VALAMAR RIVIERA

ANNUAL REPORT 2017

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

for the period from 1 January 2017 to
31 December 2017

Valamar Isabella Island Resort 4*&5*, Poreč

Executive Summary

Key financial indicators

(in '000,000 HRK)	2016	2017	2017/2016
Total revenues	1,579.5	1,842.0	16.6%
Sales revenues	1,454.9	1,755.3	20.6%
Board revenues	1,174.7	1,447.9	23.3%
Operating costs	949.9	1,145.2	20.6%
EBITDA	512.6	606.0	18.2%
Adjusted EBITDA	519.0	622.6	20.0%
EBIT	246.7	259.5	5.2%
Adjusted EBIT	253.1	276.1	9.1%
EBT	271.9	238.6	-12.2%
Net profit	342.3	245.1	-28.4%
EBITDA margin	34.4%	34.1%	-30 bp
Adjusted EBITDA margin	34.9%	35.0%	10 bp
Net debt	1,398.1	1,772.4	26.8%
Cash and cash equivalents	274.7	287.8	4.8%
Net debt / Adjusted EBITDA	2.69	2.85	5.8%
Capital investments	428.4	877.7	104.9%
Market capitalization	4,295.1	5,420.3	26.2%
EV	5,693.2	7,192.6	26.3%
DPS	0.60	0.80	33.3%

Key operating indicators

	2016	2017	2017/2016
Accommodation units (capacity)	18,072	20,852	15.4%
Number of beds	48,524	56,662	16.8%
Full occupancy days	126	127	0.4%
Annual occupancy (%)	34%	35%	100 bp
Accommodation units sold ('000)	2,278	2,640	15.9%
Overnights (000)	5,144	6,173	20.0%
ADR (in HRK)	516	548	6.4%
RevPAR (in HRK)	65,002	69,435	6.8%

Note: Details and explanations can be found on page 9 in "Results of the Group".

EBITDA and EBITDA margin

The Group reported strong adjusted EBITDA growth in 2017, up 20% to HRK 623 million (HRK 519 million in 2016). Adjusted EBITDA growth was driven by higher sales revenues (up 21%; from HRK 1,455 million to HRK 1,755 million) and active management of operating efficiency as seen in the adjusted EBITDA margin of 35.0% (34.9% in 2016). Adjusted EBITDA margin was high in 2017 despite 2017 negative impact of the lower seasonal EUR/HRK exchange rate and the VAT rate for hospitality services going from 13% to 25% as of 1 January 2017.

Revenues

Total revenues were HRK 1,842 million, up 17% in 2017 (HRK 1,580 million in 2016). In total revenues, HRK 1,755 million represented sales revenues (HRK 1,455 million in 2016) while the remaining part was mainly financial income, down HRK 27 million (from HRK 91 million to HRK 64 million) due to the absence of the one-off effect of 2016 income from share portfolio sale. Sales revenues growth was largely driven by higher board revenues, up 23% to HRK 1,448 million (HRK 1,175 million in 2016) and higher revenues of other operating departments (+HRK 17 million; leasing, sport, laundry, tourist agency, etc.).

The Group reported 6,173,142 overnights (+20%) in 2017 while ADR rose by 6%. Board revenue growth was mainly driven by: i) the acquisition of Imperial d.d. (hereinafter: Imperial), ii) large investments to improve competitiveness and the quality of services and products, iii) demand-driven optimization of distribution and prices, iv) better occupancy and strong performance in 1H 2017.

Costs

Operating costs rose by 21% to HRK 1,145 million, mainly due to i) this year's consolidation of Imperial, ii) increased material costs driven by larger business volumes, iii) the salary increase policy, and iv) new employees hired as construction staff (to carry out the large investments) and resort staff (to ensure service quality in the new Premium/ Upscale properties).

Financial result

The Group reported a negative financial result of HRK 21 million (in 2016 the reported profit was HRK 25 million). A weaker financial result is largely due to the absence of the one-off income from share portfolio sales achieved in 2016.

Profit

The Group's net profit fell by HRK 98 million to HRK 244 million in 2017 (HRK 342 million in 2016) due to weaker financial results (-HRK 46 million) and lower tax revenues (-HRK 64 million) mainly due the lower one-off recognition of deferred tax assets related to the achieved tax incentives prescribed by the Act on Investment Promotion (HRK 54 million in 2017 vs. HRK 125 million in 2016).

Enterprise value

Enterprise value continued to grow (+26%) driven by increased operating business and efficient net debt management.

Investments

The Group's largest investments worth over HRK 900 million were completed and 2017 saw strong market demand for the newly renovated properties. Most of the investments were focused on the projects in Rabac (Family Life Bellevue Resort 4* and Valamar Girandella Resort 4*&5*), the development of premium camping resorts, Imperial's projects and a range of other smaller

Executive Summary (Continued)

projects for improving quality, operating efficiency and energy saving.

In line with the previously announced investments worth up to HRK 2 billion until 2020, the Group is planning new large investments worth HRK 705 million in 2018. The investments will strategically reposition the hotel and camping portfolio towards products and services with high added value.

For details, see “2017 Investments” on page 19 and “2018 Investments” on page 21.

Acquisitions

By the end of 2016, Valamar Riviera successfully acquired 54.71% of Imperial’s share capital by the end of 2016 and concluded a contract covering the management of Imperial’s properties and services. The implementation of the contract started on 4 January 2017 and now Valamar Riviera manages a portfolio of 30 hotels and resorts and 15 camping resorts that can welcome more than 56,000 guests daily.

Imperial’s business consolidation accounts for 9 percentage points of growth in total revenues, or 11 percentage points in adjusted EBITDA.

Valamar’s press release is available from the Valamar Riviera corporate website (valamar-riviera.com/en/1Y2017).

Awards and Recognitions

Mr. Željko Kukurin, Management Board President at Valamar Riviera, was voted as Businessperson of the Year in 2017 by the readers of “Večernji list” and “Poslovni dnevnik”. The award recognized Valamar Rivera’s contribution to the record-breaking year for Croatia’s tourism that saw over 100 million overnights for the first time, and confirmed Valamar’s philosophy of excellence in hospitality achieved by responsible and sustainable investments in employees, products and destinations.

Valamar Riviera was awarded the “Zlatna koza-Capra d’oro” (Golden Goat Award) by the Istria Tourist Board for its exceptional contribution to the development of Istrian tourism. It also received the Golden Kuna Award from the Croatian Chamber of Economy as the most successful Istrian company among large enterprises and was nominated for the title of most successful large company in Croatia.

Valamar Riviera received two valuable recognitions given by the Zagreb Stock Exchange in 2017: Share of the Year by public vote for the 6th consecutive time and Top Turnover Share. Moreover, it won another first place award for Best Investor Relations, conferred by the business newspaper “Poslovni dnevnik” and the Zagreb Stock Exchange.

Valamar Riviera has received numerous awards and certificates: TUI Environmental Champion 2017, Best Wi-Fi, Best hotel in TUI family concept, Best practice in TUI standards implementation - TUI; ANWB Top 2017 - ANWB, ADAC Superplatz 2017 - ADAC, Croatia’s Best Campsite - Croatian Camping Association; Developer - Euromoney; Travelife GOLD Award - Travelife; Croatia’s Leading Business Hotel, Croatia’s Leading Hotel, Croatia’s Leading Resort, Croatia’s Leading Boutique Hotel - World Travel Awards; Camping2be 2017 Award - Camping2be.com; Recommended - Holidaycheck; Certificate of Excellence 2017, Top 25 hotels in Croatia, Top 10 hotels for Families in Croatia - TripAdvisor; Healthy Meal Standard - Healthy Meal Standard; World Luxury Hotel Awards - World Luxury Hotel Awards; Loved by guest 2017 - Hotels.com; ISO 50001, ISO 9001, ISO 14001 - ISO, Codex Alimentarius - HACCP, etc.

Outlook

Valamar Riviera d.d. and PBZ Croatia osiguranje (managing mandatory pension funds), submitted on 15 May 2017 a joint offer for the investment and recapitalization of a bankrupt hospitality company on Hvar Island, Helios Faros d.d. u stečaju (hereinafter: Helios Faros), with 591 keys in its portfolio. In July 2017, the Assembly of bankruptcy creditors of Helios Faros decided to prepare a Bankruptcy plan following the investment and recapitalization offer. However, the Bankruptcy plan still needs to be adopted by the Assembly of bankruptcy creditors and validated by the bankruptcy judge.

On 27 December 2017 Valamar Riviera submitted a binding bid to buy 55.48% of Hoteli Makarska d.d. share capital (HRK 172.7 million), which had been accepted on 12 February 2018 by Croatia’s Restructuring and Sale Center-CERP. The agreement covering the purchase and transfer of shares is expected to be concluded in the first quarter of 2018. Valamar Riviera signed a cooperation agreement with Allianz ZB d.o.o. (managing mandatory pension funds) in order to start their joint activity towards Hoteli Makarska that manages a portfolio of 725 keys.

In accordance with our strategic goals for the period up to 2020, we are focusing on investments projects aimed at improving the portfolio properties and services. However, numerous factors reduce the competitiveness of Croatian tourism and hinder further investment potential: VAT and the rate of total contributions to salaries (both among the highest in the Mediterranean), the still unresolved issue of tourism land, skilled labor shortages, the likely introduction of property tax and tourist tax increase.

Following the successful acquisition of the Baška hotel group on Krk Island and the Imperial hotel group on Rab Island, we are considering further expansion by pursuing new partnerships and acquisition opportunities in Croatia and abroad.

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Significant Business Events

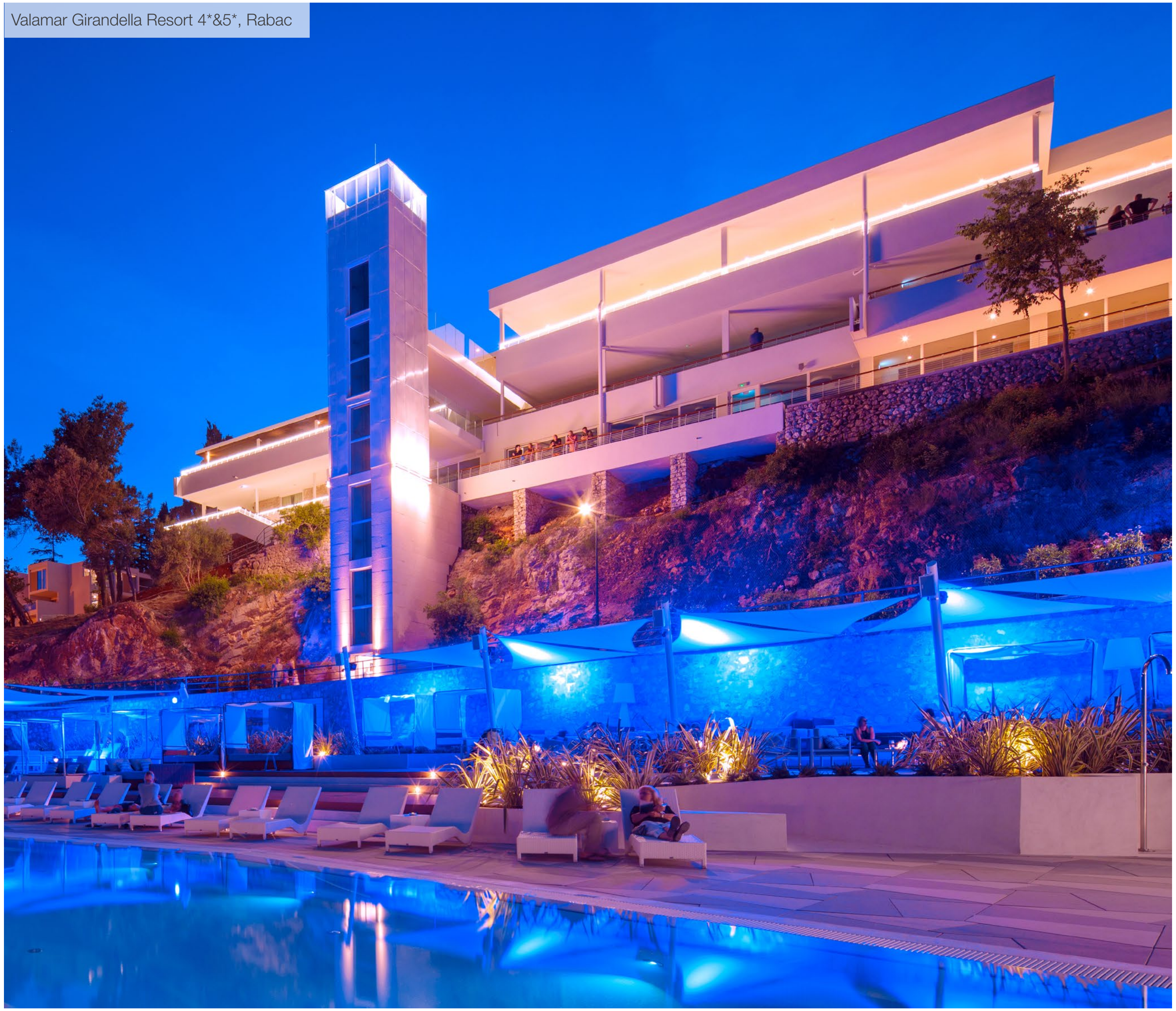
About Valamar Riviera

Valamar Riviera is the leading tourism company and one of the leading tourism groups in Croatia. It is also one of the largest investors in Croatian tourism with over HRK 4 billion invested in the last 14 years. Valamar Riviera owns two brands: Valamar Hotels and Resorts and Camping Adriatic. With last year's acquisition of Imperial, a hotel group on Rab Island, Valamar Riviera Group now 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 operates about 12% of Croatia's total categorized tourist accommodation and can welcome over 56,000 guests a day in nearly 21,000 accommodation units. It is the largest tourism group in Croatia by number of keys. Valamar Riviera looks after the interests of all its stakeholders: guests, suppliers and partners, local communities and destinations, around 21,000 shareholders, almost 6,000 people employed during peak season and society at large. Stakeholders' interests are actively promoted through Valamar Riviera's principles of sustainable growth, development and corporate social responsibility. The company aims at growing further through portfolio investments, new acquisitions and partnerships, by developing its destinations and human resources and by increasing operating efficiency.

Acquisition of Imperial

Valamar Riviera concluded a Management contract with Imperial by the end of 2016 regarding the management of Imperial's properties and services. The implementation of the contract started on 4 January 2017. On 27 December 2016, when the takeover bid transaction was completed,

Valamar Girandella Resort 4*&5*, Rabac



Valamar Riviera acquired 54.71% of Imperial's share capital. Valamar Riviera also concluded a cooperation agreement with Allianz ZB from Zagreb, acting in its own name and on behalf of the mandatory pension funds it manages (category A and B). With this agreement, the two companies established joint activity towards Imperial. Valamar Riviera and Allianz ZB expect to achieve significant synergies in the future development of Imperial's hotel portfolio and Rab as a tourist destination.

General Assembly of Valamar Riviera

The General Assembly of Valamar Riviera was held on 4 May 2017 and decided that:

- The Company's realized profits in 2016 totaling HRK 336,657,721 were distributed as follows: HRK 16,402,312 to legal reserves and HRK 320,255,410 to retained profits.
- The Management Board members were discharged from managing the company business in 2016. The Supervisory Board members were discharged from supervising Valamar Riviera's business management in 2016.
- The established dividend was HRK 0.80 (eighty lipa) per each share. The dividend would be paid out of the retained profit realized in 2013, 2014 and 2015. The total dividend that Valamar Riviera's shareholders received on 29 May 2017 was HRK 99.4 million. 99% of this amount was paid in cash, and the remaining 1% in company shares.
- The appointed Auditor for Valamar Riviera d.d. in 2017 is Ernst & Young d.o.o. from Zagreb, 50 Radnička cesta.
- As the term of office for the Supervisory Board members expired on 6 July 2017, the following were appointed for a new 4-year term: Mr. Gustav Wurmböck, Mr. Franz Lanschützer, Mr. Mladen Markoč, Mr. Georg Eltz, Mr. Hans Dominik Turnovszky, Mr. Vicko Ferić, and Mr. Valter Knapić - employee representative appointed by the Works Council. The newly elected Supervisory Board members started their term of office on 7 July 2017.
- The Assembly decided on the amendment to the Company Statute.

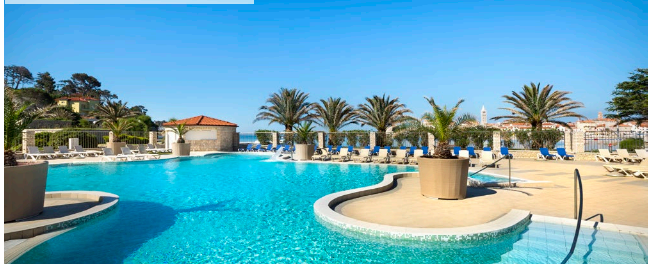
Puntižela d.o.o. merger

In order to improve the operating efficiency and streamline operations, on 6 February 2017 Valamar Riviera initiated the merger of Puntižela d.o.o. (hereinafter: Puntižela). The merger was completed on 31 March 2017 when it was recorded in the court register, after which Valamar Riviera became the universal legal successor of the merged company.

Investment and recapitalization offer for Helios Faros

Valamar Riviera d.d. and PBZ Croatia osiguranje, a pension fund management company acting in its own name and on behalf of the mandatory pension funds it manages (category A and B) submitted on 15 May 2017 a joint offer for the investment and recapitalization of Helios Faros, a bankrupt hospitality company from Stari Grad on Hvar Island. The Assembly of bankruptcy creditors of Helios Faros decided on 20 July 2017 to prepare a Bankruptcy plan, following the investment and recapitalization offer for Helios Faros. In this offer, PBZ Croatia osiguranje and Valamar Riviera presented a restructuring plan as well as a six-year plan worth HRK 650 million for investments in hospitality assets. The total renovation and construction of two premium resorts containing around 600 accommodation units would reposition the Helios Faros portfolio as premium accommodation, thus turning Stari Grad into an attractive and well-known destination. Helios Faros would employ 500 people after the renovation of the Arkada and Lavanda hotels. The Bankruptcy plan would enable Helios Faros to emerge from bankruptcy and continue its business operations in close partnership with the destination, Stari Grad, in order to bring prosperity to the whole island. PBZ Croatia osiguranje and Valamar Riviera see this project as a confirmation of synergies from the joint activity of a large institutional investor and a strategic tourism investor contributing with its expertise and results. Consequently, Valamar Riviera would manage Helios Faros' development and operations through a model contract related to the management of facilities. However, the Bankruptcy plan still needs to be adopted by the Assembly of bankruptcy creditors and validated by the bankruptcy judge.

Hotel Padova 4*, Rab Island



Valamar Riviera and Kinderhotels

On 5 June 2017, Valamar Riviera announced the conclusion of a contract with Kinderhotels Europa Management & Marketing GmbH regarding the purchase of the right to use the Kinderhotels brand for a period of 5 years and 5 months. The collaboration between Valamar and Kinderhotels Europa will result in the hotel branding of Valamar Girandella Maro Resort 5* in Rabac. it is planned to be opened in the 2018 season as the third hotel of this kind in Croatia. With this, Valamar became part of the Kinderhotels chain, specialized in family vacations. Kinderhotels Europa is a marketing association that brings together high-quality premium family hotels under the Austrian "Kinderhotels" brand, and it includes 50 European hotels.

2018 investing decisions

The Supervisory Board approved 2018 investments worth HRK 633 million at its meeting held on 1 December 2017. Investments approved by the Supervisory Board of Imperial totaled HRK 72 million. The Group's new total investments worth HRK 705 million are focused on repositioning the portfolio towards products and services with high added value. For details, see "2018 Investments" on page 21. The investment community was notified on 5 September 2017 that the investment in a new family hotel, Valamar Pinia Family Suites 5*, had been postponed due to an unpredictable fiscal framework for investors in tourism as well as delays in the preparation of required technical data.

Agreement with TUI UK and DER Touristik DE

On 25 September 2017 and 28 September 2017, Valamar Riviera announced the legal transactions concluded with TUI UK and DER Touristik Deutschland GmbH related to the provision of hospitality services. The total estimated annual value of the concluded agreements is HRK 80 million and HRK 70 million, respectively. The partnerships with TUI UK and DER Touristik, two leading tour operators on the European source market, will secure one part of the occupancy at Valamar hotels in the 2018 main season and shoulder season.

Elafiti Babin Kuk d.o.o. merger

In order to improve operating efficiency and streamline operations, the Supervisory Board of Valamar Riviera approved the initiation of the Elafiti Babin Kuk d.o.o. merger on 20 October 2017. Elafiti Babin Kuk d.o.o. is a company where Valamar Riviera holds 100% stake and the merger was completed on 29 December 2017, when it was recorded in the court register. Consequently, Valamar Riviera became the universal legal successor of the merged Elafiti Babin Kuk d.o.o.

Bid to buy Hoteli Makarska shares

On 27 December 2017 Valamar Riviera submitted a binding bid to buy a 55.48% stake (621,086 shares) in Hoteli Makarska, a peer company from Makarska with 725 keys in its portfolio. Valamar Riviera concluded a cooperation agreement with Allianz ZB d.o.o., a pension fund company from Zagreb, which acts in its own name and on behalf of the mandatory pension funds it manages, in order to start their joint activity towards Hoteli Makarska. On 12 February 2018 the Restructuring and Sale Center announced that the Company's bid in the amount of HRK 172.7 million had been accepted. The agreement covering the purchase and transfer of shares is expected to be concluded in the first quarter of 2018.

Changes in the percentage of voting rights

On 26 January 2018 Valamar Riviera received the notification of EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H., a company with registered office in Vienna, 8 Plösslgasse, Republic of Austria, regarding the changes in the percentage of voting rights. The change in the percentage of voting rights, i.e. fall below the voting rights threshold, was due to the transfer of shares pursuant to the demerger agreement and status change –demerger of EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H., as demerging company and EPIC Hospitality Holding GmbH with registered office in Vienna, 8 Plösslgasse, Republic of Austria, as transferee company. As evidenced by the received notifications, the shareholder structure of the transferee company is indirectly identical to the shareholder structure of the demerging company. Consequently, no changes occurred in the controlling persons, since the shareholders in EPIC Hospitality Holding GmbH are indirectly the same persons and hold the same stakes as the shareholders in EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.

Pursuant to this, on the same day Valamar Riviera received the notification of EPIC Hospitality Holding GmbH informing on the acquisition of 55,594,884 shares of the Company (44.11% of the share capital).

Annual audited financial statements

The Management Board hereby presents the annual audited financial statements for the year 2017. These statements must be viewed in the context of the said mergers and acquisitions, and they provide information on the state of the Company and Group, as well as significant events.

The Company balance sheet for the reviewed period as at 31 December 2017 includes the merged Puntižela d.o.o. for the period following the merger, i.e. as from 1 April 2017, and the merged Elafiti Babin-kuk d.o.o. for the period following the merger, i.e. as of 29 December 2017. Please note that 2017 data cannot be entirely compared to the previous period, as the latter did not include Puntižela d.o.o. and Elafiti Babin Kuk d.o.o.

Valamar Lacroma 4*, Dubrovnik

The Group balance sheet for the reviewed period, as at 31 December 2017, and the previous period as at 31 December 2016 includes Imperial d.d.

The Company income statement for the reviewed period includes the merged companies: Hoteli Baška d.d. for the period following the merger i.e. as of 1 April 2016, Bastion upravljanje d.o.o. for the period following the merger i.e. as of 1 July 2016, and Puntižela d.o.o. for the period following the merger, i.e. as of 1 April 2017 and Elafiti Babin Kuk d.o.o. for the period following the merger, i.e. as of 29 December 2017. Please note that 2017 data are not fully comparable to previous period data, as the latter do not include, until the time of the merger, the said merged companies.

The Group income statement for the reviewed period includes the following companies: 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 Imperial d.d. Thus, 2017 data are not fully comparable to previous period data, as the latter do not include Imperial d.d.

Results of the Group

Key financial indicators[1]

	2016	2017	2016/2017
Total revenues	1,579,499,901	1,842,036,109	16.6%
Sales revenues	1,454,867,739	1,755,286,721	20.6%
Board revenues (accomodation and board revenues)[2]	1,174,716,569	1,447,866,807	23.3%
Operating costs[3]	949,930,753	1,145,185,720	20.6%
EBITDA[4]	512,583,688	606,042,467	18.2%
Extraordinary operations result and one-off items[5]	-6,376,909	-16,566,528	-159.8%
Adjusted EBITDA[6]	518,960,597	622,608,995	20.0%
EBIT	246,704,521	259,502,687	5.2%
Adjusted EBIT[6]	253,081,430	276,069,214	9.1%
EBT	271,909,189	238,643,759	-12.2%
Net profit	342,313,778	245,087,385	-28.4%
EBT margin	18.3%	13.4%	-490 bp
EBITDA margin	34.4%	34.1%	-30 bp
Adjusted EBITDA margin[6]	34.9%	35.0%	10 bp
	31/12/2016	**31/12/2017**	**2016/2017**
Net debt[7]	1,398,102,734	1,772,353,634	26.8%
Net debt / Adjusted EBITDA	2.69	2.85	5.8%
Cash and cash equivalents	274,650,648	287,836,954	4.8%
Capital investments (more details in chapter “2017 Investments”)	428,440,048	877,743,649	104.9%
ROE[8]	14.4%	9.7%	-470 bp
Adjusted ROCE[9]	6.7%	6.4%	-30 bp
Market capitalization[10]	4,295,057,872	5,420,289,760	26.2%
EV[11]	5,693,160,606	7,192,643,394	26.3%
EPS[12]	2.76	1.96	-29.1%
DPS[13]	0.60	0.80	33.3%

Key business indicators[14]

	2016	2017	2016/2017
Number of accommodation units (capacity)	18,072	20,852	15.4%
Number of beds	48,524	56,662	16.8%
Full occupancy days	126	127	0.4%
Annual occupancy (%)	34%	35%	100 bp
Accommodation units sold	2,277,815	2,639,755	15.9%
Overnights	5,144,328	6,173,142	20.0%
ADR[15] (in HRK)	516	548	6.3%
RevPAR[16] (in HRK)	65,002	69,415	6.8%

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

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

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

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

5 Adjustments were made for (i) extraordinary income (in the amount of HRK 11.0 million in 2017, and HRK 21.5 million in 2016), (ii) extraordinary expenses (in the amount of HRK 26.5 million in 2017, and HRK 23.6 million in 2016), and (iii) termination benefit costs (in the amount of HRK 1.0 million in 2017, and HRK 4.3 million in 2016).

6 Adjusted by the result of extraordinary operations and one-off items.

7 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.

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

9 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.).

10 The number of shares as at 31 December 2017 net of treasury shares amounts to 124,233,091, while per 31 December 2016 amounts to 124,170,508.

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

12 EPS refers to earnings per share calculated on the basis of net profit. Weighted average number of shares as at 31 December 2017: 124,207,204. Weighted average number of shares as at 31 December 2016: 124,235,079.

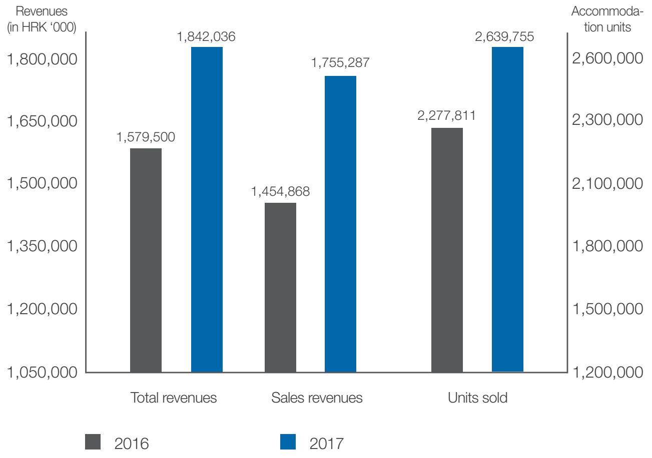
13 DPS refers to dividends per share.

14 2016 key business indicators of Valamar Riviera Group do not include data of Imperial.

