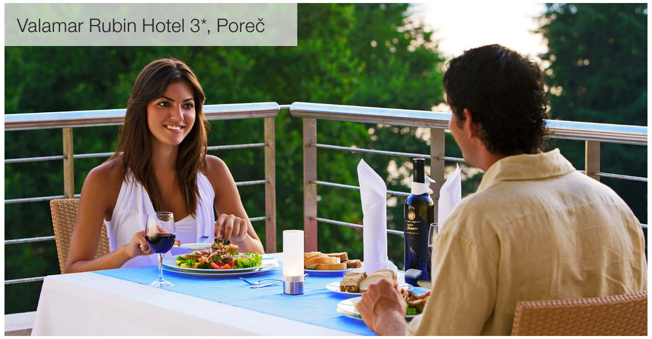
Environmental risks can also have an adverse effect on the Company and Group's business results, primarily in terms of customer satisfaction with the whole experience while staying at one of Valamar's properties and this can affect the number of arrivals. The possible risks can include: sea pollution (caused by oil or chemical spillage), but also long-term water quality reduction and coast pollution due to inadequate waste disposal and waste water treatment as well as extensive use of agricultural fertilizers. Other environmental conditions typical for climate changes such as long drought periods or long rainy periods can directly influence the guests' length of stay in the hotels and campsites as well as increasing the operating costs. A number of other natural disasters and calamities (earthquakes, fires, floods and rainstorms), air pollution caused by toxic gas emissions from industrial plants and vehicles, as well excessive urbanization and the introduction of invasive species should also be taken into consideration.


Valamar Dubrovnik President 5*, Dubrovnik

Compliance risks

Changes in tax laws and other regulations pose a very serious threat and represent a demanding segment in risk management because in this particular situation the possibilities for the Company and Group are limited. In previous years, there has been a number of important changes in tax and non-tax charging regulations, which have adversely affected the Company and Group profitability:

- In March 2012 the standard VAT rate grew from 23% to 25%, in January 2013 a new 10% VAT rate was introduced only to be replaced within a year by a 13% VAT rate applicable to the tourism and hospitality industry (January 2014), while in January 2017 a new 25% VAT rate was introduced for F&B (a la carte) services;
- In May 2012 the health insurance employer contribution rate fell from 15% to 13% and then in April 2014 it grew back to 15%;
- Frequent increases in various fees and charges regarding water distribution and the like.


Valamar Rubin Hotel 3*, Poreč

Such frequent changes in laws regulating taxes and parafiscal charges often take place only after the business policy and budget for the next financial year have been approved and commercial terms and conditions with partners agreed. All this jeopardizes the Company and Group financial position and future investment plans as well as credibility towards shareholders. The Company and Group are also threatened by changes in regulations governing concession fees for maritime domain and tourism land use, the latter still presenting unresolved legal issues. Given the nature of the Company and Group's business, the right to use parts of the maritime domain as well as land for tourism purposes is of vital importance for future growth, especially for campsite-related operations. Apart from the current HBOR loans (Croatian Bank for Reconstruction and Development), tax incentives prescribed by the Act on Investment Promotion and Improvement, and the decrease in the income tax rate (from 20% to 18%, January 2017) there are no other measures that could significantly increase the growth pace and contribute to level Croatia's position with other competitors on the Mediterranean.

Corporate Governance

The company Valamar Riviera d.d. and the Group continuously strive to develop and operate according to good practices of corporate governance. The business strategy, corporate policy, key corporate regulations and business practice are all geared towards creating a transparent and efficient business operation while forging solid bonds with the local community. In order to foster further growth and set high corporate governance standards, the Company adopted its own Corporate Governance Code in 2008 and the Management Board fully complies with its provisions. After the company was listed on the Official market of the Zagreb Stock Exchange, the Company has also complied with the Zagreb Stock Exchange Governance Code. The Company respects and implements the prescribed corporate governance measures (as reported in detail in the prescribed annual questionnaire and published as prescribed on the Zagreb Stock Exchange and Valamar Riviera websites).

The major direct shareholders according to the Central Depository and Clearing Company data are listed in the table in the "Valamar Riviera Share" section.

The Company defined the process of preparing and disclosing financial reports in a detailed internal document. With this, the financial reporting procedure is set within a system of internal review and risk management. Moreover, in order to monitor and mitigate the said risk, the Company uses the measures described in "The Risks of the Company and the Group".

The Companies Act and the Company's Articles of Association define the General Assembly's authority and prescribe how it meets and works. The meeting invitation, proposals and the adopted resolutions are made public according to the provisions of the Companies Act, the Capital Market Act and the Zagreb Stock Exchange Rules

There is a time limit related to the voting right at the General Assembly: according to the provisions of the Croatian Companies Act, shareholders are required to register their participation within the prescribed time limit in order to attend the General Assembly. Under no circumstances can the financial right arising from securities be separated from holding the securities. There are no securities with special control rights nor are there any limitations to voting rights in the Company (one share, one vote). The Company's Articles of Association comply with the Croatian Companies Act and they define the procedure of appointing and recalling members of the Management Board and Supervisory Board. There are no limitations based on gender, age, education, profession or similar.

According to the General Assembly's decision dated 17 November 2014, the Company can acquire its own shares.

The Companies Act determines any amendments to the Company's Articles of Association, without any additional limitations.

The Management Board members' authority fully complies with the regulations prescribed by the Companies Act.

The Company's Corporate Bodies Are:

Management Board: Mr. Željko Kukurin, President of the Management Board, and Mr. Marko Čižmek, Member of the Management Board.

Supervisory Board: Mr. Gustav Wurmböck, Chairman, Mr. Franz Lanschützer, Deputy Chairman, Mr. Mladen Markoč, Deputy Chairman, and members: Mr. Georg Eltz, Ms. Mariza Jugovac, Mr. Hans Dominik Turnovszky and Mr. Vicko Ferić.

In order to perform efficiently its function and duties as prescribed by the Audit Act, the Supervisory Board has formed the following bodies:

Presidium of the Supervisory Board: Mr. Gustav Wurmböck, Chairman, Mr. Franz Lanschützer and Mr. Mladen Markoč, Presidium Members.

Audit Committee: Mr. Georg Eltz, Chairman, and members: Mr. Franz Lanschützer, Mr. Mladen Markoč, Mr. Vicko Ferić, and Mr. Dubravko Kušeta.

The Investment Committee: Mr. Franz Lanschützer, Chairman and members: Mr. Georg Eltz, Mr. Vicko Ferić, Mr. Hans Dominik Turnovszky, and Mr. Gustav Wurmböck.

Compliant to effective regulations and Company bylaws, The Management and Supervisory Board primarily act through meetings and by correspondence in their decision-making.

Related-party transactions

Transactions between related parties within the Group are conducted under standard commercial terms and conditions and at current market prices.

In the period under review, revenues resulting from related-party transactions totaled HRK 646 thousand (in 2015: HRK 27.3 million) for the Company, and HRK 17 thousand (in 2015: HRK 85 thousand) for the Group. The expenses amounted to HRK 30.1 million (in 2015: HRK 33.7 million) for the Company, and HRK 1.3 million (in 2015: HRK 1.7 million) for the Group.

On 31 December 2016 the related-party receivables and payables balance totaled HRK 138.5 million[28] for the Company (at year-end 2015: HRK 165.0 million[28]), while for the Group there was none (at year-end 2015: HRK 2 thousand). Liabilities for the Company totaled HRK 279 thousand (at year-end 2015: HRK 314 thousand), and HRK 154 thousand for the Group (at the end of 2015: HRK 413 thousand).

In accordance with the provision of Article 497 of the Companies Act, on 22 February 2017 the Management Board has prepared a separate report on the Company's related-party transactions and in accordance with Paragraph 3 of Article 497 it states that the Company, in line with circumstances management was aware of at the time a legal activity or an action related to the company was performed, received an appropriate consideration, without any damage to the Company.

Upon completion of the audit of the Management Board's Report on Related Parties, the company's auditor, KPMG Croatia d.o.o. has issued the statement pursuant to Article 498 of the Companies Law and has confirmed the following: (1) the statements in the Report are correct; (2) in the business transactions mentioned in the Report and based on the circumstances that were known when those transactions were undertaken, the value of the Company's consideration was not inappropriately high, or any difference in value was compensated; (3) in relation to the measures outlined in the Report, there were no circumstances which could lead one to make a materially different decision than the one that was made by the Management.

Branch Offices of the Company

The following branch offices were registered on 2 September 2011: Podružnica za turizam RABAC (branch office for tourism), with registered office in Rabac, Slobode 80, Podružnica za turizam ZLATNI OTOK (branch office for tourism), with registered office in Krk, Vršanska 8. Podružnica za turizam DUBROVNIK-BABIN KUK (branch office for tourism), with registered office in Dubrovnik, Dr. Ante Starčevića 45, was registered on 4 October 2013, and on 1 October 2014 Podružnica za savjetovanje u vezi s poslovanjem i upravljanjem ZAGREB (Branch Office for Business and Management Consulting), with registered office in Zagreb, Miramarska 24. The Rabac, Zlatni otok and Dubrovnik-Babin kuk branch offices, as economic drivers of their local communities, continue to operate in their destinations supporting their development by promoting further investments,hospitality development and participation in social and business activities.

[28] For the most part refers to the re-invoiced amount arising from the investment made in the reconstruction and upgrading of the hotel Valamar Lacroma owned by subsidiary Elafiti Babin-kuk d.o.o.

Valamar Riviera Share

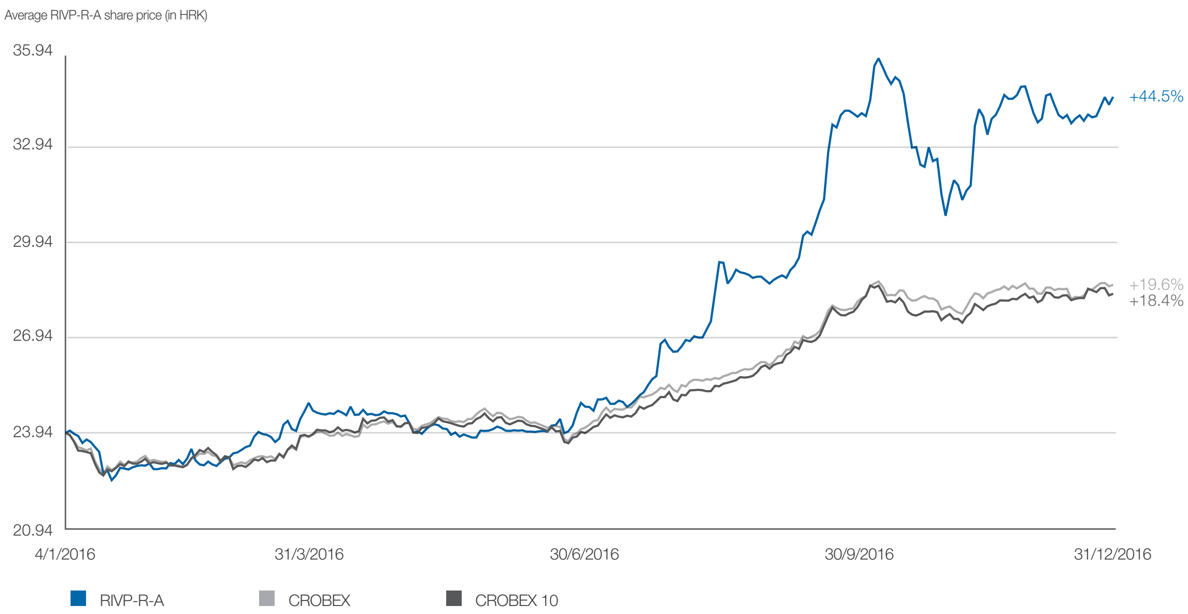
In 2016, the Company acquired 1,906,718 treasury shares, out of which 1,473,776 shares were acquired on the regulated market at a total acquisition cost of HRK 36,708,366 which represents 1.17% of the share capital. It also acquired 432,942 shares in the Bastion upravljanje d.o.o. merger which represents 0.34% of the share capital. In that period the Company released 1,454,078 treasury shares, representing 1.15% of the share capital, out of which 1,435,401 as dividend payment. On 31 December 2016, the Company held in total 1,857,034 treasury shares, or 1.47% of the share capital.

In the period from 1 January 2016 to 31 December 2016, the highest recorded share price in regular trading on the regulated market was HRK 36.25, while the lowest was HRK 22.30. The Company's share price increased by 44.5%, exceeding both CROBEX and CROBEX 10 indices trends, which recorded a growth of 19.6%, and 18.4% respectively. With a regular trading turnover of HRK 931 thousand a day[29], the Valamar Riviera's share is among the 3 most frequently traded shares on the Zagreb Stock Exchange.

Apart from the Zagreb Stock Exchange indices, the share makes a component part of the Vienna Stock Exchange indices (CROX[30] and SETX[31]), and SEE Link indices[32] (SEELinX and SEELinX EWI). Zagrebačka banka d.d.and Interkapital vrijednosni papiri d.o.o. perform specialist tasks of ordinary shares of the Company listed in the Official Market of Zagrebačka burza d.d. They provide support to Valamar Riviera's share turnover, which in the period under review was an average 40.5%[33].

The Company actively holds meetings and conference calls with domestic and foreign investors, as well as presentations for investors thus providing support to high-level transparency, creation of additional liquidity, increase of share value, and involvement of potential investors. In pursuing such an approach, Valamar Riviera can contribute to the Company's value further growth for the benefit of all stakeholders, aiming at making the share recognizable as the leading Croatian tourism share.

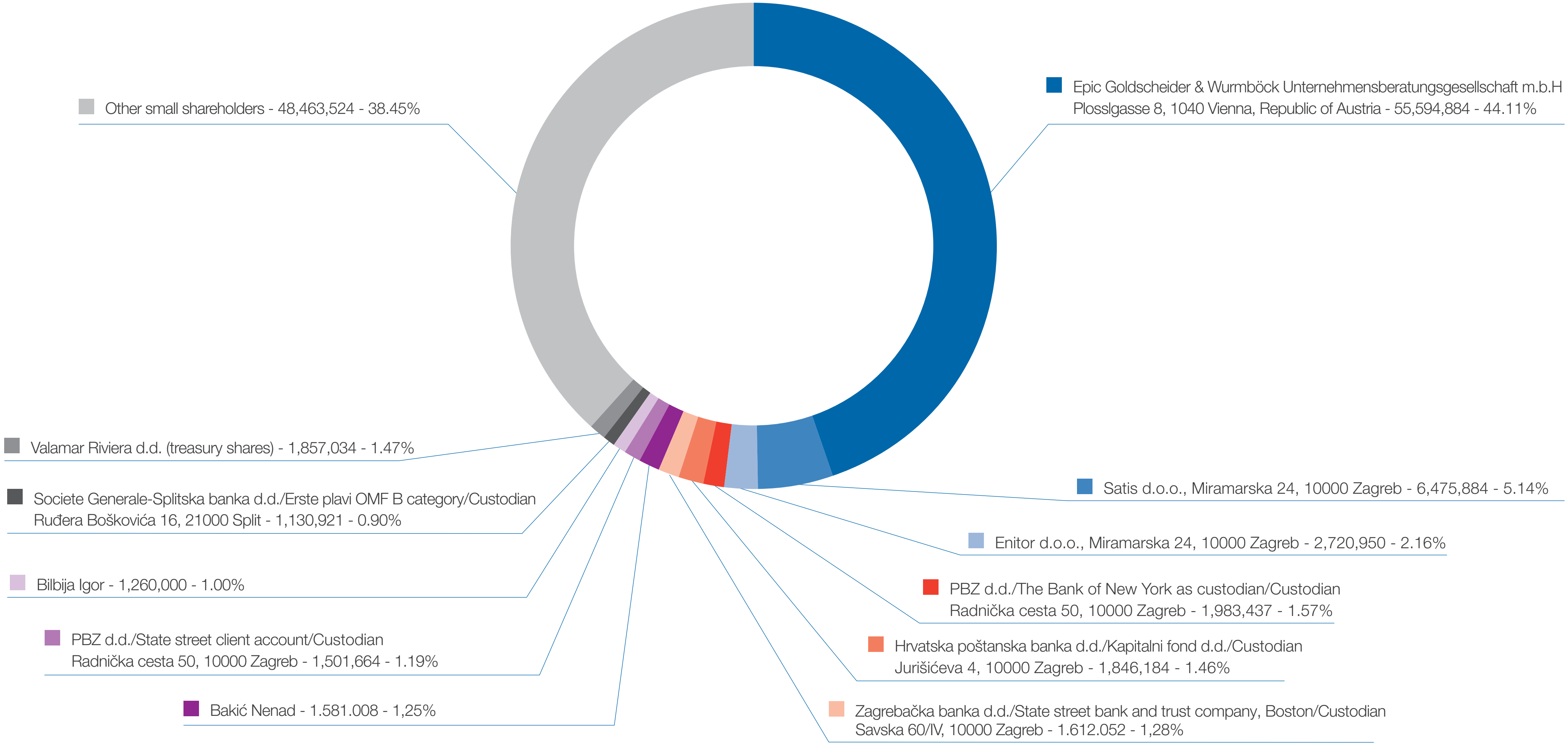
Performance of Valamar Riviera's share and CROBEX and CROBEX 10 indices



Analytical coverage of Valamar Riviera is provided by:
1) Addiko Bank d.d., Zagreb;
2) Alta invest d.d., Ljubljana;
3) ERSTE bank d.d., Zagreb;
4) FIMA vrijednosnice d.o.o., Varaždin;
5) Interkapital vrijednosni papiri d.o.o., Zagreb;
6) Raiffeisenbank Austria d.d., Zagreb;
7) UniCredit Group - Zagrebačka banka d.d., Zagreb.

29 Block transactions are excluded from the calculation.
30 Croatian Traded Index (CROX) is a capitalization-weighted price index and is made up of 12 most liquid and highest capitalized shares of Zagreb Stock Exchange.
31 South-East Europe Traded Index (SETX) is a capitalization-weighted price index consisting of blue chip stocks traded on stock exchanges in the region of South-eastern Europe (shares listed in Bucharest, Ljubljana, Sofia, Belgrade and Zagreb).
32 SEE Link is a regional platform for securities trading. It was founded by Bulgarian, Macedonian, and Zagreb Stock Exchange. SEE LinX and SEE LinX EWI are two "blue chip" regional indices composed of ten most liquid regional companies listed on three Stock Exchanges: five from Croatia, three from Bulgaria, and two from Macedonia.
33 Block transactions are excluded from the calculation. Data refers to the period 1/1 - 31/12/2016.

Overview of major shareholders as at 31 December 2016:



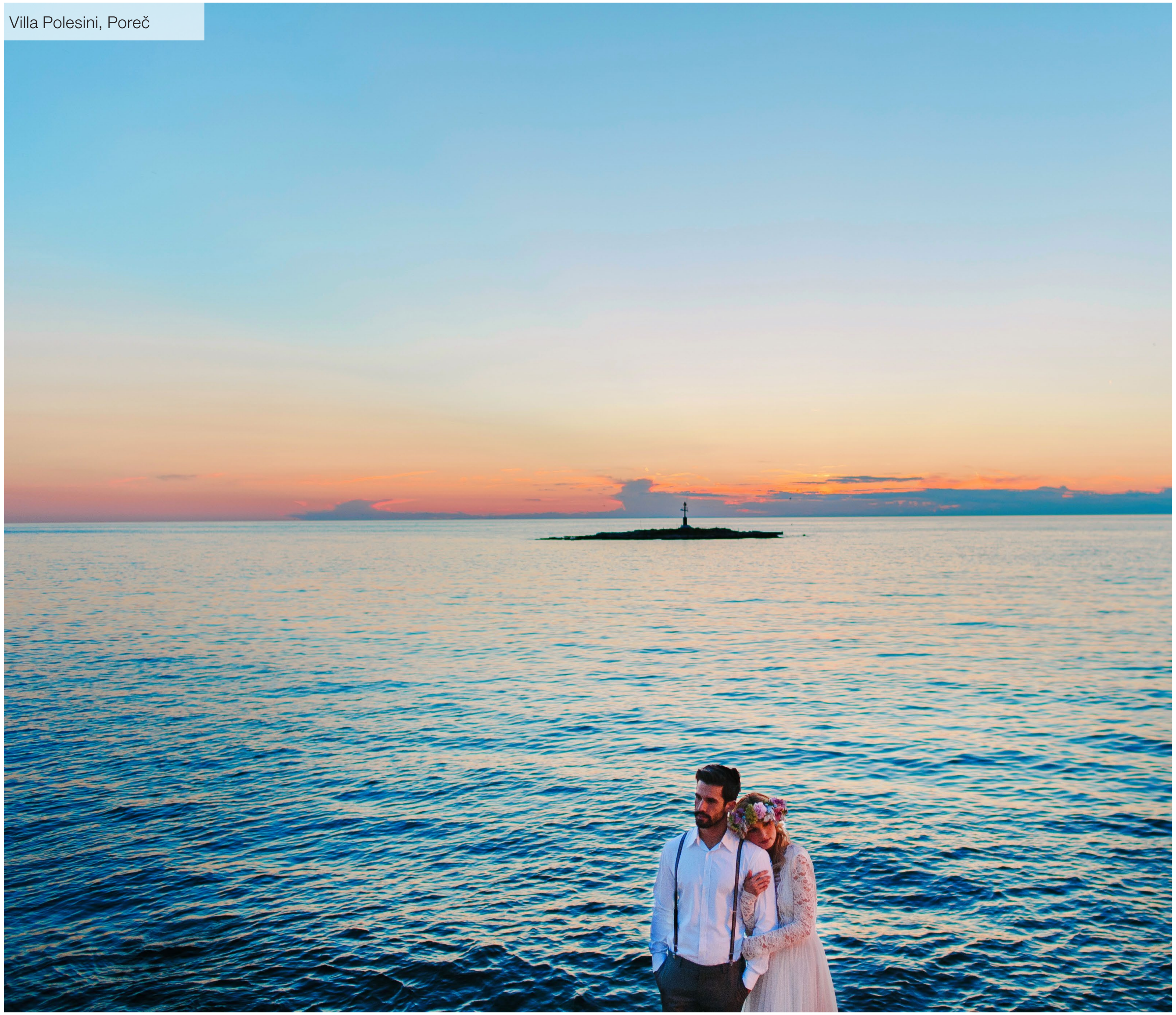
Additional Information

As one of the largest employers in Croatia (on 31 December 2016, the Company employed 2,184 employees, out of which 1,037 permanent ones), the Company and the Group systematically and continuously invest in the development of human resources. An integral strategic approach to human resources management and top practices applied include transparent hiring processes, clear objectives, measurement of employees' performance, rewarding systems, opportunities for employees' career advancements, investment in employees' development, and encouraging a two-way communication through various channels.

In the course of 2016, the Company's Management Board performed the actions provided for by law and the Articles of Association with respect to the management and representation of the Company, and planned a business policy that was implemented with prudent care. The Company's Management Board will continue to undertake all the necessary measures in order to ensure sustainability and business growth. The annual audited, separate and consolidated financial statements for 2016 were adopted by the Management Board on 22 February 2017.

The Company's Management Board expresses its gratitude to all shareholders, business partners, and guests for their support and trust, and particularly to all employees for their contribution.

Management Board of the Company



Villa Polesini, Poreč

Responsibility for the Annual Financial Statemetns

In Poreč, 22 February 2017

In accordance with provisions of Law on Capital Market, Marko Čižmek, Management board member responsible for finance, treasury and IT business as well as relations with institutional investors and Ljubica Grbac director of Department of Finance and Accounting, procurator and person responsible for finance and accounting, together as persons responsible for the preparation of annual reports of company VALAMAR RIVIERA d.d. seated in Poreč, Stancija Kaligari 1, OIB 36201212847 (hereinafter: Company), hereby make the following

STATEMENT

According to our best knowledge

- The set of audited, consolidated and unconsolidated financial statements for 2016, prepared in accordance with applicable standards of financial reporting gives a true and fair view of the assets and liabilities, profit and loss, financial position and operations of the Company and the companies included in consolidation (Group).

- Report of the Company's Management board for the period from 1 January to 31 December 2016 contains the true presentation of development, results and position of the Company and companies included in the consolidation (Group), with description of significant risks and uncertainties which the Company and companies included in consolidation (Group) are exposed.

Marko Čižmek
Management Board Member

Ljubica Grbac
Director of Department of Finance
and Accounting

VALAMAR RIVIERA d.d.
POREČ (5)

Reporting period: from 1.1.2016. to 31.12.2016.

Annual financial report GFI-POD

Tax number (MB):	3474771		
Company registration number (MBS):	040020883		
Personal identification number (OIB):	36201212847		
Issuing company:	Valamar Riviera d.d.		
Postal code and place	52440	Poreč	
Street and house number:	Stancija Kaligari 1		
E-mail address:	uprava@riviera.hr		
Internet address:	www.valamar-riviera.com		
Municipality/city code and name:	348	Poreč	
County code and name:	18	Istarska	Number of employees: (period end) 2.197
			NKD code: 5510
Consolidated report:	YES		

Companies of the consolidation subject (according to IFRS):	Seat:	MB:
Valamar hoteli i ljetovališta d.o.o.	**Zagreb**	**01537369**
Valamar hotels & resorts GmbH	**Frankfurt**	**04724750667**
Hoteli Baška d.d.	**Baška**	**03035140**
Mirta Bašćanska d.o.o.	**Baška**	**01841017**
Vala Bašćanska d.o.o.	**Baška**	**02086131**
Baškaturist d.o.o.	**Baška**	**03849236**
Puntižela d.o.o.	**Pula**	**03203379**
Bastion upravljanje d.o.o.	**Zagreb**	**01877453**
Citatis d.o.o.	**Zagreb**	**02626969**
Elafiti Babin kuk d.o.o.	**Dubrovnik**	**01273094**
Magične Stijene d.o.o.	**Dubrovnik**	**02315211**
Palme Turizam d.o.o.	**Dubrovnik**	**02006103**
Pogača Babin Kuk d.o.o.	**Dubrovnik**	**02236346**
Bugenvilia d.o.o.	**Dubrovnik**	**02006120**
Imperial d.d.	**Rab**	**03044572**

Accounting firm:			
Contact person:	Sopta Anka (please insert only the contact's full name)		
Telephone:	052/408 188	Fax:	052/408 110
E-mail address:	anka.sopta@riviera.hr		
Family name and name:	Kukurin Željko, Čižmek Marko (authorized representative)		

Documents disclosed:

1. Financial statements (Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity and notes to financial statements)
2. Management Interim Report;
3. Declaration of the persons responsible for preparing the issuer's statements;
4. Decision of the competent authority (proposal) on the establishment of Annual Financial Statements; and
5. Decision on the Proposal for distribution of profit or loss coverage.

