PLAVA LAGUNA d.d., POREČ

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2013

Independent Auditor's Report

To the Shareholders and the Management of Plava laguna d.d.

We have audited the accompanying consolidated financial statements of Plava laguna d.d. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

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Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: Hrvoje Zgombic, President; J. M. Gasparac, Member; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

Emphasis of matter

We draw attention to Note 30 to these financial statements that describes the Group's contingencies with respect to ownership of land not evaluated in the transformation and privatisation process. Problems with respect to land ownership disputes are common for the majority of tourism companies in the Republic of Croatia. Their resolution is expected in the future upon completion of the process of obtaining concessions and establishing ownership rights in accordance with and pursuant to the provisions of the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, which entered into force on 1 August 2010. Our opinion was not qualified in this respect.

PricewaterhouseCoopers d.o.o.
Zagreb, 25 April 2014

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	**Note**	**2013**	**2012**
Sales	5	582,634	536,066
Other income	6	2,061	2,377
Cost of materials and services	7	(165,856)	(158,185)
Staff costs	8	(138,865)	(134,481)
Depreciation and amortisation	15, 16	(126,999)	(121,825)
Other operating expenses	9	(37,367)	(36,007)
Other gains – net	10	1,240	1,150
Operating profit		**116,848**	**89,095**
Finance income	11	8,963	6,966
Finance costs	11	(3,542)	(3,700)
Finance income – net	11	5,421	3,266
Share of profit of associate	18	3	715
Profit before tax		**122,272**	**93,076**
Income tax expense	12	(1,814)	(289)
Profit for the year		**120,458**	**92,787**
Other comprehensive income:			
Changes in value of available-for-sale financial assets	26	(14)	(2,747)
Total comprehensive income for the year		**120,444**	**90,040**
Profit attributable to:			
Equity holders of the Company		119,593	93,045
Non-controlling interests		865	(258)
Profit for the year		**120,458**	**92,787**
Basic and diluted earnings per share (in HRK) attributable to the equity holders of the Company during the year:	13		
- ordinary shares		186.07	144.80
- preference shares		187.07	145.80

These consolidated financial statements set out on pages 3 to 51 were approved by the Group's Management Board on 23 April 2014.

Member of the Management Board

Neven Staver

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	Note	31 December 2013	2012
ASSETS			
Non-current assets			
Property, plant and equipment	15	1,405,306	1,428,301
Intangible assets	16	1,053	841
Investments in associate	18	1,490	1,487
Available-for-sale financial assets	19	6,821	6,839
		1,414,670	1,437,468
Current assets			
Inventories	20	3,590	3,802
Trade and other receivables	21	14,974	12,245
Income tax receivable	12	19,711	17,560
Deposits and loans receivable	22	217,546	124,927
Financial assets at fair value through profit or loss	23	100	126
Cash and cash equivalents	24	3,971	8,833
		259,892	167,493
Total assets		**1,674,562**	**1,604,961**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	25	1,181,246	1,088,372
Share premium	25	6,525	5,149
Treasury shares	25	(18,010)	(17,046)
Reserves	26	73,587	76,071
Retained earnings	26	266,506	298,369
		1,509,854	1,450,915
Non-controlling interests		22,312	21,447
		1,532,166	1,472,362
LIABILITIES			
Non-current liabilities			
Borrowings	28	33,546	42,790
Provisions for other liabilities and expenses	29	2,000	2,000
		35,546	44,790
Current liabilities			
Trade and other payables	27	93,022	72,885
Borrowings	28	13,828	14,653
Provisions for other liabilities and expenses	29	-	271
		106,850	87,809
Total liabilities		142,396	132,599
Total equity and liabilities		**1,674,562**	**1,604,961**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

		Attributable to equity holders of the Company							
(all amounts expressed in thousands of HRK)	**Note**	**Share capital**	**Share premium**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
At 1 January 2012		1,088,372	5,149	(17,046)	132,158	211,207	1,419,840	22,670	1,442,510
Profit for the year		-	-	-	-	93,045	93,045	(258)	92,787
Other comprehensive loss		-	-	-	(2,747)	-	(2,747)	-	(2,747)
Total comprehensive income for 2012		**-**	**-**	**-**	**(2,747)**	**93,045**	**90,298**	**(258)**	**90,040**
Effect of correction of previous year's tax return		-	-	-	-	(701)	(701)	(59)	**(760)**
Transfer to legal reserves	26	-	-	-	1,529	(1,529)	-	-	-
Dividend relating to 2011	13, 26	-	-	-	(54,869)	(3,684)	(58,553)	(875)	(59,428)
Dividend on preference shares of subsidiary to parent company		-	-	-	-	31	31	(31)	-
Total contributions by and distributions to Company's owners, recognised directly in equity		**-**	**-**	**-**	**(53,340)**	**(5,883)**	**(59,223)**	**(965)**	**(60,188)**
At 31 December 2012		**1,088,372**	**5,149**	**(17,046)**	**76,071**	**298,369**	**1,450,915**	**21,447**	**1,472,362**
At 1 January 2013		1,088,372	5,149	(17,046)	76,071	298,369	1,450,915	21,447	1,472,362
Profit for the year		-	-	-	-	119,593	119,593	865	120,458
Other comprehensive loss		-	-	-	(14)	-	(14)	-	(14)
Total comprehensive income for 2013		**-**	**-**	**-**	**(14)**	**119,593**	**119,579**	**865**	**120,444**
Increase in share capital	25	92,874	1,554	(1,554)	-	(92,874)	-	-	-
Effect of merger	26, 33	-	(178)	590	(2,470)	-	(2,058)	-	(2,058)
Dividend relating to 2012	13	-	-	-	-	(58,582)	(58,582)	-	(58,582)
Total contributions by and distributions to Company's owners, recognised directly in equity		**92,874**	**1,376**	**(964)**	**(2,470)**	**(151,456)**	**(60,640)**	**-**	**(60,640)**
At 31 December 2013		**1,181,246**	**6,525**	**(18,010)**	**73,587**	**266,506**	**1,509,854**	**22,312**	**1,532,166**

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	**Note**	**2013**	**2012**
Cash flows generated from operating activities			
Cash generated from operations	31	256,346	222,435
Income tax paid		(8,012)	(22,973)
Interest paid		(3,965)	(1,397)
Net cash generated from operating activities		**244,369**	**198,065**
Cash flows from investing activities			
Purchases of property, plant and equipment	15	(51,367)	(188,212)
Purchases of intangible assets	16	(507)	(533)
Deposits and loans granted		(89,286)	-
Proceeds from sale of property, plant and equipment	31	602	1,056
Effect of merger	33	5,301	-
Loans and deposits repayments received		-	2,037
Interest received		5,226	6,478
Dividends received	6	382	382
Net cash used in investing activities		**(129,649)**	**(178,792)**
Cash flows from financing activities			
Repayment of borrowings		(63,242)	(10,979)
Dividends paid to Company's shareholders		(56,340)	(56,257)
Dividends paid to non-controlling interests		-	(855)
Net cash used in financing activities		**(119,582)**	**(68,091)**
Net decrease in cash and cash equivalents		**(4,862)**	**(48,818)**
Cash and cash equivalents at beginning of the year		8,833	57,651
Cash and cash equivalents at end of the year	24	**3,971**	**8,833**

NOTE 1 – GENERAL INFORMATION

The Plava laguna Group Poreč consists of Plava laguna d.d., Poreč, a joint-stock company registered for hospitality and tourism (the parent company) and its subsidiaries (the Group):

- Laguna Invest, services, with an ownership interest of 100%,
- Hotel Bonavia-usluge d.o.o., with an ownership interest of 100%, and
- Hoteli Croatia, a joint stock company registered for hospitality and tourism, with an ownership interest of 92.28%.

