PLAVA LAGUNA

HOTELS & TOURIST COMPANY d.d.

FOR THE YEAR 2014

# ANNUAL REPORT

Poreč, June 2015

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# THE SUPERVISORY BOARD REPORT ON SUPERVISION OVER THE MANAGEMENT OF THE COMPANY'S OPERATIONS, ON THE RESULTS FOLLOWING THE REVIEW OF THE FINANCIAL REPORTS, THE REPORT ON THE SITUATION IN THE COMPANY AND THE PROPOSED DECISION ON THE USE OF PLAVA LAGUNA D.D.'S PROFIT FOR 2014

In the course of business year 2014, the Supervisory Board of the Company continuously supervised the conduct of business and held 13 meetings, pursuant to the powers conferred by the provisions of the Companies Act and the Articles.

In 2014, the Supervisory Board functioned in the composition of 7 members:

Davor Luksic Lederer, Chairman of the Supervisory Bord
Patricio Tomas Balmaceda Tafra, Deputy Chairman of the Supervisory Bord
Đenio Radić, Member of the Supervisory Bord
Borislav Škegro, Member of the Supervisory Board
Stipe Liović, Member of the Supervisory Bord
Davor Domitrovic Grubisic, Member of the Supervisory Board
Oscar Eduardo Hasbun Martinez, Member of the Supervisory Board (until 28 November 2014)
José Ignacio Bulnes León, Member of the Supervisory Board (from 29 November 2014)

The Supervisory Board used its counsel and recommendations to influence the Company's activities that marked the business year 2014, especially the acquisition of the company Istraturist Umag d.d. Umag.

On the basis of Article 300b paragraphs 1 and 2 of the Companies Act, the Management of the joint stock company Plava laguna submitted to the Supervisory Board annual financial reports, the report on the situation in the Company as well as the proposed decision on the use of profit.

Pursuant to its authorities under Article 300c paragraph 2 of the Companies Act in a meeting on 29 April 2015, and in the presence of the management and the representatives of the auditing company PricewaterhouseCoopers d.o.o. of Zagreb, the Supervisory Board reviewed the submitted financial reports for 2014, the report on the situation in the Company as well as the proposed decision on the use of profit, and on the results thereof submits to the Management Board and Company's General Assembly this report to conduct a further procedure.

The reviews carried out undoubtedly show that in 2014 the Company's Management, according to its statutory obligations, informed the Supervisory Board in writing and orally of the operational policy and of the other principal issue related to future management of the business operations, of the profitability of operations and profitability of the use of shareholdings' equity, of the course of business operations, revenues and expenses and the situation in the Company, and in particular of the operations affecting the profitability and liquidity, as well as of other matters that the Supervisory Board considered important.

The results of our review as well as the opinion of the authorized auditor on the reality and objectivity of data shown in the financial reports for 2014 demonstrate that the Company acts in accordance with the law and regulations in force, the Company's general legal instruments and the decisions by the General Assembly.

The Supervisory Board established, after the review of financial reports for 2014 which the management is accountable for, that they are drafted in accordance with the provisions of the Accountancy Act and other pertinent laws and regulations, and they realistically reflect the situation in the company books and fairly reveal the assets and operational state of the Company.

The Supervisory Board supports the management's proposal on the use of profit. The Supervisory Board is of the opinion that the proposal is aligned with the Company's business policy and adopted development guidelines and plans and the same is submitted to the General Assembly for adoption.

The Supervisory Board fully supports the auditing report which confirms that the Company's financial reports for the year that ended on 31 December 2014, in all aspects realistically and objectively show the financial situation in the Company.

The Supervisory Board expresses its absolute approval of the submitted financial reports for 2014 and the report on the situation in the Company, as well as their affirming, and leaves their rendering to the Company' General Assembly.

PRESIDENT

Davor Luksic Lederer v.r.

# BOARD OF MANAGERS' REPORT TO THE COMPANY'S SHAREHOLDERS

**Dear shareholders,**

It is my pleasure to be able to report on successful business results of Plava laguna in year 2014 at the end of another fiscal year.

Long-term trends in international tourism demand indicate a continued growth of tourism on a global scale and such positive movement was also achieved in 2014, both in the country and in the wider global environment.