VALAMAR RIVIERA d.d.
POREČ (5)

L.S.

(authorized representative's signature)

Balance Sheet According to GFI-POD (as per 31.12.2016.)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
A) SUBSCRIBED CAPITAL UNPAID	**001**		
B) NON CURRENT ASSETS (ADP 003+010+020+031+036)	**002**	**3.190.008.042**	**4.105.084.164**
I. INTANGIBLE ASSETS (ADP 004 to 009)	**003**	**17.006.943**	**24.080.361**
1. Research and Development expenditure	004		
2. Patents, licences, royalties, trademarks and service marks, software and similar rights	005	6.461.349	17.238.280
3. Goodwill	006	6.567.609	6.567.609
4. Prepayments for intangible assets	007		
5. Intangible assets under construction	008	111.766	274.472
6. Other intangible assets	009	3.866.219	
II. TANGIBLE ASSETS (ADP 011 to 019)	**010**	**3.065.294.774**	**3.941.768.572**
1. Land	011	659.328.328	873.211.455
2. Property	012	2.052.868.793	2.522.990.552
3. Plants and equipment	013	203.822.037	225.945.122
4. Tools, plants and vehicles	014	64.897.404	81.203.324
5. Biological asset	015		
6. Prepayments for tangible assets	016	5.072.180	31.783.971
7. Assets under construction	017	32.731.559	168.568.553
8. Other tangible assets	018	24.833.592	27.197.353
9. Investments property	019	21.740.881	10.868.242
III. NON-CURRENT FINANCIAL ASSETS (ADP 021 to 030)	**020**	**46.547.373**	**6.601.376**
1. Stakes (shares) in undertakings in a Group	021	1.241.421	1.365.316
2. Investments in other securities of undertakings in a Group	022		
3. Loans, deposits etc given to undertakings in a Group	023		
4. Stakes (shares) in undertakings with participating interest	024		
5. Investments in other securities of undertakings with participating interest	025		
6. Loans, deposits etc given to undertakings with participating interest	026		
7. Investments in securities	027	44.761.794	4.766.325
8. Given loans, deposits and similar	028	404.158	299.735
9. Other investments accounted for using the equity method	029		
10. Other non-current financial assets	030	140.000	170.000
IV. TRADE RECEIVABLES (ADP 032 to 035)	**031**	**645.153**	**995.869**
1. Receivables from undertakings in a Group	032		
2. Receivables from undertakings with participating interests	033		
3. Trade receivables	034		
4. Other receivables	035	645.153	995.869
V. DEFERRED TAX ASSETS	**036**	**60.513.799**	**131.637.986**
C) CURENT ASSETS (ADP 038+046+053+063)	**037**	**355.363.412**	**336.880.206**
I. INVENTORIES (ADP 039 to 045)	**038**	**9.761.018**	**19.245.740**
1. Raw materials and consumables	039	8.951.383	18.967.510
2. Work in progress	040		
3. Finished products	041		
4. Merchandise	042	64.641	236.606
5. Prepayments for inventories	043		41.624
6. Other available-for-sale assets	044	744.994	
7. Biological asset	045		
II. RECEIVABLES (ADP 047 to 052)	**046**	**26.681.432**	**42.229.932**
1. Receivables from undertakings in a Group	047	458	204
2. Receivables from undertakings with participating interest	048	253	253
3. Trade receivables	049	13.147.988	17.711.198
4. Receivables from employees and members of the undertaking	050	485.727	657.014
5. Receivables from Government and other institutions	051	9.285.057	21.012.831
6. Other receivables	052	3.761.949	2.848.432
III. CURRENT FINANCIAL ASSETS (ADP 054 to 062)	**053**	**165.680**	**753.886**
1. Stakes (shares) in undertakings in a Group	054		
2. Investments in other securities of undertakings in a Group	055		
3. Loans, deposits etc given to undertakings in a Group	056		
4. Stakes(shares) in undertakings with participating interest	057		
5. Investments in other securities of undertakings with participating interest	058		
6. Loans, deposits etc given to undertakings with participating interest	059		
7. Investments in securities	060		
8. Given loans, deposits and similar	061	24.845	753.886
9. Other financial assets	062	140.835	
IV. CASH AND CASH EQUIVALENTS	**063**	**318.755.282**	**274.650.648**
D) PREPAYMENTS AND ACCRUED INCOME	**064**	**21.247.239**	**23.369.940**
E) TOTAL ASSETS (ADP 001+002+037+064)	**065**	**3.566.618.693**	**4.465.334.310**
F) OFF-BALANCE SHEET ITEMS	**066**	**54.717.679**	**54.631.638**

Balance Sheet According to GFI-POD (as per 31.12.2016.) (continued)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
LIABILITIES			
A) CAPITAL AND RESERVES (ADP 068 to 070+076+077+081+084+087)	**067**	**1.901.690.680**	**2.373.637.039**
I. SHARE CAPITAL	**068**	**1.672.021.210**	**1.672.021.210**
II. CAPITAL RESERVES	**069**	**-373.815**	**2.204.690**
III. RESERVES FROM PROFIT (ADP 071+072-073+074+075)	**070**	**62.737.202**	**84.401.862**
1. Legal reserves	071	61.906.040	67.198.750
2. Reserves for own shares	072	34.344.407	44.815.284
3. Own stocks and shares (deductible items)	073	33.513.245	37.141.295
4. Statutory reserves	074		
5. Other reserves	075		9.529.123
IV. REVALUATION RESERVES	**076**		
V. FAIR VALUE RESERVES (ADP 078 to 080)	**077**	**31.189.526**	**273.313**
1. Fair value of financial assets available for sale	078	31.189.526	273.313
2. Efficient portion of cash flow hedge	079		
3. Efficient portion of foreign net investment hedge	080		
VI. RETAINED EARNINGS OR LOSS CARRIED FORWARD (ADP 082-083)	**081**	**30.576.912**	**36.580.064**
1. Retained earnings	082	30.576.912	36.580.064
2. Loss carried forward	083		
VII. PROFIT OR LOSS FOR THE FINANCIAL YEAR (ADP 085-086)	**084**	**105.441.776**	**342.313.777**
1. Profit for the financial year	085	105.441.776	342.313.777
2. Loss for the financial year	086		
VIII. MINORITY INTEREST	**087**	**97.869**	**235.842.123**
B) PROVISIONS (ADP 089 to 094)	**088**	**31.013.879**	**49.709.322**
1. Provisions for pensions, severance pay and similar libabilities	089		
2. Provisions for tax obligations	090		
3. Provisions for litigations in progress	091	31.013.879	49.709.322
4. Provisions for renewal of natural resources	092		
5. Provision for costs within warranty period	093		
6. Other provisions	094		
C) NON-CURRENT LIBILITIES (ADP 096 to 106)	**095**	**1.331.861.034**	**1.556.069.066**
1. Liabilites to related parties	096		
2. Liabilities for loans, deposits etc of undertakings in a Group	097		
3. Liabilities to undertakings with participating interest	098		
4. Liabilities for loans, deposits etc of undertakings with participating interest	099		
5. Liabilities for loans, deposits and other	100		9.149.000
6. Liabilities to banks and other financial institutions	101	1.306.223.976	1.488.677.568
7. Liabilities for advance payments	102		
8. Trade payables	103		
9. Amounts payable for securities	104		
10. Other non-current liabilities	105	2.833.087	2.044.339
11. Deffered tax	106	22.803.971	56.198.159
D) CURRENT LIABILITIES (ADP 108 to 121)	**107**	**229.556.759**	**394.111.168**
1. Liabilities to undertakings in a Group	108	70.585	70.197
2. Liabilities for loans, deposits etc of undertakings in a Group	109		
3. Liabilities to undertakings with participating interest	110		
4. Liabilities for loans, deposits etc of undertakings with participating interest	111		
5. Liabilities for loans, deposits and other	112		103.000
6. Liabilities to banks and other financial institutions	113	139.838.023	180.344.025
7. Amounts payable for prepayment	114	14.788.881	23.380.655
8. Trade payables	115	47.731.018	154.542.693
9. Liabilities upon loan stocks	116		
10. Liabilities to emloyees	117	15.738.902	20.674.590
11. Taxes, contributions and similar liabilities	118	7.870.246	11.615.356
12. Liabilities arising from share in the result	119	45.653	235.003
13. Liabilities arising from non-current assets held for sale	120	2.832	
14. Other current liabilities	121	3.470.619	3.145.649
E) ACCRUED EXPENSES AND DEFERRED INCOME	**122**	**72.496.341**	**91.807.715**
F) TOTAL LIABILITIES (ADP 067+088+095+107+122)	**123**	**3.566.618.693**	**4.465.334.310**
G) OFF-BALANCE SHEET ITEMS	**124**	**54.717.679**	**54.631.638**

Income Statement According to GFI-POD (as per 31.12.2016.)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
I. OPERATING INCOME (ADP 126+127+128+129+130)	**125**	**1.294.036.934**	**1.488.610.601**
1. Revenues from sales with undertakings in a Group	126		
2. Sales revenues (outside the Group)	127	1.268.724.937	1.454.862.418
3. Revenues from use of own products, goods and services	128	2.315.881	2.739.517
4. Other operating revenues with undertakings in a Group	129		
5.Other operating revenues (outside the Group)	130	22.996.116	31.008.666
II. OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)	**131**	**1.122.244.561**	**1.241.906.080**
1. Changes in inventories of finished products and work in progress	132		
2. Material costs (ADP 134 to 136)	133	398.167.101	450.374.431
a) Cost of raw materials & consumables	134	210.542.502	247.421.054
b) Cost of goods sold	135	1.438.513	2.417.204
c) Other costs	136	186.186.086	200.536.173
3. Staff costs (ADP 138 to 140)	137	327.901.582	371.316.789
a) Net salaries	138	195.479.135	222.429.876
b) Employee income tax	139	86.030.732	95.492.803
c) Tax on payroll	140	46.391.715	53.394.110
4. Depreciation and amortisation	141	232.922.484	265.188.188
5. Other expenditures	142	124.793.680	128.500.052
6. Value adjustment (ADP 144+145)	143	18.650.013	690.979
a) non-current assets (without financial assets)	144	16.839.165	
b) current asssets (without financial assets)	145	1.810.848	690.979
7. Provisions (ADP 147 to 152)	146	5.353.888	1.854.405
a) Provision for pensions, severance payments and other employment benefits	147		
b) Provisions for tax liabilities	148		
c) Provisions for litigations in progress	149	5.353.888	1.854.405
d) Provisions for renewal of natural resources	150		
e) Provision for costs within warranty period	151		
f) Other provisions	152		
8. Other operating expenses	153	14.455.813	23.981.236
III. FINANCIAL INCOME (ADP 155 to 164)	**154**	**39.456.545**	**90.889.300**
1. Income from stakes (shares) in undertakings in a Group	155		
2 Income from stakes (shares) in undertakings with participating interest	156		
3. Income from other non-current financial investments and loans to undertakings in a Group	157		
4. Other interest income from undertakings in a Group	158		
5. Foreign exchange differences and other financial income from undertakings in a Group	159		
6. Income from other non-current financial investments and loans	160		
7. Other interest income	161	4.478.010	4.161.232
8. Foreign exchange differences and other financial income	162	27.620.411	39.238.318
9. Unrealized gains (income) from the financial assets	163	5.496.413	9.107.883
10. Other financial income	164	1.861.711	38.381.867
IV. FINANCIAL COSTS (ADP 166 to 172)	**165**	**78.322.141**	**65.684.632**
1. Interest expenses and similar expenses with undertakings in a Group	166		
2. Foreign exchange differences and other expenses with undertakings in a Group	167		
3. Interest expenses and similar	168	25.777.100	34.276.801
4. Foreign exchange differences and other expenses	169	46.278.472	18.950.580
5. Unrealized loss (expenses) from the financial assets	170	4.722.854	8.256.519
6. Value adjustment expense on financial assets (net)	171		
7. Other financial expenses	172	1.543.715	4.200.732
V. SHARE OF PROFIT FROM UNDERTAKINGS WITH PARTICIPATING INTEREST	**173**		
VI. SHARE OF PROFIT FROM JOINT VENTURES	**174**		
VII. SHARE OF LOSS FROM UNDERTAKINGS WITH PARTICIPATING INTEREST	**175**		
VIII. SHARE OF LOSS FROM JOINT VENTURES	**176**		
IX. TOTAL INCOME (ADP 125+154+173+174)	**177**	**1.333.493.479**	**1.579.499.901**
X. TOTAL EXPENSES (ADP 131+165+175+176)	**178**	**1.200.566.702**	**1.307.590.712**
XI. PROFIT OR LOSS BEFORE TAX (ADP 177-178)	**179**	**132.926.777**	**271.909.189**
1. Profit before tax (ADP 177-178)	180	132.926.777	271.909.189
2. Loss before tax (ADP 178-177)	181	0	0
XII. INCOME TAX EXPENSE	**182**	**27.465.300**	**-70.404.588**
XIII. PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)	**183**	**105.461.477**	**342.313.777**
1. Profit for the period (ADP 179-182)	184	105.461.477	342.313.777
2. Loss for the period (ADP 182-179)	185	0	0

Income Statement According to GFI-POD (as per 31.12.2016.) (continued)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
PROFIT OR LOSS FROM DISCONTINUED OPERATIONS (applicable for entities which use IFRS and have discontinued operations)			
XIV. PROFIT OR LOSS FROM DISCONTINUED OPERATIONS BEFORE TAX (ADP 187-188)	**186**		
1. Profit before tax from discontinued operations	187		
2. Loss before tax from discontinued operations	188		
XV. INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS	**189**		
1. Profit for the period from discontinued operations (ADP 186-189)	190		
2. Loss for the period from discontinued operations (ADP 189-186)	191		
TOTAL PROFIT OR LOSS FOR THE PERIOD (applicable for entities which use IFRS and have discontinued operations)			
XVI. PROFIT OR LOSS BEFORE TAX (179+186)	**192**		
1. Profit before tax (ADP 192)	193		
2. Loss before tax (ADP 192)	194		
XVII. INCOME TAX EXPENSE (ADP 182+189)	**195**		
XVIII. PROFIT OR LOSS FOR THE PERIOD (ADP 192-195)	**196**		
1. Profit for the period (ADP 192-195)	197		
2. Loss for the period (ADP 195-192)	198		
APPENDIX TO THE INCOME STATEMENT (to be completed by entities submitting consolidated financial statements)			
XIX. PROFIT OR LOSS FOR THE PERIOD (ADP 200+201)	**199**	**105.461.477**	**342.313.777**
1. Attributable to parent company's shareholders	200	105.461.477	342.313.777
2. Attributable to non-controlling interests	201		
STATEMENT OF OTHER COMPREHENSIVE INCOME (to be completed by entities subject to IFRS)			
I. PROFIT OR LOSS FOR THE PERIOD		**105.461.477**	**342.313.777**
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (ADP 204 to 211)	**203**	**2.203.517**	**-33.642.778**
1. Exchange differences arising from foreign operations	204		
2. Revaluation of non-current assets and intangible assets	205		
3. Gains or loss available for sale investments	206	2.203.517	-33.642.778
4. Gains or loss on net movement on cash flow hedges	207		
5. Gains or loss on net investments hedge	208		
6. Share of the other comprehensive income/loss of associates	209		
7. Acturial gain / loss on post employment benefit obligations	210		
8. Other changes in capital (minorities)	211		
III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD	**212**	**427.734**	**-2.726.564**
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (ADP 203-212)	**213**	**1.775.783**	**-30.916.214**
V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (ADP 202+213)	**214**	**107.237.260**	**311.397.563**
APPENDIX to the Statement of Comprehensive Income (to be completed by entities submitting consolidated financial statements)			
VI. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (ADP 216+217)	**215**	**107.237.261**	**311.397.563**
1. Attributable to parent company's shareholders	216	107.217.559	311.397.563
2. Attributable to non-controlling interests	217	19.702	0

Cash Flow Statement - Indirect Method According to GFI-POD (as per 31.12.2016.)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before taxes	001	132.926.778	271.909.189
2. Adjustments (ADP 003 to 010):	002	289.382.655	251.043.749
a) Depreciation and amortisation	003	232.922.484	265.188.188
b) Profit and loss from sales and value adjustments of non-current tangible and intangible assets	004	3.873.114	10.501.692
c) Profit and loss from sales and unrealised profit and loss and value adjustments of financial assets	005	-716.235	-34.619.968
d) Income from interest and dividends	006	-4.422.390	-4.204.750
e) Interest expenses	007	30.936.060	39.459.144
f) Provisions	008	7.739.455	-5.071.660
g) Foreign exchange differences (unrealized)	009	19.606.460	-20.723.051
h) Other adjustments for non-cash transactions and unrealized profit and loss	010	-556.293	514.154
I. Increase or decrease of cash flow before changes in working capital (ADP 001+002)	**011**	**422.309.433**	**522.952.938**
3. Changes in working capital (ADP 013 to 016)	012	4.879.437	26.010.037
a) Increase or decrease of current liabilities	013	-20.955.978	49.286.290
b) Increase or decrease of current receivables	014	27.279.393	-14.783.702
c) Increase or decrease of inventories	015	-1.443.978	-8.492.551
d) Other increase or decrease of working capital	016		
II. Cash from operating activities (ADP 011+012)	**017**	**427.188.870**	**548.962.975**
4. Interest	018	-30.189.118	-35.053.605
5. Income tax paid	019	-3.706.285	257.730
A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)	**020**	**393.293.467**	**514.167.100**
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Proceeds from sale of non-current assets	021	960.011	5.899.667
2. Proceeds from selling financial instruments	022	1.669.102	40.974.675
3. Proceeds from interest rates	023	5.365.873	4.827.208
4. Proceeds from dividends	024	68.873	
5. Proceeds from repayment of given loans and savings	025	943.105	7.242.528
6. Other proceeds from investment activities	026		
III. Total cash proceeds from investment activities (ADP 021 to 026)	**027**	**9.006.964**	**58.944.078**
1. Purchase of non-current tangible and intangible assets	028	-346.920.775	-353.865.885
2. Purchase of financial instruments	029		
3. Loans and deposits for the period	030	-403.113	-7.670.676
4. Acquisition of subsidiary, net of acquired cash	031	-172.789.116	-250.371.912
5. Other payments from investment activities	032	-9.768.989	-585.001
IV. Total cash payments from investment activities (ADP 028 to 032)	**033**	**-529.881.993**	**-612.493.474**
B) NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 027+033)	**034**	**-520.875.029**	**-553.549.396**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Proceeds from increase of subscribed capital	035		
2. Proceeds from issuing equity-based and debt-based financial instruments	036		
3. Proceeds from loan principal, loans and other borrowings	037	863.913.209	689.895.055
4. Other proceeds from financial activities	038		
V. Total proceeds from financial activities (ADP 035 to 038)	**039**	**863.913.209**	**689.895.055**
1. Repayment of loan principals, loans and other borrowings and debt-based financial instruments	040	-522.952.313	-619.590.521
2. Dividends paid	041	-68.685.466	-38.048.245
3. Payment of finance lease liabilities	042		-270.016
4. Re-purchase of treasury shares and decrease in subscribed share capital	043	-21.140.090	-36.708.611
5. Other payments from financial activities	044		
VI. Total cash payments from financing activities (ADP 040 to 044)	**045**	**-612.777.869**	**-694.617.393**
C) NET CASH FLOW FROM FINANCIAL ACTIVITIES (ADP 039+045)	**046**	**251.135.340**	**-4.722.338**
1. Cash and cash equivalents-unrealized foreign exchange differences	047		
D) NET INCREASE OR DECREASE OF CASH FLOW (ADP 020+034+046+047)	**048**	**123.553.778**	**-44.104.634**
E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**049**	**195.201.504**	**318.755.282**
F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (ADP 048+049)	**050**	**318.755.282**	**274.650.648**

Cash Flow Statement - Indirect Method According to GFI-POD (for the period from 1.1.2016. to 31.12.2016.)
Taxpayer: 36201212847; Valamar Riviera d.d.

		Minority (non-controlling) interest															
Description	ADP	Subscribed Share capital	Capital reserves	Legal reserves	Reserves for own shares	Treasury shares and shares (deductible item)	Statutory reserves	Other reserves	Revaluation reserves	Fair value of financial assets available for sale	Efficient portion of cash flow hedge	Efficient portion of foreign net investment hedge	Retained earnings / loss carried forward	Net profit/ loss for the period	Total distributable to majority owners	Minority (non-controlling) interest	Total capital and reserves
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16 (3 to 6 - 7 + 8 to 15)	17	18 (16+17)
Previous period																	
1. Balance at 1 January of the previuos period	**01**	**1.672.021.210**	**-18.596.391**	**60.724.657**	**24.344.407**	**13.303.107**	**0**	**22.491.690**		**29.413.744**			**55.168.035**	**51.381.272**	**1.883.645.517**	**91.105**	**1.883.736.622**
2. Changes in accounting policies	02														0		0
3. Error correction	03														0		0
4. Balance at 1 January of the previous period (ADP 01 to 03)	**04**	**1.672.021.210**	**-18.596.391**	**60.724.657**	**24.344.407**	**13.303.107**	**0**	**22.491.690**	**0**	**29.413.744**	**0**	**0**	**55.168.035**	**51.381.272**	**1.883.645.517**	**91.105**	**1.883.736.622**
5. Profit/loss for the period	05													105.441.776	105.441.776	97.869	105.539.645
6. Foreign currency translation differences- foreign operations	06														0		0
7. Changes in revaluation reserves of non-current tangible and intangible assets	07														0		0
8. Profit or loss from re-evaluation of finacial assets held for sale	08									2.203.517					2.203.517		2.203.517
9. Profit or loss from cash flow hedge	09														0		0
10. Profit or loss from foreign net investment hedge	10														0		0
11. Share in other comprehensive income/loss from undertakings with participating interest	11														0		0
12. Actuarial gains/losses from defined benefit plans	12														0		0
13. Other changes in capital (minorities)	13														0		0
14. Taxation of transactions recognized directly in equity	14									-427.735					-427.735		-427.735
15. Increase/decrease of subscribed share capital (except by reinvested profit and in pre-bankruptcy settlement)	15														0		0
16. Increase of subscribed share capital by profit reinvestment	16														0		0
17. Increase of subscribed share capital in pre-bankruptcy settlement	17														0		0
18. Repurchase of own shares/ stakes	18					21.140.090									-21.140.090		-21.140.090
19. Share in profit/ dividend payout	19							-22.491.690							-22.491.690		-22.491.690
20. Other distribution to majority owners	20		109.139			-929.952									1.039.091		1.039.091
21. Transfer to reserves according to annual plan	21		18.113.437	1.181.383	10.000.000								-24.591.123	-51.381.272	-46.677.575	-91.105	-46.768.680
22. Increase in reserves in pre-bankruptcy settlement	22														0		0
23. Balance at 31 Decemeber of previous period (ADP 04 to 22)	**23**	**1.672.021.210**	**-373.815**	**61.906.040**	**34.344.407**	**33.513.245**	**0**	**0**	**0**	**31.189.526**	**0**	**0**	**30.576.912**	**105.441.776**	**1.901.592.811**	**97.869**	**1.901.690.680**
ADDITION TO STATEMENT OF CHANGES IN EQUITY (only for IFRS adopters)																	
I. OTHER COMPREHENSIVE INCOME OF PREVIOUS PERIOD NET OF TAX (ADP 06 to 14)	**24**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1.775.782**	**0**	**0**	**0**	**0**	**1.775.782**	**0**	**1.775.782**
II. COMPREHENSIVE INCOME OR LOSS FOR THE PREVIOUS PERIOD (ADP 05+24)	**25**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1.775.782**	**0**	**0**	**0**	**105.441.776**	**107.217.558**	**97.869**	**107.315.427**
III. TRANSACTIONS WITH OWNERS IN THE PREVIOUS PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 15 to 22)	**26**	**0**	**18.222.576**	**1.181.383**	**10.000.000**	**20.210.138**	**0**	**-22.491.690**	**0**	**0**	**0**	**0**	**-24.591.123**	**-51.381.272**	**-89.270.264**	**-91.105**	**-89.361.369**
Current period																	
1. Balance at 1 January of current period	**27**	**1.672.021.210**	**-373.815**	**61.906.040**	**34.344.407**	**33.513.244**	**0**	**0**	**0**	**31.189.527**			**30.576.912**	**105.441.776**	**1.901.592.813**	**97.869**	**1.901.690.682**
2. Changes in accounting policies	28														0		0
3. Error correction	29														0		0
4. Balance at 1 January of current period (ADP 27 to 29)	**30**	**1.672.021.210**	**-373.815**	**61.906.040**	**34.344.407**	**33.513.244**	**0**	**0**	**0**	**31.189.527**	**0**	**0**	**30.576.912**	**105.441.776**	**1.901.592.813**	**97.869**	**1.901.690.682**
5. Profit/loss for the period	31													342.313.777	342.313.777	235.842.123	578.155.900
6. Foreign currency translation differences- foreign operations	32														0		0
7. Changes in revaluation reserves of non-current tangible and intangible assets	33														0		0
8. Profit or loss from re-evaluation of finacial assets held for sale	34									-33.642.778					-33.642.778		-33.642.778
9. Profit or loss from cash flow hedge	35														0		0
10. Profit or loss from foreign net investment hedge	36														0		0
11. Share in other comprehensive income/loss from undertakings with participating interest	37														0		0
12. Actuarial gains/losses from defined benefit plans	38														0		0
13. Other changes in capital (minorities)	39														0		0
14. Taxation of transactions recognized directly in equity	40									2.726.564					2.726.564		2.726.564
15. Increase/decrease of subscribed share capital (except by reinvested profit and in pre-bankruptcy settlement)	41														0		0
16. Increase of subscribed share capital by profit reinvestment	42														0		0
17. Increase of subscribed share capital in pre-bankruptcy settlement	43														0		0
18. Repurchase of own shares/ stakes	44					36.708.367									-36.708.367		-36.708.367
19. Share in profit/ dividend payout	45					-32.655.373							-73.650.397		-40.995.024		-40.995.024
20. Other distribution to majority owners	46		2.578.505			-424.943									3.003.448		3.003.448
21. Transfer to reserves according to annual plan	47			5.292.710	10.470.877			9.529.123					-5.292.710	-105.441.776	-85.441.776	-97.869	-85.539.645
22. Increase in reserves in pre-bankruptcy settlement	48												84.946.259		84.946.259		84.946.259
23. Balance as at 31 December of the current period (ADP 30 to 48)	**49**	**1.672.021.210**	**2.204.690**	**67.198.750**	**44.815.284**	**37.141.295**	**0**	**9.529.123**	**0**	**273.313**	**0**	**0**	**36.580.064**	**342.313.777**	**2.137.794.916**	**235.842.123**	**2.373.637.039**
ADDITION TO STATEMENT OF CHANGES IN EQUITY (only for IFRS adopters)																	
I. OTHER COMPREHENSIVE INCOME OF CURRENT PERIOD, NET OF TAX (ADP 32 to 40)	**50**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-30.916.214**	**0**	**0**	**0**	**0**	**-30.916.214**	**0**	**-30.916.214**
II. COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31 + 50)	**51**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-30.916.214**	**0**	**0**	**0**	**342.313.777**	**311.397.563**	**235.842.123**	**547.239.686**
III. TRANSACTIONS WITH OWNERS IN THE CURRENT PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 41 to 48)	**52**	**0**	**2.578.505**	**5.292.710**	**10.470.877**	**3.628.051**	**0**	**9.529.123**	**0**	**0**	**0**	**0**	**6.003.152**	**-105.441.776**	**-75.195.460**	**-97.869**	**-75.293.329**

Notes to GFI-POD Financial Statements

(1) The notes to financial statements include additional and supplemental information not presented in the Balance Sheet, Income Statement, Cash Flow Statement or the Statement of Changes in Equity in accordance with the provisions of the relevant financial reporting standards.