The parent company and its subsidiary Laguna Invest d.o.o., Poreč are registered at the Commercial Court in Pazin. The subsidiary Hoteli Croatia d.d., Cavtat is registered at the Commercial Court in Split, and the subsidiary Hotel Bonavia-usluge d.o.o. at the Commercial Court in Rijeka.

The Plava laguna Group, Poreč is controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is Luksburg Foundation, registered in Vaduz Liechtenstein. The equity structure as at 31 December 2013 and 2012 is presented in Note 25.

The registered office of the Plava laguna Group is in Poreč, Rade Končara 12, Croatia.

As at 31 December 2013 and 2012, the shares of the parent company and its subsidiary Hoteli Croatia d.d. Cavtat were listed on the regular joint stock company listing on the Zagreb Stock Exchange.

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, unless otherwise stated.

2.1 Basis of preparation

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

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year which were endorsed by the EU. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

- *Amendment to IAS 1 Financial Statement Presentation Regarding Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012),
- *Amended IAS 19, Employee Benefits* (issued in June 2011, effective for periods beginning on or after 1 January 2013),

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)
2.1.1 Changes in accounting policy and disclosures (continued)

- *Amendment to IFRS 1 First Time Adoption on Government Loans* (effective for annual periods beginning on or after 1 January 2013),
- *Amendment to IFRS 7 Financial Instruments: Disclosures on Asset and Liability Offsetting* (effective for annual periods beginning on or after 1 January 2013),
- *IFRS 13 Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013),
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1 January 2013),
- *Annual improvements 2011* (effective for annual periods beginning on or after 1 January 2013) These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to:

IFRS 1,	First time adoption
IAS 1,	Financial statement presentation
IAS 16,	Property plant and equipment
IAS 32,	Financial instruments; Presentation
IAS 34,	Interim financial reporting

  These improvements did not have impact an impact on the Group's financial statements.

(b) Standards and interpretations issued but not yet effective

- *IFRS 10 Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2014),
- *IFRS 11 Joint Arrangements* (effective for annual periods beginning on or after 1 January 2014),
- *IFRS 12 Disclosures of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014),
- *IAS 27 (revised 2011) Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014),
- *IAS 28 (revised 2011) Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2014),
- *Amendment to IFRSs 10, 11 and 12 on Transition Guidance* (effective for annual periods beginning on or after 1 January 2014),
- *Amendments to IFRS 10, IFRS 12 and IAS 27 – on Consolidation for Investment Entities* (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014),
- *Amendments to IAS 32 Financial Instruments: Presentation on Asset and Liability Offsetting* (issued in December 2012 and effective for annual periods beginning on or after 1 January 2014),
- *Amendment to IAS 36 Impairment of Assets on Recoverable Amount Disclosures* (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014),
- *Amendment to IAS 39 Financial Instruments: Recognition and Measurement 'Novation of Derivatives'* (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014),

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

- *IFRS 9 Financial Instruments* (effective for annual periods beginning on or after 1 January 2015).
- *IFRIC 21 Levies* (issued on 20 May 2013 and effective for annual periods beginning on or after 1 January 2014),
- *Amendments to IAS 19 – Defined benefit plans: Employee contributions* (issued in November 2013 and effective for annual periods beginning 1 July 2014),
- *Annual Improvements to IFRSs 2012* (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below)**.** The improvements consist of changes to seven standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24.
- *Annual Improvements to IFRSs 2013* (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014)**.** The improvements consist of changes to four standards: IFRS 1, IFRS 3, IFRS 13 and IAS 40.

2.2 Consolidation

a) Subsidiaries

Subsidiaries are all entities (including special purpose 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 deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed 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 control are accounted for as equity transactions- that is, as transactions with 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) Associates

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

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

2.4 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 consolidated financial statements are presented in Croatian kuna (HRK), which is the functional currency of the Company and presentation currency of the Group.

(b) Transactions and balances

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

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

2.5 Property, plant and equipment

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

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

Land, assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimate useful lives as follows:

Construction facilities	10 - 25 years
Plant and equipment	3 - 10 years
Other assets	4 - 10 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount, and are recognised in the statement of comprehensive income within line item 'other gains – net'.

2.6 Intangible assets

Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of up to 5 years.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life and are not subject to amortisation and depreciation are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (11 hotels, 2 tourist resorts, 2 apartment resorts, 4 campsites, 2 marinas as cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: financial assets 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. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets.

(b) Loans, deposits and receivables

Loans, deposits 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 balance sheet date. These are classified as non-current assets. Loans, deposits and receivables comprise trade receivables, deposits, loans and other receivables and cash and cash equivalents in the balance sheet (Notes 2.13 and 2.14).

(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 balance sheet date. Available-for-sale financial assets are carried at fair value.

2.8.2 Measurement and recognition

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets, except those carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and the transaction costs are recorded in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets available for sale and financial assets at fair value through profit or loss are subsequently recognised at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the statement of comprehensive income, while other changes in the carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary securities available for sale and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as 'gains and losses on investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income within “other income”.

Dividends on available-for-sale securities are recognised in the statement of comprehensive income within “other income” when the right to receive payments is established.

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 gains – net’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of ‘other income’ when the Group’s right to receive payment is established.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

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

(b) Assets classified as available for sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the other comprehensive income – is removed from equity and recognised in the profit and loss statement. Impairment losses recognised in the profit and loss on equity instruments are not reversed through the profit and loss statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

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 recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income and recorded within 'other gains-net'.

2.10 Derivative financial instruments

Derivative financial instruments, including foreign exchange forward contracts for the purpose of cash flow hedging, are initially recognised in the balance sheet at cost and subsequently measured at fair value. Gains and losses arising from the forecast transaction are recognised in the statement of comprehensive income in the period in which the effect of the forecast transaction is reflected in the statement of comprehensive income.

2.11 Leases

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor 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.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease’s commencement at the lower of fair value of the leased property or the present value of minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. 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.

2.12 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Small inventory and tools are expensed when put into use.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade receivables, deposits and loans

Trade receivables are amounts due from customers for services performed in the ordinary course of business. Deposits are amounts held with banks with original maturities over three months. 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, deposits and loans are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 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.

2.15 Share capital

Ordinary and preference shares are classified as equity. Preference shares bear a dividend of HRK 1 per share, in addition to ordinary dividends. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs is included in equity attributable to the Company's equity holders.

2.16 Borrowings

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated at a rate of 20% according to Croatian laws and regulations. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee benefits

(a) Pension obligations and post-employment benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits (continued)

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(c) Short-term employee benefits

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Group recognises a liability for accumulated compensated absences based on unused vacation days at the balance sheet date.

2.20 Provisions

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

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

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

2.21 Revenue recognition

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

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

(a) Sales of services
Revenue from hotel and tourism services is recognised in the period the services are provided.
Revenue from fixed-price contracts for services is generally recognised in the period the services are provided, on a straight-line basis over the terms of the contracts with tourist agencies and tour operators.
Revenue from individual guests who pay by credit cards – commission is recognised as a decrease in income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Revenue recognition (continued)

(b) Rental services
Revenue for rental services is generally recognised in the period the services are provided, using a straight-line basis over the terms of contracts with lessors.

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

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

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.23 Earnings per share

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

2.24 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet 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.

2.25 Merger of entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The predecessor method of accounting is used to account for the merger of entities under common control. The carrying value of assets and liabilities of the predecessor entity are carried over as balances in the merged entity. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated. The net assets of the merged companies are credited to capital and reserves.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

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

The majority of the Group's foreign sales revenue, cash deposits (Notes 21 and 24) and long-term debt (Note 28) is denominated in EUROs. Therefore, movements in exchange rates between the EURO and Croatian kuna may have an impact on the results of future operations and future cash flows. The Group uses derivative instruments on an occasional basis only.