According to the World Tourism Organization, tourism in 2014 recorded a continuation of the positive trend of recent years, with 48 million new arrivals which represents growth of 4.4%. On a global scale, North and South America recorded the highest increasing rates of 8% and Asia and the Pacific of 5%. Europe for tourists still maintains the status of the most attractive region in the world with around 584 million arrivals out of which 457 million were realized in the 28 members of the European Union, which represents a growth of 3% compared to the previous year. In that period, the greatest increase in international arrivals occurred in northern and southern (Mediterranean) Europe of 7%. Thanks to good results, tourism greatly contributes to Europe's economic recovery.

The positive trend reflected also in Croatian tourism which in the past year realized record quantitative results measured by the number of overnights. There were 66.5 million commercial overnights with increase of 2.6% and 13.1 million of arrivals representing an increase of 5.6% compared to previous year. Of these, 65.7% of overnights was realized in the individual segment and 34.3% in organized arrangements. Also, foreign tourists make 92.2% of the total tourist traffic measured by realized overnight stays and record an increase of 2.8%. Guests from Germany are taking the first place with almost a quarter of total realized foreign overnight stays in Croatia and a growth of 2.2%. Slovenia follows with a share of 10.2% and a growth of 1.3% and Austria with a share of 8.8% and a growth of 1.6%. When reviewing the tourist traffic from the aspect of the type of accommodation in which overnights are realized, then it must be said that the growth was realized in the segment of households – rooms, apartments, houses to rent, while the segment of hotels and camps, which in total realize approx. 50% of total overnights, recorded a slight decrease of 0.7%.

In accordance with the above mentioned, revenues from tourism amounted to 7.4 billion euro's which represents a growth of 2.8% compared to the previous year and so their share in the GDP exceeds 17%, according to data by the Croatian National Bank.

Mentioned tourist traffic in the Republic of Croatia is mostly concentrated in seven coastal counties whose share in total overnight stays is 95.6%. Thus, the highest tourist traffic was realized in the Istria County with a share of 29.4% in total overnight stays of the Republic of Croatia.

In 2014, Plava laguna realized 2.25 million overnight stays what makes 3.4% of the total number of commercial overnights in Republic of Croatia or 11.4% of total overnight stays in the Istria County. Difficulties in sales on the Russian market continued in this business year which resulted with a further decline of 22% or nominally 53 thousand overnights. With timely activities, lack of demand on the Russian market was mostly compensated by guests from traditional Western European source markets, Germany, Austria, Italy and Slovenia. The relevant changes and modern trends in the organization of travel result in a shift from the organized, allotment segment towards flexible, individual channel of arrivals.

In accordance with these movements, the Company realized 482.3 mil HRK operating revenue that represents a decrease of 3% or 14.3 mil HRK in nominal terms, compared to the previous year which was one of the most successful business years of the Company.

It should be noted that the reported turnover was realized under unfavorable macroeconomic business conditions in the framework of which there was also an increase of the VAT rate from 10% to 13% in the activities of accommodation and F&B. The negative effect for the Company with respect to that fiscal measure amounts to 11.5 mil HRK in profit decrease.

Measures and activities in the operating segment of the business process and other business functions were directed towards achieving the target efficiency as confirmed by the EBITDA in the amount of 194.7 million HRK, representing a decrease of 9.1 million compared to the record level of the previous year. As a measure of operating profitability, EBITDA margin was kept stable at 40.7%.

Following the mentioned, the Company records a profit before tax in the amount of 90.9 million HRK, a decrease of 17% or 18.7 million compared to last business year's result. In accordance with the legislation in the field of income taxes, the Company uses tax relief for 2014 on the basis of reinvesting the profit in the amount of 84.1 million HRK and therefore net profit amounts to 88.6 million HRK.

Total assets of the Company on the last day of the reporting period amounted to 2.371 billion HRK which represents an annual increase of 860 million due to the generation of income and completed acquisition of the majority stake in the company Istraturist Umag d.d. in the amount of 916.1 mil HRK, financed by bank loan and loan obtained from the related party in equal amounts, in total 100 mil EUR, and the remaining amount from own savings. The structure and terms of financing have been adapted by the Company to the characteristics and cycles of operational activities, with the aim to preserve financial stability. The ratio of debt to EBITDA in the initial year of investments was 3.94 while the share of long-term loan liabilities in total liabilities was 32%.