Companies of the consolidation subject	Balance sheet-previous period 31.12.2015.	Balance sheet-current period 31.12.2016.
Valamar hoteli i ljetovališta d.o.o.	Yes (merged to Valamar Riviera d.d. 27.2.2015.)	
Citatis d.o.o.	Yes (merged to Bastion d.o.o. 12.11.2015.)	
Mirta Bašćanska d.o.o.	Yes (merged to Hoteli Baška d.d. 13.1.2016.)	
Vala Bašćanska d.o.o.	Yes (merged to Hoteli Baška d.d. 13.1.2016.)	
Baškaturist d.o.o.	Yes (merged to Hoteli Baška d.d. 13.1.2016.)	
Hoteli Baška d.d.	Yes (merged to Valamar Riviera d.d. 31.3.2016.)	
Bastion upravljanje d.o.o.	Yes (merged to Valamar Riviera d.d. 30.6.2016.)	
Valamar hotels & resorts GmbH	Yes	Yes
Elafiti Babin kuk d.o.o.	Yes	Yes
Magične stijene d.o.o.	Yes	Yes
Palme turizam d.o.o.	Yes	Yes
Pogača Babin Kuk d.o.o.	Yes	Yes
Bugenvilia d.o.o.	Yes	Yes
Puntižela d.o.o.	Yes	Yes
Imperial d.d.	No	Yes

Companies of the consolidation subject:	Income statment-previous period 31.12.2015.	Income statment-current period 31.12.2016.
Valamar hoteli i ljetovališta d.o.o.	1.1.-27.2. (merged to Valamar Riviera d.d. 27.2.2015.)	-
Citatis d.o.o.	01.1.-12.11. (merged to Bastion d.o.o. 12.11.2015.)	-
Mirta Bašćanska d.o.o.	18.6.-31.12.	1.1.-13.1. (merged to Hoteli Baška d.d. 13.1.2016.)
Vala Bašćanska d.o.o.	18.6.-31.12.	1.1.-13.1. (merged to Hoteli Baška d.d. 13.1.2016.)
Baškaturist d.o.o.	18.6.-31.12.	1.1.-13.1. (merged to Hoteli Baška d.d. 13.1.2016.)
Hoteli Baška d.d.	18.6.-31.12.	1.1.-31.3. (merged to Valamar Riviera d.d. 31.3.2016.)
Valamar hotels & resorts GmbH	1.1.-31.12.	1.1.-31.1.
Bastion upravljanje d.o.o.	1.1.-31.12.	1.1.-30.6. (merged to Valamar Riviera d.d. 30.6.2016.)
Elafiti Babin kuk d.o.o.	1.1.-31.12.	1.1.-31.12.
Magične stijene d.o.o.	1.1.-31.12.	1.1.-31.12.
Palme turizam d.o.o.	1.1.-31.12.	1.1.-31.12.
Pogača Babin Kuk d.o.o.	1.1.-31.12.	1.1.-31.12.
Bugenvilia d.o.o.	1.1.-31.12.	1.1.-31.12.
Puntižela d.o.o.	1.1.-31.12.	1.1.-31.12.
Imperial d.d.	-	-

Reporting period: from 1.1.2016. to 31.12.2016.

Annual financial report GFI-POD

Tax number (MB):	3474771			
Company registration number (MBS):	040020883			
Personal identification number (OIB):	36201212847			
Issuing company:	Valamar Riviera d.d.			
Postal code and place	52440	Poreč		
Street and house number:	Stancija Kaligari 1			
E-mail address:	uprava@riviera.hr			
Internet address:	www.valamar-riviera.com			
Municipality/city code and name:	348	Poreč		
County code and name:	18	Istarska	Number of employees: (period end)	2.184
			NKD code:	5510
Consolidated report:	NO			
Companies of the consolidation subject (according to IFRS):	Seat:		MB:	

Accounting firm:				
Contact person:	Sopta Anka (please insert only the contact's full name)			
Telephone:	052/408 188		Fax:	052/408 110
E-mail address:	anka.sopta@riviera.hr			
Family name and name:	Kukurin Željko, Čižmek Marko (authorized representative)			

Documents disclosed:

1. Financial statements (Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity and notes to financial statements)
2. Management Interim Report;
3. Declaration of the persons responsible for preparing the issuer's statements;
4. Decision of the competent authority (proposal) on the establishment of Annual Financial Statements; and
5. Decision on the Proposal for distribution of profit or loss coverage.

VALAMAR RIVIERA d.d.
POREČ (5)

L.S.

(authorized representative's signature)

Balance Sheet According to GFI-POD (as per 31.12.2016.)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
A) SUBSCRIBED CAPITAL UNPAID	**001**		
B) NON CURRENT ASSETS (ADP 003+010+020+031+036)	**002**	**3.171.672.610**	**3.806.830.512**
I. INTANGIBLE ASSETS (ADP 004 to 009)	**003**	**9.202.261**	**17.342.793**
1. Research and Development expenditure	004		
2. Patents, licences, royalties, trademarks and service marks, software and similar rights	005	9.090.495	17.068.321
3. Goodwill	006		
4. Prepayments for intangible assets	007		
5. Intangible assets under construction	008	111.766	274.472
6. Other intangible assets	009		
II. TANGIBLE ASSETS (ADP 011 to 019)	**010**	**2.379.794.741**	**2.906.793.288**
1. Land	011	519.577.779	595.574.908
2. Property	012	1.525.902.691	1.805.980.339
3. Plants and equipment	013	189.682.352	207.011.662
4. Tools, plants and vehicles	014	63.877.369	62.668.696
5. Biological asset	015		
6. Prepayments for tangible assets	016	5.072.180	29.697.670
7. Assets under construction	017	32.557.369	167.870.168
8. Other tangible assets	018	24.663.310	27.121.603
9. Investments property	019	18.461.691	10.868.242
III. NON-CURRENT FINANCIAL ASSETS (ADP 021 to 030)	**020**	**625.876.740**	**675.525.760**
1. Stakes (shares) in undertakings in a Group	021	584.753.048	670.319.700
2. Investments in other securities of undertakings in a Group	022		
3. Loans, deposits etc given to undertakings in a Group	023		299.735
4. Stakes (shares) in undertakings with participating interest	024		
5. Investments in other securities of undertakings with participating interest	025		
6. Loans, deposits etc given to undertakings with participating interest	026		
7. Investments in securities	027	40.983.692	4.766.325
8. Given loans, deposits and similar	028		
9. Other investments accounted for using the equity method	029		
10. Other non-current financial assets	030	140.000	140.000
IV. TRADE RECEIVABLES (ADP 032 to 035)	**031**	**136.460.510**	**113.553.484**
1. Receivables from undertakings in a Group	032	135.815.357	113.247.689
2. Receivables from undertakings with participating interests	033		
3. Trade receivables	034		
4. Other receivables	035	645.153	305.795
V. DEFERRED TAX ASSETS	**036**	**20.338.358**	**93.615.187**
C) CURENT ASSETS (ADP 038+046+053+063)	**037**	**363.445.425**	**319.356.014**
I. INVENTORIES (ADP 039 to 045)	**038**	**9.604.766**	**18.253.553**
1. Raw materials and consumables	039	8.810.975	18.026.040
2. Work in progress	040		
3. Finished products	041		
4. Merchandise	042	48.797	227.513
5. Prepayments for inventories	043		
6. Other available-for-sale assets	044	744.994	
7. Biological asset	045		
II. RECEIVABLES (ADP 047 to 052)	**046**	**51.857.599**	**62.728.000**
1. Receivables from undertakings in a Group	047	29.181.921	25.253.754
2. Receivables from undertakings with participating interest	048		
3. Trade receivables	049	12.765.099	16.702.108
4. Receivables from employees and members of the undertaking	050	485.286	649.460
5. Receivables from Government and other institutions	051	7.009.354	18.294.801
6. Other receivables	052	2.415.939	1.827.877
III. CURRENT FINANCIAL ASSETS (ADP 054 to 062)	**053**	**185.980**	**726.764**
1. Stakes (shares) in undertakings in a Group	054		
2. Investments in other securities of undertakings in a Group	055		
3. Loans, deposits etc given to undertakings in a Group	056	20.300	23.800
4. Stakes (shares) in undertakings with participating interest	057		
5. Investments in other securities of undertakings with participating interest	058		
6. Loans, deposits etc given to undertakings with participating interest	059		
7. Investments in securities	060		
8. Given loans, deposits and similar	061	24.845	702.964
9. Other financial assets	062	140.835	
IV. CASH AND CASH EQUIVALENTS	**063**	**301.797.080**	**237.647.697**
D) PREPAYMENTS AND ACCRUED INCOME	**064**	**20.594.349**	**21.820.614**
E) TOTAL ASSETS (ADP 001+002+037+064)	**065**	**3.555.712.384**	**4.148.007.140**
F) OFF-BALANCE SHEET ITEMS	**066**	**54.717.679**	**54.631.638**

Balance Sheet According to GFI-POD (as per 31.12.2016.) (continued)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
LIABILITIES			
A) CAPITAL AND RESERVES (ADP 068 to 070+076+077+081+084+087)	**067**	**2.088.581.493**	**2.324.082.480**
I. SHARE CAPITAL	**068**	**1.672.021.210**	**1.672.021.210**
II. CAPITAL RESERVES	**069**	**109.139**	**2.204.690**
III. RESERVES FROM PROFIT (ADP 071+072-073+074+075)	**070**	**67.203.861**	**84.401.862**
1. Legal reserves	071	61.906.040	67.198.750
2. Reserves for own shares	072	34.344.407	44.815.284
3. Own stocks and shares (deductible items)	073	29.046.586	37.141.295
4. Statutory reserves	074		
5. Other reserves	075		9.529.123
IV. REVALUATION RESERVES	**076**		
V. FAIR VALUE RESERVES (ADP 078 to 080)	**077**	**31.431.842**	**273.313**
1. Fair value of financial assets available for sale	078	31.431.842	273.313
2. Efficient portion of cash flow hedge	079		
3. Efficient portion of foreign net investment hedge	080		
VI. RETAINED EARNINGS OR LOSS CARRIED FORWARD (ADP 082-083)	**081**	**211.961.240**	**228.523.684**
1. Retained earnings	082	211.961.240	228.523.684
2. Loss carried forward	083		
VII. PROFIT OR LOSS FOR THE FINANCIAL YEAR (ADP 085-086)	**084**	**105.854.201**	**336.657.721**
1. Profit for the financial year	085	105.854.201	336.657.721
2. Loss for the financial year	086		
VIII. MINORITY INTEREST	**087**		
B) PROVISIONS (ADP 089 to 094)	**088**	**31.013.879**	**26.578.807**
1. Provisions for pensions, severance pay and similar libabilities	089		
2. Provisions for tax obligations	090		
3. Provisions for litigations in progress	091	31.013.879	26.578.807
4. Provisions for renewal of natural resources	092		
5. Provision for costs within warranty period	093		
6. Other provisions	094		
C) NON-CURRENT LIBILITIES (ADP 096 to 106)	**095**	**1.164.439.231**	**1.351.548.203**
1. Liabilites to related parties	096		
2. Liabilities for loans, deposits etc of undertakings in a Group	097		
3. Liabilities to undertakings with participating interest	098		
4. Liabilities for loans, deposits etc of undertakings with participating interest	099		
5. Liabilities for loans, deposits and other	100		
6. Liabilities to banks and other financial institutions	101	1.158.888.007	1.332.585.946
7. Liabilities for advance payments	102		
8. Trade payables	103		
9. Amounts payable for securities	104		
10. Other non-current liabilities	105	2.833.086	2.044.339
11. Deffered tax	106	2.718.138	16.917.918
D) CURRENT LIABILITIES (ADP 108 to 121)	**107**	**205.346.633**	**361.331.313**
1. Liabilities to undertakings in a Group	108	204.906	195.394
2. Liabilities for loans, deposits etc of undertakings in a Group	109		
3. Liabilities to undertakings with participating interest	110		
4. Liabilities for loans, deposits etc of undertakings with participating interest	111		
5. Liabilities for loans, deposits and other	112		
6. Liabilities to banks and other financial institutions	113	125.355.698	159.263.170
7. Amounts payable for prepayment	114	12.944.972	22.878.112
8. Trade payables	115	43.376.126	150.726.630
9. Liabilities upon loan stocks	116		
10. Liabilities to emloyees	117	14.943.850	18.821.064
11. Taxes, contributions and similar liabilities	118	6.643.162	7.640.156
12. Liabilities arising from share in the result	119		59.985
13. Liabilities arising from non-current assets held for sale	120		
14. Other current liabilities	121	1.877.919	1.746.802
E) ACCRUED EXPENSES AND DEFERRED INCOME	**122**	**66.331.148**	**84.466.337**
F) TOTAL LIABILITIES (ADP 067+088+095+107+122)	**123**	**3.555.712.384**	**4.148.007.140**
G) OFF-BALANCE SHEET ITEMS	**124**	**54.717.679**	**54.631.638**

Income Statement According to GFI-POD (as per 31.12.2016.)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
I. OPERATING INCOME (ADP 126+127+128+129+130)	**125**	**1.204.969.547**	**1.470.965.788**
1. Revenues from sales with undertakings in a Group	126	4.389.559	587.914
2. Sales revenues (outside the Group)	127	1.178.821.005	1.439.839.388
3. Revenues from use of own products, goods and services	128	2.315.881	2.739.517
4. Other operating revenues with undertakings in a Group	129	186.938	41.709
5.Other operating revenues (outside the Group)	130	19.256.164	27.757.260
II. OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)	**131**	**1.071.439.890**	**1.233.233.856**
1. Changes in inventories of finished products and work in progress	132		
2. Material costs (ADP 134 to 136)	133	409.536.255	474.135.719
a) Cost of raw materials & consumables	134	196.614.988	245.716.305
b) Cost of goods sold	135	1.434.436	2.417.204
c) Other costs	136	211.486.831	226.002.210
3. Staff costs (ADP 138 to 140)	137	307.624.037	365.349.927
a) Net salaries	138	183.152.101	219.441.890
b) Employee income tax	139	80.386.936	93.854.219
c) Tax on payroll	140	44.085.000	52.053.818
4. Depreciation and amortisation	141	206.773.719	243.228.097
5. Other expenditures	142	116.191.214	126.732.255
6. Value adjustment (ADP 144+145)	143	18.650.013	690.979
a) non-current assets (without financial assets)	144	16.839.165	
b) current asssets (without financial assets)	145	1.810.848	690.979
7. Provisions (ADP 147 to 152)	146	4.958.192	1.854.405
a) Provision for pensions, severance payments and other employment benefits	147		
b) Provisions for tax liabilities	148		
c) Provisions for litigations in progress	149	4.958.192	1.854.405
d) Provisions for renewal of natural resources	150		
e) Provision for costs within warranty period	151		
f) Other provisions	152		
8. Other operating expenses	153	7.706.460	21.242.474
III. FINANCIAL INCOME (ADP 155 to 164)	**154**	**64.297.030**	**88.144.060**
1. Income from stakes (shares) in undertakings in a Group	155		
2 Income from stakes (shares) in undertakings with participating interest	156		
3. Income from other non-current financial investments and loans to undertakings in a Group	157		
4. Other interest income from undertakings in a Group	158		
5. Foreign exchange differences and other financial income from undertakings in a Group	159	26.181.222	
6. Income from other non-current financial investments and loans	160		
7. Other interest income	161	4.476.201	4.152.605
8. Foreign exchange differences and other financial income	162	26.595.502	36.899.712
9. Unrealized gains (income) from the financial assets	163	5.496.413	9.107.883
10. Other financial income	164	1.547.692	37.983.860
IV. FINANCIAL COSTS (ADP 166 to 172)	**165**	**71.017.460**	**60.817.483**
1. Interest expenses and similar expenses with undertakings in a Group	166		
2. Foreign exchange differences and other expenses with undertakings in a Group	167		
3. Interest expenses and similar	168	23.683.053	32.410.766
4. Foreign exchange differences and other expenses	169	41.255.098	17.070.046
5. Unrealized loss (expenses) from the financial assets	170	4.722.854	8.256.519
6. Value adjustment expense on financial assets (net)	171		
7. Other financial expenses	172	1.356.455	3.080.152
V. SHARE OF PROFIT FROM UNDERTAKINGS WITH PARTICIPATING INTEREST	**173**		
VI. SHARE OF PROFIT FROM JOINT VENTURES	**174**		
VII. SHARE OF LOSS FROM UNDERTAKINGS WITH PARTICIPATING INTEREST	**175**		
VIII. SHARE OF LOSS FROM JOINT VENTURES	**176**		
IX. TOTAL INCOME (ADP 125+154+173+174)	**177**	**1.269.266.577**	**1.559.109.848**
X. TOTAL EXPENSES (ADP 131+165+175+176)	**178**	**1.142.457.350**	**1.294.051.339**
XI. PROFIT OR LOSS BEFORE TAX (ADP 177-178)	**179**	**126.809.227**	**265.058.509**
1. Profit before tax (ADP 177-178)	180	126.809.227	265.058.509
2. Loss before tax (ADP 178-177)	181	0	0
XII. INCOME TAX EXPENSE	**182**	**20.955.026**	**-71.599.212**
XIII. PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)	**183**	**105.854.201**	**336.657.721**
1. Profit for the period (ADP 179-182)	184	105.854.201	336.657.721
2. Loss for the period (ADP 182-179)	185	0	0

Income Statement According to GFI-POD (as per 31.12.2016.) (continued)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
PROFIT OR LOSS FROM DISCONTINUED OPERATIONS (applicable for entities which use IFRS and have discontinued operations)			
XIV. PROFIT OR LOSS FROM DISCONTINUED OPERATIONS BEFORE TAX (ADP 187-188)	**186**		
1. Profit before tax from discontinued operations	187		
2. Loss before tax from discontinued operations	188		
XV. INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS	**189**		
1. Profit for the period from discontinued operations (ADP 186-189)	190		
2. Loss for the period from discontinued operations (ADP 189-186)	191		
TOTAL PROFIT OR LOSS FOR THE PERIOD (applicable for entities which use IFRS and have discontinued operations)			
XVI. PROFIT OR LOSS BEFORE TAX (179+186)	**192**		
1. Profit before tax (ADP 192)	193		
2. Loss before tax (ADP 192)	194		
XVII. INCOME TAX EXPENSE (ADP 182+189)	**195**		
XVIII. PROFIT OR LOSS FOR THE PERIOD (ADP 192-195)	**196**		
1. Profit for the period (ADP 192-195)	197		
2. Loss for the period (ADP 195-192)	198		
APPENDIX TO THE INCOME STATEMENT (to be completed by entities submitting consolidated financial statements)			
XIX. PROFIT OR LOSS FOR THE PERIOD (ADP 200+201)	**199**	**0**	**0**
1. Attributable to parent company's shareholders	200		
2. Attributable to non-controlling interests	201		
STATEMENT OF OTHER COMPREHENSIVE INCOME (to be completed by entities subject to IFRS)			
I. PROFIT OR LOSS FOR THE PERIOD		**105.854.201**	**336.657.721**
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (ADP 204 to 211)	**203**	**2.101.424**	**-34.190.767**
1. Exchange differences arising from foreign operations	204		
2. Revaluation of non-current assets and intangible assets	205		
3. Gains or loss available for sale investments	206	2.101.424	-34.190.767
4. Gains or loss on net movement on cash flow hedges	207		
5. Gains or loss on net investments hedge	208		
6. Share of the other comprehensive income/loss of associates	209		
7. Acturial gain / loss on post employment benefit obligations	210		
8. Other changes in capital (minorities)	211		
III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD	**212**	**420.285**	**-2.726.295**
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (ADP 203-212)	**213**	**1.681.139**	**-31.464.472**
V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (ADP 202+213)	**214**	**107.535.340**	**305.193.249**
APPENDIX to the Statement of Comprehensive Income (to be completed by entities submitting consolidated financial statements)			
VI. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (ADP 216+217)	**215**	**0**	**0**
1. Attributable to parent company's shareholders	216		
2. Attributable to non-controlling interests	217		

Cash Flow Statement - Indirect Method According to GFI-POD (as per 31.12.2016.)
Taxpayer: 36201212847; Valamar Riviera d.d.

Item	ADP code	Preceding year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before taxes	001	126.809.227	265.058.509
2. Adjustments (ADP 003 to 010):	002	256.488.380	226.318.352
a) Depreciation and amortisation	003	206.773.719	243.228.097
b) Profit and loss from sales and value adjustments of non-current tangible and intangible assets	004	3.315.746	10.496.519
c) Profit and loss from sales and unrealised profit and loss and value adjustments of financial assets	005	-774.837	-35.155.437
d) Income from interest and dividends	006	-4.373.956	-4.126.318
e) Interest expenses	007	25.039.509	35.491.173
f) Provisions	008	7.870.342	-3.412.883
g) Foreign exchange differences (unrealized)	009	18.786.078	-18.583.434
h) Other adjustments for non-cash transactions and unrealized profit and loss	010	-148.221	-1.619.365
I. Increase or decrease of cash flow before changes in working capital (ADP 001+002)	**011**	**383.297.607**	**491.376.861**
3. Changes in working capital (ADP 013 to 016)	012	27.969.282	53.034.890
a) Increase or decrease of current liabilities	013	-14.332.253	46.934.092
b) Increase or decrease of current receivables	014	44.628.758	14.593.148
c) Increase or decrease of inventories	015	-2.327.223	-8.492.350
d) Other increase or decrease of working capital	016		
II. Cash from operating activities (ADP 011+012)	**017**	**411.266.889**	**544.411.751**
4. Interest	018	-24.930.457	-30.070.461
5. Income tax paid	019		312.063
A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)	**020**	**386.336.432**	**514.653.353**
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Proceeds from sale of non-current assets	021	405.102	5.898.667
2. Proceeds from selling financial instruments	022	1.091.237	39.024.276
3. Proceeds from interest rates	023	5.315.112	4.750.479
4. Proceeds from dividends	024		
5. Proceeds from repayment of given loans and savings	025	751.903	7.137.978
6. Other proceeds from investment activities	026	14.234.208	4.639.935
III. Total cash proceeds from investment activities (AOP 021 to 026)	**027**	**21.797.562**	**61.451.335**
1. Purchase of non-current tangible and intangible assets	028	-343.343.252	-343.698.596
2. Purchase of financial instruments	029		
3. Loans and deposits for the period	030	-77.995	-7.593.973
4. Acquisition of subsidiary, net of acquired cash	031	-188.226.215	-285.527.212
5. Other payments from investment activities	032		
IV. Total cash payments from investment activities (ADP 028 to 032)	**033**	**-531.647.462**	**-636.819.781**
B) NET INCREASE OF CASH FLOW FROM INVESMENT ACTIVITIES (ADP 027+033)	**034**	**-509.849.900**	**-575.368.446**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Proceeds from increase of subscribed capital	035		
2. Proceeds from issuing equity-based and debt-based financial instruments	036		
3. Proceeds from loan principal, loans and other borrowings	037	857.540.323	618.507.365
4. Other proceeds from financial activities	038		
V. Total proceeds from financial activities (ADP 035 to 038)	**039**	**857.540.323**	**618.507.365**
1. Repayment of loan principals, loans and other borrowings and debt-based financial instruments	040	-508.355.413	-546.673.519
2. Dividends paid	041	-68.922.882	-38.297.245
3. Payment of finance lease liabilities	042		-262.524
4. Re-purchase of treasury shares and decrease in subscribed share capital	043	-21.140.090	-36.708.367
5. Other payments from financial activities	044		
VI. Total cash payments from financing activities (ADP 040 to 044)	**045**	**-598.418.385**	**-621.941.655**
C) NET CASH FLOW FROM FINANCIAL ACTIVITIES (ADP 039+045)	**046**	**259.121.938**	**-3.434.290**
1. Cash and cash equivalents-unrealized foreign exchange differences	047		
D) NET INCREASE OR DECREASE OF CASH FLOW (ADP 020+034+046+047)	**048**	**135.608.470**	**-64.149.383**
E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**049**	**166.188.610**	**301.797.080**
F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (ADP 048+049)	**050**	**301.797.080**	**237.647.697**

Cash Flow Statement - Indirect Method According to GFI-POD (for the period from 1.1.2016. to 31.12.2016.)
Taxpayer: 36201212847; Valamar Riviera d.d.