As at 31 December 2013 and 2012, the currency structure of the Group's financial instruments within the scope of IAS 39 is as follows:

2013	**EUR**	**HRK**	**Other**	**Total**
Financial assets				
Trade and other receivables	8,591	1,481	-	10,072
Loans and deposits given	217,532	14	-	217,546
Available-for-sale financial assets	-	6,821	-	6,821
Financial assets at fair value through profit or loss	-	100	-	100
Cash and cash equivalents	2,713	709	549	3,971
	228,836	**9,125**	**549**	**238,510**
Financial liabilities – at amortised cost				
Borrowings	43,312	4,062	-	47,374
Trade and other payables	268	45,552	-	45,820
	43,580	**49,614**	**-**	**93,194**
2012				
Financial assets				
Trade and other receivables	4,802	3,405	-	8,207
Loans and deposits given	124,530	397	-	124,927
Available-for-sale financial assets	-	6,839	-	6,839
Financial assets at fair value through profit or loss	-	126	-	126
Cash and cash equivalents	6,668	2,098	67	8,833
	136,000	**12,865**	**67**	**148,932**
Financial liabilities – at amortised cost				
Borrowings	53,381	4,062	-	57,443
Trade and other payables	371	36,967	-	37,338
	53,752	**41,029**	**-**	**94,781**

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors (continued)

At 31 December 2013, if the EURO had weakened/strengthened by 1% (2012: 1%) against the HRK, with all other variables held constant, the net profit for the reporting period would have been HRK 1,482 thousand (2012: HRK 667 thousand) lower/higher, mainly as a result of foreign exchange (losses)/gains on translation of EURO-denominated trade and deposit and loan receivables, trade payables, borrowings and foreign cash funds.

(ii) Cash flow and fair value interest rate risk

As the Group has interest-bearing assets (Notes 21 and 24), the Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings (Note 28). Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

At 31 December 2013, if interest rates on borrowings had been 1% (2012: 1%) higher/lower, with all other variables held constant, the profit after tax for the year would have been HRK 119 thousand lower /higher (2012: the profit after tax would have been HRK 147 thousand lower /higher); as a result of higher/lower interest expense on borrowings.

At 31 December 2013, if interest rates on currency-denominated deposits had been 1% (2012: 1%) higher/(lower), with all other variables held constant, the net profit for the year would have been HRK 1,740 thousand (2012: HRK 996 thousand) higher/(lower), mainly as a result of higher/lower interest income on variable-rate deposits.

(iii) Equity securities risk

The Group owns equity securities and is exposed to price risk of listed equity securities, which are classified as available-for-sale financial assets and financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk (e.g. oil or gold) due to the nature of its operations. The Group invests in securities listed on the Zagreb Stock Exchange (ZSE).

As at 31 December 2013 and 2012, if equity prices on the stated stock exchange had been lower/higher by 3.10% for 2013 and 16.63% for 2012 (which was the average index movement at the ZSE), with all other variables held constant and under the assumption all the Group's equity instruments moved according to the historical correlation with the index, reserves within equity and other comprehensive income would have been HRK 144 thousand (2012: HRK 1,117 thousand) lower/higher as a result of losses/gains on available-for-sale financial assets.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Receivables are mainly secured by advances received and mortgages over property. Provisions for impairment of trade and other receivables have been made on the basis of credit risk assessment. Management monitors the collectibility of receivables through weekly reports on individual balances of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. Credit risk related to loan receivables is reduced to a minimum. The Group has policies that limit the amount of credit exposure to any financial institution. Cash transactions are carried out through high quality Croatian banks. The Group has only short-term highly liquid instruments with maturity periods of three months or less. For further disclosure on credit risk see Notes 17b and 23.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash (Note 24), the availability of funding through an adequate amount of committed credit facilities (Note 28) and the ability to meet all obligations. Management daily monitors available cash resources based on reports on the balance of cash and liabilities.

The table below analyses financial liabilities of the Group according to contracted maturities. The amounts stated below represent undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant, except for borrowings.

In thousands of HRK	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
At 31 December 2013					
Trade and other payables	45,820	-	-	-	45,820
Borrowings	15,079	10,242	25,252	-	50,573
Total liabilities	**60,899**	**10,242**	**25,252**	**-**	**96,393**
At 31 December 2012					
Trade and other payables	37,338	-	-	-	37,338
Borrowings	21,410	10,885	31,289	4,241	67,825
Total liabilities	**58,748**	**10,885**	**31,289**	**4,241**	**105,163**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to the owner, return capital to the owner, increase registered capital or sell assets to reduce debt. In accordance with the Companies Act, the Group companies are committed to maintain the level of capital above HRK 200 thousand as required for joint stock companies.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

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

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

Fair value hierarchy

IFRS 7 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 Group's market assumptions. These two types of inputs have created the following fair value hierarchy:
- Razina 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).

At 31 December 2013, assets measured at fair value in the amount of HRK 5,904 thousand (2012: HRK 6,845 thousand) were included in level 1.

Available-for-sale investment securities in the amount of HRK 1,017 thousand (2012: HRK 120 thousand) are unlisted and carried at cost or according to the latest available price parameters for shares delisted from a regulated market. All available-for-sale financial assets are denominated in HRK.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

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

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

Based on historical information, and in line with the technical department, the useful life of buildings was assessed by Management to be 10-25 years. The useful lives of equipment and other assets have also been assessed as disclosed in Note 2.5.

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.

If the useful lives of property, plant and equipment had been 10% longer, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 9,202 thousand higher (2012: HRK 8,883 thousand higher).

If the useful lives of property, plant and equipment had been 10% shorter, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 11,247 thousand lower (2012: HRK 10,795 thousand higher).

(b) Land ownership

The problems with respect to land ownership are common in other tourist companies in the Republic of Croatia. On 1 August 2010, the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures for submitting requests for concessions and other prescribed requests. In the period since the adoption of legal regulations, in the procedures initiated, and in line with requirements of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land etc. Until 31 December 2013, the Company settled all liabilities arising from the invoices received, issued by competent authorities on the basis of the Ordinance provisions.

NOTE 5 – SEGMENT INFORMATION

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

The Group records its operations according to the types of services rendered by distinguishing three main reporting segments: hotels and apartments, campsites and other business segments. Other business segments comprise tourist agency services, "á la carte" services, marina services, rental services, sports and recreation services and other similar services.

The segment information provided to the Group's Management for the year ended 31 December 2013 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	466,189	101,880	40,845	608,914
Inter-segment revenue	(497)		(25,783)	(26,280)
Revenue from external customers	465,692	101,880	15,062	582,634
Restated EBITDA	**170,848**	**59,583**	**11,958**	**242,389**
Depreciation and amortisation (Note 15 and 16)	104,143	12,979	9,877	126,999
Income tax expense				**1,814**
Share in profit in the associate				**3**
Total assets	**1,161,807**	**161,966**	**69,805**	**11,393,578**
Investment in associate	**-**	**-**	**-**	**1,490**
Total liabilities	**71,172**	**1,940**	**1,820**	**74,932**

The segment information for the year ended 31 December 2012 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	426,097	95,407	40,234	561,738
Inter-segment revenue	(481)	-	(25,191)	(25,672)
Revenue from external customers	425,616	95,407	15,043	536,066
Restated EBITDA	**146,240**	**53,092**	**10,258**	**209,590**
Depreciation and amortisation (Note 15 and 16)	99,203	12,710	9,912	121,825
Income tax expense	-	-	-	289
Share in profit in the associate	-	-	-	**715**
Total assets	**1,177,227**	**164,316**	**74,036**	**1,415,579**
Investment in associate	**-**	**-**	**-**	**1,487**
Total liabilities	**73,853**	**1,514**	**1,230**	**76,597**

NOTE 5 – SEGMENT INFORMATION (continued)

The reconciliation of the restated EBITDA with the profit before tax is as follows:

	2013	2012
	(in thousands of HRK)	
Restated EBITDA by segments	230,431	199,332
EBITDA by other segments	11,958	10,258
Total segments	**242,389**	**209,590**
Depreciation and amortisation	(126,999)	(121,825)
Share in profit in the associate	3	715
Interest income	13	78
Dividend income	382	382
Other expenses	(3)	(3)
Other income	12	-
Impairment of non-current tangible assets	-	(36)
Net foreign exchange gains – other	1,337	925
Impairment of loan receivables	(257)	-
Change in fair value of financial assets	(26)	(16)
Finance income – net	5,421	3,266
Profit before tax	**122,272**	**93,076**

The Group uses internal managerial reporting by activities/products where the indicator of successful performance is represented by restated EBITDA (earnings before interest, taxes, depreciation and amortisation).