Investments in 2014 are showing the interest of the Company to continue with the achievement of goals through providing the guests with quality and recognizable services. Natural resources like beaches, coastline and horticulture are recognized by the Company as dominant motifs for tourists visits and remain in the focus of the development of tourist offer. Accordingly, total investments are primarily directed towards raising the quality of services and improvement of work processes as well as maintaining the existing levels of business processes and amounted to 63.3 mil HRK.

The event of historical proportions that marked the business year 2014 represents the purchase of 93.04% shares of the company Istraturist Umag d.d. by concluding this transaction on 27 November 2014. This reinforces the business system which on a consolidated level doubled itself with respect to the challenges of a competitive tourist market. I believe that we will work together, using the examples of best practice, to achieve synergy effects in the process of further growth and development.

On this way, the overall contribution and work of our loyal employees will be invaluable and therefore, I take this opportunity to thank them for their extraordinary efforts and the achieved level of mutual trust and respect.

Finally, I would like to thank all our customers and business partners for their trust and loyalty, as well as all the shareholders and the members of the Supervisory Board for valuable cooperation and support.

President of the Company

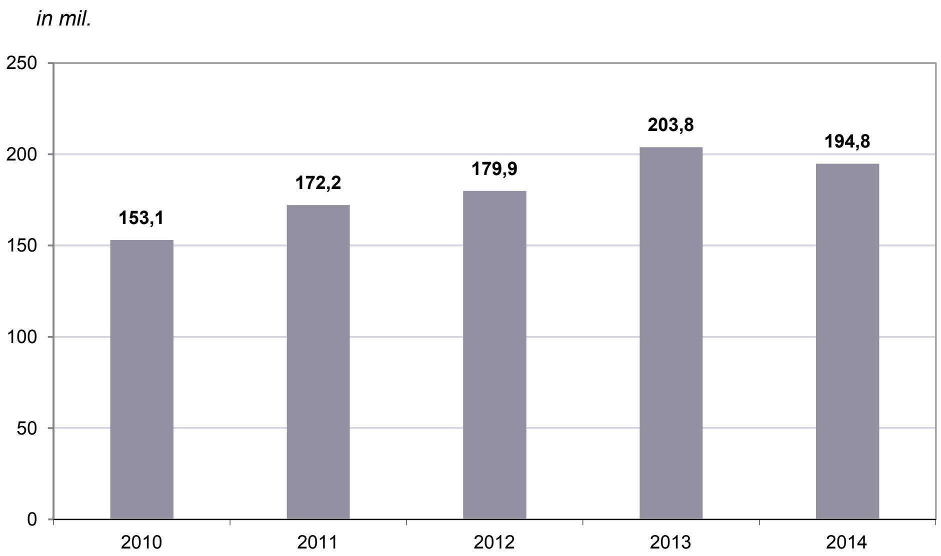
Neven Staver

Neven S.

# REVIEW OF THE MOST SIGNIFICANT INDICATORS

| | 2014 | 2013 |
|---|---|---|
| Realized overnight stays | 2.246.538 | 2.331.879 |
| Operating revenue per overnight stay in HRK | 213,1 | 211,3 |
| Net income in 000 HRK | 88.618 | 109.255 |
| Total shareholdings' equity in 000 HRK | 1.521.763 | 1.433.500 |
| Total assets in 000 HRK | 2.371.405 | 1.511.211 |
| Liquidity ratio (short-term assets / short-term liabilities) | 2,5 | 2,9 |
| Financial stability in % (long-term assets / equity and long-term liabilities) | 94,8 | 90,2 |
| Net profit and depreciation / total revenues | 39,7 | 42,4 |
| EBITDA (earnings from business activity and depreciation) in 000 HRK | 194.769 | 203.844 |
| EBITDA margin in % (EBITDA / operating revenue) | 40,7 | 41,4 |
| Net debt (total loan borrowings - cash – investment in securities – loans, deposits and similar) | 593.299 | - |
| Net debt / EBITDA ratio | 3,0 | - |
| Total (borrowings / equity) in % | 50,5 | - |
| Net working capital | 119.983 | 140.961 |
| Market value of shares on 31 Dec 2014 | 4.100 | 2.460 |