Description	ADP	Minority (non-controlling) interest															
		Subscribed Share capital	Capital reserves	Legal reserves	Reserves for own shares	Treasury shares and shares (deductible item)	Statutory reserves	Other reserves	Revaluation reserves	Fair value of financial assets available for sale	Efficient portion of cash flow hedge	Efficient portion of foreign net investment hedge	Retained earnings / loss carried forward	Net profit/ loss for the period	Total distributable to majority owners	Minority (non-controlling) interest	Total capital and reserves
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16 (3 to 6 - 7 + 8 to 15)	17	18 (16+17)
Previous period																	
1. Balance at 1 January of the previuos period	**01**	**1.672.021.210**	**-8.395.862**	**60.724.657**	**24.344.407**	**8.836.448**	**0**	**22.491.690**		**29.750.703**			**263.592.748**	**23.627.648**	**2.079.320.753**		**2.079.320.753**
2. Changes in accounting policies	02														0		0
3. Error correction	03														0		0
4. Balance at 1 January of the previous period (ADP 01 to 03)	**04**	**1.672.021.210**	**-8.395.862**	**60.724.657**	**24.344.407**	**8.836.448**	**0**	**22.491.690**	**0**	**29.750.703**	**0**	**0**	**263.592.748**	**23.627.648**	**2.079.320.753**	**0**	**2.079.320.753**
5. Profit/loss for the period	05													105.854.201	105.854.201		105.854.201
6. Foreign currency translation differences- foreign operations	06														0		0
7. Changes in revaluation reserves of non-current tangible and intangible assets	07														0		0
8. Profit or loss from re-evaluation of finacial assets held for sale	08									2.101.424					2.101.424		2.101.424
9. Profit or loss from cash flow hedge	09														0		0
10. Profit or loss from foreign net investment hedge	10														0		0
11. Share in other comprehensive income/loss from undertakings with participating interest	11														0		0
12. Actuarial gains/losses from defined benefit plans	12														0		0
13. Other changes in capital (minorities)	13														0		0
14. Taxation of transactions recognized directly in equity	14									-420.285					-420.285		-420.285
15. Increase/decrease of subscribed share capital (except by reinvested profit and in pre-bankruptcy settlement)	15														0		0
16. Increase of subscribed share capital by profit reinvestment	16														0		0
17. Increase of subscribed share capital in pre-bankruptcy settlement	17														0		0
18. Repurchase of own shares/ stakes	18					21.140.090									-21.140.090		-21.140.090
19. Share in profit/ dividend payout	19							-22.491.690					-46.431.123		-68.922.813		-68.922.813
20. Other distribution to majority owners	20		109.139			-929.952									1.039.091		1.039.091
21. Transfer to reserves according to annual plan	21		8.395.862	1.181.383	10.000.000								-5.200.385	-23.627.648	-9.250.788		-9.250.788
22. Increase in reserves in pre-bankruptcy settlement	22														0		0
23. Balance at 31 Decemeber of previous period (ADP 04 to 22)	**23**	**1.672.021.210**	**109.139**	**61.906.040**	**34.344.407**	**29.046.586**	**0**	**0**	**0**	**31.431.842**	**0**	**0**	**211.961.240**	**105.854.201**	**2.088.581.493**	**0**	**2.088.581.493**
ADDITION TO STATEMENT OF CHANGES IN EQUITY (only for IFRS adopters)																	
I. OTHER COMPREHENSIVE INCOME OF PREVIOUS PERIOD NET OF TAX (ADP 06 to 14)	**24**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1.681.139**	**0**	**0**	**0**	**0**	**1.681.139**	**0**	**1.681.139**
II. COMPREHENSIVE INCOME OR LOSS FOR THE PREVIOUS PERIOD (ADP 05+24)	**25**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1.681.139**	**0**	**0**	**0**	**105.854.201**	**107.535.340**	**0**	**107.535.340**
III. TRANSACTIONS WITH OWNERS IN THE PREVIOUS PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 15 to 22)	**26**	**0**	**8.505.001**	**1.181.383**	**10.000.000**	**20.210.138**	**0**	**-22.491.690**	**0**	**0**	**0**	**0**	**-51.631.508**	**-23.627.648**	**-98.274.600**	**0**	**-98.274.600**
Current period																	
1. Balance at 1 January of current period	**27**	**1.672.021.210**	**109.139**	**61.906.040**	**34.344.407**	**29.046.586**	**0**			**31.431.842**			**211.961.240**	**105.854.201**	**2.088.581.493**	**0**	**2.088.581.493**
2. Changes in accounting policies	28														0		0
3. Error correction	29														0		0
4. Balance at 1 January of current period (ADP 27 to 29)	**30**	**1.672.021.210**	**109.139**	**61.906.040**	**34.344.407**	**29.046.586**	**0**	**0**	**0**	**31.431.842**	**0**	**0**	**211.961.240**	**105.854.201**	**2.088.581.493**	**0**	**2.088.581.493**
5. Profit/loss for the period	31													336.657.721	336.657.721		336.657.721
6. Foreign currency translation differences- foreign operations	32							0							0		0
7. Changes in revaluation reserves of non-current tangible and intangible assets	33														0		0
8. Profit or loss from re-evaluation of finacial assets held for sale	34									-34.190.767					-34.190.767		-34.190.767
9. Profit or loss from cash flow hedge	35										0				0		0
10. Profit or loss from foreign net investment hedge	36														0		0
11. Share in other comprehensive income/loss from undertakings with participating interest	37														0		0
12. Actuarial gains/losses from defined benefit plans	38														0		0
13. Other changes in capital (minorities)	39		-482.954							305.943					-177.011		-177.011
14. Taxation of transactions recognized directly in equity	40									2.726.295					2.726.295		2.726.295
15. Increase/decrease of subscribed share capital (except by reinvested profit and in pre-bankruptcy settlement)	41														0		0
16. Increase of subscribed share capital by profit reinvestment	42														0		0
17. Increase of subscribed share capital in pre-bankruptcy settlement	43														0		0
18. Repurchase of own shares/ stakes	44					36.708.367									-36.708.367		-36.708.367
19. Share in profit/ dividend payout	45					-32.655.373							-73.910.156		-41.254.783		-41.254.783
20. Other distribution to majority owners	46		2.578.505			4.041.715									-1.463.210		-1.463.210
21. Transfer to reserves according to annual plan	47			5.292.710	10.470.877			9.529.123					90.472.600	-105.854.201	9.911.109		9.911.109
22. Increase in reserves in pre-bankruptcy settlement	48														0		0
23. Balance as at 31 December of the current period (ADP 30 to 48)	**49**	**1.672.021.210**	**2.204.690**	**67.198.750**	**44.815.284**	**37.141.295**	**0**	**9.529.123**	**0**	**273.313**	**0**	**0**	**228.523.684**	**336.657.721**	**2.324.082.480**	**0**	**2.324.082.480**
ADDITION TO STATEMENT OF CHANGES IN EQUITY (only for IFRS adopters)																	
I. OTHER COMPREHENSIVE INCOME OF CURRENT PERIOD, NET OF TAX (ADP 32 to 40)	**50**	**0**	**-482.954**	**0**	**0**	**0**	**0**	**0**	**0**	**-31.158.529**	**0**	**0**	**0**	**0**	**-31.641.483**	**0**	**-31.641.483**
II. COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31 + 50)	**51**	**0**	**-482.954**	**0**	**0**	**0**	**0**	**0**	**0**	**-31.158.529**	**0**	**0**	**0**	**336.657.721**	**305.016.238**	**0**	**305.016.238**
III. TRANSACTIONS WITH OWNERS IN THE CURRENT PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 41 to 48)	**52**	**0**	**2.578.505**	**5.292.710**	**10.470.877**	**8.094.709**	**0**	**9.529.123**	**0**	**0**	**0**	**0**	**16.562.444**	**-105.854.201**	**-69.515.251**	**0**	**-69.515.251**

Management Board's decision on the proposal of profit distribution and Management Board's decision on establishing the annual financial statements

Valamar Riviera d.d.
MANAGEMENT BOARD

Number: 75-1/17.
Poreč, 22/2/2017

Pursuant to Articles 250a, 250b, 300a and 300b of the Companies Act, Articles 403 and 404 of the Capital Market Act, and Article 19, 20 and 21 of the Accounting Act, the Management Board of Valamar Riviera d.d. from Poreč, 1 Stancija Kaligari (hereinafter: Valamar Riviera d.d. or Company) at the meeting held on 22 February 2017 reached the following

DECISION

I
The Valamar Riviera d.d. Annual Report is hereby determined as stated in the text of the enclosed "ANNUAL REPORT 2016".

II
The audited non-consolidated and consolidated Annual financial reports for the year 2016 are hereby determined, as stated in the text that is an integral part of the Report from point I of this decision.

III
It is hereby determined that the Auditor, KPMG Croatia d.o.o. za reviziju from Zagreb, produced the Auditor's report for 2016, as stated in the text that is an integral part of the Report from point I of this decision.

IV
The Management Report on the Company's status for the period from 01/01/2016 to 31/12/2016 is hereby determined, as stated in the text that is an integral part of the Report from point I of this decision.

V
The proposed decision to distribute the Company's realized profits in 2016 totaling HRK 336,657,720.54 is hereby determined as follows:

- HRK 16,402,310.91 to the Company's legal reserves
- HRK 320,255,409.63 to the Company's retained profits

Management Board's decision on the proposal of profit distribution and Management Board's decision on establishing the annual financial statements (continued)

VI

Pursuant to Article 300b of the Companies Act:

1. the report mentioned in points II and IV of this Decision is submitted to the Supervisory Board for examination. It is proposed that the Supervisory Board approves the said reports
2. the Auditor's Report mentioned in point III of this Decision is submitted to the Supervisory Board for approval
3. It is proposed that the Supervisory Board approves the proposed decision for the distribution of profits pursuant to point V of this Decision, and to pass it as such to be adopted at the General Assembly.

VII

Pursuant to Article 121 of the Rules of the Zagreb Stock Exchange, The Zagreb Stock Exchange will be informed of this Decision no later than the opening of trading on the following trading day.

After the Supervisory Board decides on the matters presented in point VI, the reports determined in this Decision and the proposal for the distribution of profits from point V will be released in the prescribed period, pursuant to Article 403 and Article 440 paragraph 4 of the Capital Market Act.

VIII

This Decision together with the proposed decision on the distribution of profits from point V, the reports determined by this Decision and the passed Supervisory board decisions from point VI of this decision, will be submitted for release in the prescribed period to the Financial agency pursuant to Article 30 of the Accounting Act.

VALAMAR RIVIERA d.d.
POREČ (5)

Željko Kukurin
President of Management Board

To be delivered to:

1. Supervisory Board
2. HANFA official register of proscribed information, according to paragraph VII
3. Zagreb stock exchange according to paragraph VII
4. FINA, according to paragraph VIII
5. Archive

Supervisory Board's resolution on the proposal of profit distribution and Supervisory Board's resolution on approving the annual financial statements

Valamar Riviera d.d.
SUPERVISORY BOARD

No: 76-1/17.
Poreč 24/2/2017

Based on Article 300.d, and according to Article 300.c of Companies Act and MB Decision no. 75-1/17 dated 22 February 2017 the Supervisory Board of Valamar Riviera d.d. from Poreč at its session held on 24 February 2017 passed the following

DECISION

The Supervisory Board gives its approval to:

1. The Annual financial reports for 2016 of VALAMAR RIVIERA d.d. from Poreč – consolidated and non-consolidated, consisting of the following: Income statement, Balance sheet, Notes to the financial statements, Cash flow statement, Statement of changes in equity
2. The Report on the performed audit by the Auditor, KPMG Croatia d.o.o. from Zagreb
3. The Annual Management Report on the Company's status and
4. The proposed decision on the distribution of profits realized in 2016,

as stated in the Management Board decision no: 75-1/17 dated 22 February 2017,

and hereby, pursuant to Article 300d of the Companies Act, the Annual financial reports for 2016 of VALAMAR RIVIERA d. d. from Poreč are considered to be approved both by the Management Board and by the Supervisory Board.

Gustav Wurmböck
Supervisory Board President

Independent auditors' report and financial statements 31 December 2016

Independent Auditors' Report to the shareholders of Valamar Riviera d.d., Poreč

OPINION

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and of 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 ("EU IFRS").

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Valuation of tourism properties

The carrying amount of property, plant and equipment of the Group as at 31 December 2016 was HRK 3,930,900 thousand (Company: HRK 2,895,925 thousand). Refer to Notes 2.6 and 2.8 of Accounting policies, Note 4(a) and (c) of Critical accounting estimates, and Note 14 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 88% and 70% of the total assets of the Group and the Company, respectively. These assets, measured at cost, 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. 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.	Our audit procedures included, among others: • evaluating the appropriateness of allocation of assets to cash generating units (GCUs); • 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 apnd assessing future forecasts against internal plans and external market information;

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Independent Auditors' Report to the shareholders of Valamar Riviera d.d., Poreč (continued)

Valuation of tourism properties (continued)

Key audit matter (continued)	Our response (continued)
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. Due to the above factors, accounting for tourism properties is determined to be a key audit matter.	• challenging the key assumptions used in determining the recoverable amounts of the assets or CGUs that required further impairment testing, by comparing of occupancy rates, revenue per available room, market growth with externally derived data, including external tourism industry reports and quoted prices for similar assets; • evaluating other key inputs of the Group's impairment model, such as estimated future costs, discount rates, asset useful life estimates and terminal multipliers, and considered the historical performance of the properties.

Acquisition of Imperial d.d. Rab

The Group acquired 54.71% ownership interest of Imperial d.d. Rab, for a total consideration of HRK 284,942 thousand and gained control of this subsidiary on 12 December 2016. Refer to Note 2.2(a) of Accounting policies, Note 4(f) of Critical accounting estimates, and Note 37 on Business combination Imperial d.d. of the financial statements.

Key audit matter	Our response
The total fair value (including non-controlling interest) of the acquired net assets of Imperial d.d. Rab was determined to be HRK 520,784 thousand as at 31 December 2016. Accounting for this transaction requires management to exercise judgement in respect of, among other things: • assessment of the date on which control over Imperial d.d. Rab commenced; • identification and measurement of the fair value of the assets acquired and liabilities assumed, in particular in respect of the tourism property portfolio. We focused on this area as a key audit matter due to the size of the acquisition and the judgement involved in accounting for the transaction.	Our audit procedures included, among others: • inspecting the terms of the transaction to determine the date of control and the appropriate accounting based on the criteria of the relevant accounting standards; • assisted by our own valuation specialists: - understanding of the principles applied by the Group in determining the acquisition date fair values for the acquiree's assets and liabilities; - challenging the valuations produced by the Group and the methodology used to identify the assets and liabilities acquired, with particular focus on the methodologies adopted and key assumptions utilised in valuing the tourism property portfolio. • evaluating the Group's assertion that the financial effects of the new subsidiary's operations in the period from the date on which control commenced through the consolidation date were not material to the consolidated financial statements; and • considering the adequacy of the Group's disclosures in respect of the acquisition and the related judgments.

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Independent Auditors' Report to the shareholders of Valamar Riviera d.d., Poreč (continued)

Accounting for tax incentives as deferred tax assets

As at 31 December 2016 the Group has recognised deferred tax assets of HRK 131,638 thousand (Company HRK 93,615 thousand) which includes HRK 83,668 thousand of investment tax credits. Refer to Note 2.20 of Accounting policies, Note 4(e) of Critical accounting estimates, Note 12 on Income taxes and Note 25 on Deferred tax asset/liability of the financial statements.

Key audit matter	Our response
During the year ended 31 December 2016, the Company became entitled to tax incentives amounting to HRK 124,708 thousand. The incentives were granted to the Company as it realised investment criteria with respect to reconstruction of certain properties as discussed in Note 12 on Income tax to the financial statements. HRK 41,040 thousand of the incentive was utilized during 31 December 2016, with deferred tax assets of HRK 83,668 thousand recognized as at 31 December 2016 in respect of the remaining unused benefit. Further, the recognition of deferred tax assets relies on significant application of judgment by management in assessing the probability and sufficiency of future taxable profits, and the ability of the Company to ensure eligibility criteria under relevant investment promotion laws and regulations are met. We have determined this area to be a key audit matter, due to size of the amount involved and the associated uncertainty surrounding recoverability.	Our audit procedures included, among others: • evaluating the appropriateness of treating the investment tax credit as a deferred tax asset; • using our own tax specialists, evaluating whether the Company met the eligibility criteria in respect of the investment criteria for the reconstructed properties; • reconciling the amounts of investment tax credit claimed by the Company to its internal documentation, such as construction cost documentations and documents submitted to the relevant authorities; and • considering the appropriateness of management's assumptions and estimates in relation to the likelihood of generating suitable future taxable profits to support the recognition of deferred tax assets. We specifically considered and critically assessed the reasonableness of the Company's forecasts of future taxable profits by reference to historical forecasting accuracy.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information 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 and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 information included in the Annual Report, we have also performed the procedures required by the Article 20 of the Croatian Accounting Act. These procedures include considering whether the information included in the Annual Report includes the disclosures required by Articles 21, 22 and 24 of the Croatian Accounting Act and obtaining evidence regarding specified information provided in the information included in the Annual Report.

Independent Auditors' Report to the shareholders of Valamar Riviera d.d., Poreč (continued)

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 included in the Annual Report, containing the information as required by Article 21, 22 and 24 of the Croatian Accounting Act for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- The information included in the Annual Report has been prepared, in all material respects, in accordance with the applicable legal requirements of the Croatian Accounting Act.
- In addition, in light of the knowledge and understanding of the Group and the Company and the environment in which they operate, obtained in the course of our audit, we are required to report if we have identified material misstatements in the information included in the Annual Report that we obtained prior to the date of this auditors' report. We have nothing to report in this respect.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the 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 or to cease operations, or has no realistic alternative but to do so.

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty

Independent Auditors' Report to the shareholders of Valamar Riviera d.d., Poreč (continued)

exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or 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 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 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 Tony Ilijanić.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Hrvatska

22 February 2017

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

Tony Ilijanić
Member of the Management Board,
Croatian Certified Auditor

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
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CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(all amounts are expressed in thousands of HRK)	Note	Group 2016	Group 2015*	Company 2016	Company 2015
Revenue	5	1,454,868	1,268,725	1,440,427	1,183,211
Other income	6*	34,714	19,027	31,631	41,848
Cost of materials and services	7	(450,336)	(403,000)	(474,135)	(409,750)
Staff costs	8	(419,734)	(371,035)	(412,742)	(348,837)
Depreciation and amortisation	14, 15, 16	(265,188)	(232,922)	(243,228)	(206,773)
Other operating expenses	9	(105,759)	(105,286)	(102,592)	(97,222)
Other gains – net	10	37,751	3,567	38,478	3,784
Operating profit		**286,316**	**179,076**	**277,839**	**166,261**
Finance income		4,205	4,422	4,126	4,374
Finance costs		(18,736)	(50,542)	(16,908)	(43,826)
Finance costs – net	**11**	**(14,531)**	**(46,120)**	**(12,782)**	**(39,452)**
Share of profit/(loss) of equity-accounted investees, net of tax	**18**	**124**	**(29)**	**-**	**-**
Profit before tax		**271,909**	**132,927**	**265,057**	**126,809**
Income tax	12	70,405	(27,465)	71,600	(20,955)
Profit for the year		**342,314**	**105,462**	**336,657**	**105,854**
Other comprehensive income					
Items that may be reclassified to profit or loss					
Change in value available-for-sale financial assets	20	(33,642)	2,203	(34,191)	2,101
Tax on other comprehensive income		2,727	(428)	2,726	(419)
Total comprehensive income for the year		**311,399**	**107,237**	**305,192**	**107,536**
Profit attributable to:					
Owners of the parent		342,314	105,442	-	-
Non-controlling interests	32, 37	-	20	-	-
		342,314	**105,462**	**-**	**-**
Total comprehensive income attributable to:					
Owners of the parent		311,399	107,217	-	-
Non-controlling interests	32	-	20	-	-
		311,399	**107,237**	**-**	**-**
Earnings per share (in HRK) attributable to equity holders of the Group during the year:					
- basic and diluted	13	2.76	0.84	-	-

*As explained in Note 2.1.1 the Group has reclassified share of profit of equity-accounted investees, net of tax from other income to statement of comprehensive income as a separate item

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(all amounts are expressed in thousands of HRK)	Note	Group 31 December 2016	Group 31 December 2015	Company 31 December 2016	Company 31 December 2015
ASSETS					
Non-current assets					
Property, plant and equipment	14	3,930,900	3,043,554	2,895,925	2,361,333
Investment property	15	10,868	21,741	10,868	18,462
Intangible assets	16	24,080	17,007	17,343	9,202
Investment in subsidiaries	17	-	-	668,830	583,263
Interest in joint venture	18	1,366	1,242	1,490	1,490
Deferred tax assets	25	131,638	60,513	93,615	20,338
Available-for-sale financial assets	20	4,936	44,902	4,906	41,124
Derivative financial instruments	24	-	141	-	141
Loans and deposits	21	693	945	606	645
Trade and other receivables	23	603	-	113,248	135,815
		4,105,084	3,190,045	3,806,831	3,171,813
Current assets					
Inventories	22	19,204	9,761	18,253	9,605
Trade and other receivables	23	63,857	45,969	83,839	71,624
Income tax receivable		1,240	1,610	165	477
Loans and deposits	21	1,298	479	1,271	396
Cash and cash equivalents	26	274,651	318,755	237,648	301,797
		360,250	376,574	341,176	383,899
Total assets		**4,465,334**	**3,566,619**	**4,148,007**	**3,555,712**
EQUITY AND LIABILITIES					
Share capital	27	1,672,021	1,672,021	1,672,021	1,672,021
Treasury shares	27	(37,141)	(33,513)	(37,141)	(29,046)
Capital reserves	28	1,718	(374)	2,205	109
Fair value reserves	28	273	31,188	273	31,432
Legal reserves	28	67,199	61,906	67,199	61,906
Other reserves	28	68,851	58,381	124,614	178,143
Retained earnings	28	364,874	111,984	494,911	174,017
		2,137,795	1,901,593	2,324,082	2,088,582
Non-controlling interest	32	235,842	98	-	-
Total equity		**2,373,637**	**1,901,691**	**2,324,082**	**2,088,582**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2016

		Group 31 December		Company 31 December	
(all amounts are expressed in thousands of HRK)	Note	2016	2015	2016	2015
LIABILITIES					
Non-current liabilities					
Borrowings	29	1,497,827	1,306,224	1,332,586	1,158,888
Derivative financial instruments	24	1,813	1,569	1,813	1,569
Deferred tax liabilities	25	56,198	22,804	16,918	2,718
Provisions	31	49,709	31,014	26,579	31,014
		1,605,547	1,361,611	1,377,896	1,194,189
Current liabilities					
Borrowings	29	179,666	139,838	159,263	125,356
Trade and other payables	30	281,295	139,164	264,667	125,272
Derivative financial instruments	24	500	1,736	500	1,736
Income tax liability		2,511	344	-	-
Provisions	31	22,178	22,235	21,599	20,577
		486,150	303,317	446,029	272,941
Total liabilities		**2,091,697**	**1,664,928**	**1,823,925**	**1,467,130**
Total equity and liabilities		**4,465,334**	**3,566,619**	**4,148,007**	**3,555,712**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2016

Group

(in thousands of HRK)	Note	Share capital	Treasury shares	Capital reserves	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2015		**1,672,021**	**(13,303)**	**(18,595)**	**60,724**	**29,413**	**79,029**	**74,356**	**1,883,645**	**91**	**1,883,736**
Profit for the year		-	-	-	-	-	-	105,442	105,442	20	**105,462**
Other comprehensive income	28	-	-	-	-	1,775	-	-	1,775	-	**1,775**
Total comprehensive income		**-**	**-**	**-**	**-**	**1,775**	**-**	**105,442**	**107,217**	**20**	**107,237**
Transfer to legal reserves	27, 28	-	-	-	1,182	-	-	(1,182)	-	-	**-**
Capital loss cover	28	-	-	8,394	-	-	(8,394)	-	-	-	**-**
Treasury shares acquired		-	930	109	-	-	-	-	1,039	-	**1,039**
Treasury shares purchase	28	-	(21,140)	-	-	-	-	-	(21,140)	-	**(21,140)**
Transfer to treasury shares reserve	28	-	-	-	-	-	10,000	(10,000)	-	-	**-**
Dividends	28	-	-	-	-	-	(22,254)	(46,431)	(68,685)	-	**(68,685)**
Change in non-controlling interest	28	-	-	(483)	-	-	-	-	(483)	(13)	**(496)**
Transfer to retained earnings	28	-	-	10,201	-	-	-	(10,201)	-	-	**-**
Total contributions by and distributions to owners of the company, recognised directly in equity		**-**	**(20,210)**	**18,221**	**1,182**	**-**	**(20,648)**	**(67,814)**	**(89,269)**	**(13)**	**(89,282)**
Balance at 31 December 2015		**1,672,021**	**(33,513)**	**(374)**	**61,906**	**31,188**	**58,381**	**111,984**	**1,901,593**	**98**	**1,901,691**
Profit for the year		-	-	-	-	-	-	342,314	342,314	-	**342,314**
Other comprehensive loss	28	-	-	-	-	(30,915)	-	-	(30,915)	-	**(30,915)**
Total comprehensive income		**-**	**-**	**-**	**-**	**(30,915)**	**-**	**342,314**	**311,399**	**-**	**311,399**
Transfer to legal reserves	27, 28	-	-	-	5,293	-	-	(5,293)	-	-	**-**
Treasury shares released		-	33,080	2,579	-	-	-	-	35,659	-	**35,659**
Treasury shares purchase	27	-	(36,708)	-	-	-	-	-	(36,708)	-	**(36,708)**
Transfer to treasury shares reserve	28	-	-	-	-	-	10,470	(10,470)	-	-	**-**
Dividends	28	-	-	-	-	-	-	(73,661)	(73,661)	-	**(73,661)**
Change in non-controlling interest	28	-	-	(487)	-	-	-	-	(487)	(98)	**(585)**
Acquisition of subsidiary with NCI	17, 28	-	-	-	-	-	-	-	-	235,842	**235,842**
Total contributions by and distributions to owners of the company, recognised directly in equity		**-**	**(3,628)**	**2,092**	**5,293**	**-**	**10,470**	**(89,424)**	**(75,197)**	**235,744**	**160,547**
Balance at 31 December 2016		**1,672,021**	**(37,141)**	**1,718**	**67,199**	**273**	**68,851**	**364,874**	**2,137,795**	**235,842**	**2,373,637**

Accompanying notes form an integral parts of these financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2016