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

	2013		2012	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	1,323,773	73,112	1,341,543	75,367
Other segment assets/liabilities	69,805	1,820	74,036	1,230
Unallocated:	280,984	67,502	189,382	56,002
Available-for-sale financial assets	6,821	-	6,839	-
Loans and deposits	217,546	-	124,927	-
Cash and cash equivalents	3,971		8,833	-
Share in associate	1,490	-	1,487	
Other receivables	51,156	-	47,296	-
Provisions	-	2,000	-	2,000
Income tax payable	-	1,814	-	-
Other liabilities	-	63,688	-	54,002
Total	**1,674,562**	**142,434**	**1,604,961**	**132,599**

NOTE 5 – SEGMENT INFORMATION (continued)

All the Group's services and sales are provided to customers in the Republic of Croatia.
The Group's sales revenues can be classified according to the customers' origin.

	2013	2012
	(in thousands of HRK)	
Sale of services:		
Domestic sales	77,315	71,011
Foreign sales	505,319	465,055
	582,634	**536,066**

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

Foreign sales	**2013**	**%**	**2012**	**%**
Germany	114,389	22.64%	99,158	21.32
Russia	75,123	14.87%	90,613	19.48
Austria	54,315	10.74%	45,067	9.69
Great Britain	43,460	8.60%	35,893	7.72
Italy	28,018	5.54%	27,818	5.98
Slovenia	30,041	5.94%	27,524	5.92
Netherlands	30,463	6.03%	26,913	5.79
Czech Republic	20,375	4.03%	19,284	4.15
Other	109,135	21.60%	92,785	19.95
	505,319	**100.00**	**465,055**	**100.00**

NOTE 6 – OTHER INCOME

	2013	2012
	(in thousands of HRK)	
Insurance claims recovered	943	1,133
Interest income	12	78
Dividend income	382	382
Other income	724	784
	2,061	**2,377**

NOTE 7 – COST OF MATERIALS AND SERVICES

	2013	2012
	(in thousands of HRK)	
Raw materials and supplies		
Cost of raw materials and supplies	54,113	53,253
Energy consumed and water cost	37,993	36,056
Costs of small inventories	5,210	6,129
	97,316	95,438
External services		
Maintenance	21,676	18,561
Laundry and cleaning services	10,079	8,941
Entertainment and animation	6,327	5,695
Telecommunication and other transport services	1,959	2,428
Advertising and promotion	6,266	5,805
Municipal services	4,678	4,128
Rental costs (Note 30)	1,487	1,291
Other services – related companies (Note 32)	10,627	9,967
Other services	5,441	5,931
	68,540	62,747
	165,856	**158,185**

NOTE 8 – STAFF COSTS

	2013	2012
	(in thousands of HRK)	
Salaries	77,684	71,969
Pension contributions	22,069	20,589
Health insurance contributions	14,943	14,393
Other contributions and taxes on salaries	14,097	15,122
Termination benefits	257	2,957
Other staff costs /i/	9,815	9,451
	138,865	**134,481**
Number of employees as at 31 December	**1,011**	**1,009**

/i/ Other staff costs comprise compensation for transportation costs, jubilee awards etc. and remunerations for temporary services.

NOTE 9 – OTHER OPERATING EXPENSES

	2013	2012
	(in thousands of HRK)	
Municipal and similar charges and contributions	21,639	19,732
Professional services	4,419	3,973
Provision for impairment of current assets	562	709
Collection of receivables previously written-off	(351)	(105)
Provisions for legal disputes (Note 29)	-	500
Bank charges	1,953	1,493
Insurance premiums	2,929	2,787
Travel and entertainment	763	921
Impairment charge for property, plant and equipment	40	36
Other	5,413	5,961
	37,367	**36,007**

NOTE 10 – OTHER GAINS – NET

	2013	2012
	(in thousands of HRK)	
Net gains on sale of property, plant and equipment	174	241
Net foreign exchange gains – other	1,337	925
Changes in far value of financial assets – net	(283)	(16)
Other	12	-
	1,240	**1,150**

NOTE 11 – FINANCE INCOME AND COSTS

	2013	2012
	(in thousands of HRK)	
Finance income		
Interest income from cash deposits	5,227	6,482
Other finance income	297	484
Net foreign exchange gains	3,439	-
	8,963	6,966
Finance costs		
Interest expense	(3,338)	(3,656)
Net foreign exchange losses	(204)	(44)
	(3,542)	(3,700)
Finance income – net	**5,421**	**3,266**

NOTE 12 – INCOME TAX

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 20% (2012: 20%) as follows:

	2013	2012
	(in thousands of HRK)	
Profit before taxation	**122,272**	**93,076**
Tax calculated at 20%	24,453	18,615
Effect of income not subject to tax	(1,103)	(1,679)
Effect of reinvested profit /i/	(16,389)	(18,560)
Effect of expenses not deductible for tax purposes	1,666	1,423
Effect of utilisation of tax losses carried forward /ii/	(6,049)	-
Effect of tax losses for which no deferred tax assets were recognised	-	490
Tax benefits for areas under special state care /iii/	(764)	-
Income tax charge	**1,814**	**289**
Income tax prepayment	(21,525)	(17,849)
Income tax receivable	19,711	17,560
Effective tax rate	1.48%	0.31%

/i/ In accordance with article 6 paragraph 1 item 6 of the Income Tax Act, the Company decided to reinvest the profit for the period and to increase the share capital in the amount of HRK 82 million in 2014 (2012: HRK 93 million) in accordance with special regulations.

/ii/ In 2013, the Company utilised tax losses carried forward incurred at the companies Hotel Bonavia d.d., Rijeka and Hoteli Croatia d.d., Cavtat.

/iii/ According to the Law on Areas under Special State Care, taxpayers who perform their operations in areas of special state care and who comply with other conditions, mainly with respect to the number of employees and their place of residence, pay income tax at a rate of 25% of the prescribed income tax rate (20%) until 2010, 75% in the period from 2011 to 2013 and at full tax rate starting from 2014. The maximum tax benefit while using the reduced income tax rate amounts to EUR 200 thousand for each reduced rate category. In prior periods, the Subsidiary fully used the maximum tax benefit, and therefore income tax for 2010 was calculated at a rate of 20%. In 2011, the Subsidiary used the maximum tax benefit in the amount of EUR 200 thousand. Due to tax losses, in 2012 the Subsidiary did not use any tax benefits.
In 2013, the Subsidiary utilised the last tax benefit of EUR 100 thousand, or HRK 764 thousand.

In accordance with local regulations, the Tax Authority may at any time inspect the Group companies' books and records within 3 years subsequent to the year in which the tax liability is reported, and may impose additional tax assessments and penalties. To date, the Tax Authority carried out a full scope tax audit of the Company's income tax and VAT returns for 2003, 2004, 2005 and 2008. Currently there is no outstanding tax liability.

NOTE 13 – EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares (ordinary and preference) in issue during the year excluding ordinary and preference shares purchased by the Company and held as treasury shares (Note 25).