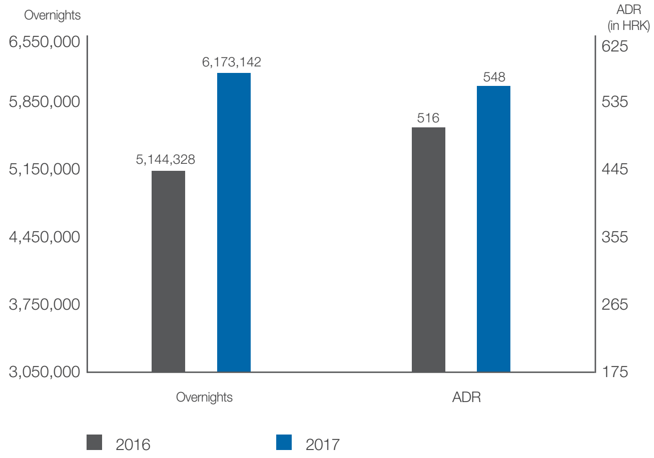
15 Average daily rate is recorded on the basis of board revenues (accommodation and board's food and beverage revenues).

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

Revenues and accommodation units sold



Overnights and ADR



Total revenues

Total revenues were HRK 1,842.0 million in 2017, and their strong growth (+16.6% or +HRK 262.5 million) resulted from the following:

i) Sales revenues rose by 20.6% (+HRK 300.4 million) to HRK 1,755.3 million, mainly driven by board revenues (+23.3% or +HRK 273.2 million) and the revenues of other operating departments: leasing, sport, laundry, tourist agency, etc. (+HRK 16.8 million).

ADR rose by 6.4% to HRK 548, the total number of accommodation units sold was 2.639.755 (+15.9%) thanks to the active management of revenues, sales channels and marketing segments. Board revenues hit HRK 1.447,9 million (+HRK 273,2 million). All marketing segments grew in January and February, except for M.I.C.E.[17]. March saw smaller business volumes due to Easter holidays occurring in April. However, this was offset in April when all marketing segments received great feedback. May was affected by the later occurrence of holidays in the German and Austrian source market, and the positive effects were carried over into June. Apart from the holiday factor, June saw a strong demand for Valamar Riviera's portfolio products and services, thus driving an optimum price yield, especially in destination Poreč. The growth in board revenues in high season (July-September) was mainly driven by ADR increase. The direct sales channel presented the highest growth rates, especially in northern destinations, as focus was shifted from the less profitable OTA[18] channel. Shoulder season (October-December) saw higher group and allotment numbers especially during holidays in the German and Austrian market, and an increase in the number of US guests in Dubrovnik. The market feedback during the Christmas/ New Year period was as strong as usual. Domestic sales revenues rose by 26.1% over 2016 results to HRK 150.1 million and represented 8.1% of total revenues (7.5% in 2016). International sales revenues rose by HRK 269.4 million to HRK 1,605.2 million and represented 87.1% of total revenues (84.6% in 2016).

ii) Financial income fell by 30.0% (-HRK 27.2 million) to HRK 63.6 million due to the absence of 2016 one-time income effect driven by share portfolio sale.

iii) The consolidation of Imperial contributed to the Group's total revenues with 9 percentage points.

Other operating and financial income represented 4.7% of total revenues (7.9% in 2016).

[17] Meetings, incentives, conferencing, exhibitions.
[18] Online travel agencies.

Total operating expenses of Valamar Riviera Group[19]

(in HRK)	2016	2017	2017/2016
Operating costs[20]	949,930,753	1,145,185,720	20.6%
Total operating expenses	**1,241,906,080**	**1,518,893,175**	**22.3%**
Material costs	450,374,430	519,753,525	15.4%
Staff costs	371,316,789	480,161,466	29.3%
Depreciation and amortisation	265,188,188	346,413,599	30.6%
Other costs	128,500,052	143,755,460	11.9%
Provisions and value adjustments	2,545,384	9,612,565	277.6%
Other operating expenses	23,981,236	19,196,560	-20.0%

Total operating expenses

Total operating expenses grew by 22.3% (+HRK 277.0 million) to HRK 1,518.9 million. If Imperial's data are excluded for comparability's sake, total operating expenses grew by 11%. The breakdown of total operating expenses is the following:

i) Material costs represented 34.2% of total operating expenses (36.3% in 2016) and rose by 15.4% (+HRK 69.4 million) to HRK 519.8 million, mainly due to Imperial's consolidation and increased raw material costs (especially direct food and beverage costs, as well as costs of energy and water consumption) driven by larger business volumes.

ii) Staff costs represented 31.6% of total operating expenses (29.9% in 2016) and rose by 29.3% (+HRK 108.8 million) to HRK 480.2 million, mainly due to the efforts invested in securing competitive salaries, benefits and work conditions well as the hiring of construction site staff (to carry out the large investments) and resort staff (to ensure high service quality in the new Premium/ Upscale properties). In 2017 these efforts resulted in Valamar guaranteeing a minimal monthly net salary of HRK 4,000, and an increase in the base salary and coefficients that resulted in a 19% increase in the volume of total salaries. Consequently, following an agreement with trade unions, the base salary for nearly two thousand Valamar employees increased (2% in June 2016, 2% in December 2016 and 1.5% in June 2017; and 0.5% increment for years of service as of 1 January 2017) as well as the Tariff coefficients (2.5%) for nearly 50 key and scarce occupations (maids, cleaners, chefs, waiters and other)

iii) Amortization cost represented 22.8% of total operating expenses (21.4% in 2016) and rose by 30.6% (+HRK 81.3 million) to HRK 346.4 million, mainly due to the consolidation of Imperial and the previous investments.

iv) Other costs represented 9.5% of total operating expenses (10.3% in 2016) and rose by 11.9% (+HRK 15.3 million) to HRK 143.8 million, mainly due to Imperial's consolidation.

v) Provisions and value adjustments represented 0.6% of total operating expenses (0.2% in 2016) and rose by 277.6% (+HRK 7.1 million) to HRK 9.6 million, mainly due to Imperial's consolidation, provisions for litigations in progress and the value adjustment of non-core assets of Magične stijene d.o.o.

vi) Other operating expenses represented 1.3% of total operating expenses (1.9% in 2016) and fell by 20.0% (-HRK 4.8 million) to HRK 19.2 million due to operating expenses of previous years.

Operating costs[20]

Operating costs rose by 20.6% to HRK 1,145.2 million mainly due to i) this year's consolidation of Imperial, ii) increased raw material costs driven by larger business volumes and iii) increased staff costs (as previously explained). If Imperial's consolidation is excluded for comparability's sake, operating costs grew by 12% and remained under control through active cost management.

EBITDA

Adjusted EBITDA[21] jumped by 20.0% (+HRK 103.5 million) to HRK 622.6 million, as a result of the largest investments so far that were focused on improving competiveness and the quality of services and products, the Imperial hotel group acquisition, active operating efficiency management and demand driven-optimization of distribution and prices. Imperial's consolidation carried 11 percentage points in the growth. Unadjusted EBITDA rose by 18.2% (+HRK 93.5 million) to HRK 606.0 million as a result of better performance. Please note that the strong growth in adjusted and unadjusted EBITDA is influenced by the 2017 negative impact of the lower seasonal EUR/HRK exchange rate and the VAT rate for hospitality services going from 13% to 25% as of 1 January 2017.

Profit

The Group's net profit fell by HRK 97.2 million to HRK 245.1 million in 2017 due to weaker financial results (-HRK 46.0 million; for details see next page) and lower tax revenue (-HRK 64.0 million) mainly due to the lower one-off recognition of deferred tax assets[22]. EBT margin fell by 490 basis points to 13% (18% in 2016).

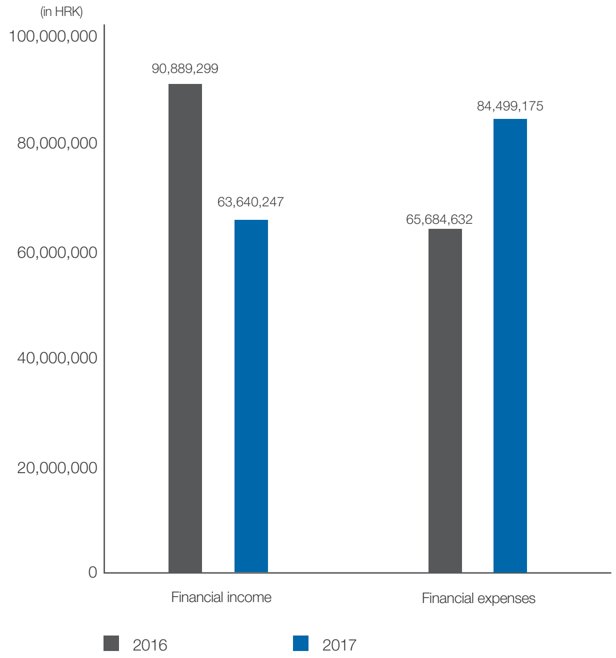
19 Classified accordiong to the Annual Financial Statement (GFI POD-RDG).

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

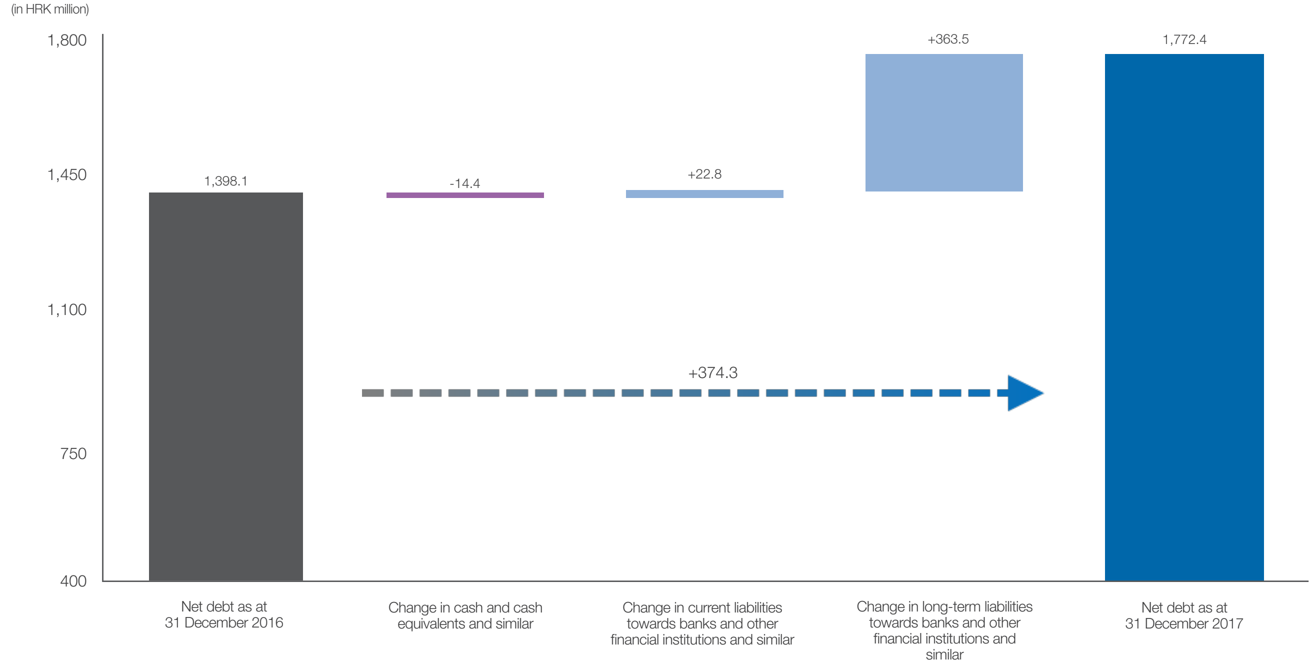
21 Adjustments were made for (i) extraordinary income (in the amount of HRK 11.0 million in 2017, and HRK 21.5 million in 2016), (ii) extraordinary expenses (in the amount of HRK 26.5 million in 2017, and HRK 23.6 million in 2016), and (iii) termination benefit costs (in the amount of HRK 1.0 million in 2017, and HRK 4.3 million in 2016).

22 In 2017 deferred tax assets was recognized mainly due to tax incentives prescribed by the Act on Investment Promotion and Investment Improvement which amounted to HRK 54.1 million, in respective to HRK 124.7 million in 2016.

Financial income and expenses



Net debt[23]



Financial result

The Group achieved a negative financial result of HRK 20.9 million in 2017 (in 2016 it achieved a positive financial result of HRK 25.2 million). The financial result decreased by HRK 46.1 million mainly due to a i) HRK 35.0 million decrease in income from share portfolio sale resulting from the absence of last year's one-off income effect, ii) HRK 5.0 million decrease in net forex gains related to long-term loans (in 2017 total forex gains were HRK 31.6 million, and total forex losses were HRK 25.5 million), and iii) the net effect of a HRK 6.3 million increase in financial expenses related to long-term loan interest.

Financial income

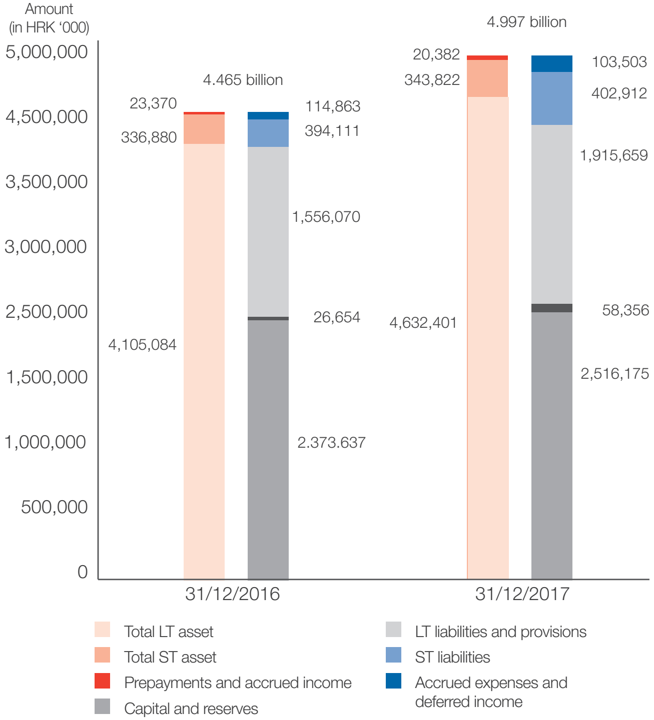
Financial income fell by HRK 27.2 million over 2016 results to HRK 63.6 million. The most significant decrease was reported in other financial income due to the aforesaid absence of the one-off income effect of HRK 35.0 million driven from 2016 share portfolio sale. Forex gains related to long-term loans increased by HRK 10.8 million to HRK 31.6 million. Financial income related to interest fell by HRK 3.6 million to HRK 0.7 million as a result of reduced free cash flow and lower interest rates in 2017 vs. 2016.

Financial expenses

Financial expenses rose by HRK 18.8 million over 2016 to HRK 84.5 million. Forex loss related to long-term loan rose by HRK 15.8 million to HRK 25.5 million. Financial expenses related to interest rose by HRK 6.3 million to HRK 40.1 million driven by higher financial leverage used for 2017 investments. Unrealized expenses from financial assets fell by HRK 1.5 million to HRK 6.8 million, driven by higher interest rates that had a positive impact on IRS fair value.

23 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.

Assets and liabilities



Profitability indicators of Valamar Riviera Group

	2016	2017	2017/2016
EBITDA margin	34.4%	34.1%	-30 bp
Adjusted EBITDA margin	34.9%	35.0%	10 bp
EBIT margin	16.6%	14.6%	-200 bp
Adjusted EBIT margin	17.0%	15.5%	-150 bp
EBT margin	19.3%	13.4%	-590 bp
Net profit margin	23.0%	13.8%	-920 bp
ROA	7.7%	4.9%	-280 bp
ROE	14.4%	9.7%	-470 bp
Adjusted ROCE	6.7%	6.4%	-30 bp

Valuation of Valamar Riviera Group

	31/12/2016	31/12/2017	2017/2016
Average share price per (in HRK)	34.59	43.63	26.1%
Market capitalization (in HRK)	4,295,057,872	5,420,289,760	26.2%
EV (in HRK)	5,693,160,606	7,192,643,394	26.3%
EPS (in HRK)	2.76	1.96	-29.0%
DPS (in HRK)	0.60	0.80	33.3%
EV / Sales revenues	3.9x	4.1x	5.1%
EV / EBITDA	11.1x	11.9x	6.9%
EV / Adjusted EBITDA	11.0x	11.6x	5.0%
EV / EBIT	23.1x	27.7x	20.0%
EV / Adjusted EBIT	22.5x	26.1x	15.8%

Assets and liabilities

As at 31 December 2017 the total value of the Group's assets increased by 11.9% vs 31 December 2016 and totaled HRK 4,996.6 million.

Total share capital and reserves grew by 6.0% to HRK 2,516.2 million as a result of i) HRK 243.6 million of realized profit in 2017 vs HRK 342.3 million of realized profit as at 31 December 2016 and ii) HRK 263.1 million of retained profit vs HRK 36.6 million of retained profit in 2016.

Total long-term liabilities rose from HRK 1,556.1 million to HRK 1,915.7 million due to loans contracted to finance this year's investments.

Total short-term liabilities were HRK 402.9 million and rose by 2.2 % vs 31 December 2016 as a result of i) lower trade payables (down by HRK 21.9 million) given the smaller range of 2017/18 investments (for details, see page 21), ii) the current repayment of 2018 long-term debt (up by HRK 22.8 million), iii) higher liabilities related to advance payments from customers (up by HRK 8.0 million), and iv) liabilities related to employees (up by HRK 1.8 million due to a larger consolidation scope and the increased number of employees vs 31 December 2016).

Cash and cash equivalents were HRK 287.8 million as at 31 December 2017 and rose by 4.8%, indicating a further strong cash potential from business activities. Together with external financing, they are able to secure a smooth continuation of future investments and potential acquisitions.

Key operating indicators of Valamar Riviera Group per segments[24]

HOTELS AND RESORTS	Total			Premium			Upscale			Midscale			Economy		
	2016	2017	2017/ 2016	2016	2017	2017/ 2016	2016	2017	2017/ 2016	2016	2017	2017/ 2016	2016	2017	2017/ 2016
Number of accommodation units	7,927	8,982	13.3%	1,037	1,269	22.4%	1,422	1,980	39.2%	3,112	3,493	12.2%	2,356	2,240	-4.9%
Full occupancy days	158	162	2.5%	194	174	-10.5%	159	158	-0.7%	159	163	2.3%	139	156	12.2%
Annual occupancy rate (%)	43%	44%	2.7%	53%	48%	-10.2%	43%	43%	-0.4%	44%	45%	2.6%	38%	43%	12.5%
Accommodation units sold	1,250,791	1,452,014	16.1%	201,003	220,226	9.6%	226,086	312,618	38.3%	495,689	569,159	14.8%	328,013	350,011	6.7%
Overnights	2,668,550	3,115,692	16.8%	386,163	463,667	20.1%	500,925	729,117	45.6%	1,056,601	1,193,419	12.9%	724,861	729,489	0.6%
ADR[15]	735	764	3.9%	1,118	1,257	12.4%	984	1,009	2.5%	682	672	-1.4%	410	385	-6.1%
Board revenues (in HRK)	919,726,790	1,109,581,848	20.6%	224,678,769	276,758,965	23.2%	222,521,004	315,357,057	41.7%	338,024,283	382,724,084	13.2%	134,502,733	134,741,742	0.2%
RevPAR[16] (in HRK)	116,025	123,534	6.5%	216,662	218,092	0.7%	156,485	159,271	1.8%	108,620	109,569	0.9%	57,089	60,153	5.4%
Adjusted EBITDA[25] (in HRK)	560,211,649	643,485,966	14.9%	144,730,691	170,535,626	17.8%	138,900,914	212,065,021	52.7%	195,987,797	195,305,919	-0.3%	80,592,247	65,579,399	-18.6%

Board revenues of hotels and resorts rose by 20.6% (+HRK 189.9 million) to HRK 1,109.6 million. Their growth was driven by the strong demand for the new Premium and Upscale properties, the Imperial hotel group acquisition, demand-driven optimization of the marketing mix and prices and the successful realization of group stays (leisure and events). Please note that the growth was partly due to the performance of the hotels and resorts on Rab Island. If excluded, the total board revenues of hotels and resorts grew by 10%.

Premium hotels and resorts

Premium hotels and resorts reported HRK 276.8 million in board revenues that were up by 23.2% (+HRK 52.1 million) driven by ADR (HRK 1,257, +12.4%) and 220,226 accommodation units sold (+9.6%). The properties that influenced most of the growth were the newly-opened Valamar Girandella Resort 4*&5* that achieved an 80% growth in board revenues with fewer operating days, and Valamar Isabella Island Resort 4*&5* that reported strong growth in direct sales and 15% ADR growth. Last year's Daimler AG – Mercedes-Benz M.I.C.E. event did not take place, but this was compensated by allotments and growth in all other sales channels, ADR optimization and M.I.C.E. events in the shoulder season at Valamar Dubrovnik President 5*and Valamar Lacroma 4*.

Upscale hotels and resorts

Upscale hotels and resorts reported HRK 315.4 million in board revenues that were up by 41.7% (+HRK 92.8 million) driven by ADR (HRK 1,009, +2.5%) and 312,618 accommodation units sold (+38.3%). The properties that influenced most of the growth were i) the new Bellevue Family Life Resort 4* (with fewer operating days, this Upscale property achieved a near 65% growth in board revenues) and ii) this year's consolidation of the hotels and resorts on Rab Island with their 10% contribution to board revenues. The strong growth reported by Valamar Zagreb 4* was driven by ADR increase in peak season and larger business volumes in the shoulder season, especially through allotments and groups. Valamar Hotel & Casa Sanfior 4* reported strong growth mainly due to a very good group placement in the shoulder season and excellent direct sales results. The Tamaris Resort reported board revenue growth mainly driven by two events, "X-Jam Croatia" and "Lighthouse Festival Croatia". Valamar Argosy 4* reported board revenue growth driven by the allotment and group sales channels.

Midscale hotels and resorts

Midscale hotels and resorts reported HRK 382.7 million in board revenues that were up by 13.2% (+HRK 44.7 million) driven by ADR (HRK 672, -1.4%) and 569,159 accommodation units sold (+14.8%). In 2017 the Midscale segment was negatively affected by Bellevue Family Life Resort 4* going from Midscale to Upscale. However, this was offset by the positive effect of this year's consolidation of Imperial Midscale hotels and resorts (18% contribution to board revenues). All Midscale hotels and resorts reported growth, with most of the comparable growth generated by the hotels: i) Valamar Diamant 4*, Valamar Crystal 4* and Valamar Rubin 3* (successful replacement of OTA sales with direct sales), ii) Miramar 3* and Allegro 3* (increase in allotments and direct sales in peak season and groups in the post season period), iii) Corinthia 3* (more operating days,

[24] According to the classification under the USALI international standard for reporting 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 Imperial's properties on the Island of Rab are not included in 2016. Puntižela - Pula business is included in destination Poreč. A detailed comparison of the new portfolio segmentation can be found on page 17.

[25] 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 -270.0 million in 2017, i.e. HRK -229.6 million in 2016. Other segments include business of central operations, laundry, sport, central kitchen, strategic rentals, etc.

successful group placement in the preseason period and excellent individual sales in peak season) and iv) Valamar Club Dubrovnik 3* (sales channel optimization with focus on the allotment and group channels).

Economy hotels and resorts
Economy hotels and resorts reported HRK 134.7 million in board revenues that were up by 0.2% (+HRK 0.2 million), driven by ADR (HRK 385, -6.1%) and 729.489 accommodation units sold (+0.6%). The Economy segment was negatively affected by the newly- renovated Valamar Girandella Resort 4*&5* going from Economy to Premium. However, this was offset by the positive effect of this year's consolidation of destination Rab (carrying 9% of the growth) and other comparable segment growth. Most of it was generated by i) Lanterna Apartments 2* (increased demand, "X-Jam Croatia" and „Lighthouse Festival Croatia"), ii) Tirena 3* (excellent allotment and group channel results).

CAMPING RESORTS	Total			Premium			Upscale			Midscale			Economy		
	2016	2017	2017/ 2016	2016	2017	2017/ 2016	2016	2017	2017/ 2016	2016	2017	2017/ 2016	2016	2017	2017/ 2016
Number of accommodation units	10,145	11,870	17.0%	511	3,466	578.3%	4,437	1,434	-67.7%	3,387	5,150	52.1%	1,810	1,820	0.5%
Full occupancy days	101	100	-1.2%	132	112	-15.3%	106	117	11.0%	98	93	-5.5%	87	83	-3.7%
Annual occupancy rate (%)	28%	27%	-0.9%	36%	31%	-15.1%	29%	32%	11.3%	27%	25%	-5.3%	24%	23%	-3.5%
Accommodation units sold	1,027,020	1,187,741	15.6%	67,694	388,757	474.3%	469,121	168,264	-64.1%	333,531	479,060	43.6%	156,674	151,660	-3.2%
Overnights	2,475,778	3,057,450	23.5%	197,491	1,135,715	475.1%	1,198,905	398,631	-66.8%	721,187	1,153,982	60.0%	358,195	369,122	3.1%
ADR[15]	248	285	14.7%	361	343	-5.0%	280	316	13.0%	209	252	20.4%	189	206	8.9%
Board revenues (in HRK)	254,989,779	338,284,959	32.7%	24,448,224	133,352,887	445.5%	131,206,913	53,156,811	-59.5%	69,686,153	120,533,212	73.0%	29,648,489	31,242,049	5.4%
RevPAR[16] (in HRK)	25,134	28,499	13.4%	47,844	38,475	-19.6%	29,571	37,069	25.4%	20,575	23,405	13.8%	16,380	17,166	4.8%
Adjusted EBITDA[25] (in HRK)	188,350,077	249,094,437	32.3%	17,245,497	101,669,058	489.5%	102,671,633	41,528,065	-59.6%	46,834,312	86,505,421	84.7%	21,598,635	19,391,893	-10.2%

Camping resorts reported high board revenues totaling HRK 338.3 million. Campsites reported strong overall performance due to increased demand for this year's investments in campsites, especially mobile homes. ADR optimization for mobile homes, more overnights and this year's consolidation of Imperial camping resorts resulted in a strong 32.7% growth in board revenues (+HRK 83.3 million). This year's consolidation of Rab camping resorts affected board revenues by 15%.

Premium camping resorts
Premium camping resorts reported HRK 133.4 million in board revenues that were up by 445.5% (+HRK 108.9 million) driven by ADR (HRK 343, -5.0%) and 388,757 accommodation units sold (+474.3%). The Premium segment was positively affected by Camping Resort Lanterna 4* going from Upscale to Premium. Camping Resort Lanterna 4* reported an 18% growth in board revenues due to the great feedback received by marketing activities related to the placement of this year's investments in new products and amenities. The rest of the growth was mainly driven by the excellent performance of Camping Resort Krk 5*.

Upscale camping resorts
Upscale camping resorts reported HRK 53.2 million in board revenues that were down by 59.5% as a result of Camping Resort Lanterna 4* going from Upscale to Premium. Excluding 2016 performance of Camping Resort Lanterna 4*, the Upscale segment reported a strong 25.3% growth in board revenues. Camping Marina 4* and Ježevac 4* reported high growth in

board revenues thanks to the investments in new mobile homes. Better results at Camping Bunculuka 4* were driven by ADR increase.

Midscale camping resorts

All Midscale campsites reported growth in board revenues that totaled HRK 120.5 million. Board revenues rose by 73.0% (+HRK 50.8 million) driven by ADR (HRK 252, +20.4%) and 479,060 accommodation units sold (+43.6%). Most of the growth was driven by the consolidation of Rab campsites. The remaining 18% in the growth was generated by the following campsites: i) Stara Baška 3* and Zablaće 3* (investments in new mobile homes), and ii) Solaris 3*, Orsera 3* and Solitudo 3* (increased business volumes).

Economy camping resorts

Economy campsites reported HRK 31.2 million in board revenues that were up by 5.4% (+HRK 1.6 million) driven by ADR (HRK 206, +8.9%) and 151,660 accommodation units sold (-3.2%). These results were positively influenced by investments in Camping Brioni 2* and stronger performance reported by Istra 2* and Tunarica 2*.