Company

(in thousands of HRK)	Note	Share capital	Treasury shares	Capital reserves	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2015		**1,672,021**	**(8,836)**	**(8,394)**	**60,724**	**29,750**	**254,711**	**79,345**	**2,079,321**
Profit for the year		-	-	-	-	-	-	105,854	105,854
Other comprehensive income	28	-	-	-	-	1,682	-	-	1,682
Total comprehensive income		**-**	**-**	**-**	**-**	**1,682**	**-**	**105,854**	**107,536**
Effect of merger	28	-	-	-	-	-	(9,251)	-	(9,251)
Transfer to treasury shares reserve	28	-	-	-	-	-	10,000	(10,000)	-
Transfer to legal reserves	28	-	-	-	1,182	-	-	(1,182)	-
Capital loss cover	28	-	-	8,394	-	-	(8,394)	-	-
Treasury shares released	28	-	930	109	-	-	-	-	1,039
Treasury shares purchase	27, 28	-	(21,140)	-	-	-	-	-	(21,140)
Dividends	28	-	-	-	-	-	(68,923)	-	(68,923)
Total contributions by and distributions to owners of the company, recognised directly in equity		**-**	**(20,210)**	**8,503**	**1,182**	**-**	**(76,568)**	**(11,182)**	**(98,275)**
Balance at 31 December 2015		**1,672,021**	**(29,046)**	**109**	**61,906**	**31,432**	**178,143**	**174,017**	**2,088,582**
Profit for the year		-	-	-	-	-	-	336,657	336,657
Other comprehensive loss	28	-	-	-	-	(31,465)	-	-	(31,465)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(31,465)**	**-**	**336,657**	**305,192**
Effect of merger of Bastion upravljanje d.o.o.		-	(4,467)	-	-	(68)	3,369	-	(1,166)
Effect of merger of Hoteli Baška d.d		-	-	(483)	-	374	6,542	-	6,433
Transfer to legal reserves	27, 28	-	-	-	5,293	-	-	(5,293)	-
Treasury shares released	27	-	33,080	2,579	-	-	-	-	35,659
Treasury shares purchase	27	-	(36,708)	-	-	-	-	-	(36,708)
Transfer to treasury shares reserve	28	-	-	-	-	-	10,470	(10,470)	-
Dividends	28	-	-	-	-	-	(73,910)	-	(73,910)
Total contributions by and distributions to owners of the company, recognised directly in equity		**-**	**(8,095)**	**2,096**	**5,293**	**306**	**(53,529)**	**(15,763)**	**(69,692)**
Balance at 31 December 2016		**1,672,021**	**(37,141)**	**2,205**	**67,199**	**273**	**124,614**	**494,911**	**2,324,082**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

		Group		Company	
(all amounts are expressed in thousands of HRK)	Note	2016	2015	2016	2015
Cash flow generated from operating activities					
Cash from operations	34	548,964	427,188	544,412	411,266
Income tax (paid)/received	12	259	(3,706)	312	-
Net cash generated from operating activities		**549,223**	**423,482**	**544,724**	**411,266**
Cash flow from investing activities					
Cash from merger of subsidiary	36	-	-	4,640	14,234
Purchase of property, plant and equipment	14	(339,603)	(342,715)	(331,266)	(339,409)
Purchase of intangible assets	16	(12,440)	(4,206)	(12,433)	(3,934)
Proceeds from disposal of property, plant and equipment		4,076	960	5,899	405
Acquisition of subsidiary	17, 37	(250,372)	(172,789)	(285,527)	(188,226)
Acquisition of non-controlling interest	17, 37	(585)	(9,769)	-	-
Proceeds from disposal of financial assets held for sale		40,975	1,669	39,024	1,091
Loans granted		(7,671)	(403)	(7,594)	(78)
Loan repayments received		7,242	943	7,138	752
Dividend received		-	69	-	-
Interest received		4,827	5,366	4,750	5,315
Net cash used in investing activities		**(553,551)**	**(520,875)**	**(575,369)**	**(509,850)**
Cash flow from financing activities					
Dividend payment	28	(38,048)	(68,685)	(38,297)	(68,923)
Purchase of treasury shares	28	(36,708)	(21,140)	(36,708)	(21,140)
Interest paid		(35,055)	(30,189)	(30,070)	(24,930)
Proceeds from borrowings		689,895	863,913	618,507	857,540
Repayments of borrowings		(619,860)	(522,952)	(546,936)	(508,355)
Net cash used in financing activities		**(39,776)**	**220,947**	**(33,504)**	**234,192**
Net increase/(decrease) in cash and cash equivalents		**(44,104)**	**123,554**	**(64,149)**	**135,608**
Cash and cash equivalents at beginning of year		318,755	195,201	301,797	166,189
Cash and cash equivalents at end of year	26	**274,651**	**318,755**	**237,648**	**301,797**

Accompanying notes form an integral parts of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

NOTE 1 – GENERAL INFORMATION

Valamar Riviera d.d., Poreč ("the Company") is registered in accordance with Croatian laws and regulations. The Company is registered with the Commercial Court in Pazin. Principle activity of the Company is the provision of accommodation in hotels, resorts and camping, food preparation and catering services as well as the preparation and serving of beverages. The registered office of Valamar Riviera d.d. is in Poreč, Stancija Kaligari 1.
Valamar Riviera Group consists of Valamar Riviera d.d., Poreč for tourism services (the Company) and its subsidiaries as follows (the Group):

- Elafiti Babin kuk d.o.o., Dubrovnik, 100% ownership
- Palme turizam d.o.o., Dubrovnik, 100% ownership
- Magične stijene d.o.o., Dubrovnik, 100% ownership
- Bugenvilia d.o.o., Dubrovnik, 100% ownership
- Pogača Babin kuk d.o.o., Dubrovnik, 33% ownership, joint venture
- Puntižela d.o.o., 100% ownership (subsidiary from 1 October 2014 with 99.39% ownership, 100% ownership from 7 December 2016 when the remaining minority interest of 0.61% was acquired)
- Bastion upravljanje d.o.o., 100% ownership (subsidiary from 1 October 2014 till 30 June 2016, merged into parent company on 1 July 2016)
- Valamar Hotels & Resorts GmbH, 100% ownership (subsidiary from 1 October 2014, in the process of the liquidation)
- Hoteli Baška d.d., Baška, 100% ownership (85.22% ownership from 18 June 2015, 100% ownership from 14 December 2015 till 31 March 2016, and merged into parent company on 1 April 2016)
- Baškaturist d.o.o., Baška, 100% ownership from 18 June 2015 till 13 January 2016, merged with Hoteli Baška d.d. on 14 January 2016
- Mirta Bašćanska d.o.o., Baška, 100% ownership from 18 June 2015 till 13 January 2016, merged with Hoteli Baška d.d. on 14 January 2016
- Vala Bašćanska d.o.o., Baška, 100% ownership from 18 June 2015 till 13 January 2016, merged with Hoteli Baška d.d. on 14 January 2016
- Imperial d.d., Rab 54.71% ownership since 31 December 2016 (Note 37)

The Company's shares are listed and traded in 2016 on the Zagreb Stock Exchange d.d. in accordance with the relevant regulations on the organised market.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 1 – GENERAL INFORMATION (continued)

Components in the Statements of financial position and comprehensive income is presented below in the following table which provides effects of various mergers and acquisitions on corresponding information.

Table 1.

		Group				Company			
		Statement of financial position		Statement of comprehensive income		Statement of financial position		Statement of comprehensive income	
Company	Note	31.12. 2016	31.12. 2015	2016	2015	31.12. 2016	31.12. 2015	2016	2015
Valamar hoteli i ljetovališta d.o.o.	a	✔	✔	1.1-31.12	1.1-31.12	✔	✔	1.1-31.12	28.2-31.12
Hoteli Baška d.d.	c	✔	✔	1.1-31.12	18.6-31.12	✔	-	1.4-31.12	-
Baškaturist d.o.o.	c	✔	✔	1.1-31.12	18.6-31.12	✔	-	1.4-31.12	-
Mirta Bašćanska d.o.o.	c	✔	✔	1.1-31.12	18.6-31.12	✔	-	1.4-31.12	-
Vala Bašćanska d.o.o.	c	✔	✔	1.1-31.12	18.6-31.12	✔	-	1.4-31.12	-
Bastion upravljanje d.o.o.	d	✔	✔	1.1-31.12	1.1-31.12	✔	-	1.7-31.12	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 1 – GENERAL INFORMATION (continued)

a) On 27 February 2015 merger Agreement was concluded whereby the company Valamar hoteli i ljetovališta d.o.o. Zagreb was merged into Valamar Riviera d.d. Poreč. The merger was registered in the Court Registry of the Commercial Court in Rijeka (decision number Tt-15/625-3), seated in Pazin, as at 27 February 2015, with legal effect as of 28 February 2015. By this registration, the merged company Valamar hoteli i ljetovališta d.o.o., Zagreb ceased to exist, and company Valamar Riviera d.d., took over all assets, all rights and all liabilities of the merged company.

b) On 12 November 2015, a merger Agreement was concluded, whereby the company Citatis savjetovanje d.o.o., Zagreb was merged into Bastion upravljanje d.o.o., Zagreb. The merger was registered in the Court Registry of the Commercial Court in Zagreb (decision number Tt-15/32353-2), as at 12 November 2015, with legal effect as of 13 November 2015. By this registration, the merged company ceased to exist, and Bastion d.o.o. took over all assets, all rights and all liabilities of the merged company

c) On 31 March 2016, merger Agreement was concluded whereby the company Hoteli Baška d.d. was merged into Valamar Riviera d.d. Poreč. The merger was registered in the Court Registry of the Commercial Court in Rijeka (decision number Tt-16/1751-3), seated in Pazin, as at 12 January 2016. On 13 January 2016 merger Agreement was concluded whereby Hoteli Baška d.d. acquired 100% shares in the following companies Baškaturist d.o.o., Mirta Bašćanska d.o.o. and Vala Bašćanska d.o.o., all based in Baška. The merger was registered in the Court Registry of the Commercial Court in Rijeka (decision number Tt-15/7533-2), seated in Pazin, as at 13 January 2016. By this registration, the merged companies ceased to exist, and company Valamar Riviera d.d., took over all assets, all rights and all liabilities of the merged company. On 18 June 2015, the company Valamar Riviera d.d. acquired 100% shares in the following companies Baškaturist d.o.o., Mirta Bašćanska d.o.o. and Vala Bašćanska d.o.o., all based in Baška, as well as 1.40% shares in the company Hoteli Baška d.d. (together "Hoteli Baška d.d. acquisition"). Since the above-mentioned limited liability companies held shares in the company Hoteli Baška d.d. constituting 83.82% of the share capital of the company, Valamar Riviera d.d. thus acquired 85.22% shares in the company Hoteli Baška d.d. Group Baška is included in consolidation from the date of acquisition. In the subsequent period, the parent company purchased shares in Hoteli Baška d.d. and with the acquisition of 95% shares as major shareholder on 10 August 2015 initiated a squeeze out process for Hoteli Baška d.d.

With Decision number Tt-6876-6 of the Commercial Court in Rijeka, the decision on the transfer of the shares of minority shareholders was entered in the court register on 14 December 2015, and the process was completed on 15 December 2015 with the implementation of the corporate action of transfer and registration of the shares of minority shareholders in SKDD (the Central Depository & Clearing Company).

d) On 30 June 2016, merger Agreement was concluded whereby the company Bastion upravljanje d.o.o, Zagreb was merged into Valamar Riviera d.d. Poreč. The merger was registered in the Court Registry of the Commercial Court in Rijeka (decision number Tt-16/5062-3), seated in Pazin, as at 30 June 2016, with legal effect as of 1 July 2016. By this registration, company Valamar Riviera d.d., acquired all assets, all rights and all liabilities of the merged company.

Transactions of mentioned mergers were recorded according to accounting method of merger of companies under common control. Results for the year of the merged companies are accounted for in the Statement of Comprehensive Income of the company Valamar Riviera d.d. from the date of merger, while Statement of comprehensive income of the Group for the prior year includes the results of the merged companies for the whole year, as detailed in Table 1 above.

On 20 September 2016, Agreement on buying and transferring the shares was concluded between the following parties: Republic of Croatia, State Agency for Deposit Insurance and Bank Rehabilitation, Croatian Pension Insurance Institute, the Center for the restructuring and sale (CERP) as sellers, and Valamar Riviera d.d. as buyer. Also, on 4 July 2016, Agreement on cooperation between Allianz ZB d.o.o. Company for Mandatory Pension Fund Management from Zagreb in its name and for account of AZ Mandatory pension fund of category A and AZ Mandatory pension fund of category B (AZ d.o.o.) was concluded with Valamar Riviera d.d. The Company acquired 40.08% of shares in the company Imperial d.d., based in Rab, Jurja Barakovića 2. Process of transferring the shares to Valamar Riviera d.d. was completed on 14 October 2016 by transferring the shares to SKDD (the Central Depository & Clearing Company). Share in subsidiary was HRK 208,731 thousand.

Valamar Riviera d.d. acquired the control over Imperial d.d. on 12 December 2016 after the General Meeting of Imperial d.d. was convened and held, where Statute was changed and members of Supervisory Board were replaced.

On 27 December 2016, Valamar Riviera d.d. acquired additional 14.63% of shares of Imperial d.d. This acquisition was conducted under the regulations of Act of acquiring the limited companies. By this acquisition Valamar Riviera d.d. acquired total of 54.71% of shares of Imperial d.d.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Group and Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The financial statements have been prepared under the historical cost method, except for the financial assets at fair value through profit or loss and financial assets available-for sale.

The preparation of financial statements in accordance with IFRS requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the notes.

Financial statements represent unconsolidated and consolidated financial position and results of the Company and the Group, respectively.

2.1.1 Changes in the presentation of financial statements for 2015

Statement of comprehensive income

The Group has reclassified Share of profit of equity-accounted investees which was previously included in Other income to separate caption of Comprehensive income to improve its presentation. Effect of reclassification on comparative information in the statement of comprehensive income of the Group is presented below:

Group (in thousands of HRK)	**As previously reported**	**Reclassification**	**Reclassified**
Statement of Comprehensive Income			
Share of profit/(loss) of equity-accounted investees, net of tax	-	(29)	(29)
Other income - Note 6	18,998	29	19,027

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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.

(c) Joint ventures
The Group's interests in joint ventures are accounted for under the equity method. Under this method, an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets of the jointly controlled entity. The profit or loss of the venturer includes the venturer's share of the profit or loss of the jointly controlled entity. In the Company's separate financial statements interest in joint venture is measured at cost less impairment.

2.2.1 Subsidiaries in separate financial statements

The Company discloses its subsidiaries at cost less impairment (note Investment in subsidiaries).

2.3 Merger of entities and transactions with companies under common control

Merger of entities from parties under common control are accounted for using book values (carryover basis accounting). Under this method, the assets and liabilities of the entities under common control are transferred at the predecessor entities carrying amounts. Related goodwill inherent in the predecessor entity's original acquisitions are also recorded in these financial statements. Any difference between the carrying amount of net assets, and the consideration paid is accounted for in these financial statements as an adjustment to equity.

2.4 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 a person or group responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-maker is the Group Management which is in charge of managing hotel and tourist properties and facilities.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment

Property, plant and equipment is included in the statement of financial position at historical cost less accumulated depreciation and impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land, arts 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 over their estimated useful lives, as follows:

Buildings	10-25 years
Plant and equipment	4-10 years
Furniture, tools and horticulture	3-10 years

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

2.7 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) Software
Separately acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of up to 4 years.

2.8 Impairment of non-financial assets

The Company determines impairment indicators of Property, plant and equipment as identified as separate cash generating units by using multiplicator of GOP and segment carrying net book values which is determined by comparing individual property segment (identified as separate cash generating units ("CGUs") carrying values with gross operating profit ("GOP").

If the determined ratios and multiples are not in line with expected amounts or targeted levels (at individual cash generating unit level), recoverable amount is based as the higher amount of fair value less costs of disposal and its value in use.

Determination of impairment indicators, determination of the fair value of assets (or group of assets), and estimation of future cash flows which are based on projections of expected cash flows, applicable discount rates, useful lives and remaining values require significant judgement by management.

Determination of fair value less costs of disposal is based on the market approach which uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business. The Group is using internal and external valuations.

2.9 Non-current assets classified as held for sale

Non-current assets are classified in the statement of financial position as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying and fair value, less costs to sell. The assets should be available for immediate sale in their present condition and their sale should be very likely. Gains and losses on sale of non-current assets held for sale are included in the statement of comprehensive income within 'other gains/(losses) – net'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 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 (using depreciation rate of 4%).

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. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.11 Financial assets

2.11.1 Classification

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

(a) Financial assets at fair value through profit or loss
This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets except derivative financial instruments.

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

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

(d) Repurchase agreements
The Company could enter into sales of investments under agreements to repurchase substantially identical investments at a certain date in the future at a fixed price. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference in the effective interest rate between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest expense..

2.11.2 Measurement and recognition

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

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the statement of comprehensive income within ‘other (losses)/gains- net’ in the period in which they arise. Gain and losses arising from changes in the fair value of interest rate swap are presented in the statement of comprehensive income within other gains/losses. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of ‘other income’ when the Group’s right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

2.11.2 Measurement and recognition (continued)

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity (other comprehensive income). When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as 'gains and losses from investment securities'.

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 Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.11.3 Impairment of financial assets

(a) Assets carried at amortised cost

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

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties 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 recoverable amount of receivables, and it represents Management's best estimate of the present value of receivables collection. 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.

(b) Assets classified as available for sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of comprehensive income – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income and recognized within 'other (losses)/gains-net'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Derivative financial instruments

Derivative financial instruments include foreign currency forward contracts in foreign currencies and interest rate swaps. Derivative financial instruments are recognized in the statement of financial position at fair value. The fair value is determined according to the market value, if appropriate. All derivatives are recorded in the statement of financial position as assets when their fair value is positive, and as liabilities when their fair value is negative. These derivatives do not classify as hedge accounting and are recognized as derivatives held for trading.

2.13 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of fair value of the leased property or the present value of minimum lease payments. In accordance with Law on tourist land, the Group pays an annual concession fee for tourist land area which is reported as expense in the current period.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other current and non-current liabilities depending on maturity.

The interest element of the finance costs is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

Leases in which a 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 under lease are disclosed in the Statement of financial position in the line "Property, plant and equipment". Assets are depreciated on the straight line basis as for similar assets. Revenue from lease is recognized according to period of the lease.

2.14 Inventories

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

Small inventory is written off in full at the moment of commencement of the use (porcelain, glass, metal, kitchen appliances, sports inventory, work clothing and other small items), except of the part of small inventory (linens, sheets and towels) for which the useful life is estimated up to 3 years.
As explained further in Note 4(b), in 2016 Management reviewed the remaining value and useful life of a certain inventory (linens, sheets and towels) and estimated its useful life up to 3 years. Effect of this review and implementation of new calculation resulted in lower expense of cost of materials and services in 2016 of HRK 8,942 thousand.

2.15 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment.

2.16 Cash and cash equivalents

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

2.17 Share capital

Ordinary shares are classified as equity. Where the Group purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group's equity holders until the shares are issued or purchased. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.19 Trade payables

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

2.20 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 in equity. In that case tax is also recognised in equity.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income 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 income tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Investment tax credits

Investment tax credits are incentives arising from government incentive schemes which enable the Group to reduce its income tax liability or liabilities arising from other specified taxes in future periods, and are linked to the construction or acquisition of certain assets and / or performance of certain activities and / or fulfilment of certain specific conditions prescribed in the relevant regulation for investment incentives by the relevant authorities. Tax investment credits are recognized as a deferred tax asset and an income tax benefit when criteria for recognition is fulfilled (Note 12) in the amount which the Group will be able to utilize until the incentive expires. Deferred tax assets recognized as a result of investment tax credits is utilized during the period of the incentive, ie until the expiration of the credits (if so specified) in accordance with and subject to the availability of tax obligations in future years against which the credits can be offset.

2.21 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. In addition, the Group is not obliged to provide any other post-employment benefits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Employee benefits (continued)

(b) Termination benefits

Termination benefits are recognised when the Group terminates employment contracts of employees before their normal retirement date in accordance with pension and labour regulations. The Group recognises termination benefits when it has made an individual decision on the termination of an employment agreement due to business or personal reasons, whereby the liability to pay termination benefits are objectively determined, in accordance with regulations and by-laws.

(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 a liability for accumulated compensated absences based on unused vacation days at the reporting date and if liability can be reliably estimated.

2.22 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 are reviewed at each reporting date and adjusted to reflect the current best estimate. The increase in the provision due to passage of time is recognised as interest expense.

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

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of Group's activities. Revenue is shown net of value-added tax and after eliminating sales within the Group.

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

(a) Sales of services

Revenue from hotel and tourist services is recognised in the period the services are provided.

(b) Rental of services

Revenue for rental services is generally recognised in the period the services are provided, using a straight-line basis over the terms of contracts with lesser and presented in Statement of comprehensive income within 'Revenue'.

(c) Interest income

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

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.24 Earnings per share

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

2.25 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the statement of financial position on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.26 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2016 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. It is not expected that these standards will have a significant effect on the financial statements of the Company and the Group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

In their day-to-day business activities, the Company and the Group face a number of financial risks, especially market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company and the Group have a proactive approach in mitigating interest rate and foreign exchange risks, by using available market instruments. Internal risk management goals and policies aim at protecting foreign currency inflows during seasonal activity and partial interest hedging of the principal loan amount.

(a) Market risk

(i) Foreign exchange risk

The Group conducts its business operations across national borders and is exposed to foreign exchange risks. They mainly result from changes in the EUR/HRK exchange rate. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

Most of the sales revenue generated from foreign customers and long-term debt is denominated in euros. Hence, for the most part the Group is naturally hedged from exchange rate risks. Since some liabilities are denominated in HRK, the Group actively manages risks by using derivative instruments available on the financial market. The instruments are used according to operating assessments and expected market trends. In this way the assets, liabilities and cash flow are protected from the risk impact.

At 31 December 2016, if the EUR had weakened/strengthened by 1% against the HRK, with all other variables held constant, the net profit for the year would have been HRK 11,429 thousand (2015: HRK 7,255 thousand) higher/(lower) mainly as a result of foreign exchange gains/(losses) on translation of EUR denominated trade receivables, borrowings and foreign cash funds.

(ii) Interest rate risk

Variable rate loans expose the Group to cash flow interest rate risk. Periodically, the Group uses derivative instruments in order to hedge cash flow and interest rate by applying interest rate swaps. The economic effect of such swaps is the conversion of variable interest rate loans into fixed interest rate loans for a pre-committed hedged part of the loan principal. The Group has interest-bearing assets (cash and deposits) so their revenue and cash flow depend on changes in market interest rates. This becomes evident especially during the season when the Group has significant cash surpluses at its disposal.

At 31 December 2016, if interest rates on currency-denominated borrowings had been higher/lower by 1%, with all other variables held constant, the profit for the year would have been HRK 4,419 thousand (2015: HRK 3,931 thousand) higher/(lower), mainly as a result of higher/(lower) interest expense on variable-rate borrowings.

At 31 December 2016, if interest rates on currency-denominated deposits had been 1% higher/(lower), with all other variables held constant, the profit for the year would have been HRK 1,227 thousand (2015: HRK 101 thousand) higher/(lower), mainly as a result of higher/(lower) interest income on variable rate deposits.

(iii) Price risk

The Group holds equity and debt securities and is exposed to equity price risk due to price volatility. Valamar Riviera d.d. is not an active participant in the market trade in terms of investing in equity and debt securities. However, with the HRK 285 million invested in acquiring shares of Imperial d.d., the Company is exposed to the said risk to a certain extent.

As at 31 December 2016, if the indices of the ZSE had been higher/(lower) by 2.08% for 2016 (which was the average index movement), with all other variables held constant, reserves within equity and other comprehensive income would have been HRK 79 thousand higher/(lower) as a result of gains/(losses) on equity securities available for sale.

(b) Credit risk

Credit risk arises from cash, time deposits and receivables. According to the Group's sales policy, business transactions are conducted only with customers with suitable credit history, i.e. by agreeing advances, bank securities and (for individual customers) payments made through major credit card companies. The Group continuously monitors its exposure towards customers and its credit rating as well as obtains security instruments in order to reduce bad debt risks related to services provided.

(c) Liquidity risk

The Company and the Group have a sound liquidity risk management. Sufficient funds for meeting liabilities are available at any given moment through adequate amounts from contracted credit lines and by ensuring credit line availability in the future. Liquidity risk is managed by generating strong positive net operating cash flows, while capital investments are financed by credit lines. As at 31 December 2016, the Company and the Group have agreed loans with financial institutions for 2017 amounting to HRK 575,478 thousand. The repayment of the major credit lines coincides with periods of strong cash inflows from operations. The Company and the Group monitor the level of available funds through daily cash and debt reports. Long-term cash flow forecasts as well as annual (monthly) forecasts are based on the set budget

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

After meeting the requirements of working capital management the surplus is deposited in the treasury. From there the funds are invested in interest-bearing current accounts, time deposits, money market deposits accounts and marketable securities. Only instruments with suitable maturities and sufficient liquidity are selected, according to the forecasted requirements for liquid funds.

The table below analyses expected contractual cash flows for financial liabilities of the Group and the Company according to contracted maturities. The amounts stated below include interest, if applicable, and represent undiscounted cash flows.