**EBITDA growth over the years 2010 - 2014**



# INTRUDUCTION OF THE COMPANY

## Historical development of the Company

Plava laguna is a company backed by more than half a century of successful operation and development, based on ecological principles and sustainable development, during which it continuously occupied leadership position in the Croatian tourism, and by permanent enrichment of its overall offer and adjustment to the needs of ever more demanding tourist market, achieves remarkable physical and especially financial results.

The core business of the company is hospitality and tourism and in addition to that, the Company is registered to carry out other activities as well.

Plava laguna is a company which realizes approximately 500 million HRK total revenues and employs an average of more than 900 employees. In its accommodation capacities, refined and adapted to the guests through ongoing investments, it can daily accommodate over 20 thousand guests of whom more than 8 thousand in hotels and apartments and over 12 thousand in camps, with which it annually realizes almost 2,3 million overnight stays. Also, it has 360 berths in two marinas and a number of restaurants and bars, sports and other facilities that are complementing the basic accommodation offer.

Joint stock company Plava laguna was founded in 1957 as a company for hospitality and tourism and it is one of the first tourist companies in Croatia.

Plava laguna began its own development path on the camp established on the peninsula Molindrio by the French club for nature lovers "Polynesia", as "Plava laguna – Camp Hotel" with a capacity for 800 persons.

At the very beginning, due to lack of funding, building projects were modest and the first investment was building of bungalows on the site of today's hotel Laguna Galijot, and then the tourist resort Bellevue. A lot of attention was paid to the development of sports and such offer and therefore first sports centers and tennis courts were built.

From 1966 all the way until 1971, a very intense investment period lasted during which most of the Plava laguna's fixed accommodation facilities were built and the foundations laid for the Zelena laguna campsite.

In the period that follows, from 1971 until 1976, upgrading of existing facilities continues and campsite Ulika was built. The main characteristics of this period is the beginning of the construction of the marina Červar Porat and the marina Parentium, construction of the campsite Bijela Uvala and many service facilities.

In the same period, horizontal integration with smaller hotel and catering organizations in former municipality of Poreč was completed, as well as with the hotel and tourism company from Novigrad, and a significant step in the development during that period was the business expansion beyond the regional framework, which was accomplished through the construction of hotel Laguna in Zagreb. Overall activity was consolidated in a work organization for hospitality and tourism Lagunaturist.

In 1987, bigger economic systems in Poreč are being joint in the SOUR Plava laguna (autonomous cooperative work organization) and already in 1990, pursuant to the Company Law, there was a disassociation of SOUR and founding of new independent companies, one of which was Laguna Poreč, company for hospitality and tourism.

New changes with the beginning of 1991 were provoked with the entry into force of the Transformation of Socially Owned Enterprises Act, which started the process of privatization in Croatia and thus in Laguna Poreč. On 3rd of September, 1992 pursuant to the Decision of the Agency for Restructuring and Development and the decision of the Constituent Assembly, Laguna Poreč was transformed into a joint stock company, and on the 26th of January, 1993 it was officially registered with the Commercial Court in Rijeka. Plava laguna finally rounds up its legal constitution in February 1996 by the adjustment of the fundamental documents of the Company with the Companies Act and with the act of registration in the register of the Commercial Court in Rijeka as Plava laguna, joint stock company for hospitality and tourism, the company also returned to its historical name.

Plava laguna, as a joint-stock company, all until year 2000 had quite a diversified ownership structure but already in year 2001, the Luksic Group in the acquisition of 80.34% interest in ordinary shares, became the majority shareholder.

During the same year, several acquisitions of corporations were made. Plava laguna j.s.c. acquired 89.40% shares in the company Hoteli Croatia j.s.c. Cavtat, and with the recapitalization of that company in 2003, the Company increases its ownership share in the same to a 92.28%. In year 2001, by an acquisition, the ownership share was increased in the company Adriatic j.s.c. Poreč to 90.48%, given the share in the equity capital, the same ultimately merged with Plava laguna j.s.c. on 1 October 2002. Pursuant to the Agreement on the merger with legal effect on 1 Janury 2014 company Hoteli Croatia d.d. Cavtat was merged to the company Jadranski luksuzni hoteli d.d./

Adriatic Luxury Hotels, with what Plava laguna d.d. becomes the single largest shareholder in the said company with a share of 32.48%.