Key operating indicators of Valamar Riviera Group per destinations[24]

DESTINATION	Poreč			Rabac			Krk Island			Rab Island			Dubrovnik		
	2016	2017	2017/ 2016	2016	2017	2017/ 2016	2016	2017	2017/ 2016	2016	2017	2017/ 2016	2016	2017	2017/ 2016
Number of accommodation units	10,632	10,584	-0.5%	2,065	1,971	-4.6%	3,414	3,577	4.8%	/	2,759	/	1,961	1,961	0.0%
Full occupancy days	116	121	4.3%	136	156	14.7%	128	126	-0.9%	/	96	/	166	170	2.2%
Annual occupancy rate (%)	32%	33%	4.6%	37%	43%	15.0%	35%	35%	-0.6%	/	26%	/	45%	47%	2.4%
Accommodation units sold	1,234,693	1,282,228	3.8%	281,750	308,369	9.4%	435,348	451,987	3.8%	/	264,114	/	326,020	333,057	2.2%
Overnights	2,881,737	3,075,877	6.7%	642,552	673,169	4.8%	1,010,914	1,063,850	5.2%	/	716,510	/	609,125	643,736	5.7%
ADR[15]	465	487	4.8%	538	635	18.1%	384	432	12.3%	/	499	/	864	901	4.3%
Board revenues (in HRK)	574,077,286	624,793,941	8.8%	151,518,687	195,916,080	29.3%	167,341,883	195,074,956	16.6%	/	131,842,656	/	281,778,713	300,239,175	6.6%
RevPAR[16] (in HRK)	53,995	59,032	9.3%	73,375	99,399	35.5%	49,016	54,536	11.3%	/	47,786	/	143,691	153,105	6.6%
Adjusted EBITDA[25] (in HRK)	368,687,622	393,293,569	6.7%	85,462,089	95,161,189	11.3%	109,627,842	129,928,462	18.5%	/	80,715,171	/	184,784,174	193,482,014	4.7%

Destination Poreč

Destination Poreč reported HRK 624.8 million in board revenues that were up by 8.8% (+HRK 50.7 million) driven by ADR (HRK 487, +4.8%) and 1,282,228 accommodation units sold (+3.8%). The properties that influenced most of the board revenues growth were Valamar Isabella Island Resort 4*&5*, Apartments Lanterna 2*, Camping Resort Lanterna 4*, Valamar Zagreb 4*, Valamar Diamant 4*, Valamar Crystal 4* and Valamar Rubin 3*.

Destination Rabac

Board revenues were HRK 195.9 million, driven by ADR (HRK 635, +18.1%) and 308,369 accommodation units sold (+9.4%). The 18.1% growth in board revenues (+HRK 44.4 million) was mainly due to a strong demand for Valamar Girandella Resort 4*&5* and Bellevue Family Life Resort 4* that were repositioned after a series of investments, as well as the following properties: Hotel & Casa Valamar Sanfior 4*, Allegro hotel 3*, Miramar hotel 3* and Camping Marina 4*.

Krk Island

Board revenues were HRK 195.1 million, driven by ADR (HRK 432, +12.3%) and 451,987 accommodation units sold (+3.8%). The campsites on Krk Island (especially Ježevac 4* and Zablaće 3*) and Corinthia hotel 3* were the main contributors to total growth.

Rab Island

This year's consolidation of hotels and resorts and camping resorts on Rab Island contributed with HRK 131.8 million. Destination Rab reported a 14% increase in board revenues over 2016 results.

Destination Dubrovnik

Destination Dubrovnik reported HRK 300.2 million in board revenues that were mainly driven by ADR going up by 4.3% to HRK 901. "Global Training Experience by Daimler AG – Mercedes-Benz" M.I.C.E. event was not held in 2017, destination Dubrovnik generated HRK 18.5 million more in board revenues.

Over the years Valamar Riviera has consolidated its portfolio in order to clearly differentiate, develop and reposition its hospitality products. A precise definition of market segments, innovative development of service concepts, brand management, increase in profitability and ROI optimization demanded a revision of the portfolio segments.

Last year's acquisition of Imperial added 5 new hotels and resorts and 2 camping resorts to Valamar Riviera's portfolio. The additional 2,759 keys contributed to the growth of the Group's business volume and profitability in 2017. The Group's total accommodation capacity in 2017 was 20,852 keys.

Hotels and Resorts Overview[26]

	Categorization		Segment		Destination
	2016	2017	2016	2017	
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	Upscale	Rab Island
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
Bellevue Family Life Resort	****	****	Midscale	Upscale	Rabac
Allegro Hotel	***	***	Midscale	Midscale	Rabac
Miramar Hotel	***	***	Midscale	Midscale	Rabac
Hotel Corinthia	***	***	Midscale	Midscale	Krk Island
Zvonimir Hotel, Atrium & Villa Adria	**** / *****	**** / *****	Midscale	Midscale	Krk Island
Valamar Koralj Romantic Hotel	***	***	Midscale	Midscale	Krk Island
Valamar Club Dubrovnik	***	***	Midscale	Midscale	Dubrovnik
Grand Hotel Imperial	****	****	Midscale	Midscale	Rab Island
Hotel & Ville Carolina	****	****	Midscale	Midscale	Rab Island
Tourist Village San Marino	***	***	Midscale	Midscale	Rab Island
Naturist Resort Solaris	***	***	Economy	Economy	Poreč
Pical Hotel	***	**	Economy	Economy	Poreč
Tirena Hotel	***	***	Economy	Economy	Dubrovnik
Valamar Girandella Resort	**	****/*****	Economy	Premium	Rabac
Lanterna Apartments	**	**	Economy	Economy	Poreč
Hotel Eva & Apartments Suha Punta	**	**	Economy	Economy	Rab Island
Marina Hotel & Mediteran Residence	**	**	Economy	Economy	Rabac

Camping Resorts Overview[26]

	Categorization		Segment		Destination
	2016	2017	2016	2017	
Camping Krk	*****	*****	Premium	Premium	Krk Island
Camping Ježevac	****	****	Upscale	Upscale	Krk Island
Camping Lanterna	****	****	Upscale	Premium	Poreč
Camping Marina	****	****	Upscale	Upscale	Rabac
Naturist Camping Bunculuka	****	****	Upscale	Upscale	Krk Island
Camping Orsera	***	***	Midscale	Midscale	Poreč
Naturist Resort Solaris	***	***	Midscale	Midscale	Poreč
Camping Zablaće	***	***	Midscale	Midscale	Krk Island
Camping Škrila	***	***	Midscale	Midscale	Krk Island
Camping Solitudo	***	***	Midscale	Midscale	Dubrovnik
Camping & Residence San Marino	***	***	Midscale	Midscale	Rab Island
Camping Padova 3	***	***	Midscale	Midscale	Rab Island
Naturist Camping Istra	**	**	Economy	Economy	Poreč
Camping Brioni	**	**	Economy	Economy	Pula - Puntižela
Camping Tunarica	**	**	Economy	Economy	Rabac

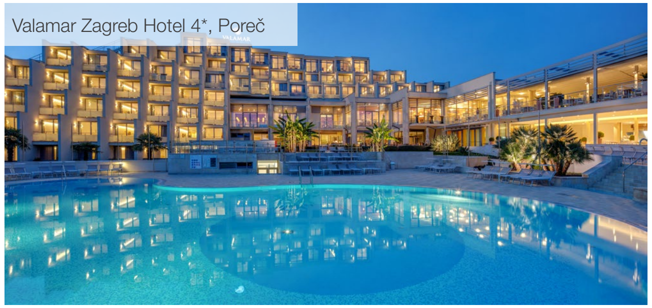
[26] Business operations of Imperial's properties are not included in 2016.

Results of the Company

Please note that the data provided in the current year's financial statements are not fully comparable to prior year's data because of the said mergers. Current period items and prior period items until the time of the merger i.e. until 31 March 2017 did not include Puntižela d.o.o. Similarly, prior period items until the time of the merger i.e. i) until 31 March 2016 did not include the merged Hoteli Baška d.d. and ii) until 30 June 2016 did not include the merged Bastion upravljanje d.o.o. All significant changes in the Company's financial statements should also be viewed in the context of the said transactions in the previous period.

Total revenues in 2017 rose by HRK 136.9 million (+9%) to HRK 1,696.0 million. Sales revenues were HRK 1,616.7 million and represented 95% of total revenues (92% in 2016). They rose by HRK 176.2 million (+12%) over 2016 results. Sales revenues between parties within the Group were HRK 13.9 million (HRK 0.6 million in 2016) and mainly represented Imperial's management fee. Sales revenues outside the Group were HRK 1,602.8 million (HRK 1,439.8 million in 2016). Domestic sales revenues were HRK 137.9 million, up by 17% over 2016 results and represented 8% of total revenues (8% in 2016). International sales revenues were HRK 1,478.7 million, up by 12% over 2016 results and represented 87% of total revenues (85% in 2016). Other operating and financial income represented 5% of total revenues (8% in 2016). Other operating revenues fell by 35%, to HRK 19.7 million and represented 1% of total revenues (2% in 2016).

Material costs were HRK 511.8 million, representing 37% of operating expenses (38% in 2016) and rose by HRK 37.6 million due to higher raw material costs (direct food and beverage costs and costs of energy sources and water) driven by larger business volumes. Staff costs rose by HRK

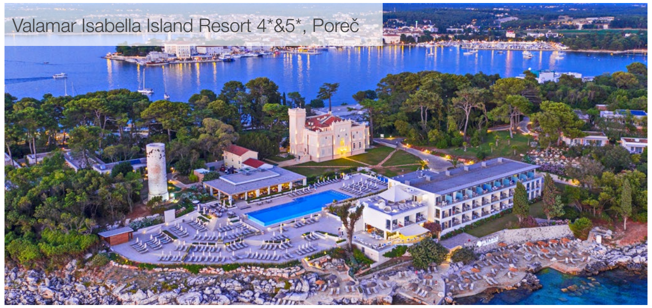


Valamar Zagreb Hotel 4*, Poreč

78.4 million over 2016 results to HRK 443.8 million, representing 32% of operating expenses (30% in 2016). Growth was driven by i) Hoteli Baška and Puntižela mergers and staff carryover, ii) salary increase policy (June 2016: 2%, December 2016: 2%, June 2017: 1.5%, and 0.5% increment for years of service as of 1 January 2017), and iii) the hiring of construction site staff (to carry out the large investments) and resort staff (to ensure high service quality in the new Premium/Upscale properties).

Amortization cost rose by 17% given the previous large investments and the mergers of Hoteli Baška and Puntižela. Amortization was HRK 283.5 million (HRK 243.2 million in 2016) and represented 20% of operating expenses (20% in 2016). Other costs rose by 6% to HRK 133.8 million. Provisions and value adjustments were HRK 5.2 million. Other operating expenses were HRK 18.2 million and fell by HRK 3 million.

Financial income in 2017 was HRK 59.6 million and fell by HRK 28.6 million compared to 2016. Other financial income had the most significant decrease of HRK 35.0 million, resulting from the absence of last year's one-time income driven by share portfolio sale. Interest and other financial income jumped by HRK 11.7 million mainly driven by forex gains related to long-term loans due to HRK appreciation in 1H 2017. Interest



Valamar Isabella Island Resort 4*&5*, Poreč

income fell by HRK 3.7 million to HRK 0.5 million as a result of reduced free cash flow and market yield in 2017 vs 2016.

Financial expenses were HRK 82.1 million, up by HRK 21.3 million over 2016 results and mainly driven by forex loss of HRK 13.9 million related to long-term loans due to HRK depreciation in 2H 2017. Due to land revaluation in a subsidiary (Magične stijene d.o.o.) the value of the Company's stake decreased by HRK 5.6 million as a one-time effect of the value adjustment. Financial expenses related to interest rose by HRK 4.8 million due to financial leverage used for 2017 investments.

Operating profit rose by HRK 2.5 million to HRK 240.2 million. Profit before tax was HRK 217.7 million (HRK 265.1 million in 2016). The Company's gross margin was 13% (18% in 2016). Net profit fell by HRK 104.7 million to HRK 232.0 million in 2017 (HRK 336.7 million in 2016), resulting from weaker financial results (-HRK 49.9 million) and this year's lower (-HRK 57.3 million) one-time recognition of deferred tax assets that will burden gross profit in the forthcoming years of utilization.

Total company assets as at 31 December 2017 were HRK 4,632 million and rose by 11.7% vs 31 December 2016.

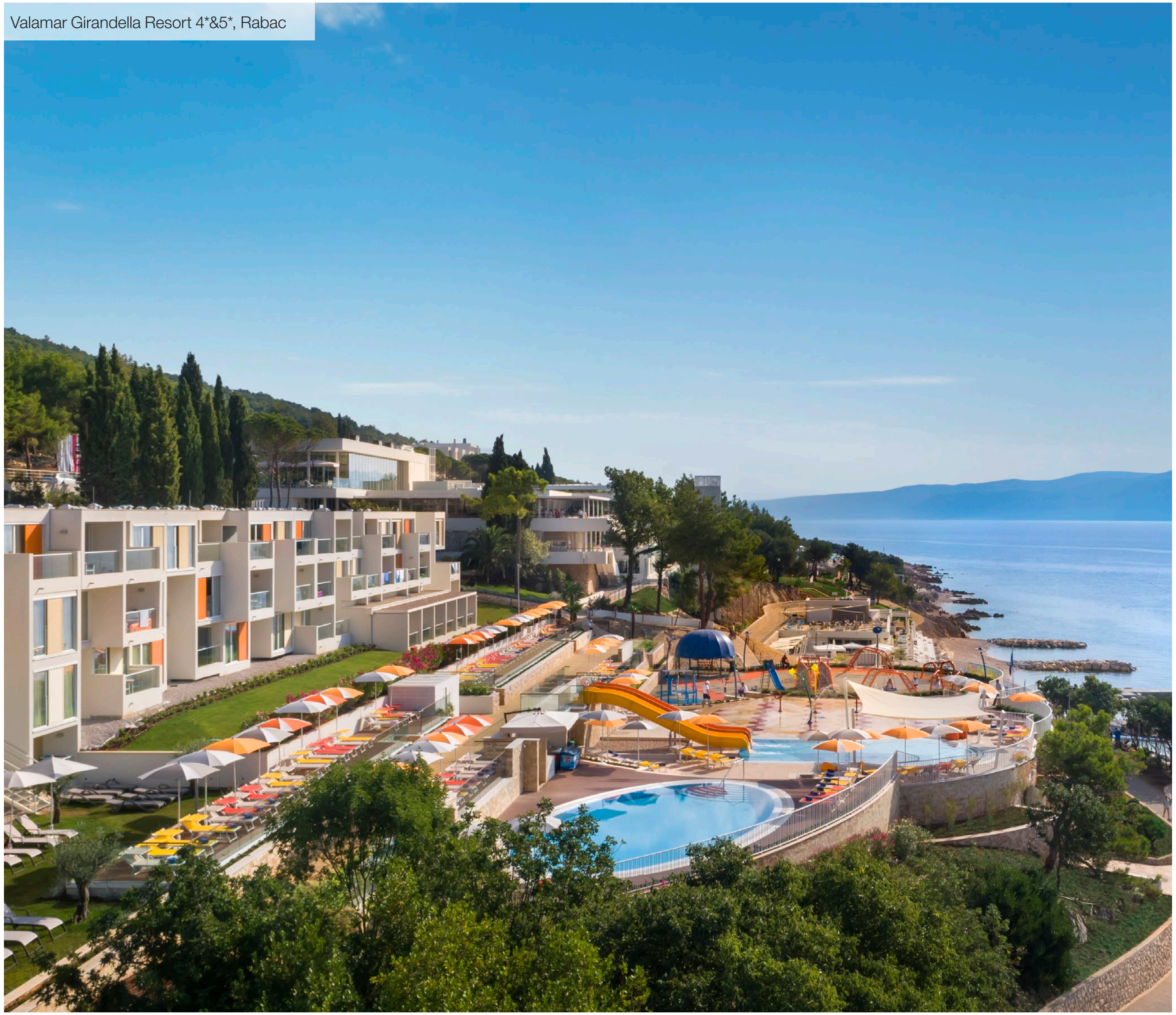
2017 Investments

Investments worth HRK 877.7 million were capitalized in the existing portfolio of non-current tangible assets in 2017, of which HRK 174.2 million represented assets under construction.

The total value of 2016/2017 investments exceeded HRK 900 million[27] and represented the largest series of portfolio investments so far. HRK 494 million were earmarked for improving products and services in Rabac (Family Life Bellevue Resort 4* and Valamar Girandella Resort 4*&5*). Besides hotels and resorts, a number of investments worth HRK 186 million was focused on campsites. The most significant were the investments in Camping Resort Lanterna and two campsites, Zablaće and Ježevac. Investment maintenance was HRK 68 million, while other individual investments totaled HRK 138 million. Imperial's investments totaled nearly HRK 21 million.

Two luxury resorts in Rabac, 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* welcomed its guests in the 2017 season. The large investment project in Rabac included the total reconstruction of the two resorts totaling 764 keys, the construction of 17 restaurants and bars, and 13 pools with total water surface of more than 2,000 m^2. The new features included a brand-new Maro club and various children playgrounds, two entertainment centers, a wellness facility, indoor and outdoor fitness facilities, a bike center and other sports amenities. Almost 600 staff members attended to over 2,700 guests daily. The investments included various improvements of beaches and promenades as well as a total landscape redesign. Croatian contractors and suppliers were hired to carry out most of the construction work and about 50% of them were local, Istrian entrepreneurs. These investments repositioned Rabac as a leading high-end

Valamar Girandella Resort 4*&5*, Rabac



[27] A portion already recorded in 2016.

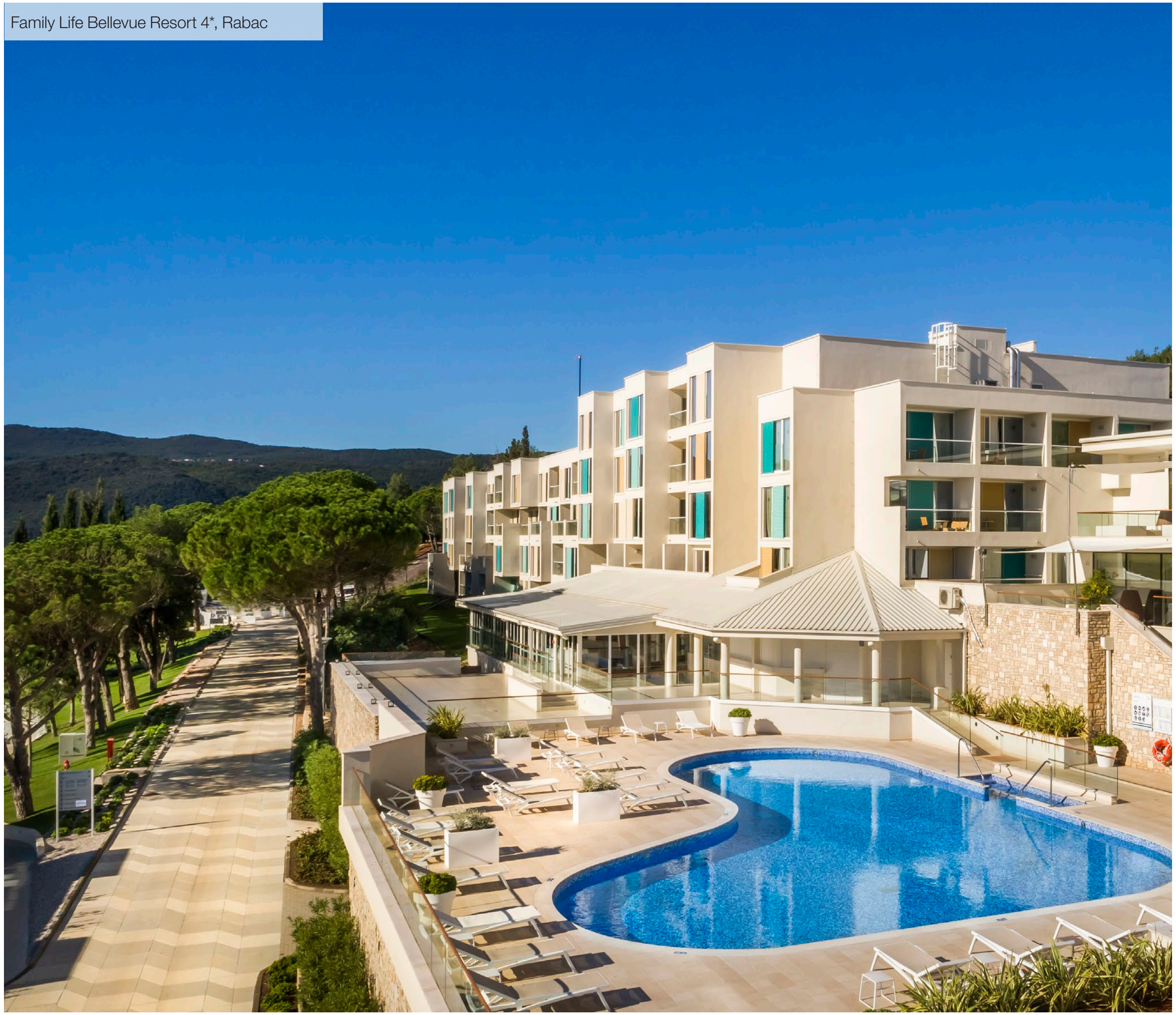
leisure destination. The 3-year strategic partnerships with the leading European tour operators – TUI and DER Touristik Köln (seasons: 2017, 2018 and 2019) helped secure occupancy. Consequently, more than 100,000 guests are expected to visit Rabac in the next three years, thus improving the promotion of Istrian tourism. Moreover, new opportunities for season prolongation will emerge as the number of guests from air travel markets grows.

Besides key investments in Rabac, Valamar Riviera continued investing in the concept of Premium camping. HRK 98 million were focused on upgrades in Camping Resort Lanterna 4*, one of the best European campsites. The reception area with the shops and catering establishments underwent renovation, and the campsite now features new high quality mobile homes and amenities for children. HRK 66 million were invested in upgrading accommodation and services on Krk Island and new high- quality mobile homes for two campsites, Ježevac 4* and Zablaće 3*. In order to improve the quality of other campsites on Krk Island, in Istria and Dubrovnik, a range of investments was focused on improving accommodation, beach amenities, restaurants and bars.

Imperial completed its investments totaling nearly HRK 21 million in 2017. Most of it was invested in a new premium zone and luxury mobile homes at San Marino campsite 3*. Significant investments were made in improving the business communication network and preparing the necessary project documentation for the forthcoming investments.

Moreover, several other projects to create new and upgrade existing features were completed and they will considerably improve the quality and experience at all destinations. They included beaches, Wi-Fi coverage expansion, business digitalization, technological processes and energy efficiency.

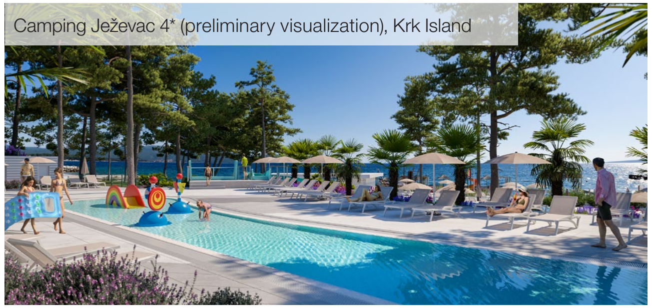
Family Life Bellevue Resort 4*, Rabac



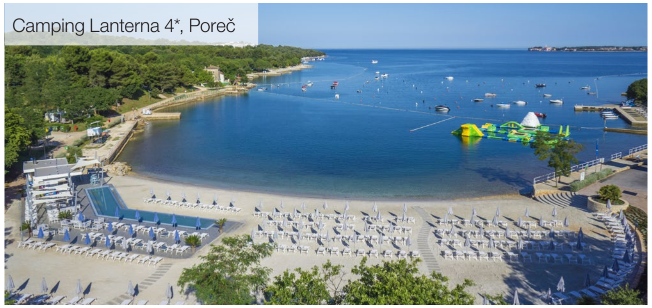
2018 Investments

In line with the previously announced investments of up to HRK 2 billion until 2020, Valamar Riviera Group is carying out new large investments worth roughly HRK 705 million[28] in 2018. The planned investments represent the continuation of Valamar Riviera's strategy to reposition the portfolio towards products and services with high added value. With the planned completion of Valamar Girandella Resort 4*&5*, Rabac will be repositioned as leading leisure destination for high-end guests. HRK 116 million have been earmarked for the opening of first Kinderhotel in Valamar's portfolio-Valamar Girandella Maro Resort Hotel 5* in Rabac. Kinderhotels Europa is a marketing association that brings together high-quality premium family hotels under the Austrian "Kinderhotels" brand. Valamar Girandella Maro Resort Hotel 5* is a premium hotel offering 149 keys, with services and design tailored according to the needs of families with children of various age groups. The concept of the lobby, restaurant and pool complex as well as the interior design of hotel accommodation is centered around the idea of family holidays.

Nearly one third of total investments will focus on Istra Camping Resort in Funtana, Camping Resort Lanterna in Poreč and two campsites on Krk Island, Camping Ježevac and Camping Zablaće. The first phase of repositioning Istra Camping Resort as premium accommodation is planned for 2018. The investments include improvements in the communal infrastructure, one part of the camping pitches and the construction of a new sanitary block. The investments planned in Camping Resort Lanterna 4* will focus on improving accommodation and quality. In the forthcoming season, the resort will feature a new premium mobile home zone designed according to the "Maro" brand standards and two new swimming pools. "Maro" is a Valamar brand that is family-oriented and includes child-friendly services


Camping Ježevac 4* (preliminary visualization), Krk Island

and facilities. Moreover, the glamping zone will be completed, the sports zone will be renovated and will feature new facilities and services. The investments in Camping Ježevac 4* will also include the expansion of the mobile home zone and two new swimming pools. The investments in Camping Zablaće are focused on improving services and upgrading the campsite from 3* to 4* with new high–quality mobile homes, a new sanitary block and other amenities. Investments in Dubrovnik focus on repositioning Valamar Argosy 4* hotel: HRK 60 million have been earmarked to improve the quality of accommodation and develop new facilities and services for an "adult friendly" premium product. Investment maintenance totals HRK 64 million. Plans include numerous other investments in improving the competitiveness and quality of guest amenities and products. Valamar is especially focused on further investments in increasing the capacity and quality of accommodation for seasonal employees, with nearly HRK 45 million earmarked for this purpose. Imperial's investments planned for 2018 are HRK 72 million. New investments include the renovation and repositioning of Grand hotel Imperial 4* as "adults only" accommodation. Investments planned in the camping segment include the completion of the Premium Mobile Home zone in San Marino 3* and the expansion of the Premium Mobile Home zone in Padova III 3*.


Camping Lanterna 4*, Poreč

As stated in our strategic goals, by continuously raising the quality of the portfolio properties and services, we create added value both for our guests and all company stakeholders. However, numerous factors reduce the competitiveness of Croatian tourism and hinder further investment potential: VAT (one of the highest rates in the Mediterranean), the rate of total contributions to salaries, the still unresolved issue of tourism land, skilled labor shortages, the likely introduction of property tax and tourist tax increase. While global trends report low interest rates and market demand focuses on safe tourist destinations, Croatia has the opportunity to reposition its tourism by incentivizing investments in products and services with high added value that stimulate employment and economic growth. Unfortunately, tourism is still not sufficiently recognized as an opportunity for the Croatian economy. Apart from the current financing programs offered by HBOR (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 in the Mediterranean.

[28] A portion already recorded in 2017.

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. Given the importance of tourism and its overall impact on society, the Company and the 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.

Camping Ježevac 4*, Krk Island

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 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) Credit risk;
4) Price 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 the sales revenue generated abroad is denominated in euros, and so is the major part of long-term debt. 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 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 trading in equity and debt securities. However, with the HRK 291 million invested in buying Imperial shares, 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 domicile countries 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

Grand Hotel Imperial 4*, Rab Island

supports investments in training opportunities (HRK 2.5 million invested in training and professional development during 2017). 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.

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 and analysis of finanical reporting data, and also inadequate information sharing. 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, 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.

Camping Krk 5*, Krk Island

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;

Camping San Marino 3*, Rab Island

- 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;
- Tourist tax increase in 2018 ranging between HRK 2.5 and HRK 8.0 per person per overnight, depending on the class of the destination and utilization period (August 2017).

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.

Corporate Governance

The Company 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 financial reporting risk, the Company uses the measures described in "The Risks of the Company and the Group".

The Companies Act and the Company Statute 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, 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 at the Company (one share, one vote). The Company Statute complies with the Croatian Companies Act and defines 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 Statute, 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.

Pursuant to the provisionss of the Capital Market Act and Regulation (EU) no. 596/2014, the Company has determined its senior management, consisting of the key company management: four vice presidents (David Poropat, Davor Brenko, Alen Benković i Ivana Budin Arhanić) and 21 sector directors (Andrea Štifanić, Miro Dinčić, Ljubica Grbac, Sebastian Palma, Tomislav Dumančić, Željko Jurcan, Sandi Sinožić, Mile Pavlica, Ivan Karlić, Bruno Radoš, Dario Kinkela, Mauro Teković, Stjepko Devčić Ivičić, Martina Šolić, Ivica Vrkić, Mirella Premeru, Marin Gulan, Tomislav Poljuha, Flavio Gregorović, Dragan Vlahović and Vlastimir Ivančić).