	Group				
(in thousands of HRK)	**Less than 3 months**	**3 months-1 year**	**1-3 years**	**3-6 years**	**Over 6 years**
At 31 December 2016					
Trade and other payables	187,426	11,277	-	-	-
Borrowings	27,867	186,987	389,265	476,017	855,932
Derivative financial instruments	-	500	1,645	168	-
Total liabilities (contractual maturities)	**215,293**	**198,764**	**390,910**	**476,185**	**855,932**
At 31 December 2015					
Trade and other payables	78,654	4,147	-	-	-
Borrowings	19,546	155,892	340,683	476,170	692,823
Derivative financial instruments	468	1,268	1,388	181	-
Total liabilities (contractual maturities)	**98,668**	**161,307**	**342,071**	**476,351**	**692,823**

	Company				
(in thousands of HRK)	**Less than 3 months**	**3 months-1 year**	**1-3 years**	**3-6 years**	**Over 6 years**
At 31 December 2016					
Trade and other payables	181,696	11,067	-	-	-
Borrowings	24,440	169,681	344,621	430,167	780,557
Derivative financial instruments	-	500	1,645	168	-
Total liabilities (contractual maturities)	**206,136**	**181,248**	**346,266**	**430,335**	**780,557**
At 31 December 2015					
Trade and other payables	70,720	4,121	-	-	-
Borrowings	19,082	135,459	298,033	392,832	648,023
Derivative financial instruments	468	1,268	1,388	181	-
Total liabilities (contractual maturities)	**90,270**	**140,848**	**299,421**	**393,013**	**648,023**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the owner and to maintain an optimal capital structure to reduce the cost of capital.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

Quoted market prices for similar instruments are used for long-term debt. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents assets measured at fair value as at:

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2016				
Assets measured at fair value				
Available-for-sale financial assets - equity securities	4,936	-	-	4,936
Derivative financial instruments	-	-	-	-
Total assets measured at fair value	**4,936**	**-**	**-**	**4,936**
Liabilities measured at fair value				
Derivative financial instruments	-	2,313	-	2,313
Total liabilities measured at fair value	**-**	**2,313**	**-**	**2,313**
At 31 December 2015				
Assets measured at fair value				
Available-for-sale financial assets - equity securities	44,902	-	-	44,902
Derivative financial instruments	-	141	-	141
Total assets measured at fair value	**44,902**	**141**	**-**	**45,043**
Liabilities measured at fair value				
Derivative financial instruments	-	3,305	-	3,305
Total liabilities measured at fair value	**-**	**3,305**	**-**	**3,305**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents assets measured at fair value as at:

	Company			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2016				
Assets measured at fair value				
Available-for-sale financial assets - equity securities	4,906	-	-	4,906
Derivative financial instruments	-	-	-	-
Total assets measured at fair value	**4,906**	**-**	**-**	**4,906**
Liabilities measured at fair value				
Derivative financial instruments	-	2,313	-	2,313
Total liabilities measured at fair value	**-**	**2,313**	**-**	**2,313**
At 31 December 2015				
Assets measured at fair value				
Available-for-sale financial assets - equity securities	41,124	-	-	41,124
Derivative financial instruments	-	141	-	141
Total assets measured at fair value	**41,124**	**141**	**-**	**41,265**
Liabilities measured at fair value				
Derivative financial instruments	-	3,305	-	3,305
Total liabilities measured at fair value	**-**	**3,305**	**-**	**3,305**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. These and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Impairment of non-financial assets

The Company determines impairment indicators of Property, plant and equipment as identified as separate cash generating units by using multiplicator of gross operating profit ("GOP") and segment carrying net book values which is determined by comparing property segment carrying values with GOP.

If the determined ratios and multiples are not in line with expected amounts or targeted levels (at individual cash generating unit level) recoverable amount is determined as higher amount of fair value less costs of disposal and its value in use. Furthermore, recoverable amount is determined for newly acquired properties (including those via business combinations). To determine recoverable amount, the Group uses both internal and external valuations.

Determination of impairment indicators, determination of the fair value of assets (or group of assets), and estimation of future cash flows which are based on expected cash flows models, future capital investments, applicable discount rates, useful lives and remaining values require significant judgement by management. Management also considers occupancy rates, revenue per available room, market growth with externally derived data including external hotel industry reports.

Determination of fair value less costs of disposal is based on the market approach which uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.

(b) Small inventory

In 2016, Management reviewed the remaining value and useful life of a part of inventory and estimated its useful life up to 3 years (linens, sheets and towels).
If the Group and Company adopted the revised policy retroactively, the effects of the review of useful life and implementation of new calculative write-off would be:

(in thousands of HRK)	**2016**	**2015**
Effect on inventories	1,941	7,051
Effect on cost of materials and services	5,110	1,242

Effect of this review and implementation of new calculation resulted in lower expense of cost of materials and services in 2016 of HRK 8,942 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(c) Estimated useful lives

By using a certain asset, the Group uses the economic benefits contained in this asset, which diminish more intensely with economic and technological aging. 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.

Based on historical information, and in line with the technical department, the useful life of buildings components was assessed by Management to be 10 to 25 years. The useful lives of equipment and other assets have also been assessed.

The useful life of property, plant and equipment will be periodically revised to reflect any changes in circumstances since the previous assessment. Changes in estimate, if any, will be reflected prospectively in a revised depreciation charge over the remaining, revised useful life.

(d) Land ownership

Due to the transition from public to private ownership, e.g. in the transformation and privatisation process and the fact that the properties of the Company that were used in the transformation process were evaluated in the share capital of the Company, and part was not evaluated, there are certain ambiguities and proceedings regarding the ownership of part of the land within the majority of tourist companies. In a clear and undisputed ownership the Company has approximately 1.77 million m2 of land and land which is the object of determining the status of co-ownership or ownership in accordance with the regulations of the Law on Tourist and Other Construction Land not evaluated in the transformation and privatisation process, that came into force on 1 August 2010 (hereinafter the Law) is approximately 3.24 million m^2. On 31 January 2011 the Company submitted requests according to the Law in appropriate legal deadline and prescribed content.
Concessions are required: a) for approximately 2.28 million m^2 of land in the camps to determine the co-ownership shares of the Republic of Croatia and for which, according to relevant wages regulations, advance concession fee of approximately HRK 4.8 mil. per year; and b) for approximately 960 thousand m2 of land in tourist resorts and hotels that should determine ground plan of hotels, apartments and other estimated buildings and land owned by the Company and other land owned by the local government and for which, according to relevant regulations, is paid advance concession fee of approximately HRK 1.3 mil. per year.

A more detailed description of proceedings and unsolved situations for properties of the Company are disclosed in the Note 33.

(e) Recognition of deferred tax assets

Deferred tax assets represents the amount of income tax recoverable through future deductions from taxable profits and are recognised in the statement of financial position. Deferred tax assets are recognized to the extent of tax benefit that is probable to be achieved. While determining future taxable profits and the amount of tax benefits that are likely to be generated in the future, Management of the Company makes judgments and applies estimations based on taxable profits from previous years and expectations of future income that are believed to be reasonable under the existing circumstances.

For investments in the Valamar Isabella Resort and destination Rabac from 2014 up to 31 December 2016 the Company has achieved total investment tax credit incentives of HRK 124,708 thousand.
The Company has fulfilled the requirements of preserving the properties and of additional employment, and for the year ended 31 December 2016 has utilised HRK 41,040 thousand of tax incentives and recognised remaining tax incentives of HRK 83,668 thousand as deferred tax asset.

Under the Act on Investment Incentives, the Company may be able to achieve additional tax incentives for additional investments in destination Rabac realised up to the 18 March 2017. At the moment, the Company cannot determine and estimate the extent of this investment incentive and whether it will fulfill the various legal and documentation requirements. Accordingly, the recognition of potential additional deferred tax assets will be considered further during 2017.

(f) Consolidation

The Group acquired company Imperial d.d. ("Imperial") on 12 December 2016. Assets and liabilities of subsidiary are included in consolidated statement of financial position of the Group as at 31 December 2016, while the Group's investment in Imperial and subsidiary's capital and reserves have been eliminated. Since the income and expenses of Imperial d.d., Rab in the period from 12 December up to 31 December 2016 were insignificant as explained in Note 37 and due to practicality they were not included in Group's statement of comprehensive income. There were no intercompany transactions from the control acquisition up to the 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

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-makers), which are responsible for allocating resources to the reportable segments and assessing its performance.

The Group records operating revenues and expenses by types of services rendered in three basic segments: hotels and apartments, camping and other business segments. Revenue was divided between segments according to the organisational principle where all of the income generated from camping profit centres was reported in the camping segment, while all of the income generated from hotel and apartment profit centres was reported in that segment. Other business segments include revenue from sports activities, laundry services, other rentals of properties and revenue generated from the central services and central kitchens.

The segment information related to reportable segments for the year ended 31 December 2016 is as follows:

Group (in thousands of HRK)	**Hotels and apartments**	**Camping**	**Other business segments**	**Total**
Total sales	1,094,721	321,436	66,329	1,482,486
Inter-segment revenue	(4,475)	(157)	(22,986)	(27,618)
Revenue from external customers	**1,090,246**	**321,279**	**43,343**	**1,454,868**
Depreciation and amortisation	202,744	42,784	19,660	265,188
Net finance income/(expense) net	(13,325)	(4,010)	2,804	(14,531)
Write off of fixed assets	11,502	394	148	12,044
Profit/(loss) of segment	489,435	197,492	(115,372)	571,555
Total assets	**2,791,462**	**815,449**	**397,114**	**4,004,025**
Total liabilities	**1,874,377**	**27,025**	**37,869**	**1,939,271**

Hotels and apartments and camping (operating assets) are located in the Republic of Croatia.

Due to changes in the methodology of calculating the profit/(loss) of segments in 2016, the Company changed the profit/(loss) of segments for 2015, according to the new methodology of calculation in the current year for the purpose of comparability with 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 5 – SEGMENT INFORMATION (continued)

The segment information related to reportable segments for the year ended 31 December 2015 is as follows:

Group (in thousands of HRK)	**Hotels and apartments**	**Camping**	**Other business segments**	**Total**
Total sales	971,289	269,897	56,601	1,297,787
Inter-segment revenue	(3,380)	(104)	(25,578)	(29,062)
Revenue from external customers	**967,909**	**269,793**	**31,023**	**1,268,725**
Depreciation and amortisation	179,973	34,340	18,609	232,922
Net finance income/(expense) net	(37,403)	(4,926)	(3,791)	(46,120)
Write off of fixed assets	304	3,234	3	3,541
Profit/(loss) of segment	408,983	166,106	(102,689)	472,400
Total assets	**2,289,706**	**436,995**	**378,963**	**3,105,664**
Total liabilities	**1,535,535**	**15,345**	**27,971**	**1,578,851**

Reconciliation of the profit per segment with profit before tax is as follows:

	Group	
(in thousands of HRK)	**2016**	**2015**
Revenue		
Revenue from segments	1,482,486	1,297,787
Other revenue	-	-
Inter-segment revenue	(27,618)	(29,062)
Total revenue	**1,454,868**	**1,268,725**
Profit		
Profit from segments	571,555	472,400
Other unallocated expenses	(324,253)	(285,336)
Elimination of inter-segment profit/(loss)	24,607	(54,137)
Total profit before tax	**271,909**	**132,927**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 5 – SEGMENT INFORMATION (continued)

The reconciliation of segment assets and liabilities with the Group's assets and liabilities is as follows:

	Group			
	2016		2015	
(in thousands of HRK)	Assets	Liabilities	Assets	Liabilities
Segment assets/liabilities	**4,004,025**	**1,939,271**	**3,105,664**	**1,578,851**
Hotels and apartments segment	2,791,462	1,874,377	2,289,706	1,535,535
Camping segment	815,449	27,025	436,995	15,345
Other segment	397,114	37,869	378,963	27,971
Unallocated:	**461,309**	**152,426**	**460,955**	**86,077**
Investments in joint ventures	1,366	-	1,242	-
Other financial assets	4,936	-	44,902	-
Loans and deposits	1,991	-	1,424	-
Cash and cash equivalents	274,651	-	318,755	-
Income tax receivable	1,240	-	1,610	-
Other receivables	45,487	-	32,368	-
Deferred tax assets/liabilities	131,638	56,198	60,513	22,804
Other liabilities	-	44,206	-	28,954
Derivative financial assets/ liabilities	-	2,313	141	3,305
Provisions	-	49,709	-	31,014
Total	**4,465,334**	**2,091,697**	**3,566,619**	**1,664,928**

The Group's hospitality services are provided in Croatia to domestic and foreign customers. The Group's sales revenues are classified according to the customers' origin.

	Group	
(in thousands of HRK)	2016	2015
Revenue from sales to domestic customers	119,026	106,000
Revenue from sales to foreign customers	1,335,842	1,162,725
	1,454,868	**1,268,725**

Foreign sales revenues can be classified according to the number of overnights based on the customers' origin, as follows:

	Group			
Sales to foreign customers	2016	%	2015	%
EU members	1,183,689	88.61	1,006,157	86.53
Other	152,153	11.39	156,568	13.47
	1,335,842	**100.00**	**1,162,725**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 6 – OTHER INCOME

	Group		Company	
(in thousands of HRK)	**2016**	**2015***	**2016**	**2015**
Income from insurance and legal claims	7,786	1,849	7,707	1,705
Income from cassa sconto	2,828	1,692	2,828	1,548
Income from donations and other	946	394	943	393
Dividend income	27	878	27	26,967
Reimbursed costs	2,953	2,594	2,963	2,780
Income from provision release	8,233	878	6,289	751
Income from own consumption	2,739	2,316	2,739	2,316
Other income	9,202	8,426	8,135	5,388
	34,714	**19,027**	**31,631**	**41,848**

*Reclassified as explained in Note 2.1.1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 7 – COST OF MATERIALS AND SERVICES

	Group		Company	
(in thousands of HRK)	2016	2015	2016	2015
Raw materials and supplies				
Raw materials and supplies used /i/	140,286	122,943	140,038	115,342
Energy and water used	69,788	63,101	68,487	60,045
Miscellaneous inventories	25,550	18,137	25,491	15,034
	235,624	**204,181**	**234,016**	**190,421**
External services				
Management services	-	-	-	214
Maintenance	54,657	56,423	53,457	52,782
Reservation centre services	-	-	-	3,258
Utilities	46,169	38,140	45,189	35,196
Telecommunication and transport	10,830	7,194	10,628	6,819
Recreation services	9,900	9,045	9,871	8,677
Marketing, promotion and fairs	32,232	28,625	31,809	28,002
Rent /ii/	13,352	14,310	41,851	42,507
Commission fees (agencies and credit cards)	45,725	42,417	45,469	39,772
Other services	1,847	2,665	1,845	2,102
	214,712	**198,819**	**240,120**	**219,329**
	450,336	**403,000**	**474,135**	**409,750**

/i/ Cost of materials and services of the Company is comprised of raw materials and supplies used of HRK 19,682 thousand, food and beverage costs of HRK 112,611 thousand and other materials and supplies used of HRK 7,746 thousand (2015: cost of raw materials and supplies used of HRK 15,308 thousand, food and beverage costs of HRK 95,600 thousand and other costs of HRK 4,434 thousand).

/ii/ Rental costs mainly relate to the lease contract for the hotel Lacroma of HRK 28,642 thousand from subsidiary Elafiti Babin kuk d.o.o.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 8 – STAFF COSTS

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Net salaries	222,430	194,464	219,442	182,440
Pension contributions	63,268	55,744	62,076	50,474
Health insurance contributions	53,188	45,518	51,899	42,837
Other (contributions and taxes)	31,934	31,161	31,934	31,161
Termination benefits	3,183	5,189	2,406	4,156
Other staff costs /i/	45,731	38,959	44,985	37,769
	419,734	**371,035**	**412,742**	**348,837**
Number of employees at 31 December	**2,197**	**2,010**	**2,184**	**1,901**

/i/ Other staff costs comprise fees and transportation costs, jubilee awards, as well as remunerations for temporary services and similar.

NOTE 9 – OTHER OPERATING EXPENSES

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Municipal and similar charges and contributions	46,654	45,105	45,312	43,488
Collection of receivables previously written-off	(465)	(422)	(465)	(390)
Professional services	22,022	16,465	21,217	12,105
Bank charges	2,342	2,663	2,262	1,811
Entertainment	6,195	5,200	6,184	4,976
Insurance premiums	3,934	3,626	3,607	3,148
Write off of property, plant and equipment /i/	12,044	3,541	12,034	3,541
Provisions	1,854	5,004	1,854	4,958
Impairment of assets /ii/	691	18,708	691	18,650
Other	10,488	5,396	9,896	4,935
	105,759	**105,286**	**102,592**	**97,222**

/i/ Write off of property, plant and equipment relates to demolition of parts of buildings as a part of new investments. Demolition of buildings amounts to HRK 11,579 thousand and HRK 465 thousand relates to other write offs.

/ii/ The Group and the Company have recorded a provision for advances given to Glavice d.o.o. in liquidation in 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 10 – OTHER GAINS/(LOSSES) – NET

(in thousands of HRK)	Group 2016	Group 2015	Company 2016	Company 2015
Net gains/(losses) on sale of property, plant and equipment	1,542	(332)	1,538	226
Net foreign exchange gains/(losses)	737	2,742	933	2,784
Changes in fair value of forwards and interest rate swaps	(2,704)	(1,678)	(2,704)	(1,678)
Gains on disposal of financial assets available for sale	34,620	383	35,155	-
Realised net gain from forwards and interest rate swaps	3,556	2,452	3,556	2,452
	37,751	**3,567**	**38,478**	**3,784**

NOTE 11 – FINANCE INCOME/(EXPENSE) – NET

(in thousands of HRK)	Group 2016	Group 2015	Company 2016	Company 2015
Interest income	4,205	4,422	4,126	4,374
	4,205	**4,422**	**4,126**	**4,374**
Interest expense	(39,459)	(30,936)	(35,491)	(25,040)
Net foreign exchange (losses)/gains on financing activities	20,723	(19,606)	18,583	(18,786)
	(18,736)	**(50,542)**	**(16,908)**	**(43,826)**
Financial expense - net	**(14,531)**	**(46,120)**	**(12,782)**	**(39,452)**

During 2016 the Group and the Company capitalised borrowing costs of HRK 347 thousand with capitalization rate of 2.05%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 12 – INCOME TAX

Income tax comprise:

(in thousands of HRK)	Group		Company	
	2016	**2015**	**2016**	**2015**
Current tax	3,330	2,275	-	-
Deferred tax	(73,735)	25,190	(71,600)	20,955
Tax expense/(benefit)	**(70,405)**	**27,465**	**(71,600)**	**20,955**

Reconciliation of the effective tax rate:

(in thousands of HRK)	Group		Company	
	2016	**2015**	**2016**	**2015**
Profit before tax	271,909	132,927	265,057	126,809
Income tax (20%)	54,382	26,585	53,011	25,362
Tax exempt income	(399)	(24)	(318)	(5,554)
Non-deductible expenses	1,190	1,631	1,271	1,149
Investment tax credits	(124,708)	-	(124,708)	-
Effect of changes in tax rates	(856)	-	(856)	-
Recognition of deferred tax assets previously not recognized	(14)	(727)		(2)
Tax expense/(benefit)	**(70,405)**	**27,465**	**(71,600)**	**20,955**
Effective tax rate	-	20.66%	-	16.52%

Croatian tax legislation does not allow tax losses to be transferred among group companies. In accordance with the regulations of the Republic of Croatia, the Tax Authority may at any time inspect the Group Company's books and records within three years following the year in which the tax liability was reported, and may impose additional tax assessments and penalties.
Tax Administration has issued a ruling concerning the tax audit for the year 2010 for the company Rabac d.d. which was merged with the company Valamar Riviera d.d. on 1 September 2011. According to this ruling, there is an increase in the tax liabilities of HRK 4,428 thousand. The Company has appealed the aforementioned decision. The appeal was accepted. In the repeated proceedings Tax Authority issued a ruling which stated that the tax liability should be reduced to the amount of HRK 1,201 thousand. The Company has appealed the aforementioned decision.

Management of the Company believes that the outcome of this matter will not have a material effect on the financial position and performance of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 12 – INCOME TAX (continued)

During 2014, in accordance with the Act on Investment Incentives, the Company became entitled to a tax incentive. Incentive is based on investment in the Valamar Isabella Resort which is significant and relates to the technologically demanding reconstruction of facilities on the island of St. Nikola in Poreč. For investments up to 31 December 2015 the Company has achieved total incentives of HRK 68 million. The investment as completed is subject to inspection of state institutions and the Company has to retain new employees (related to the incentive program requirements) during the utilisation of incentive for a minimum period of 5 years.

For investments in the Valamar Isabella Resort and destination Rabac from 2014 up to 31 December 2016 the Company has achieved total investment tax credit incentives of HRK 124,708 thousand.
The Company has fulfilled the requirements of preserving the properties and of additional employment, and for the year ended 31 December 2016 has utilised HRK 41,040 thousand of tax incentives and recognised remaining tax incentives of HRK 83,668 thousand as deferred tax asset.

Under the Act on Investment Incentives, the Company may be able to achieve additional tax incentives for additional investments realised up to the 18 March 2017. At the moment, the Company cannot determine and estimate the extent of this investment incentive and whether it will fulfill the various legal and documentation requirements. Accordingly, the recognition of potential additional deferred tax assets will be considered further during 2017.

NOTE 13 – EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit/(loss) for the year of the Group by the weighted average number of shares ordinary in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

Diluted

Diluted earnings per share is equal to basic, since the Group/Company did not have any convertible instruments and share options outstanding during both years.

	Group	
	2016	**2015**
Profit attributable to equity holders (in thousands of HRK)	342,314	105,442
Weighted average number of shares	124,235,079	124,784,807
Basic/diluted earnings per share (in HRK)	**2.76**	**0.84**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

Group (in thousands of HRK)	Land	Buildings	Plant and equipment	Furniture, tools and horticulture	Assets under construction	Total
At 1 January 2015						
Cost	584,991	3,874,492	491,029	238,572	128,513	5,317,597
Accumulated depreciation and impairment	-	(2,241,530)	(325,196)	(164,982)	-	(2,731,708)
Carrying amount	**584,991**	**1,632,962**	**165,833**	**73,590**	**128,513**	**2,585,889**
Year ended 31 December 2015						
Opening carrying amount	584,991	1,632,962	165,833	73,590	128,513	2,585,889
Acquisition of Hoteli Baška d.d at fair value	73,012	286,420	22,137	1,832	61	383,462
Additions	1,345	305,995	56,569	33,132	(90,770)	306,271
Disposals and write offs	(20)	(3,315)	(140)	(393)	-	(3,868)
Depreciation	-	(169,193)	(40,577)	(18,430)	-	(228,200)
Carrying amount at year end	**659,328**	**2,052,869**	**203,822**	**89,731**	**37,804**	**3,043,554**
At 31 December 2015						
Cost	659,328	4,456,095	565,245	267,318	37,804	5,985,791
Accumulated depreciation and impairment	-	(2,403,226)	(361,423)	(177,587)	-	(2,942,237)
Carrying amount	**659,328**	**2,052,869**	**203,822**	**89,731**	**37,804**	**3,043,554**
Year ended 31 December 2016						
Opening carrying amount	659,328	2,052,869	203,822	89,731	37,804	3,043,554
Acquisition of Imperial d.d. at fair value /i/	210,974	484,853	18,048	18,466	2,672	735,013
Reclassification from investment property and intangible assets	2,211	13,388	(8,577)	3,585	33	10,640
Additions	965	176,091	58,258	20,840	159,844	415,998
Disposals and write offs	(267)	(11,332)	(406)	(2,581)	-	(14,586)
Depreciation	-	(192,878)	(45,200)	(21,641)	-	(259,719)
Carrying amount at year end	**873,211**	**2,522,991**	**225,945**	**108,400**	**200,353**	**3,930,900**
Year ended 31 December 2016						
Cost	873,211	5,082,912	597,573	313,477	200,353	7,067,526
Accumulated depreciation and impairment	-	(2,559,921)	(371,628)	(205,077)	-	(3,136,626)
Carrying amount	**873,211**	**2,522,991**	**225,945**	**108,400**	**200,353**	**3,930,900**

/i/ Effect of acquisition of the Imperial d.d., details in Note 37.

As at 31 December 2016, the carrying amount of land and buildings of the Group pledged as collateral for borrowings amounted to HRK 1,951,778 thousand (2015: HRK 1,413,929 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company (in thousands of HRK)	**Land**	**Buildings**	**Plant and equipment**	**Furniture, tools and horticulture**	**Assets under con-struction**	**Total**
At 1 January 2015						
Cost	518,328	3,522,509	486,345	235,098	127,762	4,890,042
Accumulated depreciation and impairment	-	(2,143,323)	(321,374)	(163,158)	-	(2,627,855)
Carrying amount	**518,328**	**1,379,186**	**164,971**	**71,940**	**127,762**	**2,262,187**
Year ended 31 December 2015						
Opening carrying amount	518,328	1,379,186	164,971	71,940	127,762	2,262,187
Effect of merger of subsidiary (Note 36)	-	-	132	1,328	-	1,460
Additions	1,269	295,720	63,636	33,438	(90,132)	303,931
Disposals and write offs	(19)	(3,315)	(137)	(256)	-	(3,727)
Depreciation	-	(145,688)	(38,920)	(17,910)	-	(202,518)
Carrying amount at year end	**519,578**	**1,525,903**	**189,682**	**88,540**	**37,630**	**2,361,333**
At 31 December 2015						
Cost	519,578	3,807,417	547,898	265,585	37,630	5,178,108
Accumulated depreciation and impairment	-	(2,281,514)	(358,216)	(177,045)	-	(2,816,775)
Carrying amount	**519,578**	**1,525,903**	**189,682**	**88,540**	**37,630**	**2,361,333**
Year ended 31 December 2016						
Opening carrying amount	519,578	1,525,903	189,682	88,540	37,630	2,361,333
Effect of merger of subsidiary (Note 36)	73,092	283,316	4,970	4,391	1,794	367,563
Reclassification from investment property	2,211	8,075	(17)	2	-	10,271
Additions	961	173,674	57,667	20,659	158,144	411,105
Disposals and write offs	(267)	(13,105)	(406)	(2,617)	-	(16,395)
Depreciation	-	(171,883)	(44,884)	(21,185)	-	(237,952)
Carrying amount at year end	**595,575**	**1,805,980**	**207,012**	**89,790**	**197,568**	**2,895,925**
At 31 December 2016						
Cost	595,575	4,238,985	576,947	290,639	197,568	5,899,714
Accumulated depreciation and impairment	-	(2,433,005)	(369,935)	(200,849)	-	(3,003,789)
Carrying amount	**595,575**	**1,805,980**	**207,012**	**89,790**	**197,568**	**2,895,925**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Assets under construction of the Group in amount of HRK 200,353 thousand mainly relate to the investment in hotels and apartments of HRK 126,467 thousand, investment in camping of HRK 19,951 thousand, the reconstruction, extension and adaptation of commercial buildings of HRK 21,451 thousand, advances paid to suppliers for investments of HRK 31,784 thousand and other investments of HRK 700 thousand.