Significant investment activity that characterizes the period from 2003 until today is primarily directed towards restructuring of one part of portfolio of accommodation facilities in a 4-star category in part of built objects as well as in campsites.

Particularly significant investments represent the reconstruction of hotel Laguna Albatros (2006) from 2-star into 4-star category „all inclusive“ type of offer, with which the tourist product of the Company is enriched with the new quality and content while the most significant investment from 2008 is the reconstruction of the hotel Laguna Molindrio (ex Galeb) from 2-star to a new level of 4-star quality category. The investment activity in 2012 is marked with an especially demanding project of a complete reconstruction of hotel Laguna Parentium to a 4-star category with very highly set criteria for the creation of an excellent product, given the importance and a traditional role of the hotel. With the mentioned investment, the offer of the Company is enriched by an exclusive hotel that thanks to its unique location offers an atmosphere of relaxation and rest, enriched by the experience of water and gastronomic delights.

In order to build a focused, modern and clear visual identity of the company, in 2011 we reorganized the brand architecture of Plava laguna and for the umbrella brand name chose „Laguna Poreč“. Accordingly, the new corporate logo has been created with the colors that accentuate the beautiful nature, sun and the clear sea and also suggests quality, modernity, uniqueness and attractiveness of the company's offer.

Upon the completion of the merger procedure of Hotel Bonavia j.s.c. Rijeka that began during year 2012, starting from 1 January 2013 Plava laguna expanded its portfolio with a 4-star hotel outside the destination and of different type of business operation.

The business year 2014 was marked by the acquisition of a majority stake in the company Istraturist Umag d.d., business event which is among the largest transactions in the history of Croatian tourism.

Energy and effort invested in the development so far, point to the ability of the Company to continuously change and adjust to market demands, while preserving the historically distinctive core values, which provides the conditions for maintaining the leading position in the Croatian hospitality.

## Important business events

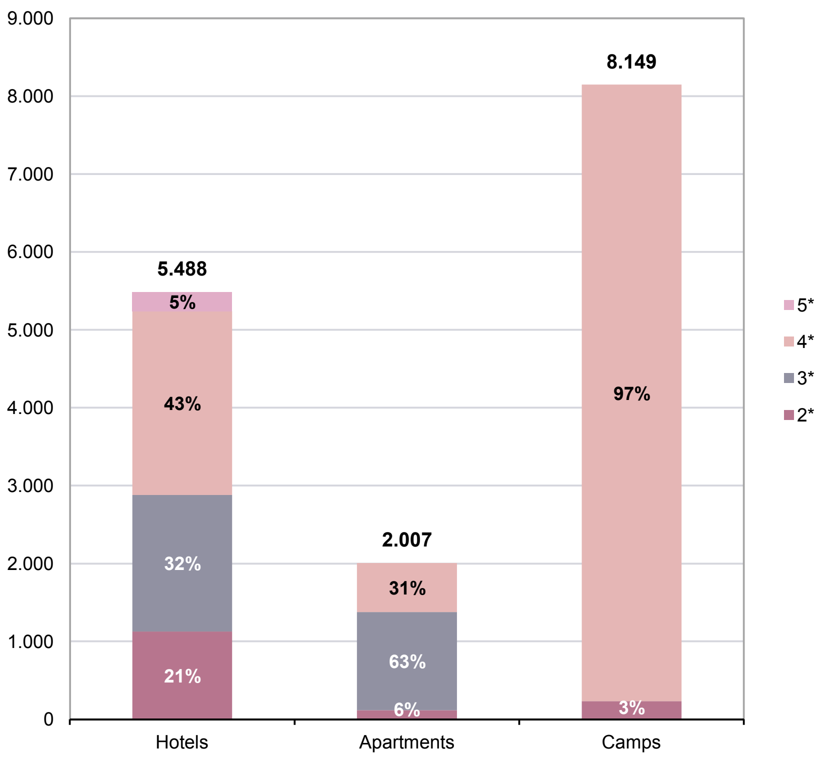
As of January 1, 2014 status change of mergering the company Hoteli Croatia d.d. Cavtat, former subsidiary of Plava laguna to the company Jadranski luksuzni hoteli d.d. Dubrovnik entered into force, and with this change Plava laguna became the largest single shareholder in the company Jadranski luksuzni hoteli d.d., the company prevailing with 5-star category, and ownership share of 32.48% on the last day of the reporting period.