Supervisory Board: As the term of office for the Supervisory Board members expired on 6 July 2017 (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), the following were appointed for a new 4 – year term of office: Mr. Gustav Wurmböck - Chairman, Mr. Franz Lanschützer - Deputy Chairman, Mr. Mladen Markoč - Deputy Chairman, and members: Mr. Georg Eltz, Mr. Hans Dominik Turnovszky, Mr. Vicko Ferić, and Mr. Valter Knapić - employee representative appointed by the Works Council. The term of office for the newly appointed Supervisory Board members started on 7 July 2017.

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.

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. The Management Board held 26 meetings, the Supervisory Board held 14 meetings, while the Supervisory Board committees held 16 meetings.

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 reviewed period, revenues from related party transactions totaled HRK 13.9 million[29] (2016: HRK 646 thousand) for the Company, and HRK 21 thousand (2016: HRK 17 thousand) for the Group. Costs were HRK 31.2 million (2016: HRK 30.1 million) for the Company, and HRK 1.5 million (2016: HRK 1.3 million) for the Group.

As at 31 December 2017, related-party receivables and payables were as follows: receivables totaled HRK 3.4 million for the Company (year-end 2016: HRK 138.5 million), and none for the Group (year-end 2016: none). Payables totaled HRK 604 thousand (year-end 2016: HRK 279 thousand) for the Company, and HRK 425 thousand for the Group (year-end 2016: HRK 154 thousand).

In accordance with the provision of Article 497 of the Companies Act, on 20 February 2018 the Management Board prepared a separate report on the Company's related-party transactions and in accordance with Paragraph 3 of Article 497, the Management Board declares that in line with circumstances known at the time when certain legal transactions or actions were undertaken, the Company received suitable consideration and was not harmed.

29 The most part represents the fee regarding the management of Imperial's properties and services. The implementation of the Management contract started on 4 January 2017.

Branch Offices of the Company

The following branch offices were registered on 2 September 2011: Podružnica za turizam RABAC, with registered office in Rabac, Slobode 80, Podružnica za turizam ZLATNI OTOK, with registered office in Krk, Vršanska 8. The following branch office was registered on 4 October 2013: Podružnica za turizam DUBROVNIK BABIN KUK, with registered office in Dubrovnik, Dr. Ante Starčevića 45. The following branch office was registered on 1 October 2014: Podružnica za savjetovanje u vezi s poslovanjem i upravljanjem ZAGREB, with registered office in Zagreb, Miramarska 24. The following branch office was registered on 1 April 2017: Podružnica za turizam BRIONI, with registered office in Pula, Puntižela 155.

The branch offices of Rabac, Zlatni otok, Dubrovnik-Babin kuk and Brioni are the drivers of economic growth in their local communities. They operate at their destinations and support their development by promoting further investments and the development of tourism while participating in social and business activities.

The Company also established an office in the Town of Rab on Rab Island to increase the efficiency and streamline the management of operations as determined by the provisions of the concluded Management contract

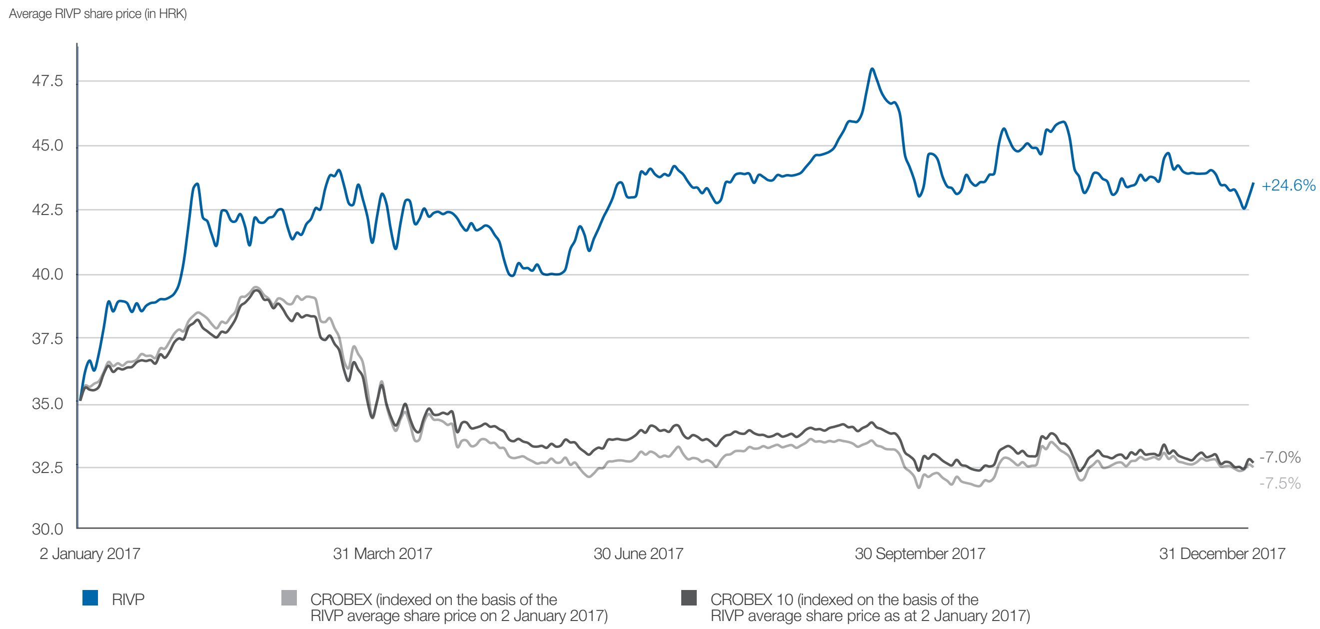
Valamar Riviera Share

The Company did not acquire its own shares in the period from 1 January 2017 to 31 December 2017. In the respective period the Company released 62,583 own shares, of which 24,182 shares were for dividend payout. As at 31 December 2017, the Company held a total of 1,794,451 own shares, representing 1.42% of the share capital.

In 2017, the highest recorded share price in regular trading on the regulated market was HRK 48.60, while the lowest was HRK 34.68. The Company's share price increased by 24.6%, exceeding both CROBEX and CROBEX 10 indices trends, which recorded a decrease of -7.5% and -7.0% respectively. Valamar Riviera is the most traded share on the Zagreb Stock Exchange in 2017 with a regular trading turnover of HRK 1.3 million per day[30].

Apart from the Zagreb Stock Exchange indices, the share is also part of the Vienna Stock Exchange indices (CROX[31] and SETX[32]), and SEE Link indices[33] (SEELinX and SEELinX EWI). In 2H 2017 the Valamar Riviera share was listed in MSCI Frontier Markets Indexes, a global index measuring share performance in a particular market. Zagrebačka banka d.d. and Interkapital vrijednosni papiri d.o.o. are responsible for market making in ordinary Valamar Riviera shares listed on the Official Market of the Zagreb Stock Exchange. They provide support to Valamar Riviera's share turnover, which in the period under review was an average 23.6%[34].

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



The Company is active in holding meetings, presentations and conference calls with domestic and foreign investors. This approach supports high-level transparency, creates additional liquidity, increases share value and the involvement of potential investors. More than 80 meetings were held in 2017, including those held at US financial centers, the London Stock Exchange, the Zagreb and Ljubljana Stock Exchange conference, Wood&Co brokerage firm conferences in Bucharest, Belgrade and Prague, Auerbach Grayson in New York and the Erste Group conference in Stegersbach. Valamar Riviera will continue with this active approach in 2018 to grow further value for all its stakeholders and promote Valamar Riviera's share as one of the leading shares on the Croatian capital market and among other tourism shares on the Mediterranean.

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

30 Block transactions are excluded from the calculation.

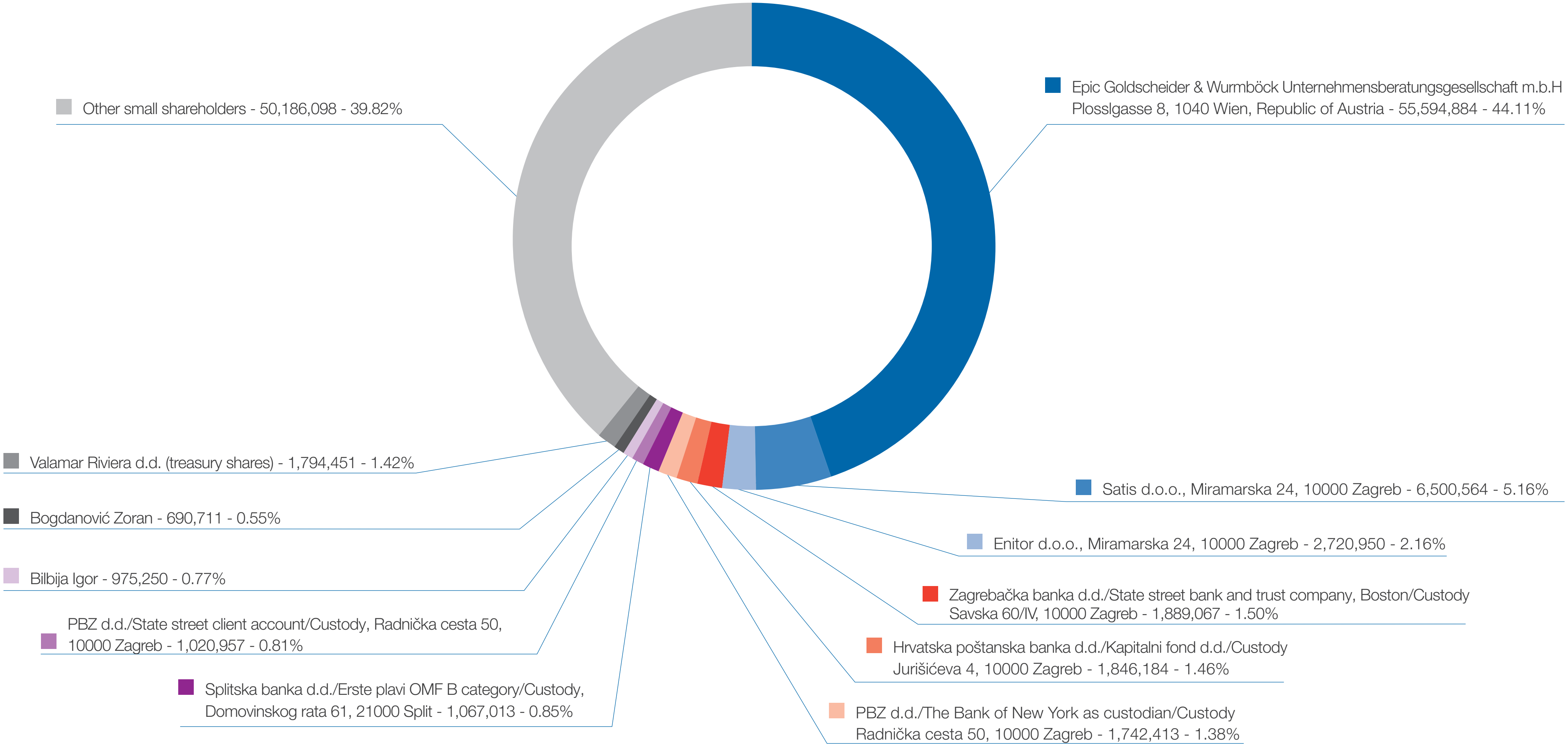
31 Croatian Traded Index (CROX) is a capitalization-weighted price index and is made up of 12 most liquid and highest capitalized shares of Zagreb Stock Exchange.

32 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).

33 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.

34 Block transactions are excluded from the calculation. Data refers to the period 1/1 - 31/12/2017.

Overview of major shareholders as at 31 December 2017:



Investors Day and the 2016 Integrated Annual Report and Corporate Social Responsibility

The grand opening of Valamar's two resorts in Rabac on 8 June 2017 was a great introduction to the second Valamar Riviera Investors Day. Management Board President Željko Kukurin and Management Board Member Marko Čižmek presented an update on the business operations, development and strategy to create new value for Valamar Riviera. After the presentations, a tour of the new resorts, Valamar Girandella Resort 4*&5* and Bellevue Family Life Resort 4*, was organized for nearly 40 participants in this year's Investors Day.

On this occasion, the 2016 Integrated Annual Report and Corporate Social Responsibility was presented to the investors. This report was created in accordance with the Global Reporting Initiative G4 guidelines. The aim of this report is to give a long-term insight into the company business and strategy to all key stakeholders (shareholders, employees and guests) as well as partners, local communities and the general public. The report is particularly focused on corporate social responsibility, which represents the foundation of the company's sustainable business and further development. The report is available from the Zagreb Stock Exchange website and at: **www.valamar-riviera.com**.

The 2016 Integrated Annual Report and Corporate Social Responsibility

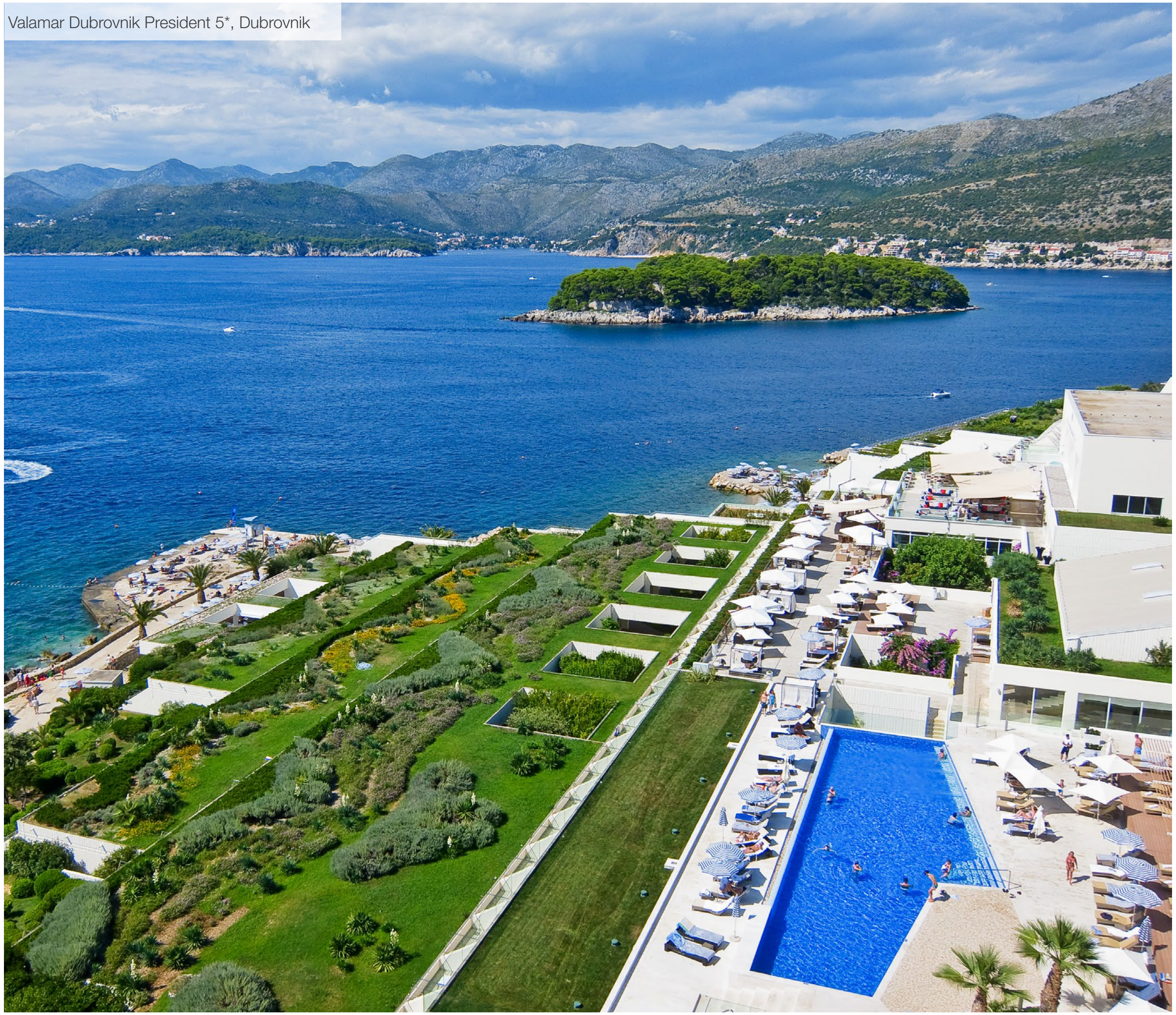
Additional Information

As one of the largest employers in Croatia (as at 31 December 2017, the Group employed 2,864 people of which 1,371 were permanent employees; the Company employed 2,575 people of which 1,166 were permanent employees), 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 and employees' performance measurement, rewarding systems, opportunities for career advancement, investment in employees' development and encouraging two-way communication.

In the course of 2017, the Company's Management Board managed and represented the company pursuant to regulations and the provisions of the Company Statute, 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 audited annual financial statements for 2017 were adopted by the Management Board on 20 February 2018. The 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

Valamar Dubrovnik President 5*, Dubrovnik



Responsibility for the Annual Financial Statemetns

In Poreč, 20 February 2018

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 2017, 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 2017 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 1.1.2017 to 31.12.2017

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) 2.854
			NKD code: 5510
Consolidated report:	YES		

Companies of the consolidation subject (according to IFRS):	Seat:	MB:
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**
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)

(authorized representative's signature)

Balance Sheet According to GFI-POD (as per 31.12.2017)
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**	**4.105.084.164**	**4.632.400.572**
I. INTANGIBLE ASSETS (ADP 004 to 009)	**003**	**24.080.361**	**45.224.706**
1. Research and Development expenditure	004		
2. Patents, licences, royalties, trademarks and service marks, software and similar rights	005	17.238.280	37.949.592
3. Goodwill	006	6.567.609	6.567.609
4. Prepayments for intangible assets	007		
5. Intangible assets under construction	008	274.472	707.505
6. Other intangible assets	009		
II. TANGIBLE ASSETS (ADP 011 to 019)	**010**	**3.941.768.572**	**4.440.260.536**
1. Land	011	873.211.455	874.708.080
2. Property	012	2.522.990.552	2.871.712.565
3. Plants and equipment	013	225.945.122	367.257.268
4. Tools, plants and vehicles	014	81.203.324	101.131.434
5. Biological asset	015		
6. Prepayments for tangible assets	016	31.783.971	24.768.328
7. Assets under construction	017	168.568.553	149.431.796
8. Other tangible assets	018	27.197.353	40.996.707
9. Investments property	019	10.868.242	10.254.358
III. NON-CURRENT FINANCIAL ASSETS (ADP 021 to 030)	**020**	**6.601.376**	**5.417.132**
1. Stakes (shares) in undertakings in a Group	021	1.365.316	1.435.245
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	4.766.325	3.620.830
8. Given loans, deposits and similar	028	299.735	191.057
9. Other investments accounted for using the equity method	029		
10. Other non-current financial assets	030	170.000	170.000
IV. TRADE RECEIVABLES (ADP 032 to 035)	**031**	**995.869**	**834.499**
1. Receivables from undertakings in a Group	032		
2. Receivables from undertakings with participating interests	033		
3. Trade receivables	034		43.750
4. Other receivables	035	995.869	790.749
V. DEFERRED TAX ASSETS	**036**	**131.637.986**	**140.663.699**
C) CURENT ASSETS (ADP 038+046+053+063)	**037**	**336.880.206**	**343.822.386**
I. INVENTORIES (ADP 039 to 045)	**038**	**19.245.740**	**24.496.814**
1. Raw materials and consumables	039	18.967.510	24.296.180
2. Work in progress	040		
3. Finished products	041		
4. Merchandise	042	236.606	156.426
5. Prepayments for inventories	043	41.624	44.208
6. Other available-for-sale assets	044		
7. Biological asset	045		
II. RECEIVABLES (ADP 047 to 052)	**046**	**42.229.932**	**30.637.890**
1. Receivables from undertakings in a Group	047	204	231.675
2. Receivables from undertakings with participating interest	048	253	
3. Trade receivables	049	17.711.198	13.742.895
4. Receivables from employees and members of the undertaking	050	657.014	1.226.272
5. Receivables from Government and other institutions	051	21.012.831	13.614.153
6. Other receivables	052	2.848.432	1.822.895
III. CURRENT FINANCIAL ASSETS (ADP 054 to 062)	**053**	**753.886**	**850.728**
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	753.886	746.646
9. Other financial assets	062		104.082
IV. CASH AND CASH EQUIVALENTS	**063**	**274.650.648**	**287.836.954**
D) PREPAYMENTS AND ACCRUED INCOME	**064**	**23.369.940**	**20.382.090**
E) TOTAL ASSETS (ADP 001+002+037+064)	**065**	**4.465.334.310**	**4.996.605.048**
F) OFF-BALANCE SHEET ITEMS	**066**	**54.631.638**	**54.545.066**

Balance Sheet According to GFI-POD (as per 31.12.2017) (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**	**2.373.637.039**	**2.516.174.910**
I. SHARE CAPITAL	**068**	**1.672.021.210**	**1.672.021.210**
II. CAPITAL RESERVES	**069**	**2.204.690**	**3.602.906**
III. RESERVES FROM PROFIT (ADP 071+072-073+074+075)	**070**	**84.401.862**	**102.055.847**
1. Legal reserves	071	67.198.750	83.601.061
2. Reserves for own shares	072	44.815.284	44.815.284
3. Own stocks and shares (deductible items)	073	37.141.295	35.889.621
4. Statutory reserves	074		
5. Other reserves	075	9.529.123	9.529.123
IV. REVALUATION RESERVES	**076**		
V. FAIR VALUE RESERVES (ADP 078 to 080)	**077**	**273.313**	**634.097**
1. Fair value of financial assets available for sale	078	273.313	634.097
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**	**36.580.064**	**263.138.894**
1. Retained earnings	082	36.580.064	263.138.894
2. Loss carried forward	083		
VII. PROFIT OR LOSS FOR THE FINANCIAL YEAR (ADP 085-086)	**084**	**342.313.777**	**243.596.016**
1. Profit for the financial year	085	342.313.777	243.596.016
2. Loss for the financial year	086		
VIII. MINORITY INTEREST	**087**	**235.842.123**	**231.125.940**
B) PROVISIONS (ADP 089 to 094)	**088**	**49.709.322**	**58.356.183**
1. Provisions for pensions, severance pay and similar libabilities	089		5.446.558
2. Provisions for tax obligations	090		
3. Provisions for litigations in progress	091	49.709.322	52.909.625
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**	**1.556.069.066**	**1.915.658.762**
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	9.046.000
6. Liabilities to banks and other financial institutions	101	1.488.677.568	1.852.267.505
7. Liabilities for advance payments	102		
8. Trade payables	103		
9. Amounts payable for securities	104		
10. Other non-current liabilities	105	2.044.339	1.585.824
11. Deffered tax	106	56.198.159	52.759.433
D) CURRENT LIABILITIES (ADP 108 to 121)	**107**	**394.111.168**	**402.912.295**
1. Liabilities to undertakings in a Group	108	70.197	198.872
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	103.000
6. Liabilities to banks and other financial institutions	113	180.344.025	203.141.559
7. Amounts payable for prepayment	114	23.380.655	31.365.529
8. Trade payables	115	154.542.693	132.651.065
9. Liabilities upon loan stocks	116		
10. Liabilities to emloyees	117	20.674.590	22.455.819
11. Taxes, contributions and similar liabilities	118	11.615.356	11.077.721
12. Liabilities arising from share in the result	119	235.003	230.130
13. Liabilities arising from non-current assets held for sale	120		
14. Other current liabilities	121	3.145.649	1.688.600
E) ACCRUED EXPENSES AND DEFERRED INCOME	**122**	**91.807.715**	**103.502.898**
F) TOTAL LIABILITIES (ADP 067+088+095+107+122)	**123**	**4.465.334.310**	**4.996.605.048**
G) OFF-BALANCE SHEET ITEMS	**124**	**54.631.638**	**54.545.066**

Income Statement According to GFI-POD (for the period from 01.01.2017 to 31.12.2017)
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**	**1.488.610.601**	**1.778.395.862**
1. Revenues from sales with undertakings in a Group	126		189.245
2. Sales revenues (outside the Group)	127	1.454.862.418	1.755.097.476
3. Revenues from use of own products, goods and services	128	2.739.517	5.211.178
4. Other operating revenues with undertakings in a Group	129		
5.Other operating revenues (outside the Group)	130	31.008.666	17.897.963
II. OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)	**131**	**1.241.906.080**	**1.518.893.175**
1. Changes in inventories of finished products and work in progress	132		
2. Material costs (ADP 134 to 136)	133	450.374.431	519.753.525
a) Cost of raw materials & consumables	134	247.421.054	299.650.484
b) Cost of goods sold	135	2.417.204	2.952.180
c) Other costs	136	200.536.173	217.150.861
3. Staff costs (ADP 138 to 140)	137	371.316.789	480.161.466
a) Net salaries	138	222.429.876	292.865.456
b) Employee income tax	139	95.492.803	119.910.409
c) Tax on payroll	140	53.394.110	67.385.601
4. Depreciation and amortisation	141	265.188.188	346.413.599
5. Other expenditures	142	128.500.052	143.755.460
6. Value adjustment (ADP 144+145)	143	690.979	126.181
a) non-current assets (without financial assets)	144		
b) current asssets (without financial assets)	145	690.979	126.181
7. Provisions (ADP 147 to 152)	146	1.854.405	9.486.384
a) Provision for pensions, severance payments and other employment benefits	147		5.446.558
b) Provisions for tax liabilities	148		
c) Provisions for litigations in progress	149	1.854.405	3.653.477
d) Provisions for renewal of natural resources	150		
e) Provision for costs within warranty period	151		
f) Other provisions	152		386.349
8. Other operating expenses	153	23.981.236	19.196.560
III. FINANCIAL INCOME (ADP 155 to 164)	**154**	**90.889.300**	**63.640.247**
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	4.161.232	655.416
8. Foreign exchange differences and other financial income	162	39.238.318	52.405.389
9. Unrealized gains (income) from the financial assets	163	9.107.883	7.520.020
10. Other financial income	164	38.381.867	3.059.422
IV. FINANCIAL COSTS (ADP 166 to 172)	**165**	**65.684.632**	**84.499.175**
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	34.276.801	42.218.873
4. Foreign exchange differences and other expenses	169	18.950.580	33.867.818
5. Unrealized loss (expenses) from the financial assets	170	8.256.519	6.761.354
6. Value adjustment expense on financial assets (net)	171		
7. Other financial expenses	172	4.200.732	1.651.130
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**	**1.579.499.901**	**1.842.036.109**
X. TOTAL EXPENSES (ADP 131+165+175+176)	**178**	**1.307.590.712**	**1.603.392.350**
XI. PROFIT OR LOSS BEFORE TAX (ADP 177-178)	**179**	**271.909.189**	**238.643.759**
1. Profit before tax (ADP 177-178)	180	271.909.189	238.643.759
2. Loss before tax (ADP 178-177)	181	0	0
XII. INCOME TAX EXPENSE	**182**	**-70.404.588**	**-6.443.626**
XIII. PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)	**183**	**342.313.777**	**245.087.385**
1. Profit for the period (ADP 179-182)	184	342.313.777	245.087.385
2. Loss for the period (ADP 182-179)	185	0	0

Income Statement According to GFI-POD (for the period from 01.01.2017 to 31.12.2017) (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 (ADP 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**	**342.313.777**	**245.087.385**
1. Attributable to parent company's shareholders	200	342.313.777	243.596.016
2. Attributable to non-controlling interests	201		1.491.369
STATEMENT OF OTHER COMPREHENSIVE INCOME (to be completed by entities subject to IFRS)			
I. PROFIT OR LOSS FOR THE PERIOD	**202**	**342.313.777**	**245.087.385**
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (ADP 204 to 211)	**203**	**-33.642.778**	**450.979**
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	-33.642.778	450.979
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**	**-2.726.564**	**90.195**
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (ADP 203-212)	**213**	**-30.916.214**	**360.784**
V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (ADP 202+213)	**214**	**311.397.563**	**245.448.169**
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**	**311.397.563**	**245.448.169**
1. Attributable to parent company's shareholders	216	311.397.563	243.956.800
2. Attributable to non-controlling interests	217	0	1.491.369

Cash Flow Statement - Indirect Method According to GFI-POD (for the period from 01.01.2017 to 31.12.2017) 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	271.909.189	238.643.759
2. Adjustments (ADP 003 to 010):	002	251.043.749	396.630.365
a) Depreciation and amortisation	003	265.188.188	346.413.599
b) Profit and loss from sales and value adjustments of non-current tangible and intangible assets	004	10.501.692	10.701.234
c) Profit and loss from sales and unrealised profit and loss and value adjustments of financial assets	005	-34.619.968	-211.830
d) Income from interest and dividends	006	-4.204.750	-625.283
e) Interest expenses	007	39.459.144	43.870.004
f) Provisions	008	-5.071.660	10.681.641
g) Foreign exchange differences (unrealized)	009	-20.723.051	-14.199.000
h) Other adjustments for non-cash transactions and unrealized profit and loss	010	514.154	
I. Increase or decrease of cash flow before changes in working capital (ADP 001+002)	**011**	**522.952.938**	**635.274.124**
3. Changes in working capital (ADP 013 to 016)	012	26.010.037	3.955.741
a) Increase or decrease of current liabilities	013	49.286.290	-2.906.436
b) Increase or decrease of current receivables	014	-14.783.702	14.229.358
c) Increase or decrease of inventories	015	-8.492.551	-5.251.075
d) Other increase or decrease of working capital	016		-2.116.106
II. Cash from operating activities (ADP 011+012)	**017**	**548.962.975**	**639.229.865**
4. Interest	018	-35.053.605	-42.778.920
5. Income tax paid	019	257.730	6.749.820
A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)	**020**	**514.167.100**	**603.200.765**
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Proceeds from sale of non-current assets	021	5.899.667	3.504.147
2. Proceeds from selling financial instruments	022	40.974.675	1.808.303
3. Proceeds from interest rates	023	4.827.208	829.138
4. Proceeds from dividends	024		74.640
5. Proceeds from repayment of given loans and savings	025	7.242.528	11.226.988
6. Other proceeds from investment activities	026		
III. Total cash proceeds from investment activities (ADP 021 to 026)	**027**	**58.944.078**	**17.443.216**
1. Purchase of non-current tangible and intangible assets	028	-353.865.885	-894.589.185
2. Purchase of financial instruments	029		
3. Loans and deposits for the period	030	-7.670.676	-10.637.180
4. Acquisition of subsidiary, net of acquired cash	031	-250.371.912	-6.207.552
5. Other payments from investment activities	032	-585.001	
IV. Total cash payments from investment activities (ADP 028 to 032)	**033**	**-612.493.474**	**-911.433.917**
B) NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 027+033)	**034**	**-553.549.396**	**-893.990.701**
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	689.895.055	582.241.320
4. Other proceeds from financial activities	038		
V. Total proceeds from financial activities (ADP 035 to 038)	**039**	**689.895.055**	**582.241.320**
1. Repayment of loan principals, loans and other borrowings and debt-based financial instruments	040	-619.590.521	-179.917.851
2. Dividends paid	041	-38.048.245	-98.347.226
3. Payment of finance lease liabilities	042	-270.016	
4. Re-purchase of treasury shares and decrease in subscribed share capital	043	-36.708.611	
5. Other payments from financial activities	044		
VI. Total cash payments from financing activities (ADP 040 to 044)	**045**	**-694.617.393**	**-278.265.077**
C) NET CASH FLOW FROM FINANCIAL ACTIVITIES (ADP 039+045)	**046**	**-4.722.338**	**303.976.243**
1. Cash and cash equivalents-unrealized foreign exchange differences	047		
D) NET INCREASE OR DECREASE OF CASH FLOW (ADP 020+034+046+047)	**048**	**-44.104.634**	**13.186.307**
E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**049**	**318.755.282**	**274.650.647**
F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (ADP 048+049)	**050**	**274.650.648**	**287.836.954**

Cash Flow Statement - Indirect Method According to GFI-POD (for the period from 1.1.2017 to 31.12.2017)
Taxpayer: 36201212847; Valamar Riviera d.d.