	2013		
	(in thousands of HRK)		
	Preference shares	**Ordinary shares**	**Total**
Dividends declared and paid in the year	9,666	48,916	58,582
Undistributed earnings	9,976	51,035	61,011
Profit for the year attributable to equity holders of the Company	**19,642**	**99,951**	**119,593**
Weighted average number of shares excluding own shares	105,000	537,176	
Distributed earnings	92.06	91.06	
Undistributed earnings	95.01	95.01	
Basic earnings per share *(in HRK)*	**187.07**	**186.07**	

	2012		
	(in thousands of HRK)		
	Preference shares	**Ordinary shares**	**Total**
Dividends declared and paid in the year	9,666	48,886	58,552
Undistributed earnings	5,643	28,850	34,493
Profit for the year attributable to equity holders of the Company	**15,309**	**77,736**	**93,045**
Weighted average number of shares excluding own shares	105,000	536,848	
Distributed earnings	92.06	91.06	
Undistributed earnings	53.74	53.74	
Basic earnings per share *(in HRK)*	**145.80**	**144.80**	

Diluted

Diluted earnings per share for 2013 and 2012 are equal to basic earnings per share, since the Group did not have any convertible instruments and share options outstanding during both years.

NOTE 14 – DIVIDEND PER SHARE

Up to the date of this report, the Management and Supervisory Board of the Company have not proposed a dividend. Dividends will be accounted for after being approved by the Annual General Assembly of Shareholders.

Unpaid dividends in respect of 2005 through 2013 of HRK 5,522 thousand (2012: HRK 3,280 thousand) are disclosed as dividends payable in “trade and other payables” (Note 27).

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Plant and equipment**	**Other assets**	**Assets under construction**	**Total**
At 1 January 2012					
Cost	2,469,692	326,820	30,870	8,479	2,835,861
Accumulated depreciation and impairments	(1,168,748)	(279,778)	(24,946)	-	(1,473,472)
Net book amount	**1,300,944**	**47,042**	**5,924**	**8,479**	**1,362,389**
Year ended 31 December 2012					
Opening net book amount	1,300,944	47,042	5,924	8,479	1,362,389
Additions	159,411	31,731	2,527	(5,457)	188,212
Disposals and impairments	(726)	(125)	-	-	(851)
Depreciation	(99,598)	(19,697)	(2,154)	-	(121,449)
Closing net book amount	1,360,031	58,951	6,297	3,022	1,428,301
At 31 December 2012					
Cost	2,628,270	347,166	33,397	3,022	3,011,855
Accumulated depreciation and impairments	(1,268,239)	(288,215)	(27,100)	-	(1,583,554)
Net book amount	**1,360,031**	**58,951**	**6,297**	**3,022**	**1,428,301**
Year ended 31 December 2013					
Opening net book amount	1,360,031	58,951	6,297	3,022	1,428,301
Additions	34,956	15,739	866	(194)	51,367
Effect of merger (Note 33)	50,394	2,162	263	-	52,819
Transfer	(968)	968	-	-	-
Decrease	-	(40)	(151)	(257)	(448)
Disposal and impairment	-	(205)	-	-	(205)
Depreciation	(105,583)	(18,973)	(1,972)	-	(126,528)
Closing net book amount	1,338,830	58,602	5,303	2,571	1,405,306
At 31 December 2013					
Cost	2,747,375	362,850	34,375	2,571	3,147,171
Accumulated depreciation and impairments	(1,408,545)	(304,248)	(29,072)	-	(1,741,865)
Net book amount	**1,338,830**	**58,602**	**5,303**	**2,571**	**1,405,306**

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

Additions under 'Land and buildings' relate to various construction works in hotels and campsites that were completed in 2013 and 2012 respectively.

As at 31 December 2013 the net carrying value of land and buildings pledged by the Group as collateral for repayment of long-term borrowings amounted to HRK 295,586 thousand (2012: HRK 312,832 thousand).

Property, plant and equipment include certain assets leased by the Group to third parties under operating leases with the following carrying amounts:

	2013	**2012**
	(in thousands of HRK)	
Cost	111,298	108,952
Accumulated depreciation at 1 January	(71,373)	(67,630)
Depreciation charge for the year	(3,725)	(3,972)
Net book amount	**36,200**	**37,350**

Operating leases relate to leases of land, business premises and hospitality facilities.

During 2013, the Group realised rental income in the amount of HRK 22,974 thousand (2012: HRK 21,546 thousand). During the year, there were no direct operating expenses arising from the use of these assets except for the depreciation charge.

The future minimum lease payments receivable in accordance with the contracts as at 31 December are as follows:

	2013	**2012**
	(in thousands of HRK)	
Up to 1 year	19,922	18,791
From 2 to 5 years	78,056	73,968
Over 5 years	-	-
	97,978	**92,759**

In 2013 and 2012, there were no contingent rents recognised in the statement of comprehensive income. The lease terms are between 1 and 5 years. There is no purchase option.

NOTE 16 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software**
At 1 January 2012	
Cost	13,564
Accumulated amortisation	(12,880)
Net book amount	**684**
Year ended 31 December 2012	
Opening net book amount	684
Additions	533
Amortisation	(376)
Closing net book amount	**841**
At 31 December 2012	
Cost	14,098
Accumulated amortisation	(13,257)
Net book amount	**841**
Year ended 31 December 2013	
Opening net book amount	841
Effect of merger (Note 33)	182
Additions	507
Impairment	(6)
Amortisation	(471)
Closing net book amount	1,053
At 31 December 2013	
Cost	13,090
Accumulated amortisation	(12,037)
Net book amount	**1,053**

NOTE 17a – FINANCIAL INSTRUMENTS BY CATEGORY

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

(in thousands of HRK)	**Loans and receivables**	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Total**
31 December 2013				
Assets at balance sheet date				
Available-for-sale financial assets	-	-	6,821	6,821
Trade and other receivables	10,072	-	-	10,072
Deposit and loan receivable	217,546	-	-	217,546
Financial assets at fair value through profit or loss	-	100	-	100
Cash and cash equivalents	3,971	-	-	3,971
Total	**231,589**	**100**	**6,821**	**238,510**

(in thousands of HRK)	**Loans and receivables**	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Total**
31 December 2012				
Assets at balance sheet date				
Available-for-sale financial assets	-	-	6,839	6,839
Trade and other receivables	7,675	-	-	7,675
Deposit and loan receivable	124,927	-	-	124,927
Financial assets at fair value through profit or loss	-	126	-	126
Cash and cash equivalents	8,833	-	-	8,833
Total	**141,435**	**126**	**6,839**	**148,400**

The above balances of loans and receivables represent the maximum exposure to credit risk at the reporting date. The carrying values of loans and receivables approximate their fair value due to their short-term maturities.

	2013	**2012**
Liabilities at balance sheet date – at amortised cost	*(in thousands of HRK)*	
Trade and other payables	45,820	37,338
Borrowings	47,374	57,443
	93,194	**94,781**

NOTE 17b – CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2013	**2012**
	(in thousands of HRK)	
Trade and other receivables		
New customers	35	-
Existing customers – payments within maturity period	197	415
Existing customers – with some defaults in the past	66	40
	298	**455**

	2013	**2012**
	(in thousands of HRK)	
Deposits and loans		
Financial institutions	217,532	124,530
Existing customers – payments within maturity period	14	397
	217,546	**124,927**
Cash at bank	3,966	8,830

None of the financial assets that are fully performing have been renegotiated in the last year.

Financial institutions comprise domestic banks without a credit rating. However, their foreign parent banks have the following ratings: BBB, AA+ and A (S&P).

NOTE 18 – INVESTMENTS IN ASSOCIATE

	2013	2012
	(in thousands of HRK)	
At beginning of year	1,487	772
Net gains in associate	3	715
At end of year	**1,490**	**1,487**

The unlisted associate is the following:

(in thousands of HRK)

2013

Name	Assets	Liabilities	Revenue /i/	Profit	% share in ownership
Jadranski luksuzni hoteli d.d., Dubrovnik	958,178	777,193	247,135	96,389	0.003039

2012

Name	Assets	Liabilities	Revenue /i/	Profit	% share in ownership
Jadranski luksuzni hoteli d.o.o., Dubrovnik	15,176	15,966	20,888	1,532	46.66

/i/ Revenue from internal relations with the Group amounts to HRK 3,848 thousand (2012: HRK 3,952 thousand).