The business year 2014 was marked on 26th of August by signing of the Purchase and Sale Agreement between the Company and Zagrebačka banka d.d. as the Seller of 93.04% shares in the company Istraturist Umag d.d. The transaction was concluded on 27 November 2014 upon payment of the purchase price and transfer of shares to the Company as the Buyer.

With this takeover, the Group Plava laguna becomes one of the leading companies in the Croatian tourism sector with the capacity of more than 43 thousand guests daily within the accommodational portfolio consisting of 21 hotel, 10 apartment villages and 9 campsites. The aim is to improve the business performances of both companies through the synergy effects and the development of best practices which will create conditions for further growth and development.

| Capacity of the Group Plava laguna | | |
|---|---|---|
| DESCRIPTION | NUMBER OF UNITS | NUMBER OF BEDS |
| HOTELS | 5.488 | 11.064 |
| APARTMENTS | 2.007 | 7.726 |
| **BUILT OBJECTS** | **7.495** | **18.790** |
| CAMPS | 8.149 | 24.655 |
| **TOTAL** | **15.644** | **43.445** |

**Qualitative structure of capacity based on units**



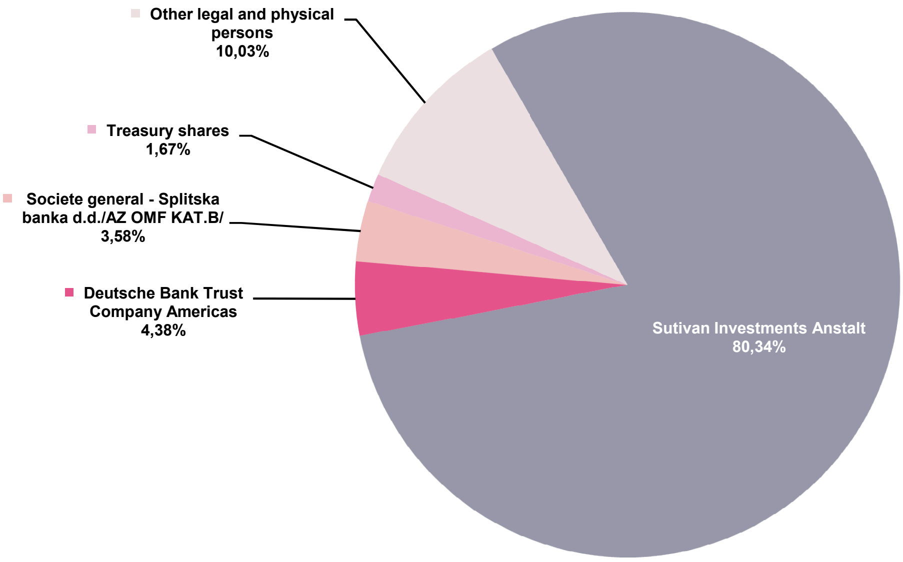
## Ownership structure and organizational chart

Follows the company's ownership structure as of 31.12.2014.

### Ordinary shares owned

| OWNER | NUMBER OF SHARES | % |
|---|---|---|
| Sutivan Investments Anstalt | 438.899 | 80,34 |
| Deutsche Bank Trust Company Americas | 23.939 | 4,38 |
| Societe general - Splitska banka d.d./AZ OMF KAT.B/ | 19.540 | 3,58 |
| Treasury shares | 9.142 | 1,67 |
| Other legal and physical persons | 54.798 | 10,03 |
| **TOTAL** | **546.318** | **100,00** |

**The ownership structure of the Company as of 31.12.2014**




### Preferred shares owned

| OWNER | NUMBER OF SHARES | % |
|---|---|---|
| Sutivan Investments Anstalt | 105.000 | 100,0 |
| **TOTAL** | **105.000** | **100,0** |

**The organization chart**
**of the Joint Stock Company**

PLAVA LAGUNA
HOTELS & TOURIST COMPANY d.d.