Description	ADP	Distributable to majority owners														Minority (non-controlling) interest	Total capital and reserves
		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		
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**	**-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**
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**	**-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	05													342.313.777	342.313.777	235.842.123	578.155.900
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									-33.642.778					-33.642.778		-33.642.778
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									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)	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					36.708.367									-36.708.367		-36.708.367
19. Share in profit/ dividend payout	19					-32.655.373							-73.650.397		-40.995.024		-40.995.024
20. Other distribution to majority owners	20		2.578.505			-424.943									3.003.448		3.003.448
21. Transfer to reserves according to annual plan	21			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	22												84.946.259		84.946.259		84.946.259
23. Balance at 31 Decemeber of previous period (ADP 04 to 22)	**23**	**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 PREVIOUS PERIOD NET OF TAX (ADP 06 to 14)	**24**	**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 PREVIOUS PERIOD (ADP 05+24)	**25**	**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 PREVIOUS PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 15 to 22)	**26**	**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**
Current period																	
1. Balance at 1 January of current period	**27**	**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**
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**	**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**
5. Profit/loss for the period	31													243.596.016	243.596.016	1.491.369	245.087.385
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									450.979					450.979		450.979
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									-90.195					-90.195		-90.195
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					-1.251.675									1.251.675		1.251.675
19. Share in profit/ dividend payout	45														0		0
20. Other distribution to majority owners	46		1.398.216										-99.352.192		-97.953.976		-97.953.976
21. Transfer to reserves according to annual plan	47			16.402.311									325.911.021	-342.313.777	-445	-6.207.552	-6.207.997
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**	**3.602.906**	**83.601.061**	**44.815.284**	**35.889.620**	**0**	**9.529.123**	**0**	**634.097**	**0**	**0**	**263.138.893**	**243.596.016**	**2.285.048.970**	**231.125.940**	**2.516.174.910**
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**	**360.784**	**0**	**0**	**0**	**0**	**360.784**	**0**	**360.784**
II. COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31 + 50)	**51**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**360.784**	**0**	**0**	**0**	**243.596.016**	**243.956.800**	**1.491.369**	**245.448.169**
III. TRANSACTIONS WITH OWNERS IN THE CURRENT PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 41 to 48)	**52**	**0**	**1.398.216**	**16.402.311**	**0**	**-1.251.675**	**0**	**0**	**0**	**0**	**0**	**0**	**226.558.829**	**-342.313.777**	**-96.702.746**	**-6.207.552**	**-102.910.298**

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 31.12.2016	Balance sheet-current period 31.12.2017
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)	
Puntižela d.o.o.	Yes (merged to Valamar Riviera d.d. 31.03.2017)	
Elafiti Babin kuk d.o.o.	Yes (merged to Valamar Riviera d.d. 29.12.2017)	
Valamar hotels & resorts GmbH	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
Imperial d.d.	Yes	Yes

Companies of the consolidation subject	Income statment-previous period 31.12.2016	Income statment-current period 31.12.2017
Mirta Bašćanska d.o.o.	1.01.-13.1. (merged to Hoteli Baška d.d. 13.1.2016)	-
Vala Bašćanska d.o.o.	1.1.-13.1. (merged to Hoteli Baška d.d. 13.1.2016)	-
Baškaturist d.o.o.	1.1.-13.1. (merged to Hoteli Baška d.d. 13.1.2016)	-
Hoteli Baška d.d.	1.1.-31.3. (merged to Valamar Riviera d.d. 31.3.2016)	-
Bastion upravljanje d.o.o.	1.1.-30.6. (merged to Valamar Riviera d.d. 30.6.2016)	-
Puntižela d.o.o.	1.1.-31.12.	1.1.-31.03. (merged to Valamar Riviera d.d. 31.3.2017)
Elafiti Babin kuk d.o.o.	1.1.-31.12.	1.1.-29.12. (merged to Valamar Riviera d.d. 29.12.2017)
Valamar hotels & resorts GmbH	1.1.-31.01.	-
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.
Imperial d.d.	-	1.1.-31.12.

Reporting period: from 1.1.2017 to 31.12.2017

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)	2.565
			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)

(authorized representative's signature)

Balance Sheet According to GFI-POD (as per 31.12.2017)
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**	**3.806.830.512**	**4.321.068.373**
I. INTANGIBLE ASSETS (ADP 004 to 009)	**003**	**17.342.793**	**44.533.715**
1. Research and Development expenditure	004		
2. Patents, licences, royalties, trademarks and service marks, software and similar rights	005	17.068.321	37.646.206
3. Goodwill	006		6.567.609
4. Prepayments for intangible assets	007		
5. Intangible assets under construction	008	274.472	319.900
6. Other intangible assets	009		
II. TANGIBLE ASSETS (ADP 011 to 019)	**010**	**2.906.793.288**	**3.697.439.264**
1. Land	011	595.574.908	633.926.337
2. Property	012	1.805.980.339	2.416.617.894
3. Plants and equipment	013	207.011.662	345.844.344
4. Tools, plants and vehicles	014	62.668.696	89.672.494
5. Biological asset	015		
6. Prepayments for tangible assets	016	29.697.670	23.166.558
7. Assets under construction	017	167.870.168	137.209.673
8. Other tangible assets	018	27.121.603	40.747.606
9. Investments property	019	10.868.242	10.254.358
III. NON-CURRENT FINANCIAL ASSETS (ADP 021 to 030)	**020**	**675.525.760**	**456.347.314**
1. Stakes (shares) in undertakings in a Group	021	670.319.700	452.395.427
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	4.766.325	3.620.830
8. Given loans, deposits and similar	028	299.735	191.057
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**	**113.553.484**	**188.176**
1. Receivables from undertakings in a Group	032	113.247.689	
2. Receivables from undertakings with participating interests	033		
3. Trade receivables	034		
4. Other receivables	035	305.795	188.176
V. DEFERRED TAX ASSETS	**036**	**93.615.187**	**122.559.904**
C) CURENT ASSETS (ADP 038+046+053+063)	**037**	**319.356.014**	**291.552.583**
I. INVENTORIES (ADP 039 to 045)	**038**	**18.253.553**	**23.913.513**
1. Raw materials and consumables	039	18.026.040	23.767.779
2. Work in progress	040		
3. Finished products	041		
4. Merchandise	042	227.513	145.734
5. Prepayments for inventories	043		
6. Other available-for-sale assets	044		
7. Biological asset	045		
II. RECEIVABLES (ADP 047 to 052)	**046**	**62.728.000**	**29.405.487**
1. Receivables from undertakings in a Group	047	25.253.754	3.392.515
2. Receivables from undertakings with participating interest	048		
3. Trade receivables	049	16.702.108	12.221.884
4. Receivables from employees and members of the undertaking	050	649.460	1.171.905
5. Receivables from Government and other institutions	051	18.294.801	10.812.531
6. Other receivables	052	1.827.877	1.806.652
III. CURRENT FINANCIAL ASSETS (ADP 054 to 062)	**053**	**726.764**	**832.773**
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	23.800	25.800
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	702.964	702.891
9. Other financial assets	062		104.082
IV. CASH AND CASH EQUIVALENTS	**063**	**237.647.697**	**237.400.810**
D) PREPAYMENTS AND ACCRUED INCOME	**064**	**21.820.614**	**19.416.287**
E) TOTAL ASSETS (ADP 001+002+037+064)	**065**	**4.148.007.140**	**4.632.037.243**
F) OFF-BALANCE SHEET ITEMS	**066**	**54.631.638**	**54.545.066**

Balance Sheet According to GFI-POD (as per 31.12.2017) (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**	**2.324.082.480**	**2.395.468.296**
I. SHARE CAPITAL	**068**	**1.672.021.210**	**1.672.021.210**
II. CAPITAL RESERVES	**069**	**2.204.690**	**3.602.906**
III. RESERVES FROM PROFIT (ADP 071+072-073+074+075)	**070**	**84.401.862**	**102.055.847**
1. Legal reserves	071	67.198.750	83.601.061
2. Reserves for own shares	072	44.815.284	44.815.284
3. Own stocks and shares (deductible items)	073	37.141.295	35.889.621
4. Statutory reserves	074		
5. Other reserves	075	9.529.123	9.529.123
IV. REVALUATION RESERVES	**076**		
V. FAIR VALUE RESERVES (ADP 078 to 080)	**077**	**273.313**	**634.097**
1. Fair value of financial assets available for sale	078	273.313	634.097
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**	**228.523.684**	**385.175.162**
1. Retained earnings	082	228.523.684	385.175.162
2. Loss carried forward	083		
VII. PROFIT OR LOSS FOR THE FINANCIAL YEAR (ADP 085-086)	**084**	**336.657.721**	**231.979.074**
1. Profit for the financial year	085	336.657.721	231.979.074
2. Loss for the financial year	086		
VIII. MINORITY INTEREST	**087**		
B) PROVISIONS (ADP 089 to 094)	**088**	**26.578.807**	**31.597.492**
1. Provisions for pensions, severance pay and similar libabilities	089		4.665.359
2. Provisions for tax obligations	090		
3. Provisions for litigations in progress	091	26.578.807	26.932.133
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**	**1.351.548.203**	**1.739.431.226**
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	1.332.585.946	1.721.763.614
7. Liabilities for advance payments	102		
8. Trade payables	103		
9. Amounts payable for securities	104		
10. Other non-current liabilities	105	2.044.339	1.585.824
11. Deffered tax	106	16.917.918	16.081.788
D) CURRENT LIABILITIES (ADP 108 to 121)	**107**	**361.331.313**	**369.130.888**
1. Liabilities to undertakings in a Group	108	195.394	377.577
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	159.263.170	184.701.848
7. Amounts payable for prepayment	114	22.878.112	30.708.993
8. Trade payables	115	150.726.630	121.224.757
9. Liabilities upon loan stocks	116		
10. Liabilities to emloyees	117	18.821.064	20.606.875
11. Taxes, contributions and similar liabilities	118	7.640.156	10.270.639
12. Liabilities arising from share in the result	119	59.985	72.403
13. Liabilities arising from non-current assets held for sale	120		
14. Other current liabilities	121	1.746.802	1.167.796
E) ACCRUED EXPENSES AND DEFERRED INCOME	**122**	**84.466.337**	**96.409.341**
F) TOTAL LIABILITIES (ADP 067+088+095+107+122)	**123**	**4.148.007.140**	**4.632.037.243**
G) OFF-BALANCE SHEET ITEMS	**124**	**54.631.638**	**54.545.066**

Income Statement According to GFI-POD (for the period from 01.01.2017 to 31.12.2017)
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**	**1.470.965.788**	**1.636.413.207**
1. Revenues from sales with undertakings in a Group	126	587.914	13.746.938
2. Sales revenues (outside the Group)	127	1.439.839.388	1.602.917.139
3. Revenues from use of own products, goods and services	128	2.739.517	5.191.926
4. Other operating revenues with undertakings in a Group	129	41.709	46.785
5.Other operating revenues (outside the Group)	130	27.757.260	14.510.419
II. OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)	**131**	**1.233.233.856**	**1.396.220.124**
1. Changes in inventories of finished products and work in progress	132		
2. Material costs (ADP 134 to 136)	133	474.135.719	511.785.310
a) Cost of raw materials & consumables	134	245.716.305	274.645.200
b) Cost of goods sold	135	2.417.204	2.850.429
c) Other costs	136	226.002.210	234.289.681
3. Staff costs (ADP 138 to 140)	137	365.349.927	443.751.031
a) Net salaries	138	219.441.890	269.924.542
b) Employee income tax	139	93.854.219	111.612.209
c) Tax on payroll	140	52.053.818	62.214.280
4. Depreciation and amortisation	141	243.228.097	283.465.960
5. Other expenditures	142	126.732.255	133.772.749
6. Value adjustment (ADP 144+145)	143	690.979	112.132
a) non-current assets (without financial assets)	144		
b) current asssets (without financial assets)	145	690.979	112.132
7. Provisions (ADP 147 to 152)	146	1.854.405	5.086.540
a) Provision for pensions, severance payments and other employment benefits	147		4.665.359
b) Provisions for tax liabilities	148		
c) Provisions for litigations in progress	149	1.854.405	421.181
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	21.242.474	18.246.402
III. FINANCIAL INCOME (ADP 155 to 164)	**154**	**88.144.060**	**59.584.924**
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	4.152.605	467.081
8. Foreign exchange differences and other financial income	162	36.899.712	48.589.480
9. Unrealized gains (income) from the financial assets	163	9.107.883	7.520.020
10. Other financial income	164	37.983.860	3.008.343
IV. FINANCIAL COSTS (ADP 166 to 172)	**165**	**60.817.483**	**82.068.385**
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	32.410.766	37.199.453
4. Foreign exchange differences and other expenses	169	17.070.046	31.145.877
5. Unrealized loss (expenses) from the financial assets	170	8.256.519	6.761.354
6. Value adjustment expense on financial assets (net)	171		5.629.924
7. Other financial expenses	172	3.080.152	1.331.777
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**	**1.559.109.848**	**1.695.998.131**
X. TOTAL EXPENSES (ADP 131+165+175+176)	**178**	**1.294.051.339**	**1.478.288.509**
XI. PROFIT OR LOSS BEFORE TAX (ADP 177-178)	**179**	**265.058.509**	**217.709.622**
1. Profit before tax (ADP 177-178)	180	265.058.509	217.709.622
2. Loss before tax (ADP 178-177)	181	0	0
XII. INCOME TAX EXPENSE	**182**	**-71.599.212**	**-14.269.452**
XIII. PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)	**183**	**336.657.721**	**231.979.074**
1. Profit for the period (ADP 179-182)	184	336.657.721	231.979.074
2. Loss for the period (ADP 182-179)	185	0	0

Income Statement According to GFI-POD (for the period from 01.01.2017 to 31.12.2017) (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 (ADP 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**	**336.657.721**	**231.979.074**
1. Attributable to parent company's shareholders	200	336.657.721	231.979.074
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	**202**	**336.657.721**	**231.979.074**
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (ADP 204 to 211)	**203**	**-34.190.767**	**450.979**
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	-34.190.767	450.979
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**	**-2.726.295**	**90.195**
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (ADP 203-212)	**213**	**-31.464.472**	**360.784**
V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (ADP 202+213)	**214**	**305.193.249**	**232.339.858**
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 (for the period from 01.01.2017 to 31.12.2017)
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	265.058.509	217.709.622
2. Adjustments (ADP 003 to 010):	002	226.318.352	323.378.635
a) Depreciation and amortisation	003	243.228.097	283.465.960
b) Profit and loss from sales and value adjustments of non-current tangible and intangible assets	004	10.496.519	10.492.924
c) Profit and loss from sales and unrealised profit and loss and value adjustments of financial assets	005	-35.155.437	-211.830
d) Income from interest and dividends	006	-4.126.318	-436.947
e) Interest expenses	007	35.491.173	38.531.230
f) Provisions	008	-3.412.883	6.707.753
g) Foreign exchange differences (unrealized)	009	-18.583.434	-13.101.550
h) Other adjustments for non-cash transactions and unrealized profit and loss	010	-1.619.365	-2.068.905
I. Increase or decrease of cash flow before changes in working capital (ADP 001+002)	**011**	**491.376.861**	**541.088.257**
3. Changes in working capital (ADP 013 to 016)	012	53.034.890	33.035.631
a) Increase or decrease of current liabilities	013	46.934.092	1.433.296
b) Increase or decrease of current receivables	014	14.593.148	37.262.296
c) Increase or decrease of inventories	015	-8.492.350	-5.659.961
d) Other increase or decrease of working capital	016		
II. Cash from operating activities (ADP 011+012)	**017**	**544.411.751**	**574.123.888**
4. Interest	018	-30.070.461	-38.109.984
5. Income tax paid	019	312.063	102.419
A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)	**020**	**514.653.353**	**536.116.323**
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Proceeds from sale of non-current assets	021	5.898.667	3.469.847
2. Proceeds from selling financial instruments	022	39.024.276	1.808.303
3. Proceeds from interest rates	023	4.750.479	639.234
4. Proceeds from dividends	024		579.153
5. Proceeds from repayment of given loans and savings	025	7.137.978	11.143.895
6. Other proceeds from investment activities	026	4.639.935	338.416
III. Total cash proceeds from investment activities (ADP 021 to 026)	**027**	**61.451.335**	**17.978.848**
1. Purchase of non-current tangible and intangible assets	028	-343.698.596	-860.324.118
2. Purchase of financial instruments	029		
3. Loans and deposits for the period	030	-7.593.973	-10.615.679
4. Acquisition of subsidiary, net of acquired cash	031	-285.527.212	-6.207.552
5. Other payments from investment activities	032		
IV. Total cash payments from investment activities (ADP 028 to 032)	**033**	**-636.819.781**	**-877.147.349**
B) NET INCREASE OF CASH FLOW FROM INVESMENT ACTIVITIES (ADP 027+033)	**034**	**-575.368.446**	**-859.168.501**
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	618.507.365	582.241.802
4. Other proceeds from financial activities	038		
V. Total proceeds from financial activities (ADP 035 to 038)	**039**	**618.507.365**	**582.241.802**
1. Repayment of loan principals, loans and other borrowings and debt-based financial instruments	040	-546.673.519	-161.094.158
2. Dividends paid	041	-38.297.245	-98.342.353
3. Payment of finance lease liabilities	042	-262.524	
4. Re-purchase of treasury shares and decrease in subscribed share capital	043	-36.708.367	
5. Other payments from financial activities	044		
VI. Total cash payments from financing activities (ADP 040 to 044)	**045**	**-621.941.655**	**-259.436.511**
C) NET CASH FLOW FROM FINANCIAL ACTIVITIES (ADP 039+045)	**046**	**-3.434.290**	**322.805.291**
1. Cash and cash equivalents-unrealized foreign exchange differences	047		
D) NET INCREASE OR DECREASE OF CASH FLOW (ADP 020+034+046+047)	**048**	**-64.149.383**	**-246.887**
E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**049**	**301.797.080**	**237.647.697**
F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (ADP 048+049)	**050**	**237.647.697**	**237.400.810**

Cash Flow Statement - Indirect Method According to GFI-POD (for the period from 1.1.2017 to 31.12.2017)
Taxpayer: 36201212847; Valamar Riviera d.d.

Description	ADP	Distributable to majority owners														Minority (non-controlling) interest	Total capital and reserves
		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		
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**	**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**		**2.088.581.493**
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**	**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	05													336.657.721	336.657.721		336.657.721
6. Foreign currency translation differences- foreign operations	06							0							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									-34.190.767					-34.190.767		-34.190.767
9. Profit or loss from cash flow hedge	09										0				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		-482.954							305.943					-177.011		-177.011
14. Taxation of transactions recognized directly in equity	14									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)	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					36.708.367									-36.708.367		-36.708.367
19. Share in profit/ dividend payout	19					-32.655.373							-73.910.156		-41.254.783		-41.254.783
20. Other distribution to majority owners	20		2.578.505			4.041.715									-1.463.210		-1.463.210
21. Transfer to reserves according to annual plan	21			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	22														0		0
23. Balance at 31 Decemeber of previous period (ADP 04 to 22)	**23**	**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 PREVIOUS PERIOD NET OF TAX (ADP 06 to 14)	**24**	**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 PREVIOUS PERIOD (ADP 05+24)	**25**	**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 PREVIOUS PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 15 to 22)	**26**	**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**
Current period																	
1. Balance at 1 January of current period	**27**	**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**
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**	**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**
5. Profit/loss for the period	31													231.979.074	231.979.074		231.979.074
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									450.979					450.979		450.979
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									-90.195					-90.195		-90.195
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					-1.251.674									1.251.674		1.251.674
19. Share in profit/ dividend payout	45														0		0
20. Other distribution to majority owners	46		1.398.216										-99.352.193		-97.953.977		-97.953.977
21. Transfer to reserves according to annual plan	47			16.402.311									256.003.671	-336.657.721	-64.251.739		-64.251.739
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**	**3.602.906**	**83.601.061**	**44.815.284**	**35.889.621**	**0**	**9.529.123**	**0**	**634.097**	**0**	**0**	**385.175.162**	**231.979.074**	**2.395.468.296**	**0**	**2.395.468.296**
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**	**360.784**	**0**	**0**	**0**	**0**	**360.784**	**0**	**360.784**
II. COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31 + 50)	**51**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**360.784**	**0**	**0**	**0**	**231.979.074**	**232.339.858**	**0**	**232.339.858**
III. TRANSACTIONS WITH OWNERS IN THE CURRENT PERIOD, RECOGNIZED DIRECTLY IN EQUITY (ADP 41 to 48)	**52**	**0**	**1.398.216**	**16.402.311**	**0**	**-1.251.674**	**0**	**0**	**0**	**0**	**0**	**0**	**156.651.478**	**-336.657.721**	**-160.954.042**	**0**	**-160.954.042**

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

Valamar Riviera d.d.
MANAGEMENT BOARD

Number: 103-1/18.
Poreč, 20 February 2018

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, 21 and 24 of the Accounting Act, at its meeting held on 20 February 2018, the Management Board of Valamar Riviera d.d. from Poreč, 1 Stancija Kaligari (hereinafter: Valamar Riviera d.d. or the Company) rendered the following

DECISION

I

The Annual Report of Valamar Riviera d.d. is hereby determined as stated in the text of the enclosed "2017 ANNUAL REPORT".

II

The audited non-consolidated and consolidated Annual financial statements for the year 2017 are hereby determined, and consist of the following: Statement of Financial Position (Balance Sheet), Income Statement, Statement of Other Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity and Notes to Financial Statements, 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, Ernst & Young d.o.o. from Zagreb, 50 Radnička cesta, produced the Auditor's report for 2017, 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 01/01/2017 to 31/12/2017 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 2017 totaling HRK 231,979,074.09 to the Company's retained profits is hereby determined.

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

VI

Pursuant to Article 300b of the Companies Act:

1. The reports mentioned in points II and IV of this Decision are 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 129 of the Zagreb Stock Exchange Rules, 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

Upon their adoption, the following decisions and reports will be submitted to the Financial Agency to be disclosed in the prescribed period, pursuant to Article 30 of the Accounting Act: this Decision together with the proposed decision on the distribution of profits in point V, the reports determined by this Decision and the decisions rendered by the Supervisory board in point VI.

Željko Kukurin v.r.
Management Board President

VALAMAR RIVIERA d.d.
POREČ (5)

For the attention of:

1. Supervisory Board
2. HANFA -Official registry of regulated information, pursuant to point VII
3. Zagreb Stock Exchange, pursuant to point VII
4. FINA-Financial Agency, pursuant to point VIII
5. Archive

Supervisory Board's decision on approving the annual financial statements

Valamar Riviera d.d.
SUPERVISORY BOARD

Number: 121-1/18.
Poreč, 27 February 2018

Pursuant to Article 300d, and Article 300c of the Companies Act and Management Board Decision no. 103-1/18 dated 20 February 2018, at its meeting held on 27 February 2018, the Supervisory Board of Valamar Riviera d.d. from Poreč rendered the following

DECISION

I
The Supervisory Board hereby approves the "2017 ANNUAL REPORT" of Valamar Riviera d.d. that also includes the following:

1. Annual financial statements for the year 2017, non-consolidated and consolidated, consisting of the Statement of Financial Position (Balance Sheet), Income Statements, Statement of Other Comprehensive Income, Statement of Cash Flow, Statement of Cash Flow, Statement of Changes in Equity and Notes to Financial Statements;
2. Report on the performed audit by Ernst & Young d.o.o. from Zagreb;
3. Annual Management Report on the Company's status / Management Report.

II
Pursuant to Article 300d of the Companies Act, by granting approval as stated in point I of this Decision, the 2017 Annual financial statements 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

Supervisory Board's decision on the proposal of profit distribution

Valamar Riviera d.d.
SUPERVISORY BOARD

Number: 121-3/18.
Poreč, 27 February 2018

Pursuant to Article 300d, and Article 300c of the Companies Act and the Management Board Decision no. 103-1/18 dated 20 February 2018, at its meeting held on February 27, the Supervisory Board of Valamar Riviera d.d. from Poreč rendered the following

DECISION

I
The proposal to distribute HRK 231,979,074.09 of the Company's realized profits in 2017 in the Company's retained profits is hereby determined.

II
It is proposed that the General Assembly accepts the proposal from point I of this decision that was previously determined by the Supervisory and Management Board.