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

(in thousands of HRK)	**2016**	**2015**
Cost	118,317	121,310
Accumulated depreciation as at 1 January	(95,814)	(95,899)
Depreciation charge for the year	(4,130)	(4,182)
Carrying amount	**18,373**	**21,229**

The operating lease relates to the lease of hospitality facilities and shops to third parties. During 2016, the Group realised rental income of HRK 35,639 thousand (2015: HRK 34,521 thousand). All lease agreements are renewable, usually for period of 1 to 3 years and there is no purchase option.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 15 – INVESTMENT PROPERTY

(in thousands of HRK)	Group	Company
At 31 December 2015		
Cost	33,755	30,145
Accumulated depreciation	(12,014)	(11,683)
Carrying amount	**21,741**	**18,462**
Year ended 31 December 2016		
Opening carrying amount	21,741	18,462
Effect of merger of subsidiary (Note 36)	-	3,207
Reclassification to property, plant and equipment	(10,271)	(10,271)
Depreciation	(602)	(530)
Carrying amount at year end	**10,868**	**10,868**
At 31 December 2016		
Cost	17,111	17,111
Accumulated depreciation and impairment	(6,243)	(6,243)
Carrying amount	**10,868**	**10,868**

As at 31 December 2016, the fair value of investment property (office space) approximates carrying value. As at 31 December 2016, properties pledged as collateral for loans amounted to HRK 7,722 thousand (2015: HRK 18,462 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 16 – INTANGIBLE ASSETS

Group (in thousands of HRK)	Goodwill /i/	Software	Total
At 1 January 2015			
Cost	6,568	24,633	31,201
Accumulated amortisation	-	(16,115)	(16,115)
Carrying amount	**6,568**	**8,518**	**15,086**
Year ended 31 December 2015			
Opening carrying amount	6,568	8,518	15,086
Acquisition of Hoteli Baška d.d. at fair value	-	1,246	1,246
Additions	-	4,206	4,206
Amortisation	-	(3,531)	(3,531)
Carrying amount at year end	**6,568**	**10,439**	**17,007**
At 31 December 2015			
Cost	6,568	39,118	45,686
Accumulated amortisation	-	(28,679)	(28,679)
Carrying amount	**6,568**	**10,439**	**17,007**
Year ended 31 December 2016			
Opening carrying amount	6,568	10,439	17,007
Acquisition of Imperial d.d. at fair value	-	128	128
Reclassification to property, plant and equipment	-	(369)	(369)
Additions	-	12,440	12,440
Amortisation	-	(4,867)	(4,867)
Disposals and write offs	-	(259)	(259)
Carrying amount at year end	**6,568**	**17,512**	**24,080**
At 31 December 2016			
Cost	6,568	42,958	49,526
Accumulated amortisation	-	(25,446)	(25,446)
Carrying amount	**6,568**	**17,512**	**24,080**

/i/ Impairment tests for goodwill
Goodwill is allocated to cash-generating unit (CGUs) for transferred subsidiary Puntižela d.o.o., Pula. The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on 5-year financial projections approved by Management. The discount rates of 7.71% (2015: 10%) used are pre-tax and reflect specific risks relating to the relevant segment (hotels).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 16 – INTANGIBLE ASSETS (continued)

Company (in thousands of HRK)	Software
At 1 January 2015	
Cost	23,350
Accumulated amortisation	(15,193)
Carrying amount	**8,157**
Year ended 31 December 2015	
Opening carrying amount	8,157
Effect of merger of subsidiary	320
Additions	3,934
Amortization	(3,209)
Carrying amount at year end	**9,202**
At 31 December 2015	
Cost	28,703
Accumulated amortisation	(19,501)
Carrying amount	**9,202**
Year ended 31 December 2016	
Opening carrying amount	9,202
Merger of subsidiary (Note 36)	454
Additions	12,433
Amortisation	(4,746)
Carrying amount at year end	**17,343**
At 31 December 2016	
Cost	42,952
Accumulated amortisation	(25,609)
Carrying amount	**17,343**

NOTES TO THE v FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 17 – INVESTMENT IN SUBSIDIARIES

(in thousands of HRK)	Company 2016	Company 2015
At beginning of the year	583,263	400,478
Acquisition of subsidiary /iii/	284,942	188,226
Purchase of minority share of Puntižela d.o.o. /i/	585	-
Merger of subsidiaries /ii/	(199,960)	(5,630)
New subsidiaries from merger	-	189
At end of the year	**668,830**	**583,263**

(in thousands of HRK)	Ownership	2016	2015
Elafiti Babin kuk d.o.o., Dubrovnik	100.00%	182,036	182,036
Palme turizam d.o.o., Dubrovnik	100.00%	115,448	115,448
Magične stijene d.o.o., Dubrovnik	100.00%	11,207	11,207
Bugenvilia d.o.o., Dubrovnik	100.00%	38,542	38,542
Puntižela d.o.o., Pula /i/	100.00%	36,466	35,881
Bastion upravljanje d.o.o., Zagreb /i/	100.00%	-	11,734
Hoteli Baška d.d., Baška /ii/	100.00%	-	12,804
Mirta Bašćanska d.o.o., Baška /ii/	100.00%	-	49,465
Vala Bašćanska d.o.o., Baška /ii/	100.00%	-	73,506
Baškaturist d.o.o., Baška /ii/	100.00%	-	52,451
Valamar Hotels & Resorts GmbH, Frankfurt am Main	100.00%	189	189
Imperial d.d., Rab/iii/	54.71%	284,942	-
		668,830	**583,263**

/i/ During 2016 the Company acquired a minority interest of 0.61% in the company Puntižela d.o.o. The company Bastion upravljanje d.o.o. was merged with the parent company on 30 June 2016.

/ii/ On 13 January 2016 companies Mirta Bašćanska d.o.o., Vala Bašćanska d.o.o. and Baškaturist d.o.o. were merged with Hoteli Baška d.d., and on 31 March 2016 the company Hoteli Baška d.d. was merged with the parent company.

/iii/ During 2016 the Company acquired 54.71% of shares of Imperial d.d., Rab.

Subsidiaries Bugenvilia d.o.o., Elafiti Babin kuk d.o.o., Palme turizam d.o.o. generate revenue from rent of property to the Company while Magične stijene d.o.o. and Valamar Hotels & Resorts GmbH do not have business activity. Pogača Babin kuk d.o.o. performs bakery services. Puntižela d.o.o. generates revenue from performing hospitality activities (camping and hostel accomodation), while Bastion upravljanje d.o.o. generates revenue from investments and rental of property. The Company Imperial d.d. generates revenues from performing their registered activities, primarily from hospitality activities (services of accommodation, food and drinks in hotels and campings).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 18 – INTEREST IN JOINT VENTURE

According to the agreement, the Group controls 33.33% of Pogača Babin kuk d.o.o. During 2016 there were no changes with respect to the interests in the joint venture. At the Company's incorporation the Group invested 49.67% of share capital or HRK 1,490 thousand but has right to 1/3 of realised profit or loss.

	Group	
(in thousands of HRK)	**2016**	**2015**
At beginning of year on equity basis	1,242	1,340
Dividends paid	-	(69)
Share in net profit/(loss)	124	(29)
At end of year on equity basis	**1,366**	**1,242**

	Company	
(in thousands of HRK)	**2016**	**2015**
At beginning of year at cost	1,490	1,490
Change	-	-
At end of year at cost	**1,490**	**1,490**

Adjustment of share in joint venture with share in net assets of Pogača Babin kuk d.o.o.

	Group	
(in thousands of HRK)	**2016**	**2015**
At beginning of year	4,105	4,193
Net profit/(loss) for the period	372	(88)
At end of year	**4,477**	**4,105**
Share in net assets from joint venture (33.33%)	1,493	1,369
Dividends paid related to previous year	(127)	(58)
Dividends paid related to current year	-	(69)
Carrying amount	**1,366**	**1,242**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 18 – INTEREST IN JOINT VENTURE (continued)

(in thousands of HRK)	Pogača Babin kuk d.o.o. (100%) 2016	2015
Assets:		
Non-current assets	550	737
Current assets	3,628	2,999
	4,178	**3,736**
Liabilities:		
Short-term liabilities	894	824
	894	**824**
Net assets	**3,284**	**2,912**
Income	9,361	8,748
Expenses	(8,916)	(8,836)
Profit /(loss) before tax	**445**	**(88)**
Profit /(loss) after tax	**372**	**(88)**
Share in profit /(loss) of joint venture (33.33%)	**124**	**(29)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY

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

Group (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2016				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables	22,384	-	-	22,384
Loans and deposits	1,991	-	-	1,991
Cash and cash equivalents	274,651	-	-	274,651
Financial assets measured at fair value				
Available-for-sale financial assets	-	4,936	-	4,936
Derivative financial instruments	-	-	-	-
Total	**299,026**	**4,936**	**-**	**303,962**

Group (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2015				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables	17,444	-	-	17,444
Loans and deposits	1,424	-	-	1,424
Cash and cash equivalents	318,755	-	-	318,755
Financial assets measured at fair value				
Available-for-sale financial assets	-	44,902	-	44,902
Financial assets at fair value through profit or loss	-	-	141	141
Total	**337,623**	**44,902**	**141**	**382,666**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2016				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables /i/	159,070	-	-	159,070
Loans and deposits	1,877	-	-	1,877
Cash and cash equivalents	237,648	-	-	237,648
Financial assets measured at fair value				
Available-for-sale financial assets	-	4,906	-	4,906
Derivative financial instruments	-	-	-	-
Total	**398,595**	**4,906**	**-**	**403,501**

Company (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2015				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables /i/	182,014	-	-	182,014
Loans and deposits	1,041	-	-	1,041
Cash and cash equivalents	301,797	-	-	301,797
Financial assets measured at fair value				
Available-for-sale financial assets	-	41,124	-	41,124
Derivative financial instruments	-	-	141	141
Total	**484,852**	**41,124**	**141**	**526,117**

/i/ Mainly relates to the receivable from subsidiary Elafiti Babin kuk d.o.o. of HRK 138,443 thousand (2015: HRK 164,817 thousand).

The above-mentioned amounts of financial assets represent the Group's maximum exposure to credit risk at the reporting date. The carrying values approximate their fair value due to their short-term maturity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Group		Company	
(in thousands of HRK)	2016	2015	2016	2015
Liabilities at reporting date				
Financial liabilities – at amortised cost:				
Trade and other payables	198,703	82,801	192,763	74,841
Borrowings	1,677,493	1,446,062	1,491,849	1,284,244
	1,876,196	**1,528,863**	**1,684,612**	**1,359,085**
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	2,313	3,305	2,313	3,305
	1,878,509	**1,532,168**	**1,686,925**	**1,362,390**

NOTE 19b – CREDIT QUALITY OF FINANCIAL ASSETS

	Group		Company	
(in thousands of HRK)	2016	2015	2016	2015
Loans and deposits				
Loans and deposits	988	1,400	850	996
	988	**1,400**	**850**	**996**

The credit quality of other financial assets is presented in the following notes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Listed equity securities /i/	4,766	44,762	4,766	40,984
Other	170	140	140	140
	4,936	**44,902**	**4,906**	**41,124**

/i/ Investments in securities represent less than 1% ownership interests and are presented at fair value.

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
At beginning of year	44,902	42,092	41,124	39,032
Effect of merger of subsidiary (Note 36)	-	-	1,842	-
Change in fair value recognised in other comprehensive income	(1,199)	2,203	(1,171)	2,101
Disposal	(38,797)	(578)	(36,889)	-
Business combination (Note 37)	30	1,194	-	-
Transfer	-	(9)	-	(9)
At end of year	**4,936**	**44,902**	**4,906**	**41,124**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 21 – LOANS AND DEPOSITS

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Loans	1,370	690	1,256	307
Deposits	621	734	621	734
Total	**1,991**	**1,424**	**1,877**	**1,041**
Less: non-current portion	(693)	(945)	(606)	(645)
Current portion	**1,298**	**479**	**1,271**	**396**

Loans include an amount of HRK 229 thousand (2015: HRK 286 thousand) due from employees for housing loans at an interest rate of 1% payable by year 2025. The loans are not secured with any collateral. Loans include amount of HRK 300 thousand which relate to long term loan which is due in year 2019. Net deposits are interest-free and given as a collateral for operating leases of vehicles for a 5-year term.
All given loans and deposits are denominated in HRK.

The carrying amounts of short-term loans and deposits approximate their fair value. The fair value of non-current loans and deposits of Group is HRK 364 thousand (2015: HRK 876 thousand) and fair value of non-current loans and deposits of the Company is HRK 283 thousand (2015: HRK 598 thousand). The fair value is calculated based on the cash flows discounted with a rate of 2.95% (2015: 4.50%) (interest rate on bonds of the Republic of Croatia with maturity in year 2026).

NOTE 22 – INVENTORIES

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Raw materials and supplies	9,615	8,836	8,784	8,719
Trade goods and packaging material /i/	9,589	358	9,469	319
Apartments /ii/	-	567	-	567
	19,204	**9,761**	**18,253**	**9,605**

/i/ As explained in Note 4, the Group and the Company changed estimated useful life for part of the small inventory.

/ii/ Apartment is reclassified from current assets to non-current assets and is intended for providing a service of accommodation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 23 – TRADE AND OTHER RECEIVABLES

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Domestic receivables	19,444	16,788	16,169	16,391
Foreign receivables	10,729	7,766	10,033	7,724
Related parties receivables	-	2	138,501	164,999
Provision for impairment of trade receivables	(11,813)	(11,408)	(9,500)	(11,352)
Trade receivables – net	18,360	13,148	155,203	177,762
Accrued income	3,592	3,242	3,437	3,198
Interest receivables	432	1,054	430	1,054
	22,384	17,444	159,070	182,014
Less: non-current portion	(603)	-	(113,248)	(135,815)
Current portion	**21,781**	**17,444**	**45,822**	**46,199**
Prepaid expenses	12,239	8,327	11,319	8,295
VAT receivable	19,320	7,685	17,868	6,741
Advances to suppliers	7,422	9,085	6,989	8,485
Receivables from employees	657	486	650	485
Receivables from state institutions	453	(10)	262	(209)
Other receivables	1,985	2,952	929	1,628
Total current receivables	63,857	45,969	83,839	71,624
Total trade and other receivables	**64,460**	**45,969**	**197,087**	**207,439**

Movements in provisions for impairment of trade and other receivables:

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
At 1 January	11,408	11,935	11,352	11,500
Increase of impairment	2,980	1,843	723	2,131
Collected receivables	(1,491)	(862)	(1,491)	(771)
Receivables written-off	(1,084)	(1,508)	(1,084)	(1,508)
At 31 December	**11,813**	**11,408**	**9,500**	**11,352**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

	Group		Company	
(in thousands of HRK)	2016	2015	2016	2015
Trade receivables:				
Neither past due nor impaired	5,583	3,468	143,584	168,391
Past due, but not impaired	12,777	9,680	11,619	9,371
	18,360	**13,148**	**155,203**	**177,762**

Trade and other receivables are carried at amortised cost. As at 31 December 2016 receivables neither past due nor impaired of the Company consists of receivables from subsidiary Elafiti Babin kuk d.o.o. of HRK 138,443 thousand (2015: HRK 164,817 thousand) which mainly relate to the reimbursed investment cost of hotel Valamar Lacroma Dubrovnik to subsidiary Elafiti Babin kuk d.o.o. which will be settled in following years. Receivables will be netted of against the rent from the Elafiti Babin kuk d.o.o.

As of 31 December 2016, the maturities of the trade receivables which are past due but not impaired are as follows::

	Group		Company	
(in thousands of HRK)	2016	2015	2016	2015
Up to one month	1,815	2,571	1,727	2,495
One to two months	3,199	2,242	3,114	2,149
Two to three months	2,158	1,500	2,105	1,393
Over three months up to 1 year	5,605	3,367	4,673	3,334
	12,777	**9,680**	**11,619**	**9,371**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
EUR	9,960	7,719	9,434	7,710
HRK	12,424	9,725	149,636	174,304
	22,384	**17,444**	**159,070**	**182,014**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group holds advances, bills of exchange and promissory notes and periodically mortgage for collection security. The carrying amounts of trade and other receivables approximate their fair value since they are short term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 24 – DERIVATIVE FINANCIAL INSTRUMENTS

Group and Company	**2016**		**2015**	
(in thousands of HRK)	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
Fair value of interest rate swap	-	2,045	83	2,833
Market value of foreign currency forward contracts	-	268	58	472
Total	**-**	**2,313**	**141**	**3,305**
Less non-current portion:	-	(1,813)	(141)	(1,569)
Fair value of interest rate swap	-	232	-	1,264
Market value of foreign currency forward contracts	-	268	-	472
Current portion	**-**	**500**	**-**	**1,736**

Interest rate swaps and foreign currency forwards

As at 31 December 2016, the contracted value of outstanding interest rate swaps amounts to HRK 134,960 thousand (2015: HRK 180,913 thousand).

Contracted value of foreign currency forwards as at 31 December 2016 was HRK 113,367 thousand (2015: HRK 36,569 thousand).

As at 31 December 2016, base interest rate fixed by interest rate swap contract for loan in EUR is 0.44%, while base interest rate for remaining loans with variable interest rates (EURIBOR) for EUR borrowings was at the level of -0.32%. Fair value gains and losses on interest rate swaps are recognised directly in Statement of comprehensive income within finance costs until the repayment of borrowings with final maturity as at 30 September 2022.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 25 – DEFERRED TAX ASSET / LIABILITY

DEFERRED TAX ASSET

Group (in thousands of HRK)	Property, plant and equipment	Financial assets	Trade receivables and inventories	Provisions	Tax losses	Tax incentive for investment	Impairment of other receivables	Total
At 1 January 2015	37,512	7,608	4,323	3,883	30,090	-	-	83,416
Increase acquisition of Hoteli Baška d.d.	-	49	-	-	2,540	-	-	2,589
Credited to the income	-	273	4	545	727	-	3,368	4,917
Debited to the income	(88)	(540)	(9)	(85)	(29,687)	-	-	(30,409)
At 31 December 2015	**37,424**	**7,390**	**4,318**	**4,343**	**3,670**	**-**	**3,368**	**60,513**
Increase acquisition of Imperial d.d.	-	-	-	686	-	-	-	686
Debited – acquisition of Bastion d.o.o.	-	(137)	-	-	-	-	-	(137)
Credited to the income	-	416	2	319	2,194	83,668	-	86,599
Debited to the income	(88)	(5,195)	(611)	(897)	(5,864)	-	(3,368)	(16,023)
At 31 December 2016	**37,336**	**2,474**	**3,709**	**4,451**	**-**	**83,668**	**-**	**131,638**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 25 – DEFERRED TAX ASSET / LIABILITY (continued)

DEFERRED TAX ASSET (continued)

Company (in thousands of HRK)	**Financial assets**	**Trade receivables and inven-tories**	**Provisions**	**Tax losses**	**Tax incen-tive for investment**	**Impairment of other receivables**	**Total**
At 1 January 2015	6,658	3,288	3,883	26,827	-	-	40,656
Increase of tax assets – merger of subsidiary	-	-	-	637	-	-	637
Credited to the income	273	4	545	-	-	3,368	4,190
Debited to the income	(398)	(9)	(85)	(24,653)	-	-	(25,145)
At 31 December 2015	**6,533**	**3,283**	**4,343**	**2,811**	**-**	**3,368**	**20,338**
Increase of tax assets – merger effect (Note 36)	526	997	-	2,825	-	-	4,348
Credited to the income	416	2	319	-	83,668	-	84,405
Debited to the income	(5,002)	(574)	(896)	(5,636)	-	(3,368)	(15,476)
At 31 December 2016	**2,473**	**3,708**	**3,766**	**-**	**83,668**	**-**	**93,615**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 25 – DEFERRED TAX ASSET / LIABILITY (continued)

DEFERRED TAX LIABILITY

Group

(in thousands of HRK)	Financial assets held for sale	Fair value of property, plant and equipment	Total
At 1 January 2016	2,726	20,078	22,804
Increase - acquisition of Imperial d.d.	-	39,280	39,280
Debited to the income	-	(3,159)	(3,159)
Debited to the other comprehensive income	(2,727)	-	(2,727)
At 31 December 2016	**(1)**	**56,199**	**56,198**

Company

(in thousands of HRK)	Financial assets held for sale	Fair value of property, plant and equipment	Total
At 1 January 2016	2,718	-	2,718
Increase – effect of merger (Note 36)	7	19,928	19,935
Decrease – effect of merger (Note 36)	-	(338)	(338)
Debited to the income	-	(2,671)	(2,671)
Debited to the other comprehensive income	(2,726)	-	(2,726)
At 31 December 2016	**(1)**	**16,919**	**16,918**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 26 – CASH AND CASH EQUIVALENTS

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Giro-accounts and current accounts	45,743	20,745	43,533	16,718
Cash in hand	111	4	-	-
Foreign currency accounts	75,374	18,182	73,190	5,255
Time deposits up to one month	153,423	279,824	120,925	279,824
	274,651	**318,755**	**237,648**	**301,797**

The interest rate on cash and cash equivalents is up to 3.00% (2015: up to 3.80%).

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
HRK	62,127	20,749	59,806	16,718
EUR	211,226	297,398	176,705	284,490
CHF	60	71	60	71
Other	1,238	537	1,077	518
	274,651	**318,755**	**237,648**	**301,797**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 27 – SHARE CAPITAL

The authorised and registered share capital of the Company in 2016 amounts to HRK 1,672,021 thousand (2015: HRK 1,672,021 thousand) and comprises 126,027,542 ordinary shares (2015: 126,027,542) with no prescribed nominal value. All shares are fully paid.

The ownership structure as at 31 December is as follows:

2016	**Number of shares**	**%**
Epic Goldscheider & Wurmböck Unternehmensberatungsgesellschaft m.b.H, Wien	55,594,884	44.11
Satis d.o.o., Zagreb	6,475,884	5.14
Enitor d.o.o., Zagreb	2,720,950	2.16
PBZ d.d./The Bank of New York as custodian/Skrbnik, Zagreb	1,983,437	1.57
Hrvatska poštanska banka/Skrbnik, Zagreb	1,846,184	1.46
Zagrebačka banka d.d./Skrbnik, Zagreb	1,612,052	1.28
Bakić Nenad	1,581,008	1.25
PBZ d.d./State street client account/Skrbnik, Zagreb	1,501,664	1.19
Bilbija Igor	1,260,000	1.00
Societe Generale-Splitska banka d.d./Skrbnik, Split	1,130,921	0.90
Treasury shares	1,857,034	1.47
Other shareholders - free float	48,463,524	38.47
Total	**126,027,542**	**100.00**

2015	**Number of shares**	**%**
Epic Goldscheider & Wurmböck Unternehmensberatungsgesellschaft m.b.H, Wien	54,267,510	43.06
Satis d.o.o., Zagreb	6,475,884	5.14
Enitor d.o.o., Zagreb	2,720,950	2.16
Bakić Nenad	1,900,000	1.51
Zagrebačka banka d.d./Skrbnik, Zagreb	1,899,642	1.51
Bilbija Igor	1,869,626	1.48
Hrvatska poštanska banka d.d./Skrbnik, Zagreb	1,846,184	1.46
PBZ d.d./The Bank of New York as custodian/Skrbnik, Zagreb	1,722,899	1.37
PBZ d.d./State street client account/Skrbnik, Zagreb	1,511,065	1.20
Societe Generale-Splitska banka d.d./Skrbnik, Split	1,167,031	0.93
Treasury shares	1,404,394	1.11
Other shareholders - free float	49,242,357	39.07
Total	**126,027,542**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 27 – SHARE CAPITAL (continued)

In 2016, there were no changes in share/equity capital of the Company.

As previously reported, based on the decision of the Company's General Assembly held on 24 July 2013 registered capital was increased by conversion of reinvested profit of the year 2012 by HRK 52,200 thousand. The distribution of reinvested profit of HRK 52,200 thousand in future periods may result in tax obligations given it is based on a tax incentive.

The Company has acquired and released treasury shares during 2016. During 2016, the Company acquired a total of 1,906,718 shares of which, in accordance with and based on the decision of the Company's General Assembly held on 17 October 2014, acquired 1,473,776 shares on the regulated market at a total cost of HRK 36,708 thousand which makes 1.17% of share capital and 432,942 shares by merger of Bastion upravljanje d.o.o., which makes 0.34% of share capital at a cost of HRK 41,175 thousand. The Company has effectively disposed 1,454,078 treasury shares accounting for 1.15% of the share capital in the total amount of HRK 33,080 thousand, of which 1,435,401 shares on payed out dividends in accordance with the resolution of the General Assembly of 27 April 2016, as explained in Note 28b.

As at 31 December 2016, the Group owned 1,857,034 of their treasury shares (2015: 1,404,394) which represents 1.47% (2015: 1.11%) of the registered capital of the Company.

NOTE 28 – RESERVES AND RETAINED EARNINGS

a) Capital reserves

Capital reserves of the Group increased for the amount of HRK 2,092 thousand and as at 31 December 2016 amount to HRK 1,718 thousand (2015: HRK 374 thousand negative).

As at 31 December 2016 capital reserves of the Company amount to HRK 2,205 thousand (2015: HRK 109 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 28 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings

(in thousands of HRK)	Group 2016	Group 2015
Legal reserves	67,199	61,906
Fair value reserves	273	31,188
Other reserves	68,851	58,381
Retained earnings	364,874	111,984
	501,197	**263,459**
Changes in reserves:		
Legal reserves		
At beginning of the year	61,906	60,724
Transfer from retained earnings	5,293	1,182
At end of the year	**67,199**	**61,906**
Fair value reserves		
At beginning of the year	31,188	29,413
Change in fair value financial assets available for sale	(958)	1,775
Effect of selling financial assets available for sale	(29,957)	-
At end of the year	**273**	**31,188**
Other reserves		
At beginning of the year	58,381	79,029
Transfer to capital reserves	-	(8,394)
Transfer to treasury shares reserve	10,470	10,000
Dividends	-	(22,254)
At end of the year	**68,851**	**58,381**
Retained earnings		
At beginning of the year	111,984	74,356
Result for the year	342,314	105,442
Transfer to legal reserves	(5,293)	(1,182)
Transfer to other reserves	(10,470)	(10,000)
Dividends	(73,661)	(46,431)
Transfer to capital reserves	-	(10,201)
At end of the year	**364,874**	**111,984**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 28 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings (continued)

	Company	
(in thousands of HRK)	**2016**	**2015**
Legal reserves	67,199	61,906
Other reserves	273	31,432
Fair value reserve	124,614	178,143
Retained earnings	494,911	174,017
	686,997	**445,498**
Changes in reserves:		
Legal reserves		
At beginning of the year	61,906	60,724
Transfer from retained earnings	5,293	1,182
At the end of the year	**67,199**	**61,906**
Fair value reserves		
At beginning of the year	31,432	29,750
Change in fair value of financial assets available for sale	(937)	1,682
Effect of selling financial assets available for sale	(30,528)	-
Merger effect of subsidiaries (Note 36)	306	-
At end of the year	**273**	**31,432**
Other reserves		
At beginning of the year	178,143	254,711
Merger of subsidiaries (Note 36)	9,911	(9,251)
Transfer to treasury shares reserve	10,470	10,000
Capital loss cover	-	(8,394)
Dividends	(73,910)	(68,923)
At the end of the year	**124,614**	**178,143**
Retained earnings		
At beginning of the year	174,017	79,345
Result for the year	336,657	105,854
Transfer to legal reserves	(5,293)	(1,182)
Transfer to other reserves	(10,470)	(10,000)
At the end of the year	**494,911**	**174,017**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 28 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings (continued)

Legal reserves
The legal reserve is required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. As at 31 December 2016, legal reserves of the Group and the Company amounted to HRK 67,199 thousand or 4.02% of the share capital (2015: 61,906 thousand or 3.70% of the share capital). This reserve is not distributable.