In 2012 and until 31 May 2013, the Group had a 46.66% share in the company Jadranski luksuzni hoteli d.o.o., Dubrovnik and 28.54% of votes in the General Assembly.

Based on the merger agreement, the General Assembly decisions and the Decision of the Commercial Court of 31 May 2013, the associate and other companies under common control merged with the company Jadranski luksuzni hoteli d.d., Dubrovnik. As a result of the merger of the associate, the shares of the company Jadranski luksuzni hoteli d.d., Dubrovnik were exchanged for the shares of the merged company. As of 1 June 2013, the number of shares owned by the Group is 1,608 or 0.003053% of the share capital of Jadranski luksuzni hoteli d.d., Dubrovnik.

The Group has a significant influence arising from the position of one Supervisory Board member of Jadranski luksuzni hoteli d.d., Dubrovnik, held by a member of the Management Board of Plava laguna d.d.

This entity provides accounting, marketing and IT services to the Group (Note 7).

NOTE 19 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Ownership	2013	2012
		(in thousands of HRK)	
Istarska kreditna banka Umag d.d., Umag	3.63%	5,378	5,539
Investments in companies	/i/	1,443	1,300
		6,821	**6,839**

/i/ Investments represent less than 1% ownership interest in the shareholders' equity of these companies (IRTA d.o.o. 11.1%).

	2013	2012
	(in thousands of HRK)	
At beginning of year	6,839	9,974
Effect of merger (Note 33)	150	-
Impairment	(150)	-
Revaluation losses	(19)	(3,135)
At end of year	**6,821**	**6,839**

The investment in Kanal RI was recorded after merging the balance sheet of Hotel Bonavia d.d. Taking into account the operating indicators, the expected loss equals the acquired share at the balance sheet date.

Available-for-sale investments are as follows:

	2013	2012
	(in thousands of HRK)	
Equity securities		
- listed	5,804	6,719
Equity securities		
- unlisted	1,017	120
At end of year	**6,821**	**6,839**

The fair values of unlisted available-for-sale financial assets are recorded at cost or according to the latest available price parameters for shares delisted from a regulated market. All available-for-sale financial assets are denominated in HRK.

NOTE 20 – INVENTORIES

	2013	2012
	(in thousands of HRK)	
Raw materials and supplies	3,577	3,789
Small inventory, tires and spare parts	13	13
	3,590	**3,802**

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2013	2012
	(in thousands of HRK)	
Domestic trade receivables	2,556	3,224
Trade receivables-related parties (Note 32)	202	377
Foreign trade receivables	6,807	5,132
Due from brokers – agencies	123	-
Provision for impairment of trade receivables	(1,745)	(1,605)
Trade receivables – net	7,945	7,128
Interest receivable	11	10
Accrued income not yet invoiced	2,118	537
Total financial assets	10,072	7,675
Due from state institutions	2,348	2,609
VAT receivable	3,093	3,241
Advances to suppliers	1,035	220
Other receivables	619	663
Provision for impairment of other receivables	(2,193)	(2,163)
	14,974	**12,245**

Movements in provisions for impairment of trade and other receivables.

	2013	2012
	(in thousands of HRK)	
At 1 January	3,768	3,175
Additions	562	709
Collection	(351)	(105)
Write-off	(41)	(11)
At 31 December	**3,938**	**3,768**

The majority of impaired trade receivables are under litigation. Both the outcome of the proceedings related to receivables under litigation or the extent to which they will be collected cannot be anticipated with certainty.

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

Provisions for impairment of trade and other receivables were made based on credit risk assessment. The carrying value of all trade and other receivables has been reduced to their recoverable amount.

	2013	2012
	(in thousands of HRK)	
Trade receivables – Gross:		
Neither past due nor impaired	298	455
Past due, but not impaired	7,647	6,673
Past due and impaired	1,745	1,605
	9,690	**8,733**

As of 31 December 2013, trade receivables in the amount of HRK 7,647 thousand (2012: HRK 6,673 thousand) were past due but not impaired. The maturities of these receivables are as follows:

	2013	2012
	(in thousands of HRK)	
Up to one month	249	98
One to two months	1,415	1,616
Two to three months	179	23
Over three months to 1 year	5,804	4,936
	7,647	**6,673**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. Receivables are mainly secured by advances received and a mortgage over property. The carrying amounts of trade and other receivables approximate their fair value.

NOTE 22 – DEPOSITS AND LOANS RECEIVABLE

	2013	2012
	(in thousands of HRK)	
Loans receivable	261	661
Provision for impairment of loan receivables	(247)	(264)
Net loans receivable	14	397
Deposits	217,532	124,530
Current portion	**217,546**	**124,927**

The deposits are placed at an interest rate of 1.9% - 3.5% (2012: 2.0% - 4.0%). The loans are secured by a mortgage over property and bear interest from 7.25% - 8.5% (2012: 7.25% - 8.5%). The carrying amounts of loans and deposits approximate their fair value.

NOTE 23 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013	2012
	(in thousands of HRK)	
Listed shares	100	126
	100	**126**

Total investments represent less than 5% of the share capital of banks. All amounts are designated at fair value through profit and loss on initial recognition.

NOTE 24 – CASH AND CASH EQUIVALENTS

	2013	2012
	(in thousands of HRK)	
Giro and current accounts	707	2,095
Foreign currency accounts	2,743	5,858
Cash in hand	5	3
Time deposits	516	877
	3,971	**8,833**

The deposits were timed with an option to be discontinued. The Company can call them partially or in full at any time, with 3 days notice. The interest rate is set at 1.9%-3.5% (2012: 2.0%-4.0%). The interest rate for cash on giro and current accounts is set at 0.15-0.50% (2012: 0.20%).

NOTE 25 – SHAREHOLDERS' EQUITY

The equity structure as at 31 December 2013 was as follows:

Shareholder	Total number of shares	Total amount (HRK)	Interest in share capital %
Ownership of ordinary shares:			
Sutivan Investments Anstalt, Liechtenstein	438,899	864,631,030	80.34
Deutsche Bank Trust Company Americas	23,939	47,159,830	4.38
Treasury shares /i/	9,142	18,009,740	1.67
Other legal entities and natural persons	74,338	146,445,860	13.61
	546,318	**1,076,246,460**	
			100.00
Ownership of preference shares:	105,000	105,000,000	
Sutivan Investments Anstalt, Liechtenstein			100.00
Total		**1,181,246,460**	

The equity structure as at 31 December 2012 was as follows:

Shareholder	Total number of shares	Total nominal amount (HRK)	Interest in share capital %
Ownership of ordinary shares:			
Sutivan Investments Anstalt, Liechtenstein	438,899	790,018,200	80.34
Deutsche Bank Trust Company Americas	23,939	43,090,200	4.38
Treasury shares /i/	9,120	16,416,000	1.67
Other legal entities and natural persons	74,360	133,848,000	13.61
	546,318	983,372,400	100.00
Ownership of preference shares:			
Sutivan Investments Anstalt, Liechtenstein	105,000	105,000,000	100.00
Total		**1,088,372,400**	

/i/ As at 31 December 2013, Treasury shares comprise 9,142 (2012: 9,120) own shares that were redeemed in the period from 1997 to 2002 at prices ranging from HRK 718.70 to HRK 1,516.50 per share through a commission house broker, and the total average price of HRK 1,256.27. Gains and losses on purchase and sale of treasury shares are recorded within capital reserves and amount to HRK 6,525 thousand (2012: HRK 5,149 thousand).