Gustav Wurmböck
Supervisory Board President

Supervisory Board's report on the performed supervision of Company's business management in 2017

Valamar Riviera d.d.
SUPERVISORY BOARD

Number: 121-2/18.
Poreč, 27 February 2018

Pursuant to Article 263, paragraph 3 and Article 300c, paragraph 3 of the Companies Act, at its meeting held on 27 February 2018, the Supervisory Board of Valamar Riviera d.d. from Poreč rendered the following

REPORT

to the General Assembly of VALAMAR RIVIERA d.d. from Poreč
on the performed supervision of the Company's business management in 2017

I

In the course of the year 2017 (i.e. reporting period) until 6 July 2017, the Supervisory Board consisted of: Gustav Wurmböck, Chairman, Franz Lanschützer and Mladen Markoč, Deputy Chairmen, and Members: Georg Eltz, Mariza Jugovac, Hans Dominik Turnovszky and Vicko Ferić. Due to the expiration of the 4-year term of office, at the General Assembly held on 4 May 2017 the following were re-appointed as Supervisory Board Members for another 4-year term of office: Gustav Wurmböck, Mladen Markoč, Franz Lanschützer, Georg Eltz, Hans Dominik Turnovszky and Vicko Ferić, while the Works council appointed Valter Knapić as employee representative on the Supervisory Board.

Therefore, as of 7 July 2017, the Supervisory board consisted of: Gustav Wurmböck, Chairman, Franz Lanschützer and Mladen Markoč, Deputy Chairmen, and Members: Georg Eltz, Hans Dominik Turnovszky, Vicko Ferić and Valter Knapić.

Apart from the Supervisory Board, the Supervisory Board members formed the following three bodies: Presidium of the Supervisory Board, consisting of: Gustav Wurmböck, Chairman and SB Deputy Chairmen Franz Lanschützer and Mladen Markoč; Audit Committee, consisting of: Georg Eltz, Chairman and Members Franz Lanschützer, Mladen Markoč, Vicko Ferić and Dubravko Kušeta; Investment Committee, consisting of: Franz Lanschützer, Chairman and Members Georg Eltz, Vicko Feric, Hans Dominik Turnovszky and Gustav Wurmböck.

II

In the course of 2017, the Supervisory Board regularly received written reports on business operations, as well as other reports, proposals and decisions by the Management Board. The Supervisory Board examined and rendered its decisions pertaining to the said reports, proposals and decisions pursuant to regulations and provisions of the Company's Statute. During the year 2017, the Supervisory Board held fourteen (14) meetings out of which nine (9) via correspondence, all pursuant

Supervisory Board's report on the performed supervision of Company's business management in 2017 (continued)

to the Company's Statute. At the said meetings, it discussed numerous issues related to the Company's business and also supervised the management of the Company's business.

The Supervisory Board committees together with the Management Board and other responsible persons and experts held sixteen (16) meetings in 2017. During the said meetings, they examined documents and proposals pertaining to which the Supervisory Board rendered its decisions. This improved the Supervisory Board's efficiency and understanding of the Company's business while performing the supervision.

III
Pursuant to its duties, the Supervisory Board performed the supervision through meetings, committees and through documents and detailed information submitted by the Management Board in the course of 2017 and therefore

e s t a b l i s h e d

that Valamar Riviera d.d. from Poreč conducts it business pursuant to the law, Company Statute and other regulations and decisions of the Company.

IV
The Supervisory Board devoted particular attention to the examination of the reports and proposals submitted by the Management Board and consisting of the following:

1) "2017 ANNUAL REPORT" of Valamar Riviera d.d. that also includes the following:
   - Annual financial statements for the year 2017, non-consolidated and consolidated, consisting of the Statement of Financial Position (Balance Sheet), Income Statements, Statement of Other Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity and Notes to Financial Statements;
   - Report on the performed audit by Ernst & Young d.o.o. from Zagreb;
   - Annual Management Report on the Company's status / Management Report.

2) Proposal regarding the distribution of profit and dividend payout;
3) Report on related party transactions in 2017.

At its meeting in the presence of the Auditor, Ernst & Young d.o.o. from Zagreb, the Audit Committee, followed by the Supervisory Board, examined the submitted Annual financial statements and established that they reflected the business records of the Company and rendered a veritable presentation of the position of the company in terms of business and assets, and therefore had no objections to them.

Pursuant to the previously submitted opinion by the Audit Committee, the Supervisory Board has no objection to the Auditor's report on the performed audit. Furthermore, the Supervisory board has no objections to the Annual Management Report on the Company's status.

Supervisory Board's report on the performed supervision of Company's business management in 2017 (continued)

The Supervisory Board also has no objection after examining the submitted Management Board Report on related party transactions.

V

Besides the examination of the documents specified in the previous point, pursuant to the Company Statute, the Supervisory Board supervised the management of the Company's business by previously considering the Management board proposals that required the Supervisory Board's approval. In that part, the Supervisory Board paid particular attention to approving the conditions for concluding legal transactions, concessions and the management of real estate. Furthermore, the Supervisory Board particularly focused on the approval of each loan and regularly monitored the Company's financial status and cash flow. Besides the above mentioned, the Supervisory board regularly reviewed the monthly business results by focusing on each individual property and the Company as a whole in relation to the previously adopted business plans. In this area, special attention was devoted to the 2018 business plan.

Furthermore, in the course of 2017, the Supervisory Board particularly focused on reviewing, directing and approving the planned investments at all stages of their preparation and execution. This was done by considering the actual need to improve the overall level of quality and standards of the facilities and providing a realistic estimate of the opportunities to sell such facilities and services on relevant source markets as well as their financial feasibility and profitability.

The Supervisory Board examined and approved the merger of PUNTIŽELA d.o.o. and ELAFITI BABIN KUK d.o.o. to the Company (as transferee). The mergers were completed upon their entry into the court register on 31 March 2017, and 29 December 2017, respectively.

The Supervisory Board particularly monitored the Management Board in the processes of expressing interest for the purchase of shares and business stakes and potential acquisitions of strategic importance for the Company. One of the most important activities to which the Supervisory Board devoted particular attention in 2017 was the establishment of cooperation with two Zagreb-based companies managing obligatory pension funds, PBZ Croatia osiguranje (full name: PBZ Croatia osiguranje dioničko društvo za upravljanje obveznim mirovinskim fondovima, hereinafter: PBZ CO) and Allianz ZB (full name: Allianz ZB d.o.o. društvo za upravljanje obveznim mirovinskim fondom, hereinafter: AZ). The Company established a collaboration with PBZ CO in order to start their joint activity towards a bankrupt hospitality company from Stari Grad on Hvar Island, HELIOS FAROS d.d. u stečaju (hereinafter: HELIOS FAROS) and the two submitted a joint investment and recapitalization offer for HELIOS FAROS. The bankruptcy proceeding of HELIOS FAROS is expected to end in the course of 2018, when the Bankruptcy plan (pursuant to the offer made) is accepted. The Company established a collaboration with AZ in order to start their joint activity towards a Makarska-based hotel operator, HOTELI MAKARSKA d.d. (hereinafter: HOTELI MAKARSKA), and submitted a bid to CERP (Croatia's Restructuring and Sale Center) to buy a 55.48% stake (or: 621,086 shares) in HOTELI MAKARSKA, for HRK 172,661,908.00. The bid was accepted at the beginning of February and the acquisition of the shares is expected in 1Q 2018.

Finally, The Supervisory Board especially monitored the Management Board regarding the management of hospitality facilities and services of IMPERIAL d.d. Rab, pursuant to the concluded Management contract that has been implemented since 4 January 2017.

Supervisory Board's report on the performed supervision of Company's business management in 2017 (continued)

VI

Pursuant to what has been previously stated, and according to the comprehensive insight gained through the supervision of the Company's business management and information received during the course of work of the Supervisory Board and its committees in the period from 1 January to 31 December 2017, and the conducted examinations from point V of this Report, at its meeting held on 27 February 2018, the Supervisory board

A)

approved the following

1) "2017 ANNUAL REPORT" of Valamar Riviera d.d. that also includes the following:
   - Annual financial statements for the year 2017, non-consolidated and consolidated, consisting of the Statement of Financial Position (Balance Sheet), Income Statements, Statement of Other Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity and Notes to Financial Statements;
   - Report on the performed audit by Ernst & Young d.o.o. from Zagreb;
   - Annual Management Report on the Company's status / Management Report.

2) Proposal regarding the distribution of profit and dividend payout

and hereby, according to Article 300d of the Companies Act, the Annual financial statements of Valamar Riviera d.d. from Poreč for 2017 are considered to be approved both by the Management Board and by the Supervisory Board.

B)

has no objection to

the Management Board statement given in the Report on related party transactions in 2017 pursuant to the provisions of Article 497, paragraph 3 of the Companies Act.

Gustav Wurmböck
Supervisory Board President

Annual financial statements including the independent auditor's report 31 december 2017

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, which give a true and fair view of the state of affairs and results of Valamar Riviera d.d. (˝the Company˝) and its subsidiaries (˝the Group˝) for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing consolidated and separate financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed;
- The financial statements are prepared on the going concern basis.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group, and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed by the Management Board on 20.2.2018:

Željko Kukurin
President of the Board

Marko Čižmek
Member of the Board

VALAMAR RIVIERA d.d.
POREČ (5)

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

REPORT ON THE AUDIT OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

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 it's subsidiaries ("the Group") which comprise the separate and consolidated statement of financial position as at 31 December 2017, the separate and consolidated statement of comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2017 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report.

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

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

Key audit matter	How we addressed key audit matter
Impairment of the tourism property (separate and consolidated financial statements) Refer to Notes 2.6. and 2.8. of Accounting Policies, Note 4 (a) of Critical Accounting estimates, and Note 14 on Property, Plant and Equipment of the Financial Statements. The carrying amount of property, plant and equipment of the Group as at 31 December 2017 was HRK 4,430,006 thousand (Company: HRK 3,687,185 thousand) and it represented approximately 89% and 80% of the total assets of the Group and the Company, respectively. Property, plant and equipment mostly consists of tourism properties and related assets and is included in the statement of financial position at historical cost less accumulated depreciation and impairment, where required. Management annually conducts a test to identify assets with impairment indicators. In order to recognize and determine if there is impairment, management considers discounted cash flows, occupancy rates, number of sold accommodation units, revenue per available room, gross operating profit and other measures. The estimation process is complex and highly subjective and is based on the assumptions. Due to the above factors and significant impact on the separate and consolidated financial statements, impairment of tourism properties was determined as key audit matter.	Our audit procedures related to impairment of property, plant and equipment included, among others: • Assessing the appropriateness of the methodology used for the impairment testing • Testing, on a sample basis, of key management's estimates used to determine if there are impairment indicators; • Review of the relevant Company and Group internal reports and comparison of the projections in the model for individual tourism properties with the historical data including, among other, a comparison of gross operating profit, occupancy rate, average daily rate, revenue per available room, discounted cash flows; • Assessing the adequacy of related disclosures in the notes to the separate and consolidated financial statements and their compliance with relevant accounting standards.

Other Matter

The financial statements of the Company and the Group for the year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those statements on 22 February 2017.

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

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Other information included in the Company's and the Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report and Corporate Governance Statement, other than the separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2017 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

2. the enclosed Management report for 2017 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Company's and the Group's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Company's and the Group's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements.

In addition, in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and Annual report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRSs as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Audit Committee is responsible for overseeing the Company's and Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF VALAMAR RIVIERA D.D. (CONTINUED)

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Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee 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.

Independent Auditors' Report to the Shareholders of Valamar Riviera d.d. (continued)

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 4 May 2017 and our uninterrupted engagement has lasted for one year.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 19 February 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and the Group. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the separate and consolidated financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Berislav Horvat.

ERNST & YOUNG
d.o.o.
Zagreb, Radnička cesta 50

Berislav Horvat, President of the Board and Certified auditor

20 February 2018

Ernst & Young d.o.o.
Radnička cesta 50
Zagreb, Republic of Croatia

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CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(all amounts are expressed in thousands of HRK)	Note	Group 2017	Group 2016	Company 2017	Company 2016
Revenue	5	1,755,287	1,454,868	1,616,664	1,440,427
Other income	6	24,948	34,714	22,181	31,631
Cost of materials and services	7	(519,754)	(450,336)	(511,785)	(474,135)
Staff costs	8	(543,083)	(419,734)	(502,800)	(412,742)
Depreciation and amortization	14,15,16	(346,414)	(265,188)	(283,466)	(243,228)
Other operating expenses	9	(109,344)	(105,759)	(97,869)	(102,592)
Other gains – net	10	6,073	37,751	(222)	38,478
Operating profit		**267,713**	**286,316**	**242,703**	**277,839**
Finance income		625	4,205	437	4,126
Finance costs		(29,671)	(18,736)	(25,430)	(16,908)
Finance costs – net	**11**	**(29,046)**	**(14,531)**	**(24,993)**	**(12,782)**
Share of profit/(loss) of equity-accounted investees, net of tax	**18**	**(24)**	**124**	**-**	**-**
Profit before tax		**238,643**	**271,909**	**217,710**	**265,057**
Income tax	12	6,444	70,405	14,269	71,600
Profit for the year		**245,087**	**342,314**	**231,979**	**336,657**
Other comprehensive income					
Items that may be reclassified to profit or loss					
Change in value available-for-sale financial assets	20	451	(33,642)	451	(34,191)
Tax on other comprehensive income		(90)	2,727	(90)	2,726
Total comprehensive income for the year		**245,448**	**311,399**	**232,340**	**305,192**
Profit attributable to:					
Owners of the parent		243,596	342,314	-	-
Non-controlling interests	32, 37	1,491	-	-	-
		245,087	**342,314**	**-**	**-**
Total comprehensive income attributable to:					
Owners of the parent		243,957	311,399	-	-
Non-controlling interests	32	1,491	-	-	-
		245,448	**311,399**	**-**	**-**
Earnings per share (in HRK) attributable to equity holders of the Group during the year:					
- basic and diluted	13	1.96	2.76	-	-

These financial statements were approved by the Management Board of the Company on 20 February 2018.

President of the Management Board:
Željko Kukurin

Member of the Management Board:
Marko Čižmek

VALAMAR RIVIERA d.d.
POREČ (5)

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(all amounts are expressed in thousands of HRK)	Note	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
ASSETS					
Non-current assets					
Property, plant and equipment	14	4,430,006	3,930,900	3,687,185	2,895,925
Investment property	15	10,254	10,868	10,254	10,868
Intangible assets	16	45,225	24,080	44,534	17,343
Investment in subsidiaries	17	189	-	450,905	668,830
Interest in joint venture	18	1,247	1,366	1,490	1,490
Deferred tax assets	25	140,664	131,638	122,560	93,615
Available-for-sale financial assets	20	3,791	4,936	3,761	4,906
Derivative financial instruments	24	91	-	91	-
Loans and deposits	21	423	693	379	606
Trade and other receivables	23	603	603	-	113,248
		4,632,493	4,105,084	4,321,159	3,806,831
Current assets					
Inventories	22	24,497	19,204	23,913	18,253
Trade and other receivables	23	50,470	63,857	48,519	83,839
Income tax receivable		308	1,240	63	165
Loans and deposits	21	986	1,298	969	1,271
Derivative financial instruments	24	13	-	13	-
Cash and cash equivalents	26	287,837	274,651	237,401	237,648
		364,111	360,250	310,878	341,176
Total assets		**4,996,604**	**4,465,334**	**4,632,037**	**4,148,007**
EQUITY AND LIABILITIES					
Share capital	27	1,672,021	1,672,021	1,672,021	1,672,021
Treasury shares	27	(35,889)	(37,141)	(35,889)	(37,141)
Capital reserves	28	3,116	1,718	3,603	2,205
Fair value reserves	28	634	273	634	273
Legal reserves	28	83,601	67,199	83,601	67,199
Other reserves	28	68,851	68,851	22,451	124,614
Retained earnings	28	492,716	364,874	649,047	494,911
		2,285,050	2,137,795	2,395,468	2,324,082
Non-controlling interest		231,125	235,842	-	-
Total equity		**2,516,175**	**2,373,637**	**2,395,468**	**2,324,082**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2017

		Group 31 December		Company 31 December	
(all amounts are expressed in thousands of HRK)	**Note**	**2017**	**2016**	**2017**	**2016**
LIABILITIES					
Non-current liabilities					
Borrowings	29	1,861,314	1,497,827	1,721,764	1,332,586
Derivative financial instruments	24	952	1,813	952	1,813
Deferred tax liabilities	25	52,759	56,198	16,082	16,918
Provisions	31	58,356	49,709	31,597	26,579
		1,973,381	1,605,547	1,770,395	1,377,896
Current liabilities					
Borrowings	29	202,703	179,666	184,702	159,263
Trade and other payables	30	278,388	281,295	256,438	264,667
Derivative financial instruments	24	706	500	706	500
Income tax liability		1,039	2,511	1,040	-
Provisions	31	24,212	22,178	23,288	21,599
		507,048	486,150	466,174	446,029
Total liabilities		**2,480,429**	**2,091,697**	**2,236,569**	**1,823,925**
Total equity and liabilities		**4,996,604**	**4,465,334**	**4,632,037**	**4,148,007**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2017

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 2016		**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, recognized 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**
Profit for the year		-	-	-	-	-	-	243,596	243,596	1,491	**245,087**
Other comprehensive income	28	-	-	-	-	361	-	-	361	-	**361**
Total comprehensive income		**-**	**-**	**-**	**-**	**361**	**-**	**243,596**	**243,957**	**1,491**	**245,448**
Transfer to legal reserves	28	-	-	-	16,402	-	-	(16,402)	-	-	**-**
Treasury shares released	27	-	1,252	1,398	-	-	-	-	2,650	-	**2,650**
Dividends	28	-	-	-	-	-	-	(99,352)	(99,352)	-	**(99,352)**
Change in non-controlling interest	28	-	-	-	-	-	-	-	-	(6,208)	**(6,208)**
Total contributions by and distributions to owners of the company, recognized directly in equity		**-**	**1,252**	**1,398**	**16,402**	**-**	**-**	**(115,754)**	**(96,702)**	**(6,208)**	**(102,910)**
Balance at 31 December 2017		**1,672,021**	**(35,889)**	**3,116**	**83,601**	**634**	**68,851**	**492,716**	**2,285,050**	**231,125**	**2,516,175**

Accompanying notes form an integral parts of these financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2017

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 2016		**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		**-**	**-**	**-**	**-**	**(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, recognized 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**
Profit for the year		-	-	-	-	-	-	231,979	231,979
Other comprehensive income	28	-	-	-	-	361	-	-	361
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**361**	**-**	**231,979**	**232,340**
Effect of merger of Puntižela d.o.o.	28	-	-	-	-	-	(10,087)	-	(10,087)
Effect of merger of Elafiti Babin kuk d.o.o.	28	-	-	-	-	-	(54,165)	-	(54,165)
Transfer to legal reserves	28	-	-	-	16,402	-	-	(16,402)	-
Treasury shares released	27	-	1,252	1,398	-	-	-	-	2,650
Dividends	28	-	-	-	-	-	(37,911)	(61,441)	(99,352)
Total contributions by and distributions to owners of the company, recognized directly in equity		**-**	**1,252**	**1,398**	**16,402**	**-**	**(102,163)**	**(77,843)**	**(160,954)**
Balance at 31 December 2017		**1,672,021**	**(35,889)**	**3,603**	**83,601**	**634**	**22,451**	**649,047**	**2,395,468**

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(all amounts are expressed in thousands of HRK)	Note	Group 2017	Group 2016	Company 2017	Company 2016
Cash flow generated from operating activities					
Cash from operations	34	639,230	548,964	574,125	544,412
Income tax (paid)/received	12	6,749	259	102	312
Net cash generated from operating activities		**645,979**	**549,223**	**574,227**	**544,724**
Cash flow from investing activities					
Cash from merger of subsidiary	36	-	-	338	4,640
Purchase of property, plant and equipment	14	(866,050)	(339,603)	(832,459)	(331,266)
Purchase of intangible assets	16	(28,539)	(12,440)	(27,865)	(12,433)
Proceeds from disposal of property, plant and equipment		3,504	4,076	3,470	5,899
Acquisition of subsidiary	17, 37	(6,208)	(250,372)	(6,208)	(285,527)
Acquisition of non-controlling interest	17, 37	-	(585)	-	-
Proceeds from disposal of financial assets held for sale		1,808	40,975	1,808	39,024
Loans granted		(10,637)	(7,671)	(10,616)	(7,594)
Loan repayments received		11,227	7,242	11,144	7,138
Dividend received		75	-	579	-
Interest received		829	4,827	639	4,750
Net cash used in investing activities		**(893,991)**	**(553,551)**	**(859,170)**	**(575,369)**
Cash flow from financing activities					
Dividend payment	28	(98,347)	(38,048)	(98,342)	(38,297)
Purchase of treasury shares	28	-	(36,708)	-	(36,708)
Interest paid		(42,779)	(35,055)	(38,110)	(30,070)
Proceeds from borrowings		582,242	689,895	582,242	618,507
Repayments of borrowings		(179,918)	(619,860)	(161,094)	(546,936)
Net cash generated/(used) in financing activities		**261,198**	**(39,776)**	**284,696**	**(33,504)**
Net increase/(decrease) in cash and cash equivalents		**13,186**	**(44,104)**	**(247)**	**(64,149)**
Cash and cash equivalents at beginning of year		274,651	318,755	237,648	301,797
Cash and cash equivalents at end of year	**26**	**287,837**	**274,651**	**237,401**	**237,648**

Accompanying notes form an integral parts of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 (subsidiary till 29 December 2017, merged into parent company with effect from 30 December 2017)
- 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 till 31 March 2017, merged into parent company with effect from 1 April 2017)
- 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 55.91% ownership (Note 37)

The Company's shares are listed and traded in 2017 on the Zagreb Stock Exchange d.d. in accordance with the relevant regulations on the organized market.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 1 – GENERAL INFORMATION (continued)

The presentation method of the Statement of financial position and the Statement of comprehensive income for the Group in the consolidated and separate financial statements is shown below. The following table presents the effects of various mergers and acquisitions within the group on comparable data of the Company and the Group.

Table 1.

		Group				**Company**			
	Note	**Statement of financial position**		**Statement of comprehensive income**		**Statement of financial position**		**Statement of comprehensive income**	
Company		31.12. 2017	31.12. 2016	2017	2016	31.12. 2017	31.12. 2016	2017	2016
Hoteli Baška d.d.	a	✓	✓	1.1-31.12	1.1-31.12	✓	✓	1.1-31.12	1.4-31.12
Baškaturist d.o.o.	a	✓	✓	1.1-31.12	1.1-31.12	✓	✓	1.1-31.12	1.4-31.12
Mirta Bašćanska d.o.o.	a	✓	✓	1.1-31.12	1.1-31.12	✓	✓	1.1-31.12	1.4-31.12
Vala Bašćanska d.o.o.	a	✓	✓	1.1-31.12	1.1-31.12	✓	✓	1.1-31.12	1.4-31.12
Bastion upravljanje d.o.o.	b	✓	✓	1.1-31.12	1.1-31.12	✓	✓	1.1-31.12	1.7-31.12
Puntižela d.o.o.	c	✓	✓	1.1-31.12	1.1-31.12	✓	-	1.4.-31.12	-
Elafiti Babin kuk d.o.o.	d	✓	✓	1.1-31.12	1.1-31.12	✓	-	30.12-31.12	-
Imperial d.d.	e	✓	✓	1.1-31.12	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 1 – GENERAL INFORMATION (continued)

a) On 31 March 2016, merger Agreement was concluded whereby the company Hoteli Baška d.d. was merged into the Company. The merger was registered in the Court Registry of the Commercial Court in Pazin (decision number Tt-16/1751-3), as at 12 March 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), as at 13 January 2016. By this registration, the merged companies ceased to exist, and the Company, took over all assets, all rights and all liabilities of the merged company. On 18 June 2015, the Company 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, the Company 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).

b) The merger of Bastion upravljanje d.o.o. Zagreb into the Company was entered in the court register on 30 June 2016, pursuant to the Decision of the Commercial court in Pazin no. Tt-16/5062-3 dated 30 June 2016. The legal effect of the said merger started as of 1 July 2016 when the Company became the universal legal successor of Bastion upravljanje d.o.o.

c) The merger of Puntižela d.o.o. Pula into the Company was entered in the court register on 31 March 2017, pursuant to the Decision of the Commercial court in Pazin no. Tt-17/2060-3 dated 31 March 2017. The legal effect of the said merger started as of 1 April 2017 when the Company became the universal legal successor of Puntižela d.o.o.

d) The merger of Elafiti Babin kuk d.o.o. Dubrovnik into the Company was entered in the court register on 29 December 2017, pursuant to the Decision of the Commercial court in Pazin no. Tt-17/7303-3 dated 29 December 2017. The legal effect of the said merger started as of 30 December 2017 when the Company became the universal legal successor of Elafiti Babin kuk d.o.o.

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 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.

e) 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 the Company 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 was concluded with the Company. 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 the Company 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.
The Company 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, after acquisition of Imperial d.d. was conducted under the regulations of Act of acquiring the limited companies, the Company acquired shares of Imperial d.d. and on 31 December 2016 had the total of 54.71% of shares and on 31 December 2017 total of 55.91% of shares.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 Company and Group 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 Company's and 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.

2.2 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 unrealized 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 venture's share of net assets of the jointly controlled entity. The profit or loss of the venture includes the venture'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-makers are the Company and Group Management which are in charge of managing hotel and tourist properties and facilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognized 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".

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 recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and 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 capitalized, 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 Company and 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 Company and Group expect 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 licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of up to 4 years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business. The Company and Group are 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".

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 Company and 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 capitalized only when it is probable that future economic benefits associated with it will flow to the Company and 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 Company and the Group classify their 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

2.11.1 Classification (continued)

(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 recognized in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortized 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 recognized 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 recognized on the trade-date – the date on which the Company and the Group commit to purchase or sell the asset. Investments are initially recognized 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 recognized at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company and the Group have 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 recognized at fair value and subsequently carried at amortized 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 recognized in the statement of comprehensive income as part of "other income" when the Group's right to receive payment is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity (other comprehensive income). When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized 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 recognized in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognized 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 Company and the Group establish 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

2.11.3 Impairment of financial assets

(a) Assets carried at amortized cost

The Company and the Group assess 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 Company and 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 which represents Management's best estimate of receivables collection. The amount of the provision is recognized 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 Company and the Group assess 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 instruments 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".

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 Company and the Group lease certain property, plant and equipment. Leases of property, plant and equipment, where the Company and the Group have substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized 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 Company and the Group make so-called advance payments of concession fees and the annual concession fee for tourist land area 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 Company and 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average method. Net realizable 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.

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 recognized initially at fair value and subsequently measured at amortized 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 Company and the Group purchase their 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 Company's and 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 Company's and Group's equity holders.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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 recognized 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 capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company and the Group have 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 recognized initially at fair value and subsequently measured at amortized 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 recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in equity. In that case tax is also recognized 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 recognized 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 realized or the deferred income tax liability is settled.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax (continued)

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. 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 Company and 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 Company and the Group to reduce their 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 Company and 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, i.e. 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 Company and the Group make payments to mandatory pension funds on behalf of their employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company and the Group do not have any other pension scheme and consequently, have no other obligations in respect of employee pensions. In addition, the Company and the Group are not obliged to provide any other post-employment benefits.

(b) Termination benefits

Termination benefits are recognized when the Company and the Group terminate employment contracts of employees before their normal retirement date in accordance with pension and labour regulations. The Company and the Group recognize termination benefits when they have 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 Company and the Group recognize a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Company and the Group recognize a liability for accumulated compensated absences based on unused vacation days at the reporting date and if liability can be reliably estimated.

(d) Long-term employee benefits

The Company and the Group recognize the obligation for long-term employee benefits (severance payments and jubilee awards) evenly over the period in which the benefit is realized, based on the actual number of years of service. The long-term employee benefit obligation includes the assumptions on the number of employees to whom the benefits should be paid, the estimated cost of the benefits and the discount rate.

2.22 Provisions

Provisions are recognized when: the Company and the Group have 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 recognized 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 recognized as interest expense.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company's and Group's activities. Revenue is shown net of value-added tax and after eliminating sales within the Group.

The Company and the Group recognize 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 Company's and Group's activities as described below.

(a) Sales of services

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

b) Rental of services

Revenue for rental services is generally recognized 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 recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company and the Group reduce 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 recognized using the original effective interest rate.

(d) Dividend income

Dividend income is recognized 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 recognized 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 and amended standards and interpretations

The following new standards and amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the European Union are effective for the current period:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments did not have significant effect on Company's and Group's financial statements.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The adoption of this amendments had no material impact on the financial statements of the Company and the Group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 New and amended standards and interpretations (continued)

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The adoption of this amendments had no material impact on the financial statements of the Company and the Group.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- IFRS 15 Revenue from Contracts with Customers, issued in May 2014 including amendment to IFRS 15: issued in April 2016 (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018). Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.
  The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company and the Group are planning to adopt the new standard on the required effective date using the modified retrospective method. During 2017, the Company and the Group performed a preliminary assessment of IFRS 15 transition effects. The Company and the Group do not expect material effects on profit for the year, assets, liabilities and equity.