Other reserves
On the basis of a decision of the Management Board of 14 January 2016, HRK 10,470 thousand was transferred from retained earnings to treasury share reserve.

As at 31 December 2016 other reserves of the Group amounted to HRK 68,851 thousand. As at 31 December 2016 other reserves of the Company amounted to HRK 124,614 thousand.

Other reserves of the Group and the Company include treasury shares reserve in the amount of HRK 44,815 thousand which are not distributable and remaining amount to the retained earnings which are distributable.

On the basis of a decision of the General Assembly held on 27 May 2016 the Company has paid out a dividend of HRK 0.60 per share, which amounted to HRK 73,910 thousand from which HRK 38,297 thousand was paid in cash, and remaining part by assigning 1,435,401 shares of the Company.

Fair value reserves
As at 31 December 2016 fair value reserves of the Company and the Group amounted to HRK 273 thousand. This reserves are not distributable and relate to the fair value of available for sale financial assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 29 – BORROWINGS

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Current				
Bank borrowings	179,428	139,573	159,019	125,091
Finance lease	238	265	244	265
	179,666	**139,838**	**159,263**	**125,356**
Non-current				
Bank borrowings	1,497,720	1,305,874	1,332,484	1,158,538
Finance lease	107	350	102	350
	1,497,827	**1,306,224**	**1,332,586**	**1,158,888**
Total borrowings	**1,677,493**	**1,446,062**	**1,491,849**	**1,284,244**

All banks have secured their borrowed funds with a pledge over hotel facilities with a net book value of HRK 1,959,500 thousand (2015: HRK 1,432,391 thousand) (Note 14 and 15).

As at 31 December 2016, the Company and the Group have contracted and unused lines of credit with financial institutions for 2017 in the amount of HRK 575,478 thousand.

The carrying amount of borrowings is denominated in EUR and CHF. Effective interest rates at reporting date were as follows:

Group	**2016**		**2015**	
Borrowings:	(in thousands of HRK)	**%**	(in thousands of HRK)	**%**
EUR	1,663,493	1.0%-4.68%	1,343,240	1.0%-5.96%
CHF	-	-	88,822	0.594%
HRK	14,000	2.0%	14,000	2.0%
	1,677,493		**1,446,062**	

Company	**2016**		**2015**	
Borrowings:	(in thousands of HRK)	**%**	(in thousands of HRK)	**%**
EUR	1,477,849	1.0%-4.68%	1,195,422	1.0%-3.07%
CHF	-	-	88,822	0.594%
HRK	14,000	2.0%	-	-
	1,491,849		**1,284,244**	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 29 – BORROWINGS (continued)

Maturities of non-current borrowings are as follows:

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
1-3 years	325,242	277,268	281,035	246,031
3-6 years	400,640	410,055	354,976	335,557
Over 6 years	771,945	618,901	696,575	577,300
	1,497,827	**1,306,224**	**1,332,586**	**1,158,888**

The carrying amounts and fair value of non-current borrowings are as follows:

	Borrowings			
	Carrying amounts		Fair value	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Group	1,497,827	1,306,224	1,434,703	1,278,759
Company	1,332,586	1,158,888	1,314,807	1,127,813

The fair value is based on discounted cash flows discounted using a rate based on the weighted average interest rate on Group's borrowings of 2.48% (2015: 2.44%). The carrying amounts of current borrowings approximate their fair value due to short term maturity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 30 – TRADE AND OTHER PAYABLES

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Trade payables	154,459	47,398	150,643	43,267
Trade payables – related parties	154	413	279	314
Interest payable	4,788	2,464	3,749	1,426
Concession fees payable	39,302	32,526	38,092	29,834
	198,703	82,801	192,763	74,841
Liabilities for dividend	235	46	60	-
Liabilities to employees	38,282	28,707	32,558	26,971
Liabilities for taxes and contributions and similar charges	9,544	7,957	8,056	7,045
Advances received	23,381	14,789	22,878	12,945
Other current liabilities	11,150	4,864	8,352	3,470
	281,295	**139,164**	**264,667**	**125,272**

The carrying amount of financial liabilities are denominated in the following currencies:

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
EUR	7,836	4,768	6,800	3,711
GBP	287	229	287	229
CHF	70	7	70	7
HRK	190,510	77,797	185,606	70,894
	198,703	**82,801**	**192,763**	**74,841**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

Provisions for legal proceedings, from previous years, primarily relate to land sold for construction purposes in Dubrovnik in 1995 with a total surface area of 11,239 m2, which was not included in the share capital of subsidiary Dubrovnik – Babin kuk d.d. during transformation and privatisation. A number of buyers were not able to register their ownership title over the stated land, and consequently initiated legal proceedings at the Municipal Court in Dubrovnik with the aim of terminating their sales contract and on the basis of expectation of future payments recorded based on the value of the aforementioned land according to the sales contracts.

In 2016 there weren't any additional provisions for legal proceedings. In 2016 the following provisions were abolished, provision for completed court proceeding which relates to arbitration proceeding with Company Glavice d.o.o, Dubrovnik "in bankruptcy" in regards to upgrade and reconstruction of hotel Valamar Lacroma Dubrovnik and subcontractor Kamen d.d. Pazin, also regarding the dispute with the Republic of Croatia/Ministry of Tourism relating to the partial payment of the advance concession fee in accordance with Law on land for touristic and other construction purposes which was not evaluated during transformation and privatization (hereinafter: ZOTZ) and this for the portion of the land in the Lanterna and Vrsar campgrounds, which are registered as properties of the Municipality of Tar-Vabriga and the Municipality of Vrsar and for which the Company, before the enactment of ZOTZ, made payment to these Municipalities for a lease for several years in advance, based on a lease contract concluded with these Municipalities.

NOTE 31 – PROVISIONS

Group (in thousands of HRK)	**Termination benefits**	**Legal proceedings**	**Bonuses**	**Total**
At 1 January 2016	**5,189**	**31,014**	**17,046**	**53,249**
Additional provisions	2,283	2,177	19,684	24,144
Acquisition of Imperial d.d. (Note 37)	500	23,131	79	23,710
Used during year	(5,070)	(6,074)	(16,538)	(27,682)
Reversed during year	(487)	(539)	(508)	(1,534)
At 31 December 2016	**2,415**	**49,709**	**19,763**	**71,887**
2016				
Current portion	2,415	-	19,763	**22,178**
Non-current portion	-	49,709	-	**49,709**

Company (in thousands of HRK)	**Termination benefits**	**Legal proceedings**	**Bonuses**	**Total**
At 1 January 2016	**4,156**	**31,014**	**16,421**	**51,591**
Additional provisions	1,796	1,854	19,684	23,334
Used during year	(4,037)	(6,074)	(15,913)	(26,024)
Reversed during year	-	(215)	(508)	(723)
At 31 December 2016	**1,915**	**26,579**	**19,684**	**48,178**
2016				
Current portion	1,915	-	19,684	**21,599**
Non-current portion	-	26,579	-	**26,579**

Legal cases Group – Imperial d.d. acquisition

Legal cases of the Group additionally include land ownership disputes and legal proceedings against the subsidiary for the construction work which was performed in prior years.
Increase in legal cases provision in the current year is mainly due to additional provisions recorded in respect of the land ownership legal cases which is based on legal advisors estimates and outcomes of ongoing legal cases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 32 – CONSOLIDATED SUBSIDIARIES

	Country	Ownership at 31 December	
		2016	2015
Palme turizam d.o.o.	Croatia	100.00%	100.00%
Elafiti Babin kuk d.o.o.	Croatia	100.00%	100.00%
Magične stijene d.o.o.	Croatia	100.00%	100.00%
Bugenvilia d.o.o.	Croatia	100.00%	100.00%
Puntižela d.o.o. /i/	Croatia	100.00%	99.39%
Bastion upravljanje d.o.o.	Croatia	-	100.00%
Valamar hotels & resorts GmbH	Germany	100.00%	100.00%
Hoteli Baška d.d.	Croatia	-	100.00%
Mirta Bašćanska d.o.o.	Croatia	-	100.00%
Vala Bašćanska d.o.o.	Croatia	-	100.00%
Baškaturist d.o.o.	Croatia	-	100.00%
Imperial d.d. /ii/	Croatia	54.71%	-

/i/ As at 31 December 2016 Puntižela is 100% owned by the Company. Non-controlling interest in Group's profit of HRK 20 thousand and Group's assets of HRK 98 thousand relate to the minority interest of the company Puntižela d.o.o. of 0.61% in 2015.

/ii/ Non-controlling interest in Group's assets of HRK 235,842 relates to non-controlling interest in Imperial d.d. of 45.29%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 33 – CONTINGENCIES AND COMMITMENTS

Legal proceedings

In the ordinary course of business, the Company is plaintiff and defendant in various legal actions. In the financial statements for the year ended 31 December 2016, provisions for certain legal proceedings have been made for which the Company anticipates outflows of HRK 26,579 thousand.

Transformation and privatisation audit and ownership over land

A transformation and privatisation audit was carried out for the Company during 2002 and 2003, with a separate audit for Riviera Poreč d.d. (formerly Riviera Holding d.d., Riviera Adria d.d., now Valamar Riviera d.d.) and for companies merged into Valamar Riviera d.d.: Rabac d.d., Zlatni Otok d.d. and Dubrovnik Babin kuk d.d. The reports claim that the transformation and privatisation process had not been performed entirely in accordance with legal regulations, primarily in relation to properties that are not evaluated in the Company's equity but are owned by the Company and are partly recorded in the land records, as well as properties that are reported in the Company's equity but have not yet been recorded in the land registry. The Company, as well as its legal predecessors, submitted timely objections to the transformation and privatisation audit reports to the State Audit Office, but at the date of issue of these financial statements they had not received any response from the State Audit Office with respect to the objection of the Company and/or the legal predecessors of the Company.

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

To protect their interests, the Company is conducting a number of legal and/or administrative procedures which are primarily related to land which was excluded from the valuation in the process of transformation and privatization, but was partially registered by the Company and on a portion of which catering and other facilities have been built or are in function (in the Lanterna and Solaris resorts and the Lanterna, Solaris, Istra, Ježevac, Krk and Škrila camping grounds) as well as procedures in relation to land in Dubrovnik, which was evaluated but not registered, and land which has been sold, but was not evaluated.

The outcome and the result of the legal and other proceedings cannot be predicted with any degree of certainty, but a resolution is expected in accordance with the Act on tourist and other construction land not evaluated in transformation and privatisation processes, and in relation to land in the area of Dubrovnik, through settlement. On 1 August 2010, the Act on tourist and other construction land not evaluated in transformation and privatisation processes ("the ZOTZ") entered into force, on the basis of the provisions of which the ownership and co-ownership over land not evaluated in transformation and privatisation processes should finally be determined, and in the spirit of the provisions of which all disputes which are ongoing in relation to unevaluated tourist land, primarily land in the area of Poreč, Rabac and Krk, will be resolved. The Company initiated procedures in accordance with the provisions of the ZOTZ within the prescribed period, through submission of a request on 31 January 2011 for concessions on tourist land in camping grounds and tourist land in tourist resorts, as well as requests for verification of plots/land ground-plan surface area of appraised buildings (hotels, apartments and other appraised buildings) and other prescribed requests. The ownership and/or co-ownership of the Company of the portion of land not evaluated in the transformation and privatisation procedures will be determined by the outcome of these procedures. The aforementioned procedures have not been completed yet, however, the Company makes so-called advance payments of concession fees for tourist land to the competent authorities.

The Company is in the process of harmonization and negotiations with the CERP and the Croatian State Prosecution related to land in Dubrovnik.

The outcome of these procedures is not expected to have a significant impact on the financial statements or results of the Company or the Group.

Capital commitments

Contracted capital commitments of the Company in respect to investments in tourism facilities as at 31 December 2016 amounted to HRK 333,960 thousand (2015: HRK 77,917 thousand).

Contracted capital commitments of the Group in respect to investments in tourism facilities as at 31 December 2016 amounted to HRK 341,260 thousand (2015: HRK 78,009 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 33 – CONTINGENCIES AND COMMITMENTS (continued)

Operating leases commitments - where the Group is the lessee

The future minimum lease payments under non-cancellable leases are payable as follows:

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Up to 1 year	26	120	26	120
From 2 to 5 years	-	26	-	26
Total	**26**	**146**	**26**	**146**

The lease agreements represent operating lease for motor vehicles for the period between 1 and 5 years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 34 – CASH GENERATED FROM OPERATIONS

Adjustment of profit with cash generated from operations:

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Profit before taxation	271,909	132,927	265,057	126,809
Adjustments for:				
Depreciation and amortization	265,188	232,922	243,228	206,773
Net (gains)/losses on sale of property, plant and equipment and intangible assets	(1,542)	332	(1,538)	(226)
Write off of property, plant and equipment	12,044	3,541	12,034	3,541
Provision for impairment of trade and other receivables – net	1,489	(527)	(769)	(148)
Finance (income)/costs – net	14,531	46,120	12,782	39,452
Fair value losses/(gains) from financial assets available for sale – net	(34,620)	-	(35,155)	-
Fair value losses/(gains) from financial instruments – net and financial assets	(852)	(774)	(852)	(774)
Increase in provisions – net	(5,072)	7,739	(3,413)	7,870
Share of (profit)/loss in joint venture - net	(124)	29	-	-
Changes in:				
- Trade and other receivables	(14,784)	27,279	14,594	44,628
- Inventories	(8,492)	(1,444)	(8,492)	(2,327)
- Trade and other payables	49,289	(20,956)	46,936	(14,332)
Cash generated from operations	**548,964**	**427,188**	**544,412**	**411,266**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 35 – RELATED PARTY TRANSACTIONS

Related parties are those companies which have the power to exercise control over the other party or are under common control or which have a significant influence on the other party in making business or financial decisions or is directly or indirectly involved in management or supervising.

Related parties in the Valamar Group in 2015 and 2016: Puntižela d.o.o., Pula, Valamar hoteli i ljetovališta d.o.o., Zagreb (merged 27 February 2015), Epic Goldscheider & Wurmböck Unternehmensberatungsgesellschaft m.b.H (hereinafter: Epic), Wien, Bugenvillia d.o.o., Dubrovnik, Bastion upravljanje d.o.o., Zagreb (merged 30 June 2016), Scapus d.o.o., Zagreb, Satis d.o.o., Zagreb, Enitor d.o.o., Zagreb, Elafiti Babin kuk d.o.o., Magične stijene d.o.o., Palme turizam d.o.o., Valamar Hotels and Resorts GmbH, Frankfurt am Main, in the liquidation, Citatis savjetovanje d.o.o., Zagreb (merged 12 November 2015), Hoteli Baška d.d., Baška (merged 31 March 2016), Baškaturist d.o.o., Baška (merged 13 January 2016), Mirta Bašćanske d.o.o., Baška (merged 13 January 2016), Vala Bašćanska d.o.o., Baška (merged 13 January 2016) i Valovito d.o.o. (merged 31 March 2016) i Imperial d.d., Rab.

Valamar Riviera d.d., Poreč is the parent company of the subsidiaries: :

- Elafiti Babin kuk d.o.o., Dubrovnik, Palme turizam d.o.o., Dubrovnik, Magične stijene d.o.o., Dubrovnik as of 1 November 2013 upon merger of Dubrovnik Babin kuk d.d.;
- Bugenvilia d.o.o., Dubrovnik as of 12 June 2013 when the company Valamar Riviera d.d. acquired 100% of share in Bugenvilia d.o.o., Dubrovnik;
- Valamar hoteli i ljetovališta d.o.o., Zagreb (27 February 2015), Bastion d.o.o., Zagreb (30 June 2016), Citatis d.o.o., Zagreb (12 November 2015), Puntižela d.o.o. and Pula as of 30 September 2014 upon merger of the Valamar Adria holding d.d., Zagreb with Valamar grupa d.d., Zagreb;
- Valamar Hotels and Resorts GmbH, Frankfurt am Mein (in the liquidation) as of 27 February 2015 upon merger of the company Valamar hoteli i ljetovališta d.o.o., Zagreb;
- Hoteli Baška d.d., Baška (31 March 2016), Baškaturist d.o.o., Baška (13 January 2016), Mirta Bašćanska d.o.o., Baška (13 January 2016) and Vala Bašćanska d.o.o., Baška (13 January 2016) as of 18 June 2015 when the company Valamar Riviera d.d. acquired 100% of share in the companies Baškaturist d.o.o., Baška, Mirta Bašćanska d.o.o., Baška and Vala Bašćanska d.o.o., Baška and directly and indirectly acquired 85.22% share of Hoteli Baška d.d., and subsequently from 15 December 2015, 100% share in Hoteli Baška d.d.;
- Imperial d.d., Rab as of 12 December 2016 the Company acquired 40.08% shares in equity. On 27 December 2016, Valamar Riviera d.d. acquired additional 14.63% of shares of Imperial d.d. and holds 54.71% of shares of Imperial d.d. (347.893 shares).

Management Agreement

As of 4 January 2017, the Agreement between Imperial d.d. and Valamar Riviera d.d. in relation to the management of the hotel and tourist facilities and amenities is valid, on the basis of the decision of the General Assembly of Imperial d.d. of 12 December 2016. The subject of the Contract is the provision of management and business activities related to hotels, apartments, resorts and/or camping grounds, and other immovable or movable property. A common name for this type of contract is a hotel management agreement or hotel management contract. For the management services rendered, Valamar Riviera d.d. is entitled to compensation for management services consisting of basic and incentive fees, and fees for advisory in respect of the management and implementation of investments. The contract also stipulates reservation center fees which are determined as a specified amount (percentage) of the total value of realized reservations.

The contract was concluded for a period of 10 years with the possibility of termination or extension.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

The ultimate controlling company is Epic, Wien, Austria which holds 44.11% of shares in Valamar Riviera d.d.

Related party transactions were as follows:

Group

(in thousands of HRK)	2016	2015
Sale of services		
Parties related to key management	1	67
Other related parties to the owners and corporate governance bodies	16	18
	17	**85**
Purchase of services		
Parties related to key management	341	820
Other related parties to the owners and corporate governance bodies	919	874
	1,260	**1,694**
Receivables		
Parties related to key management	-	2
	-	**2**
Liabilities		
Parties related to key management	-	334
Other related parties to the owners and corporate governance bodies	154	79
	154	**413**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Company

(in thousands of HRK)	2016	2015
Sale of services		
Subsidiaries	629	992
Parties related to key management	1	67
Other related parties to the owners and corporate governance bodies	16	18
	646	**1,077**
Purchase of services		
Subsidiaries	28,922	32,464
Parties related to key management	242	483
Other related parties to the owners and corporate governance bodies	919	801
	30,083	**33,748**
Dividend income		
Subsidiaries	-	26,251
	-	**26,251**
Trade and other receivables		
Subsidiaries	138,501	164,997
Parties related to key management	-	2
	138,501	**164,999**
Trade and other payables		
Subsidiaries	125	134
Parties related to key management	-	101
Other related parties to the owners and corporate governance bodies	154	79
	279	**314**
Loans given		
Subsidiaries	24	20
	24	**20**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Salaries	3,058	6,587	2,795	5,109
Pension contributions	443	1,125	349	747
Health insurance contribution	778	1,372	705	980
Other costs (contribution and taxes)	1,788	3,859	1,668	3,226
	6,067	**12,943**	**5,517**	**10,062**

Key management of the Group in 2016 consists of 10 members (2015: 12 members).
During 2016 the Company paid Supervisory Board fees in the amount of HRK 2,025 thousand (2015: 2,135 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 36 – MERGER OF ENTITIES UNDER COMMON CONTROL

On 31 March 2016 a merger Agreement was concluded, with legal effect as of 1 April 2016, whereby the company Hoteli Baška d.d., Baška was merged into Valamar Riviera d.d. The company Hoteli Baška d.d. ceased to exist, and the company Valamar Riviera d.d. after the merger became the universal legal successor and thereby took over all assets, rights and obligations of the merged company. Previously, on 13 January 2016 a merger Agreement was concluded, whereby companies Baškaturist d.o.o., Mirta Bašćanska d.o.o. and Vala Bašćanska d.o.o. were merged into Hoteli Baška d.d., with legal effect as of 14 January 2016, companies which were merged ceased to exist

On 30 June 2016, with legal effect from 1 July 2016, whereby the company Bastion d.o.o. was merged into Valamar Riviera d.d. The company Bastion d.o.o. ceased to exist, and the company Valamar Riviera d.d. after the merger became the universal legal successor and thereby took over all assets, rights and obligations of the merged company.

Statement of comprehensive income of the Group includes the results of the merged companies for the whole current year. Statement of comprehensive income of the Company includes the results of the merged companies from the merger date.

Assets and liabilities in 2016 at merger date are:

(in thousands of HRK)	Bastion upravljanje d.o.o. 1 July 2016	Hoteli Baška d.d. 1 April 2016*	Total
Assets			
Property, plant and equipment (Note 14)	-	367,563	367,563
Investment in property (Note 15)	3,207	-	3,207
Other material assets	1	-	1
Intangible assets (Note 16)	-	454	454
Deferred tax assets (Note 25)	2,459	1,889	4,348
Trade and other receivables	84	3,874	3,958
Inventories	-	156	156
Cash and cash equivalents	4,637	3	4,640
Loans and deposits	-	379	379
Financial assets (Note 20)	181	1,661	1,842
Liabilities			
Payables and other liabilities	(22)	(161,702)	(161,724)
Deferred tax assets (Note 25)	21	(19,618)	(19,597)
Net assets acquired	**10,568**	**194,659**	**205,227**
Treasury shares	4,467	-	4,467
Fair value reserves (Note 28b)	68	(374)	(306)
Capital reserves	-	483	483
Less: elimination of the Company's share in subsidiary (Note 17)	**(11,734)**	**(188,226)**	**(199,960)**
Net effect on equity at merger (Note 28)	**3,369**	**6,542**	**9,911**

*Includes previously merged companies Baškaturist d.o.o., Mirta Bašćanska d.o.o. and Vala Bašćanska d.o.o.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 37 – BUSINESS COMBINATION IMPERIAL D.D.

Valamar Riviera d.d. acquired 54.71% of shares of Imperial d.d. via sales contract, concluded with the Republic of Croatia, the State Agency for Deposit Insurance and Bank Resolution, the Croatian Pension Insurance Institute and the Restructuring and Sale Center (CERP) and the Agreement on Cooperation concluded with the company AZ d.o.o., and upon completion of the public offer for the takeover of Imperial d.d.

Imperial d.d., Rab is consolidated in the financial statements from 31 December 2016, representing 19 days after the date that the Company acquired control via appointments to the Supervisory Board. For the period from 12 to 31 December 2016 Imperial d.d. contribution to the Group consolidated income would have been approximately HRK 2,497 thousand and contribution to net result would be a reported loss of HRK 3,535 thousand. Due to impracticalities and restrictions in obtaining access to perform financial procedures on 12 December 2016, given the insignificance of the time period and financial effects, the Group has determined to perform consolidation procedures as at 31 December 2016.

If the acquisition of the subsidiary occurred on 1 January 2016, the Management estimates that consolidated revenue of the Group would amount to HRK 1,673,135 thousand, and Group's consolidated profit to HRK 340,410 thousand. In determining the values specified of acquired assets and liabilities, Management Board assumed that fair value adjustments which arose on the acquisition would have been similar to that had the acquisition be recorded on 12 December 2016 or 1 January 2016.

a) Acquisition cost

Acquisition cost was formed based on fair value of consideration transferred in the amount of HRK 284,942 thousand.

b) Other acquisition relating costs

The Company incurred acquisition relating cost of HRK 1,076 thousand on legal fees and due diligence costs. These cost have been included in other operating expenses.

NOTE 37 – BUSINESS COMBINATION IMPERIAL D.D. (continued)

c) Identifiable assets acquired and liabilities assumed

(in thousands of HRK)	**Fair value at acquisition date**
Property, plant and equipment	735,013
Intangible assets	128
Deferred tax assets	686
Financial assets available for sale	30
Non-current loans and deposits	86
Non-current trade and other receivables	603
Inventories	951
Trade and other receivables	3,200
Income tax receivable	1,054
Loans and deposits	50
Cash and cash equivalents	34,570
Assets acquired	**776,371**
Long term liabilities	(158,274)
Deferred tax liabilities	(39,280)
Non-current provisions	(23,131)
Short term liabilities	(18,764)
Trade and other payables	(15,559)
Current provisions	(579)
Liabilities acquired	**(255,587)**
Total identifiable net assets acquired	**520,784**

Fair value of property at the acquisition date differs from the carrying values. The fair value of property was determined by value in use which is based on discounted cash flows for individual properties (cash-generating units). For the minor part of land, fair value was based on the market approach which uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, and for the minor part of properties the cost approach was used. The fair value of other assets and liabilities at the acquisition date corresponds to the carrying value of these assets. On the 31 December 2016, the share of non-controlling interests in the equity of the acquired company amounts to 54.71%, according to what is stated non-controlling interest in the amount of HRK 235,842 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 37 – BUSINESS COMBINATION IMPERIAL D.D. (continued)

(in thousands of HRK)	Fair value at acquisition date
Non-current assets	736,546
Current assets	39,825
Non-current liabilities	(220,685)
Current liabilities	(34,902)
Fair value of net assets acquired	**520,784**
Non-controlling interest (45.29%)	(235,842)
Fair value of net assets after non-controlling interest:	**284,942**
Acquisition cost	284,942
Cash acquired Imperial d.d.	(34,570)
Acquisition cost, net of cash acquired	**250,372**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

NOTE 38 – SUBSEQUENT EVENTS

On 4 January 2017 the Commercial Court in Rijeka, registered the changes in Statute of Company Imperial d.d. These changes reflected the change in Management Board and Supervisory Board, and also Agreement between Imperial d.d. and Valamar Riviera d.d. regarding management of hotels and touristic facilities. This Agreement was concluded on 12 December 2016 and it applies after Court registration.

On 6 February 2017, the Management Board of the Company initiated procedures for the merger of the company Puntižela d.o.o. in which it holds a business interest of 100%.

The merger will be completed in the first half of 2017 in accordance with the provisions of the Companies Act.

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