During 2012, of the initial number of 9,470 treasury shares, 350 treasury shares were allocated to a separate account with the Central Depository and Clearing Company, pursuant to the Trustee Agreement to receive shares and cash payments, in order to implement the merger of Hotel Bonavia d.d. with the acquiring company Plava laguna d.d. as of 1 January 2013. Based on the shares exchange ratio determined using the discounted cash flow method, the company Plava laguna d.d. used 328 treasury shares with the carrying value of HRK 412 thousand (Note 33).

NOTE 25 – SHAREHOLDERS' EQUITY (continued)

Following the decision of the Company's General Assembly of 2 August 2013, the Company's share capital was increased by reinvesting a portion of profit for 2012 in the amount of HRK 92,874 thousand. The decision on converting shares with nominal value into shares without nominal value was adopted at the same meeting. The Company's share capital is distributed among 546,318 ordinary shares without nominal value (2012: with a nominal value of HRK 1,800.00), and among 105,000 preference Series "B" shares, registered, with a nominal value of HRK 1,000.00 per share (2012: with a nominal value of HRK 1,000.00).

All shares are fully paid. Preference shares carry a right to a fixed annual preferred dividend of HRK 1 per share, in addition to ordinary dividends, declared and paid on ordinary shares and are non-voting. Preference shares have priority right of settlement in the liquidation process of the Company.

NOTE 26 – RESERVES AND RETAINED EARNINGS

	2013	**2012**
	(in thousands of HRK)	
Legal reserves	42,204	42,204
Other reserves	31,383	33,867
Retained earnings	266,506	298,369
	340,093	**374,440**
Changes in reserves:		
Legal reserves		
At beginning of the year	42,204	40,675
Transfer from retained earnings	-	1,529
At end of the year	**42,204**	**42,204**
Other reserves		
At beginning of the year	33,867	91,483
Effect of merger	(2,470)	-
Distribution of dividends	-	(54,869)
Revaluation of available-for-sale financial assets	(14)	(2,747)
At end of the year	**31,383**	**33,867**
Retained earnings		
At beginning of the year	298,369	211,207
Net profit for the year	119,593	93,045
Increase in share capital	(92,874)	-
Transfer to legal reserves	-	(1,529)
Distribution of dividends	(58,582)	(3,684)
Effect of correction of previous year's tax return	-	(701)
Dividend on preference shares of subsidiary to parent company	-	31
At end of the year	**266,506**	**298,369**

NOTE 26 – RESERVES AND RETAINED EARNINGS (continued)

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 together with the capital reserves reaches 5% of the Company's share capital. This reserve is not distributable. Based on the Decision of the General Assembly on 30 August 2012, retained earnings in the amount of HRK 1,529 thousand were transferred to legal reserves. As at 31 December 2013, legal reserves amounted to HRK 33,536 thousand or 2.84% of the share capital (2012: 3.08%), while the share of legal reserves together with capital reserves (HRK 18,824 thousand, 2012: HRK 20,882 thousand), which is also not distributable that were formed by denominating the share value in 2001 (from HRK 1,860 to HRK 1,800 per share), form a share of 4.43% (2012: 5.00%) in the Company's share capital.

As at 31 December 2013 and 2012, the Subsidiary's legal reserves amounted to HRK 8,668 thousand, while the total Group's legal reserves as at 31 December 2013 and 2012 amounted to HRK 42,204 thousand.

As at 31 December 2013, other reserves amounted to HRK 31,383 thousand (2012: HRK 33,867 thousand) and comprise treasury shares reserves of HRK 11,485 thousand (2012: HRK 11,897 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets in the amount of HRK 1,074 thousand (2012: HRK 1,088 thousand). These reserves are not distributable.

The remaining other reserves in the amount of HRK 18,824 thousand (2012: HRK 20,882 thousand) relate to the above stated capital reserves formed by denominating the nominal value of shares in HRK. During 2013, they were increased based on the above stated decrease in reserves by treasury shares in the amount of the released treasury shares as a result of the merger (HRK 412 thousand), since treasury share reserves are generated in the amount of purchased treasury shares. Following the Supervisory Board's decision, these reserves were used to cover the negative effect of the merger in the amount of HRK 2,470 thousand (Note 33).

Based on the decision of the parent company's General Assembly from 2 August 2013, retained earnings in the amount of HRK 58,582 thousand were distributed for dividends. Based on the decision of the parent company's General Assembly from 30 August 2012, revaluation reserves in the amount of HRK 54,869 thousand were distributed for dividends.

NOTE 27 – TRADE AND OTHER PAYABLES

	2013	2012
	(in thousands of HRK)	
Trade payables	14,682	17,580
Trade payables – related parties (Note 32)	7,674	2,293
Dividends payable (Note 14)	5,522	3,280
Liability for unpaid capital – related parties (Note 32)	-	580
Interest payable	6,011	5,436
Accrued costs not yet invoiced	2,238	1,444
Liabilities for concession /i/	9,693	6,725
Total financial liabilities	45,820	37,338
Gross salaries payable	15,324	13,784
Taxes and contributions payable	10,184	10,914
Advances received	14,779	6,296
Other current liabilities	6,915	4,553
	93,022	**72,885**

/i/ Concession payable is calculated on the base of submission of the relevant requirements to the governing authorities for concessions on the tourist land in camps, hotels and tourist resorts in accordance with the Law on tourist and other construction land not evaluated in the transformation and privatisation process and regulations which elaborate in more details the manner of complying with the stated Law.

NOTE 28 – BORROWINGS

	2013	2012
	In thousands of HRK	
Long-term borrowings:		
Bank borrowings	33,546	42,790
	33,546	42,790
Short-term borrowings:		
Current portion of long-term bank borrowings	9,766	9,649
Government agencies	-	942
Government of the Republic of Croatia	4,062	4,062
	13,828	14,653
Total borrowings	**47,374**	**57,443**

Banks and government agencies
Borrowings from banks and government agencies are secured by bills of exchange, guarantees of the Government of the Republic of Croatia or a pledge over certain property (Note 15).

Government of the Republic of Croatia
Borrowings from the Government of the Republic of Croatia relate to Government repayments against issued guarantees to banks in prior years. The borrowings matured in 2009 and were granted at discount rate of +3%. The Company is currently not repaying the principal nor interest since a legal claim is in progress (Note 30).

Bank borrowings are denominated in EUR, all other borrowings are denominated in HRK.

Borrowings with a fixed interest rate are exposed to changes in interest rates upon maturity of the principal and to fair value interest rate risk. As at 31 December 2013, such borrowings amounted to HRK 32,492 thousand (2012: HRK 39,234 thousand).

The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	2013	2012
	In thousands of HRK	
6 months or less	5,335	13,205
1 – 2 years	9,547	5,004
	14,882	**18,209**

The maturity of long-term borrowings is as follows:

	2013	2012
	In thousands of HRK	
Between 1 and 2 years	9,766	9,648
Between 2 and 5 years	23,780	28,947
Over 5 years	-	4,195
	33,546	**42,790**

NOTE 28 – BORROWINGS (continued)

The effective interest rates as at 31 December 2013 and 2012 were as follows:

	2013		2012	
	HRK	**EUR**	**HRK**	**EUR**
Banks	-	1.72% - 2%	-	2%-2.2%
Government agencies	-	-	-	7.8%
Government of the Republic of Croatia	10%	-	10%	-

The carrying amounts of borrowings approximate their fair values as follows:

	Carrying amounts		Fair value	
	2013	**2012**	**2013**	**2012**
	In thousands of HRK		*In thousands of HRK*	
Banks	33,546	42,790	30,659	40,688
	33,546	**42,790**	**30,659**	**40,688**

The fair values are based on discounted cash flows by using a rate based on the borrowing rate of 4.68%.

The carrying amounts of short-term borrowings approximate their fair values.