- IFRS 9 Financial Instruments, issued in July 2014 the final version that replaced the IAS 39 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2018). IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company and the Group are planning to adopt the new standard on the required effective date and will not restate comparative information. The Company does not plan to restate comparative information. The Management anticipates that the adoption will have no material impact on the financial statements of the Company and the Group.

- IFRS 16 Leases
  IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.
  Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
  IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.
  In 2018, the Company and the Group will continue to assess the potential effect of IFRS 16 on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 New and amended standards and interpretations (continued)

Standards and Interpretations issued by IASB but not yet adopted by the EU

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU:

- IFRS 14 Regulatory Deferral Accounts

  IFRS 14 was issued in January 2014 (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016). The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. This standard is not applicable to the Company and the Group.

- IFRS 17 Insurance contracts

  In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. This standard is not applicable to the Company and the Group.

- Transfers of Investment Property — Amendments to IAS 40

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Company and the Group will apply amendments when they become effective. The Management anticipates that the adoption will have no material impact on the financial statements of the Company and the Group.

- IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2

  The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company and the Group are assessing the potential effect of the amendments on their financial statements.

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

  The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Management anticipates that the adoption will have no material impact on the financial statements of the Company and the Group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 New and amended standards and interpretations (continued)

Standards and Interpretations issued by IASB but not yet adopted by the EU (continued)

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters. The Company and the Group already applies IFRS. Therefore, this amendment is not applicable.

- IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice. The Management anticipates that the adoption will have no material impact on the financial statements of the Company and the Group.

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4. These amendments are not applicable to the Company and the Group.

Standards and Interpretations issued by IASB but not yet adopted by the EU (continued)

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

  The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after:
  (i) The beginning of the reporting period in which the entity first applies the interpretation
  Or
  (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's and the Group's current practice is in line with the Interpretation, the Company and the Group do not expect any effect on their financial statements.

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Management anticipates that the adoption will have no material impact on the financial statements of the Company and the Group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 Company and the Group conduct their business operations across national borders and are 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 Company and the Group are naturally hedged from exchange rate risks. Since some liabilities are denominated in HRK, the Company and the 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.

At 31 December 2017, if the EUR had weakened/strengthened by 1% against the HRK, with all other variables held constant, the net profit of the Group for the year would have been HRK 15,016 thousand (2016: HRK 11,429 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 Company and the Group to cash flow interest rate risk. Periodically, the Company and the Group use 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 the Group have 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 Company and the Group have significant cash surpluses at their disposal.

At 31 December 2017, if interest rates on currency-denominated borrowings had been higher/lower by 1 percentage point, with all other variables held constant, the profit of the Group for the year would have been HRK 4,197 thousand (2016: HRK 4,419 thousand) higher/(lower), mainly as a result of higher/(lower) interest expense on variable-rate borrowings.

At 31 December 2017, if interest rates on currency-denominated deposits had been 1 percentage point higher/(lower), with all other variables held constant, the profit of the Group for the year would have been HRK 1,368 thousand (2016: HRK 1,227 thousand) higher/(lower), mainly as a result of higher/(lower) interest income on variable rate deposits.

(iii) Price risk

The Company and the Group hold equity and debt securities and are exposed to equity price risk due to price volatility. The Company and the Group are not an active participants in the market trade in terms of trading with equity and debt securities. However, with the HRK 291 million invested in acquiring shares of Imperial d.d., the Company and the Group are exposed to the said risk to a certain extent.

As at 31 December 2017, if the indices of the ZSE had been higher/(lower) by 9.43% for 2017 (which was the average index movement), with all other variables held constant, reserves of the Group within equity and other comprehensive income would have been HRK 273 thousand higher/(lower) as a result of gains/(losses) on equity securities available for sale.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk arises from cash, time deposits and receivables. According to the Company's and 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 Company and the Group continuously monitor their exposure towards customers and their 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 2017, the Company and the Group don't have contracted unused lines of credit with financial institutions for 2018. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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 2017					
Trade and other payables	171,741	12,388	-	-	-
Borrowings	37,151	210,505	435,317	610,553	1,096,939
Derivative financial instruments	-	706	789	163	-
Total liabilities (contractual maturities)	**208,892**	**223,599**	**436,106**	**610,716**	**1,096,939**
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**

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 2017					
Trade and other payables	158,353	12,388	-	-	-
Borrowings	37,099	189,847	397,987	568,439	1,032,995
Derivative financial instruments	-	706	789	163	-
Total liabilities (contractual maturities)	**195,452**	**202,941**	**398,776**	**568,602**	**1,032,995**
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**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Company's and Group's objectives when managing capital are to safeguard the Company's and 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 Company and 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 Company and the Group use a variety of methods and make 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 Company and 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 2017

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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

	Group			
(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
At 31 December 2017				
Assets measured at fair value				
Available-for-sale financial assets - equity securities	3,791	-	-	3,791
Derivative financial instruments	-	104	-	104
Total assets measured at fair value	**3,791**	**104**	**-**	**3,895**
Liabilities measured at fair value				
Derivative financial instruments	-	1,658	-	1,658
Total liabilities measured at fair value	**-**	**1,658**	**-**	**1,658**
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**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

	Company			
(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
At 31 December 2017				
Assets measured at fair value				
Available-for-sale financial assets - equity securities	3,761	-	-	3,761
Derivative financial instruments	-	104	-	104
Total assets measured at fair value	**3,761**	**104**	**-**	**3,865**
Liabilities measured at fair value				
Derivative financial instruments	-	1,658	-	1,658
Total liabilities measured at fair value	**-**	**1,658**	**-**	**1,658**
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**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Company and the Group make 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 Company and the Group use 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 (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.

(b) Estimated useful lives

By using a certain asset, the Company and the Group use 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 utilization, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(c) Land ownership

Due to the transition from public to private ownership, e.g. in the transformation and privatization 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 privatization process, that came into force on 1 August 2010 (hereinafter the Law) is approximately 3.24 million m2. On 31 January 2011 the Company submitted requests for concessions according to the Law in appropriate legal deadline and prescribed content.

Concessions are required: a) for approximately 2.28 million m2 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 5.5 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 1.4 mil. per year.

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

(d) Recognition of deferred tax assets

Deferred tax assets represents the amount of income tax recoverable through future deductions from taxable profits and are recognized 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 utilized HRK 41,040 thousand of tax incentives and recognized remaining tax incentives of HRK 83,668 thousand as deferred tax asset.

Under the Act on Investment Incentives, the Company was entitled to additional tax incentives for additional investments in destination Rabac realized up to the 18 March 2017 ie until the expiry of the three-year period of the status of the holder of the incentive measures and on that basis received in 2017 additional incentives in the amount of HRK 54,123 thousand. The Company in 2017 utilized HRK 40,859 thousand of tax incentives.

(e) 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. 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 the 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 2017

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 organizational principle where all of the income generated from camping profit centers was reported in the camping segment, while all of the income generated from hotel and apartment profit centers 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 2017 is as follows:

Group (in thousands of HRK)	**Hotels and apartments**	**Camping**	**Other business segments**	**Total**
Total sales	1,292,813	420,780	116,408	1,830,001
Inter-segment revenue	(4,337)	(149)	(70,228)	(74,714)
Revenue from external customers	**1,288,476**	**420,631**	**46,180**	**1,755,287**
Depreciation and amortization	249,415	70,069	26,930	346,414
Net finance income/(expense) net	(23,462)	(8,016)	2,433	(29,046)
Write off of fixed assets	5,169	6,837	2	12,008
Profit/(loss) of segment	665,293	289,026	(261,962)	692,357
Total assets	**3,104,787**	**986,334**	**434,077**	**4,525,198**
Total liabilities	**2,238,805**	**42,918**	**48,607**	**2,330,330**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 5 – SEGMENT INFORMATION (continued)

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 amortization	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**

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

(in thousands of HRK)	**Group 2017**	**Group 2016**
Revenue		
Revenue from segments	1,830,001	1,482,486
Inter-segment revenue	(74,714)	(27,618)
Total revenue	**1,755,287**	**1,454,868**
Profit		
Profit from segments	692,357	571,555
Other unallocated expenses	(417,476)	(324,253)
Elimination of inter-segment profit/(loss)	(36,238)	24,607
Total profit before tax	**238,643**	**271,909**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 5 – SEGMENT INFORMATION (continued)

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

	Group			
	2017		2016	
(in thousands of HRK)	Assets	Liabilities	Assets	Liabilities
Segment assets/liabilities	**4,525,198**	**2,330,330**	**4,004,025**	**1,939,271**
Hotels and apartments segment	3,104,787	2,238,805	2,791,462	1,874,377
Camping segment	986,334	42,918	815,449	27,025
Other segment	434,077	48,607	397,114	37,869
Unallocated	**471,406**	**150,099**	**461,309**	**152,426**
Investments in joint ventures	1,247	-	1,366	-
Investment in subsidiaries	189	-	-	-
Other financial assets	3,791	-	4,936	-
Loans and deposits	1,409	-	1,991	-
Cash and cash equivalents	287,837	-	274,651	-
Income tax receivable	308	-	1,240	-
Other receivables	35,857	-	45,487	-
Deferred tax assets/liabilities	140,664	52,759	131,638	56,198
Other liabilities	-	42,773	-	44,206
Derivative financial assets/ liabilities	104	1,658	-	2,313
Provisions	-	52,909	-	49,709
Total	**4,996,604**	**2,480,429**	**4,465,334**	**2,091,697**

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)	2017	2016
Revenue from sales to domestic customers	150,095	119,026
Revenue from sales to foreign customers	1,605,192	1,335,842
	1,755,287	**1,454,868**

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

	Group			
Sales to foreign customers	2017	%	2016	%
EU members	1,438,810	89.63	1,183,689	88.61
Other	166,382	10.37	152,153	11.39
	1,605,192	**100.00**	**1,335,842**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 6 – OTHER INCOME

	Group		Company	
(in thousand HRK)	**2017**	**2016**	**2017**	**2016**
Income from own consumption	5,211	2,739	5,192	2,739
Reimbursed costs	3,045	2,953	2,935	2,963
Income from cassa sconto	2,848	2,828	2,796	2,828
Income from provision release	2,423	8,233	68	6,289
Income from donations and other	1,973	946	1,750	943
Income from insurance and legal claims	1,457	7,786	1,196	7,707
Dividend income	75	27	579	27
Other income	7,916	9,202	7,665	8,135
	24,948	**34,714**	**22,181**	**31,631**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 7 – COST OF MATERIALS AND SERVICES

	Group		Company	
(in thousand HRK)	**2017**	**2016**	**2017**	**2016**
Raw materials and supplies				
Raw materials and supplies used /i/	172,795	140,286	158,401	140,038
Energy and water used	87,338	69,788	79,257	68,487
Miscellaneous inventories	23,858	25,550	22,476	25,491
	283,991	**235,624**	**260,134**	**234,016**
External services				
Maintenance	60,741	54,657	56,675	53,457
Commission fees (agencies and credit cards)	38,489	45,725	35,351	45,469
Marketing, promotion and fairs	37,948	32,232	36,418	31,809
Communal fees	22,975	21,407	21,857	21,041
Telecommunication and transport	14,449	10,830	13,626	10,628
Rent /ii/	14,029	13,352	42,862	41,851
Recreation services	12,560	9,900	11,316	9,871
Services of arrangement and other contents	9,985	7,035	9,484	6,752
Laundry services	6,485	6,381	6,485	6,306
Other services	18,102	13,192	17,577	12,935
	235,763	**214,712**	**251,651**	**240,120**
	519,754	**450,336**	**511,785**	**474,135**

/i/ Cost of materials and services of the Company is comprised of raw materials and supplies used of HRK 22,018 thousand, food and beverage costs of HRK 127,280 thousand and other materials and supplies used of HRK 9,104 thousand (2016: cost of raw materials and supplies used of HRK 19,682 thousand, food and beverage costs of HRK 112,611 thousand and other costs of HRK 7,746 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. till the merger on 29 December 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 8 – STAFF COSTS

	Group		Company	
(in thousand HRK)	**2017**	**2016**	**2017**	**2016**
Net salaries	292,865	222,430	269,924	219,442
Pension contributions	88,335	63,268	74,921	62,076
Health insurance contributions	61,753	53,188	61,697	51,899
Other (contributions and taxes)	37,209	31,934	37,209	31,934
Termination benefits	600	3,183	273	2,406
Other staff costs /i/	62,321	45,731	58,776	44,985
	543,083	**419,734**	**502,800**	**412,742**
Number of employees at 31 December	**2,854**	**2,197**	**2,565**	**2,184**

/i/ Other staff costs comprise remunerations for temporary services in the amount of HRK 16 mil. for the Company (2016: HRK 12 mil.) and HRK 16.5 mil for the Group (2016: HRK 12.5 mil.), fees and transportation costs, jubilee awards and similar.

NOTE 9 – OTHER OPERATING EXPENSES

	Group		Company	
(in thousand HRK)	**2017**	**2016**	**2017**	**2016**
Municipal and similar charges and contributions	51,804	46,654	47,798	45,312
Professional services	18,398	22,022	16,863	21,217
Write off of property, plant and equipment /i/	12,008	12,044	11,635	12,034
Entertainment	7,212	6,195	7,058	6,184
Insurance premiums	5,452	3,934	4,785	3,607
Provisions	4,040	1,854	421	1,854
Bank charges	2,509	2,342	2,117	2,262
Impairment of assets	126	691	112	691
Collection of receivables previously written-off	(300)	(465)	(300)	(465)
Other	8,095	10,488	7,380	9,896
	109,344	**105,759**	**97,869**	**102,592**

/i/ Write off of property, plant and equipment of the Group relates to demolition of parts of buildings as a part of new investments. Demolition of buildings amounts to HRK 10,323 thousand, and HRK 1,685 thousand relates to other write offs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 10 – OTHER GAINS/(LOSSES) – NET

	Group		Company	
(in thousand HRK)	**2017**	**2016**	**2017**	**2016**
Net foreign exchange gains	3,795	737	3,294	933
Net gains on sale of property, plant and equipment	1,307	1,542	1,142	1,538
Changes in fair value of forwards and interest rate swaps	749	(2,704)	749	(2,704)
Gains on disposal of financial assets available for sale	212	34,620	212	35,155
Realized net gains from forwards and interest rate swaps	10	3,556	10	3,556
Share fair value adjustment	-	-	(5,629)	-
	6,073	**37,751**	**(222)**	**38,478**

NOTE 11 – FINANCE INCOME/(EXPENSE) – NET

	Group		Company	
(in thousand HRK)	**2017**	**2016**	**2017**	**2016**
Interest income	625	4,205	437	4,126
	625	**4,205**	**437**	**4,126**
Interest expense	(43,870)	(39,459)	(38,531)	(35,491)
Net foreign exchange gains on financing activities	14,199	20,723	13,101	18,583
	(29,671)	**(18,736)**	**(25,430)**	**(16,908)**
Financial expense - net	**(29,046)**	**(14,531)**	**(24,993)**	**(12,782)**

During 2017 the Group and the Company capitalized borrowing costs of HRK 2,273 thousand with capitalization rate from 1.97% till 3.00%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 12 – INCOME TAX

Income tax comprise:

	Group		Company	
(In thousand HRK)	2017	2016	2017	2016
Current tax	6,111	3,330	-	-
Deferred tax	(12,555)	(73,735)	(14,269)	(71,600)
Tax benefit	**(6,444)**	**(70,405)**	**(14,269)**	**(71,600)**

Reconciliation of the effective tax rate:

	Group		Company	
(In thousand HRK)	2017	2016	2017	2016
Profit before tax	238,643	271,909	217,710	265,057
Income tax	43,009	54,382	39,188	53,011
Tax exempt income	(385)	(399)	(357)	(318)
Non-deductible expenses	1,384	1,190	1,087	1,271
Investment tax credits	(54,123)	(124,708)	(54,123)	(124,708)
Effect of changes in tax rates	-	(856)	-	(856)
Recognition of deferred tax assets previously not recognized	(63)	(14)	(64)	-
Recognition of other deferred tax assets	3,734	-	-	-
Tax benefit	**(6,444)**	**(70,405)**	**(14,269)**	**(71,600)**
Effective tax rate	-	-	-	-

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 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. As the appeal was rejected in 2017, the Company initiated an administrative dispute.

Tax Administration has issued a ruling concerning the tax audit for the year 2011 for the company Dubrovnik Babin kuk d.d. which was merged to the Company on 31 October 2013. According to this ruling, the tax liability should be increased by HRK 1,304 thousand. The Company appealed the aforementioned decision. As the appeal was rejected by the second instance, the Company initiated an administrative dispute in 2017.

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 2017

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 utilization 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 utilized HRK 41,040 thousand of tax incentives and recognized remaining tax incentives of HRK 83,668 thousand as deferred tax asset.

Under the Act on Investment Incentives, the Company was entitled to additional tax incentives for additional investments in destination Rabac realized up to the 18 March 2017 ie until the expiry of the three-year period of the status of the holder of the incentive measures and on that basis received in 2017 additional incentives in the amount of HRK 54,123 thousand. The Company in 2017 utilized HRK 40,859 thousand of tax incentives.

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	
	2017	**2016**
Profit attributable to equity holders (in thousands of HRK)	243,596	342,314
Weighted average number of shares	124,207,204	124,235,079
Basic/diluted earnings per share (in HRK)	**1.96**	**2.76**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

Group (in thousand HRK)	**Land**	**Buildings**	**Plant and equipment**	**Furniture, tools and horticulture**	**Assets under construction**	**Total**
At 1 January 2016						
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**
At 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**
Year ended 31 December 2017						
Opening carrying amount	873,211	2,522,991	225,945	108,400	200,353	3,930,900
Reclassification from investment property and intangible assets	-	(993)	5,796	(4,805)	-	(2)
Additions	1,497	609,363	198,373	66,124	(26,153)	849,204
Disposals and write offs	-	(10,404)	(493)	(797)	-	(11,694)
Depreciation	-	(249,244)	(62,363)	(26,795)	-	(338,402)
Carrying amount at year end	**874,708**	**2,871,713**	**367,258**	**142,127**	**174,200**	**4,430,006**
At 31 December 2017						
Cost	874,708	5,651,533	794,679	346,819	174,200	7,841,939
Accumulated depreciation and impairment	-	(2,779,820)	(427,421)	(204,692)	-	(3,411,933)
Carrying amount	**874,708**	**2,871,713**	**367,258**	**142,127**	**174,200**	**4,430,006**

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

As at 31 December 2017, the carrying amount of land and buildings of the Group pledged as collateral for borrowings amounted to HRK 1,746,280 thousand (2016: HRK 1,951,778 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 14 –PROPERTY, PLANT AND EQUIPMENT (continued)

Company (in thousand HRK)	**Land**	**Buildings**	**Plant and equipment**	**Furniture, tools and horticulture**	**Assets under con-struction**	**Total**
At 1 January 2016						
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**
Year ended 31 December 2017						
Opening carrying amount	595,575	1,805,980	207,012	89,790	197,568	2,895,925
Effect of merger of subsidiary (Note 36)	36,855	219,307	776	133	1,723	258,794
Additions	1,497	595,283	196,196	65,300	(38,915)	819,361
Disposals and write offs	-	(10,359)	(230)	(727)	-	(11,316)
Depreciation	-	(193,593)	(57,910)	(24,076)	-	(275,579)
Carrying amount at year end	**633,927**	**2,416,618**	**345,844**	**130,420**	**160,376**	**3,687,185**
At 31 December 2017						
Cost	633,927	5,318,739	793,484	346,607	160,376	7,253,133
Accumulated depreciation and impairment	-	(2,902,121)	(447,640)	(216,187)	-	(3,565,948)
Carrying amount	**633,927**	**2,416,618**	**345,844**	**130,420**	**160,376**	**3,687,185**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Assets under construction of the Group in amount of HRK 174,200 thousand mainly relate to the investment in hotels and apartments of HRK 100,805 thousand, investment in camping of HRK 36,996 thousand, the reconstruction, extension and adaptation of commercial buildings of HRK 10,190 thousand, advances paid to suppliers for investments of HRK 24,768 thousand and other investments of HRK 1,441 thousand.

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

(in thousands of HRK)	**2017**	**2016**
Cost	133,356	118,317
Accumulated depreciation as at 1 January	(101,237)	(95,814)
Depreciation charge for the year	(3,796)	(4,130)
Carrying amount	**28,323**	**18,373**

The operating lease relates to the lease of hospitality facilities and shops to third parties. During 2017, the Group realized rental income of HRK 40,953 thousand (2016: HRK 35,639 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 2017

NOTE 15 – INVESTMENT PROPERTY

(in thousand HRK)	Group	Company
At 31 December 2016		
Cost	17,111	17,111
Accumulated depreciation	(6,243)	(6,243)
Carrying amount	**10,868**	**10,868**
Year ended 31 December 2017		
Opening carrying amount	10,868	10,868
Depreciation	(614)	(614)
Carrying amount at year end	**10,254**	**10,254**
At 31 December 2017		
Cost	17,111	17,111
Accumulated depreciation	(6,857)	(6,857)
Carrying amount	**10,254**	**10,254**

As at 31 December 2017, the fair value of investment property (office space) approximates carrying value. As at 31 December 2017, properties pledged as collateral for loans amounted to HRK 7,252 thousand (2016: HRK 7,722 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 16 – INTANGIBLE ASSETS

Group (in thousands of HRK)	**Goodwill /i/**	**Software**	**Total**
At 1 January 2016			
Cost	6,568	39,118	45,686
Accumulated amortization	-	(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
Amortization	-	(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 amortization	-	(25,446)	(25,446)
Carrying amount	**6,568**	**17,512**	**24,080**
Year ended 31 December 2017			
Opening carrying amount	6,568	17,512	24,080
Reclassification to property, plant and equipment	-	2	2
Additions	-	28,539	28,539
Amortization	-	(7,396)	(7,396)
Carrying amount at year end	**6,568**	**38,657**	**45,225**
At 31 December 2017			
Cost	6,568	72,181	78,749
Accumulated amortization	-	(33,524)	(33,524)
Carrying amount	**6,568**	**38,657**	**45,225**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 16 – INTANGIBLE ASSETS (continued)

Company (in thousands of HRK)	**Goodwill /i/**	**Software**	**Total**
At 1 January 2016			
Cost	-	28,703	28,703
Accumulated amortization	-	(19,501)	(19,501)
Carrying amount	**-**	**9,202**	**9,202**
Year ended 31 December 2016			
Opening carrying amount	-	9,202	9,202
Effect of merger of subsidiary (Note 36)	-	454	454
Additions	-	12,433	12,433
Amortization	-	(4,746)	(4,746)
Carrying amount at year end	**-**	**17,343**	**17,343**
At 31 December 2016			
Cost	-	42,952	42,952
Accumulated amortization	-	(25,609)	(25,609)
Carrying amount	**-**	**17,343**	**17,343**
Year ended 31 December 2017			
Opening carrying amount	-	17,343	17,343
Effect of merger of subsidiary (Note 36)	6,568	32	6,600
Additions	-	27,865	27,865
Amortization	-	(7,274)	(7,274)
Carrying amount at year end	**6,568**	**37,966**	**44,534**
At 31 December 2017			
Cost	6,568	71,151	77,719
Accumulated amortization	-	(33,185)	(33,185)
Carrying amount	**6,568**	**37,966**	**44,534**

/i/ Impairment tests for goodwill
Goodwill is allocated to cash-generating unit (CGUs) for transferred subsidiary Puntižela d.o.o., Pula that was merged to parent company on 31 March 2017. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 17 – INVESTMENT IN SUBSIDIARIES

	Company	
(in thousands of HRK)	**2017**	**2016**
At beginning of the year	668,830	583,263
Acquisition of subsidiary /ii/	6,208	284,942
Purchase of minority share of Puntižela d.o.o.	-	585
Merger of subsidiaries /i/	(218,502)	(199,960)
Decrease in share value	(5,629)	-
At end of the year	**450,905**	**668,830**

(in thousands of HRK)	**Ownership**	**2017**	**2016**
Elafiti Babin kuk d.o.o., Dubrovnik /i/	100.00%	-	182,036
Palme turizam d.o.o., Dubrovnik	100.00%	115,448	115,448
Magične stijene d.o.o., Dubrovnik	100.00%	5,577	11,207
Bugenvilia d.o.o., Dubrovnik	100.00%	38,542	38,542
Puntižela d.o.o., Pula /i/	100.00%	-	36,466
Valamar Hotels & Resorts GmbH, Frankfurt am Main	100.00%	189	189
Imperial d.d., Rab /ii/	55.91%	291,149	284,942
		450,905	**668,830**

/i/ In 2017 two subsidiaries were merged with the parent company, Puntižela d.o.o. on 31 March 2017 and Elafiti Babin kuk d.o.o. on 29 December 2017.
/ii/ During 2016 and 2017 the Company acquired 55.91% of shares of Imperial d.d.

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. Till the merger Puntižela d.o.o. was generating revenue from performing hospitality activities (camping and hostel accommodation), 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 2017

NOTE 18 – INTEREST IN JOINT VENTURE

According to the agreement, the Group controls 33.33% of Pogača Babin kuk d.o.o. During 2017 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 realized profit or loss.

	Group	
(in thousands of HRK)	**2017**	**2016**
At beginning of year on equity basis	1,366	1,242
Dividends paid	(95)	-
Share in net profit/(loss)	(24)	124
At end of year on equity basis	**1,247**	**1,366**

	Company	
(in thousands of HRK)	**2017**	**2016**
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)	**2017**	**2016**
At beginning of year	4,477	4,105
Net profit/(loss) for the period	(72)	372
At end of year	**4,405**	**4,477**
Share in net assets from joint venture (33.33%)	1,468	1,493
Dividends paid related to previous year	(126)	(127)
Dividends paid related to current year	(95)	-
Carrying amount	**1,247**	**1,366**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 18 – INTEREST IN JOINT VENTURE (continued)

	Pogača Babin kuk d.o.o. 100%	
(in thousands of HRK)	**2017**	**2016**
Assets:		
Non-current assets	459	550
Current assets	3,370	3,628
	3,829	**4,178**
Liabilities:		
Short-term liabilities	901	894
	901	**894**
Net assets	**2,928**	**3,284**
Income	8,945	9,361
Expenses	(9,017)	(8,916)
Profit /(loss) before tax	**(72)**	**445**
Profit /(loss) after tax	**-**	**372**
Share in profit /(loss) of joint venture (33.33%)	**(24)**	**124**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY

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 2017				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables	18,579	-	-	18,579
Loans and deposits	1,409	-	-	1,409
Cash and cash equivalents	287,837	-	-	287,837
Financial assets measured at fair value				
Available-for-sale financial assets	-	3,791	-	3,791
Derivative financial instruments	-	-	104	104
Total	**307,825**	**3,791**	**104**	**311,720**

(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**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 2017				
Assets at the reporting date				
Financial assets not measured at fair value				
Trade receivables /i/	19,643	-	-	19,643
Loans and deposits	1,348	-	-	1,348
Cash and cash equivalents	237,401	-	-	237,401
Financial assets measured at fair value				
Available-for-sale financial assets	-	3,761	-	3,761
Derivative financial instruments	-	-	104	104
Total	**258,392**	**3,761**	**104**	**262,257**

(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**

/i/ Mainly relates to the receivable from subsidiary Elafiti Babin kuk d.o.o. of HRK 138,443 thousand in 2016, which was closed with merger to the Company on 29 December 2017

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 2017

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Liabilities at reporting date				
Financial liabilities – at amortized cost:				
Trade and other payables	184,128	198,703	170,741	192,763
Borrowings	2,064,016	1,677,493	1,906,465	1,491,849
	2,248,144	**1,876,196**	**2,077,206**	**1,684,612**
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	1,658	2,313	1,658	2,313
	2,249,802	**1,878,509**	**2,078,864**	**1,686,925**

NOTE 19b – CREDIT QUALITY OF FINANCIAL ASSETS

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Loans and deposits				
Loans and deposits	516	988	428	850
	516	**988**	**428**	**850**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Listed equity securities /i/	3,621	4,766	3,621	4,766
Other	170	170	140	140
	3,791	**4,936**	**3,761**	**4,906**

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

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
At beginning of year	4,936	44,902	4,906	41,124
Effect of merger of subsidiary (Note 36)	-	-	-	1,842
Change in fair value recognized in other comprehensive income	446	(1,199)	446	(1,171)
Disposal	(1,591)	(38,797)	(1,591)	(36,889)
Business combination (Note 37)	-	30	-	-
At end of year	**3,791**	**4,936**	**3,761**	**4,906**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 21 – LOANS AND DEPOSITS

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Loans	1,169	1,370	1,108	1,256
Deposits	240	621	240	621
Total	**1,409**	**1,991**	**1,348**	**1,877**
Less: non-current portion	(423)	(693)	(379)	(606)
Current portion	**986**	**1,298**	**969**	**1,271**

Loans include an amount of HRK 188 thousand (2016: HRK 229 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 191 thousand which relate to long term loan which is due in year 2019. This long term loan is secured by entering a pledge right on the property.
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 413 thousand (2016: HRK 364 thousand) and fair value of non-current loans and deposits of the Company is HRK 370 thousand (2016: HRK 283 thousand). The fair value is calculated based on the cash flows discounted with a rate of 2.13% (2016: 2.95%) which is yield to maturity on bond of the Republic of Croatia with maturity in year 2026.