NOTE 29 – PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

In thousands of HRK	**Termination benefits**	**Legal claims**	**Total**
At 1 January 2012	275	1,500	1,775
Additional provisions during the year	-	500	500
Used during the year	(4)	-	(4)
At 31 December 2012	**271**	**2,000**	**2,271**
Less: non-current portion	**-**	**(2,000)**	**(2,000)**
Current portion	**271**	**-**	**271**
At 1 January 2013	271	-	271
Used during the year	(271)	-	(271)
At 31 December 2013	**-**	**2,000**	**2,000**
Less: non-current portion	**-**	**(2,000)**	**(2,000)**
Current portion	**-**	**-**	**-**

NOTE 30 – CONTINGENCIES AND COMMITMENTS

Transformation and privatisation audit. On 22 May 2003, the State Audit Office (in Pazin) issued a Report on the audit of the transformation and privatisation of the state-owned company Plava laguna, Poreč. The Report states that the transformation and privatisation procedure has not entirely been executed in accordance with the law, especially with respect to gaining ownership over the land by the Company. Subsequently, the Company was sued in order to determine the ownership over the portion of land used by the Company and for which the Company is registered as the owner. On 20 May 2003, the Company expressed an opinion on the State Audit Office's Report.

Up to the date of this report, the legal claim has not been finalised, i.e. there has been no reply from the State Audit Office on the Company's complaint, so that neither the outcome of this legal claim and audit findings nor their effect (if any) on the Company's financial or operating position can be reliably anticipated.

The stated problems with respect to land ownership are common in other tourism companies in the Republic of Croatia. On 1 August 2010, the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures by submitting requests for concessions and other prescribed requests. In the period since the adoption of legal regulation, in the procedures initiated, and in line with requirements of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land etc. Until 31 December 2013, the Company settled all liabilities arising from the invoices received, issued by competent authorities on the basis of the Ordinance provisions.

Legal contingencies. The Subsidiary initiated a legal action against the Republic of Croatia with respect to guarantees on borrowings (Note 28). The first-instance ruling was in favour of the Subsidiary. However, until the date of issuing these financial statements, the proceeding has not been finalised since the counterparty launched an appeal against this first-instance ruling.

Provisions for other contingencies. In the financial statements for the year ended 31 December 2013 and 2012, the Company anticipates payments of other contingencies in the amount of HRK 2,000 thousand.

Capital commitments. Future commitments contracted for investments in tourist buildings, for which provisions were not made, as at 31 December 2013 amounted to HRK 27,701 thousand (2012: HRK 3,455 thousand).

Operating lease commitments – where the Group is the lessee (Note 7). The future aggregate lease payments under operating leases are as follows:

	2013	2012
	(in thousands of HRK)	
Up to 1 year	150	384
From 2 to 5 years	147	272
	297	**656**

The lease terms are between 1 and 5 years and the majority of the lease contracts for land and business premises is renewable at the end of the lease term at market prices.

NOTE 31 – CASH GENERATED FROM OPERATIONS

Adjustment of profit with cash generated from operations:

	2013	2012
	(in thousands of HRK)	
Profit before tax	122,272	93,076
Adjustments for:		
Depreciation and amortisation (Note 15, 16)	126,999	121,825
Impairment of property, plant and equipment	6	36
Gains on sale of property, plant and equipment (Note 10)	(174)	(241)
Provision for impairment of trade and other receivables and loans, net	561	604
Changes in fair value of financial assets (Note 10)	283	16
Dividend income (Note 6)	(382)	(382)
Other gains – net	(1,348)	(925)
Finance income – net (Note 11)	(5,421)	(3,266)
Increase in provisions (Note 29)	(271)	496
Other non-cash items	208	(1,087)
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade and other receivables	92	234
- inventories	412	(19)
- trade and other payables	13,110	12,068
Cash generated from operations	**256,346**	**222,435**

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

	2013	2012
	(in thousands of HRK)	
Net book value of disposed property, plant and equipment	428	815
Gains on sale of property, plant and equipment (Note 10)	174	241
Proceeds from sale of property, plant and equipment	**602**	**1,056**

NOTE 32 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or is under common control or exercise significant influence over the other party in making financial or operational decisions. Plava laguna d.d., Poreč is controlled by the company Sutivan Investments Anstalt registered in Liechtenstein. The ultimate parent and controlling company is Luksburg Foundation, registered in Vaduz, Liechtenstein.

In the ordinary course of business, a number of transactions were entered into with related parties. Related parties are the companies within Luksburg Foundation and Ragusa Anstalt, parties under common control. These transactions were carried out under commercial terms and conditions and at market rates.

Receivables and liabilities, as well as revenue and expenses resulting from transactions with the associate are as follows:

	2013	**2012**
	(in thousands of HRK)	
Trade receivables (Note 23)	-	21
Trade and other payables (Note 27)	7,624	1,376
Accounting services (Note 7)	3,848	6,015
Sales	127	25

The associate provides accounting, marketing and IT services to the Group, and as of 1 June 2013, it also provides seasonal workforce according to the annual contractual agreement that is renewed every year.

Receivables and liabilities, as well as revenue and expenses resulting from other related-party transactions are as follows:

	2013	**2012**
	(in thousands of HRK)	
Trade receivables (Note 23)	202	356
Trade and other payables (Note 27)	50	917
Other receivables	134	-
Liabilities for unpaid capital (Note 27)	-	580
Sales	127	438
Seasonal work force (Note 7)	4,487	3,952
Other expenses (Note 7)	2,292	440
Finance income	128	-
Finance costs	1,857	-

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

Group Key Management and Supervisory Board compensation

(in thousands of HRK)	**2013**	**2012**
Net salaries	6,341	5,991
Pensions insurance contributions	1,737	1,663
Health insurance contributions	1,492	1,528
Other costs (contributions and taxes)	3,428	3,375
	12,998	**12,557**
Supervisory Board fees	2,813	2,455
	15,811	**15,012**

Key management comprises 19 persons (2012: 18 persons), and the Supervisory Board comprises 14 members (2012: 14 members).

NOTE 33 – MERGER

In line with the Merger Agreement concluded on 28 September 2012 between Hotel Bonavia d.d. Rijeka, as the merged company, and Plava laguna d.d. Poreč, as the acquiring company, and the decision of the General Assembly from 12 November 2012, at 31 December 2012 the Commercial Court in Rijeka (Pazin office) adopted the Decision based on which the stated merger was entered into the court register. The effects of the merger are in force starting from 1 January 2013. Since the merger is related to the companies under common control of Luksburg Foundation Vaduz, Liechtenstein, the effect of the merger in the amount of HRK 2,058 thousand is recognised in capital and reserves.

The effect of merger is as follows:

(in thousands of HRK)	**1 January 2013**
Property, plant and equipment	52,819
Intangible assets	182
Investments in subsidiaries and associate	20
Available-for-sale financial assets	150
Inventories	200
Trade and other receivables	1,408
Cash and cash equivalents	5,301
Borrowings from related parties /ii/	(52,641)
Trade and other payables	(9,497)
Net assets – effect of merger	**(2,058)**
Treasury shares given in exchange /i/	(412)
Effect on capital and reserves	**(2,470)**

/i/ By merging with the company Hotel Bonavia d.d., the shares of Plava laguna d.d. were exchanged for the shares of the merged company. Based on the shares exchange ratio determined using the discounted cash flow method, the company Plava laguna d.d. used 328 treasury shares with the carrying value of HRK 412 thousand.

/ii/ Following the merger, the Company fully settled borrowings and interest payable to related companies.

NOTE 34 – EVENTS AFTER THE REPORTING PERIOD

Based on the merger agreement of 13 June 2013 between Hoteli Croatia d.d., Cavtat, as the merged company, and Jadranski luksuzni hoteli d.d., Dubrovnik, as the acquiring company, and the decision of the General Assembly of the companies involved in the merger, the Commercial Court in Split (Dubrovnik office) as at 31 December 2013, adopted the decision based on which the stated merger was entered into the court register. The effects of the merger will be in force starting from 1 January 2014. Following the merger, the interest of Plava laguna d.d. in the company Jadranski luksuzni hoteli d.d. is 30,988,522 shares or 32.88%.