NOTE 22 – INVENTORIES

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Raw materials and supplies	12,861	9,615	11,609	8,784
Trade goods and packaging material	11,636	9,589	12,304	9,469
	24,497	**19,204**	**23,913**	**18,253**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 23 – TRADE AND OTHER RECEIVABLES

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Domestic receivables	15,007	19,444	12,981	16,169
Foreign receivables	8,190	10,729	6,941	10,033
Related parties receivables	-	-	3,393	138,501
Provision for impairment of trade receivables	(8,851)	(11,813)	(7,701)	(9,500)
Trade receivables – net	14,346	18,360	15,614	155,203
Accrued income	4,005	3,592	3,801	3,437
Interest receivables	228	432	228	430
	18,579	22,384	19,643	159,070
Less: non-current portion	(603)	(603)	-	(113,248)
Current portion	**17,976**	**21,781**	**19,643**	**45,822**
Prepaid expenses	11,749	12,239	10,987	11,319
VAT receivable	13,006	19,320	10,592	17,868
Advances to suppliers	5,272	7,422	5,270	6,989
Receivables from employees	1,226	657	1,172	650
Receivables from state institutions	299	453	158	262
Other receivables	942	1,985	697	929
Total current receivables	**50,470**	**63,857**	**48,519**	**83,839**
Total trade and other receivables	**51,073**	**64,460**	**48,519**	**197,087**

Movements in provisions for impairment of trade and other receivables:

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
At 1 January	11,813	11,408	9,500	11,352
Increase of impairment	314	2,980	376	723
Collected receivables	(1,695)	(1,491)	(1,686)	(1,491)
Receivables written-off	(1,581)	(1,084)	(489)	(1,084)
At 31 December	**8,851**	**11,813**	**7,701**	**9,500**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

	Group		Company	
(in thousands of HRK)	2017	2016	2017	2016
Trade receivables:				
Neither past due nor impaired	4,935	5,583	7,975	143,584
Past due, but not impaired	9,411	12,777	7,639	11,619
	14,346	**18,360**	**15,614**	**155,203**

Trade and other receivables are carried at amortized cost. As at 31 December 2016 receivables neither past due nor impaired of the Company consisted of receivables from subsidiary Elafiti Babin kuk d.o.o. of HRK 138,443 thousand which mainly was related to the reimbursed investment cost of hotel Valamar Lacroma Dubrovnik to subsidiary Elafiti Babin kuk d.o.o. which was closed by mergering to parent company on 29 December 2017.

As of 31 December 2017, the maturities of the trade receivables which are past due but not impaired are as follows:

	Group		Company	
(in thousands of HRK)	2017	2016	2017	2016
Up to one month	1,877	1,815	1,814	1,727
One to two months	2,244	3,199	2,136	3,114
Two to three months	1,645	2,158	1,568	2,105
Over three months up to 1 year	3,645	5,605	2,121	4,673
	9,411	**12,777**	**7,639**	**11,619**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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)	**2017**	**2016**	**2017**	**2016**
EUR	8,142	9,533	6,896	9,007
HRK	6,204	8,827	8,718	146,196
	14,346	**18,360**	**15,614**	**155,203**

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 2017

NOTE 24 – DERIVATIVE FINANCIAL INSTRUMENTS

Group and Company	2017		2016	
(in thousands of HRK)	Receivables	Liabilities	Receivables	Liabilities
Fair value of interest rate swap	104	1,586	-	2,045
Market value of foreign currency forward contracts	-	72	-	268
Total	**104**	**1,658**	**-**	**2,313**
Less non-current portion:	(91)	(952)	-	(1,813)
Fair value of interest rate swap	13	634	-	232
Market value of foreign currency forward contracts	-	72	-	268
Current portion	**13**	**706**	**-**	**500**

Interest rate swaps and foreign currency forwards

As at 31 December 2017, the contracted value of outstanding interest rate swaps amounts to HRK 207,067 thousand (2016: HRK 134,960 thousand).

Contracted value of foreign currency forwards as at 31 December 2017 was HRK 37,891 thousand (2016: HRK 113,367 thousand).

As at 31 December 2017, weighted average base interest rate fixed by interest rate swap contract for loan in EUR is 0.35%, while base interest rate for remaining loans with variable interest rates (EURIBOR) for EUR borrowings was at the level of -0.33%. Fair value gains and losses on interest rate swaps are recognized directly in Statement of comprehensive income within finance costs until the repayment of borrowings with final maturity as at 30 June 2024.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 2016	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**
Credited to the income	-	-	-	1,296	128	54,123	-	55,547
Debited to the income	(3,813)	(1,703)	(13)	(5)	(128)	(40,859)	-	(46,521)
At 31 December 2017	**33,523**	**771**	**3,696**	**5,742**	**-**	**96,932**	**-**	**140,664**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 25 – DEFERRED TAX ASSET / LIABILITY (continued)

DEFERRED TAX ASSET (continued)

Company (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 2016	-	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**
Increase of tax assets – merger effect (Note 36)	15,474	-	-	-	128	-	-	15,602
Credited to the income	-	1,013	-	915	-	54,123	-	56,051
Debited to the income	-	(1,703)	(13)	(5)	(128)	(40,859)	-	(42,708)
At 31 December 2017	**15,474**	**1,783**	**3,695**	**4,676**	**-**	**96,932**	**-**	**122,560**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 25 – DEFERRED TAX ASSET / LIABILITY (continued)

DEFERRED TAX LIABILITY

Group

(in thousands of HRK)	Financial assets held for sale	Fair value of land and buildings	Total
At 1 January 2017	(1)	56,199	56,198
Debited to the income	-	(3,529)	(3,529)
Debited to the other comprehensive income	90	-	90
At 31 December 2017	**89**	**52,670**	**52,759**

Company

(in thousands of HRK)	Financial assets held for sale	Fair value of land and buildings	Total
At 1 January 2017	(1)	16,919	16,918
Debited to the income	-	(926)	(926)
Debited to the other comprehensive income	90	-	90
At 31 December 2017	**89**	**15,993**	**16,082**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 26 – CASH AND CASH EQUIVALENTS

	Group		Company	
(in thousands of HRK)	2017	2016	2017	2016
Giro-accounts and current accounts	105,793	45,743	104,529	43,533
Cash in hand	50	111	-	-
Foreign currency accounts	12,268	75,374	9,731	73,190
Time deposits up to one month	169,726	153,423	123,141	120,925
	287,837	**274,651**	**237,401**	**237,648**

The interest rate on cash and cash equivalents is up to 0.80% (2016: up to 3.00%).

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

	Group		Company	
(in thousands of HRK)	2017	2016	2017	2016
HRK	124,076	62,127	122,769	59,806
EUR	162,751	211,226	113,858	176,705
CHF	247	60	101	60
Other	763	1,238	673	1,077
	287,837	**274,651**	**237,401**	**237,648**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 27 – SHARE CAPITAL

The authorized and registered share capital of the Company in 2017 amounts to HRK 1,672,021 thousand (2016: HRK 1,672,021 thousand) and comprises 126,027,542 ordinary shares (2016: 126,027,542) with no prescribed nominal value. All shares are fully paid.

The ownership structure as at 31 December is as follows:

2017	**Number of shares**	**%**
Epic, Goldscheider und Wurmbock M.B.H., Wien	55,594,884	44.11
Satis d.o.o., Zagreb	6,500,564	5.16
Enitor d.o.o., Zagreb	2,720,950	2.16
Zagrebačka banka d.d./Skrbnik, Zagreb	1,889,067	1.50
Hrvatska poštanska banka/Skrbnik, Zagreb	1,846,184	1.46
PBZ d.d./The Bank of New York as custodian/Skrbnik, Zagreb	1,742,413	1.38
Societe Generale-Splitska banka d.d./Skrbnik, Split	1,067,013	0.85
PBZ d.d./State street client account/Skrbnik, Zagreb	1,020,957	0.81
Bilbija Igor	974,250	0.77
Bogdanović Zoran	690,711	0.55
Treasury shares	1,794,451	1.42
Other shareholders - free float	50,186,098	39.82
Total	**126,027,542**	**100.00**

2016	**Number of shares**	**%**
Epic, Goldscheider und Wurmbock 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**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 27 – SHARE CAPITAL (continued)

In 2017, 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 hasn't acquired treasury shares during 2017 but it has released them. The Company has effectively disposed 62,583 treasury shares accounting for 0.04% of the share capital in the total amount of HRK 1,252 thousand, of which 24,182 shares on payed out dividends in accordance with the resolution of the General Assembly of 4 May 2017, as explained in Note 28b.

As at 31 December 2017, the Company owned 1,794,451 of their treasury shares (2016: 1,857,034) which represents 1.42% (2016: 1.47%) of the registered capital of the Company.

NOTE 28 – RESERVES AND RETAINED EARNINGS

a) Capital reserves
Capital reserves of the Group increased during the year in the amount of HRK 1,398 thousand and at 31 December 2017 amount to HRK 3,116 thousand (2016: HRK 1,718 thousand).

As at 31 December 2017 capital reserves of the Company amount to HRK 3,603 thousand (2016: HRK 2,205 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 28 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings

(in thousands of HRK)	Group 2017	Group 2016
Legal reserves	83,601	67,199
Fair value reserves	634	273
Other reserves	68,851	68,851
Retained earnings	492,716	364,874
	645,802	**501,197**
Changes in reserves:		
Legal reserves		
At beginning of the year	67,199	61,906
Transfer from retained earnings	16,402	5,293
At end of the year	**83,601**	**67,199**
Fair value reserves		
At beginning of the year	273	31,188
Change in fair value financial assets available for sale	357	(958)
Effect of selling financial assets available for sale	4	(29,957)
At end of the year	**634**	**273**
Other reserves		
At beginning of the year	68,851	58,381
Transfer to treasury shares reserve	-	10,470
At end of the year	**68,851**	**68,851**
Retained earnings		
At beginning of the year	364,874	111,984
Result for the year	243,596	342,314
Transfer to legal reserves	(16,402)	(5,293)
Transfer to other reserves	-	(10,470)
Dividends	(99,352)	(73,661)
At end of the year	**492,716**	**364,874**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 28 –RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings (continued)

(in thousands of HRK)	Company 2017	Company 2016
Legal reserves	83,601	67,199
Fair value reserve	634	273
Other reserves	22,451	124,614
Retained earnings	649,047	494,911
	755,733	**686,997**
Changes in reserves:		
Legal reserves		
At beginning of the year	67,199	61,906
Transfer from retained earnings	16,402	5,293
At the end of the year	**83,601**	**67,199**
Fair value reserves		
At beginning of the year	273	31,432
Change in fair value of financial assets available for sale	357	(937)
Effect of selling financial assets available for sale	4	(30,528)
Merger effect of subsidiaries (Note 36)	-	306
At end of the year	**634**	**273**
Other reserves		
At beginning of the year	124,614	178,143
Merger of subsidiaries (Note 36)	(64,252)	9,911
Transfer to treasury shares reserve	-	10,470
Dividends	(37,911)	(73,910)
At the end of the year	**22,451**	**124,614**
Retained earnings		
At beginning of the year	494,911	174,017
Result for the year	231,979	336,657
Transfer to legal reserves	(16,402)	(5,293)
Transfer to other reserves	-	(10,470)
Dividends	(61,441)	-
At end of the year	**649,047**	**494,911**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 2017, legal reserves of the Group and the Company amounted to HRK 83,601 thousand or 5.00% of the share capital (2016: 67,199 thousand or 4.02% 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 from 2014 to treasury share reserve.

As at 31 December 2017 other reserves of the Group amounted to HRK 68,851 thousand. As at 31 December 2017 other reserves of the Company amounted to HRK 22,451 thousand.

On the basis of a decision of the General Assembly held on 4 May 2017 the Company has paid out a dividend of HRK 0.80 per share, which amounted to HRK 99,352 thousand from which HRK 98,342 thousand was paid in cash, and remaining part by assigning 24,182 shares of the Company.

Fair value reserves

As at 31 December 2017 fair value reserves of the Company and the Group amounted to HRK 634 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 2017

NOTE 29 – BORROWINGS

	Group		Company	
(in thousands of HRK)	2017	2016	2017	2016
Current				
Bank borrowings	202,703	179,428	184,702	159,019
Finance lease	-	238	-	244
	202,703	**179,666**	**184,702**	**159,263**
Non-current				
Bank borrowings	1,861,314	1,497,720	1,721,764	1,332,484
Finance lease	-	107	-	102
	1,861,314	**1,497,827**	**1,721,764**	**1,332,586**
Total borrowings	**2,064,017**	**1,677,493**	**1,906,466**	**1,491,849**

All banks have secured their borrowed funds with a pledge over hotel facilities with a net book value of HRK 1,753,532 thousand (2016: HRK 1,959,500 thousand) (Note 14 and 15).

As at 31 December 2017, the Company and the Group do not have contracted unused lines of credit with financial institutions for 2018.

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

Group	2017		2016	
Borrowings:	(in thousands of HRK)	%	(in thousands of HRK)	%
EUR	2,016,269	1.0%-6.0%	1,663,493	1.0%-4.68%
HRK	47,748	1.0%-2.0%	14,000	2.0%
	2,064,017		**1,677,493**	

Company	2017		2016	
Borrowings:	(in thousands of HRK)	%	(in thousands of HRK)	%
EUR	1,893,004	1.0%-3.0%	1,477,849	1.0%-4.68%
HRK	13,462	2.0%	14,000	2.0%
	1,906,466		**1,491,849**	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 29 – BORROWINGS (continued)

Maturities of non-current borrowings are as follows:

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
1-3 years	352,218	325,242	319,357	281,035
3-6 years	514,212	400,640	476,565	354,976
Over 6 years	994,884	771,945	925,842	696,575
	1,861,314	**1,497,827**	**1,721,764**	**1,332,586**

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

	Borrowings			
	Carrying amounts		Fair value	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Group	1,861,314	1,497,827	1,834,567	1,434,703
Company	1,721,764	1,332,586	1,710,223	1,314,807

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 2.31% (2016: 2.48%). 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 2017

NOTE 30 – TRADE AND OTHER PAYABLES

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Trade payables	132,425	154,459	120,999	150,643
Trade payables – related parties	425	154	604	279
Interest payable	5,348	4,788	4,664	3,749
Concession fees payable	45,930	39,302	44,474	38,092
	184,128	198,703	170,741	192,763
Liabilities for dividend	230	235	72	60
Liabilities to employees	43,612	38,282	38,974	32,558
Liabilities for taxes and contributions and similar charges	10,553	9,544	9,724	8,056
Advances received	31,366	23,381	30,709	22,878
Other current liabilities	8,499	11,150	6,218	8,352
	278,388	**281,295**	**256,438**	**264,667**

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

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
EUR	10,464	7,836	9,705	6,800
GBP	246	287	246	287
CHF	-	70	-	70
HRK	173,418	190,510	160,790	185,606
	184,128	**198,703**	**170,741**	**192,763**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 31 – PROVISIONS

Group (in thousands of HRK)	Termination benefits and jubilee awards	Legal proceedings	Bonuses	Total
At 1 January 2017	**2,415**	**49,709**	**19,763**	**71,887**
Additional provisions	5,602	4,040	24,057	33,699
Used during year	(2,020)	-	(19,363)	(21,383)
Reversed during year	(395)	(840)	(400)	(1,635)
At 31 December 2017	**5,602**	**52,909**	**24,057**	**82,568**
2017				
Current portion	155	-	24,057	**24,212**
Non-current portion	5,447	52,909	-	**58,356**

Company (in thousands of HRK)	Termination benefits and jubilee awards	Legal proceedings	Bonuses	Total
At 1 January 2017	**1,915**	**26,579**	**19,684**	**48,178**
Additional provisions	4,665	421	23,288	28,374
Used during year	(1,915)	-	(19,284)	(21,199)
Reversed during year	-	(68)	(400)	(468)
At 31 December 2017	**4,665**	**26,932**	**23,288**	**54,885**
2017				
Current portion	-	-	23,288	**23,288**
Non-current portion	4,665	26,932	-	**31,597**

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 privatization. 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 the Company there weren't any additional provisions for legal proceedings in 2017.

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 the legal cases provision during 2017 is the result of additional provisions made on the basis of legal advisers estimations regarding the land ownership disputes and outcomes of ongoing legal cases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 32 – CONSOLIDATED SUBSIDIARIES

	Country	Ownership at 31 December	
		2017	**2016**
Palme turizam d.o.o.	Croatia	100.00%	100.00%
Elafiti Babin kuk d.o.o. /i/	Croatia	-	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%
Valamar hotels & resorts GmbH	Germany	100.00%	100.00%
Imperial d.d. /ii/	Croatia	55.91%	54.71%

/i/ As at 31 December 2016 Puntižela d.o.o. is 100% owned by the Company and merged on 31 March 2017. Elafiti Babin kuk d.o.o. merged with the Company on 29 December 2017.

/ii/ Non-controlling interest in Group's assets of HRK 231,125 thousand (2016: HRK 235,842 thousand) relates to non-controlling interest in Imperial d.d. of 44.09% in 2017 (2016: 45.29%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 2017, provisions for certain legal proceedings have been made for which the Company anticipates outflows of HRK 26,932 thousand.

Transformation and privatization audit and ownership over land

A transformation and privatization 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 privatization 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 privatization 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 privatization 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 privatization 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 privatization 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 privatization 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 2017 amounted to HRK 240,421 thousand (2016: HRK 333,960 thousand).

Contracted capital commitments of the Group in respect to investments in tourism facilities as at 31 December 2017 amounted to HRK 312,021 thousand (2016: HRK 341,260 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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)	**2017**	**2016**	**2017**	**2016**
Up to 1 year	-	26	-	26
From 2 to 5 years	-	-	-	-
Total	**-**	**26**	**-**	**26**

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 2017

NOTE 34 – CASH GENERATED FROM OPERATIONS

Adjustment of profit with cash generated from operations:

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Profit before taxation	238,643	271,909	217,710	265,057
Adjustments for:				
Depreciation and amortization	346,414	265,188	283,466	243,228
Net gains on sale of property, plant and equipment and intangible assets	(1,307)	(1,542)	(1,142)	(1,538)
Write off of property, plant and equipment	12,008	12,044	11,635	12,034
Provision for impairment of trade and other receivables – net	(1,382)	1,489	(1,310)	(769)
Finance costs – net	29,046	14,531	24,993	12,782
Fair value gains from financial assets available for sale – net	(212)	(34,620)	(212)	(35,155)
Fair value gains from financial instruments – net and financial assets	(759)	(852)	(759)	(852)
Increase in provisions – net	10,682	(5,072)	6,708	(3,413)
Share of (profit)/loss in joint venture - net	24	(124)	-	-
Changes in:				
- Trade and other receivables	14,230	(14,784)	37,262	14,594
- Inventories	(5,251)	(8,492)	(5,660)	(8,492)
- Trade and other payables	(2,906)	49,289	1,434	46,936
Cash generated from operations	**639,230**	**548,964**	**574,125**	**544,412**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 Group in 2016 and 2017: Puntižela d.o.o., Pula (merged 31 March 2017), Epic GmbH, Wien, Bugenvillia d.o.o., Dubrovnik, Bastion upravljanje d.o.o., Zagreb (merged 30 June 2016), Scapus d.o.o., Zagreb (until 5 April 2017), Satis d.o.o., Zagreb, Enitor d.o.o., Zagreb, Elafiti Babin kuk d.o.o. (merged 29 December 2017), Magične stijene d.o.o., Palme turizam d.o.o., Valamar Hotels and Resorts GmbH, Frankfurt am Main, in the liquidation, Hoteli Baška d.d., Baška (merged 31 March 2016), Baškaturist d.o.o., Baška (merged 13 January 2016), Mirta Bašćanska d.o.o., Baška (merged 13 January 2016), Vala Bašćanska d.o.o., Baška (merged 13 January 2016) and Valovito d.o.o. (merged 31 March 2016) and Imperial d.d., Rab.

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

- Elafiti Babin kuk d.o.o., Dubrovnik (merged 29 December 2017), 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 acquired 100% of share in Bugenvilia d.o.o., Dubrovnik;
- Bastion d.o.o., Zagreb (30 June 2016) and Puntižela d.o.o., Pula as of 30 September 2014 upon merger of the Valamar Adria holding d.d., Zagreb with Valamar grupa d.d., Zagreb (merged 31 March 2017);
- Valamar Hotels and Resorts GmbH, Frankfurt am Main (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 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 when the Company acquired 40.08% shares in equity. On 27 December 2016, the Company acquired additional 14.63% of shares of Imperial d.d. and held 54.71% of shares of Imperial d.d. (347,893 shares). In 2017, with the acquired additional shares of Imperial d.d. on the regulated market, the Company holds 55.91% of shares (355,513 shares).

Management Agreement

As of 4 January 2017, the Agreement between Imperial d.d. and the Company. 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, the Company 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 2017

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)	**2017**	**2016**
Sale of services		
Parties related to key management	-	1
Other related parties to the owners and corporate governance bodies	21	16
	21	**17**
Purchase of services		
Parties related to key management	-	341
Other related parties to the owners and corporate governance bodies	1,474	919
	1,474	**1,260**
Liabilities		
Other related parties to the owners and corporate governance bodies	425	154
	425	**154**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Company (in thousands of HRK)	2017	2016
Sale of services		
Subsidiaries	13,912	629
Parties related to key management	-	1
Other related parties to the owners and corporate governance bodies	21	16
	13,933	**646**
Purchase of services		
Subsidiaries	29,736	28,922
Parties related to key management	-	242
Other related parties to the owners and corporate governance bodies	1,474	919
	31,210	**30,083**
Dividend income		
Subsidiaries	95	-
	95	**-**
Trade and other receivables		
Subsidiaries	3,393	138,501
	3,393	**138,501**
Trade and other payables		
Subsidiaries	179	125
Other related parties to the owners and corporate governance bodies	425	154
	604	**279**
Loans given		
Subsidiaries	26	24
	26	**24**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

	Group		Company	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Salaries	3,815	3,058	2,849	2,795
Pension contributions	677	443	337	349
Health insurance contribution	949	778	693	705
Other costs (contribution and taxes)	1,984	1,788	1,542	1,668
	7,425	**6,067**	**5,421**	**5,517**

Key management of the Group in 2017 consists of 12 members (2016: 10 members).
During 2017 the Company paid Supervisory Board fees in the amount of HRK 2,155 thousand (2016: 2,025 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 the Company. The company Hoteli Baška d.d. ceased to exist, and the Company 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 the Company. The company Bastion d.o.o. ceased to exist, and the Company. after the merger became the universal legal successor and thereby took over all assets, rights and obligations of the merged company.

The merger of Puntižela d.o.o into the Company was entered in the court register on March 31 2017. The legal effect of the merger started as of 1 April 2017. After the registration of the merger, Puntižela d.o.o. ceased to exist and the Company became the universal legal successor of the merged company: all the assets, rights and liabilities of Puntižela d.o.o. were transferred to the Company.

The merger of Elafiti Babin kuk d.o.o. into the Company was entered in the court register on 29 December 2017. The legal effect of the merger started as of 30 December 2017. After the registration of the merger, Elafiti Babin kuk d.o.o. ceased to exist and the Company became the universal legal successor of the merged company: all the assets, rights and liabilities of Elafiti Babin kuk d.o.o. were transferred to the 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 2017 at merger date are:

(in thousands of HRK)	**Puntižela d.o.o. 31 March 2017**	**Elafiti Babin kuk d.o.o. 29 December 2017**	**Total**
Assets			
Property, plant and equipment (Note 14)	29,294	229,500	258,794
Intangible assets (Note 16)	6,600	-	6,600
Deferred tax assets (Note 25)	128	15,474	15,602
Trade and other receivables	143	220	363
Cash and cash equivalents	336	2	338
Liabilities			
Payables and other liabilities	(10,122)	(117,325)	(127,447)
Net assets acquired	**26,379**	**127,871**	**154,250**
Less: elimination of the Company's share in subsidiary (Note 17)	**(36,466)**	**(182,036)**	**(218,502)**
Net effect on equity at merger (Note 28)	**(10.087)**	**(54.165)**	**(64.252)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

NOTE 36 – MERGER OF ENTITIES UNDER COMMON CONTROL (continued)

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 2017

NOTE 37 – BUSINESS COMBINATION IMPERIAL D.D.

The Company 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 Allianz ZB d.o.o. društvo za upravljanje obveznim mirovinskim fondom, a pension fund company from Zagreb which acts in its own name and on behalf of the mandatory pension funds it manages (AZ Obvezni mirovinski fond kategorije A and AZ Obvezni mirovinski fond kategorije B) and upon completion of the public offer for the takeover of Imperial d.d.

Imperial d.d. 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 December 2016 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.

In 2017 the Company acquired additional Imperial d.d. shares and as at 31 December 2017 the Company held 355,513 shares which represent 55.91% of all shares.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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 day of the balance sheet, the share of non-controlling interests in the equity of the acquired company amounts to 45.29%, 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 2017

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 2017

NOTE 38 – SUBSEQUENT EVENTS

Pursuant to CERP's (Sales and Restructuring Center) call for binding bids to buy the company shares of the Makarska-based HOTELI MAKARSKA d.d., on 27 December 2017 the Company submitted a bid to buy a share package consisting of 621,086 shares, with nominal value of HRK 200.00 per share, representing 55.48 % of the share capital of that company. On 12 February 2018 the Restructuring and Sale Center announced that the Company's bid in the amount of HRK 172,662 thousand had been accepted. The agreement covering the purchase and transfer of shares is expected to be concluded in the first quarter. The Company established a cooperation with Allianz ZB d.o.o. društvo za upravljanje obveznim mirovinskim fondom, a pension fund company from Zagreb which acts in its own name and on behalf of the mandatory pension funds it manages (AZ Obvezni mirovinski fond kategorije A, personal identification number (OIB) 15220336427 and AZ Obvezni mirovinski fond kategorije B, personal identification number (OIB) 59318506371) in order to start joint activity regarding the purchase of HOTELI MAKARSKA d.d. shares.

The Assembly of bankruptcy creditors of HELIOS FAROS d.d. u stečaju, a company from Stari Grad, is expected to render its decision regarding the Bankruptcy plan in the first half of 2018. The preparation of the Bankruptcy plan is currently underway, pursuant to the Investment and recapitalization offer for that company. The Company together with PBZ Croatia osiguranje dioničko društvo za upravljanje obveznim mirovinskim fondovima, a mandatory pension fund company from Zagreb (hereinafter: PBZ CO) submitted this offer on 15 May 2017. The Company and PBZ CO have established a cooperation to start their joint activity regarding the investment and recapitalization of HELIOS FAROS d.d. u stečaju.

On 26 January 2018 the Company received the notification of EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H., a company with registered office in Vienna, 8 Plösslgasse, Republic of Austria, regarding the changes in the percentage of voting rights. The change in the percentage of voting rights, i.e. fall below the voting rights threshold, was due to the transfer of shares pursuant to the demerger agreement and status change –demerger of EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H., as demerging company and EPIC Hospitality Holding GmbH with registered office in Vienna, 8 Plösslgasse, Republic of Austria, as transferee company.

As evidenced by the received notifications, the shareholder structure of the transferee company is indirectly identical to the shareholder structure of the demerging company. Consequently, no changes occurred in the controlling parties, since the shareholders in EPIC Hospitality Holding GmbH are indirectly the same parties and hold the same stakes as the shareholders in EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H.

Pursuant to this, on the same day the Company received the notification of EPIC Hospitality Holding GmbH informing on the acquisition of 55,594,884 shares of the Company (44.11% of the share capital), ticker: RIVP, without nominal value that had been acquired through the company demerger.

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