- **MANAGEMENT BOARD'S OFFICE**
  - **LEGAL DEPARTMENT**
  - **MARKETING DEPARTMENT**
  - **SALES DEPARTMENT**
    - Allotment sales Unit
    - Initiative Unit
    - GH Bonavia sales Unit
  - **DEVELOPMENT DEPARTMENT**
    - Technical Unit
    - Informatics Unit
    - Preparation of Development Projects Unit
  - **ECONOMICS AND FINANCE DEPARTMENT**
    - Plan and Analysis Unit
    - Accountancy Unit
    - Financial Unit
  - **HUMAN RESOURCES AND GENERAL MATTERS DEPARTMENT**
    - Human Resources Unit
    - Payroll accounts and General Matters Unit
  - **PURCHASE AND PROPERTY MANAGEMENT DEPARTMENT**
    - Purchasing Unit
    - Property Management Unit
    - Purchasing Unit for Capital goods
  - **OPERATIONS DEPARTMENT**
    - Technology Unit
    - Entertainment and Animation Unit
    - Control Unit
    - Ecology and Sanitary Unit
    - Physical and Technical Protection Unit
    - Decoration Unit
  - **PC HOTELS AND APARTMENTS 4***
    - PU Laguna Albatros
    - PU Laguna Molindrio
    - PU Laguna Parentium
    - PU Laguna Galijot
    - PU Laguna Bellevue
    - PU Laguna Mediteran
    - PU Marina Parentium
    - PU Marina Červar Porat
  - **PC HOTELS AND APARTMENTS 3***
    - PU Plavi
    - PU Zorna
    - PU Laguna Gran Vista
    - PU Laguna Istra
    - PU Laguna Materada
    - PU Laguna Park
    - PU Červar Porat
  - **PC HOTELS AND APARTMENTS 2***
    - PU Delfin
    - PU App Astra
  - **PC GRAND HOTEL BONAVIA**
    - PU GH Bonavia
  - **PC AUTO-CAMPS**
    - PU AC Zelena laguna
    - PU AC Bijela uvala
    - PU AC Ulika
    - PU AC Puntica
  - **PC SPORT AND SUPPORTING ACTIVITIES**
    - PU Laguna Sport
    - PU Horticulture
    - PU Laundry and Storehouse

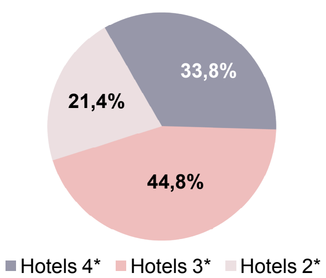
# COMPANY'S BUSINESS ACTIVITY IN 2014

## Tourist turnover

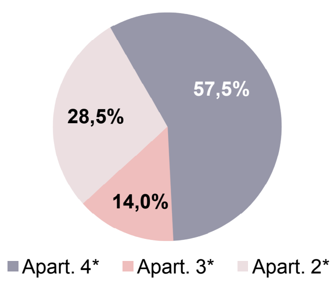
### Review of Accommodation Capacities and Realized Overnight stays

| DESCRIPTION | CAPACITY 2014 | CAPACITY 2013 | OVERNIGHT STAYS 2014 | OVERNIGHT STAYS 2013 | INDEX '14 / '13 | DAYS OF OCCUPANCY 2014 | DAYS OF OCCUPANCY 2013 |
|---|---|---|---|---|---|---|---|
| LAGUNA ALBATROS | 608 | 608 | 77.802 | 94.618 | 82,2 | 128,0 | 155,6 |
| LAGUNA MOLINDRIO | 482 | 482 | 88.609 | 85.270 | 103,9 | 183,8 | 176,9 |
| LAGUNA PARENTIUM | 538 | 538 | 89.199 | 88.172 | 101,2 | 165,8 | 163,9 |
| VILA LAGUNA GALIJOT | 174 | 174 | 27.957 | 26.140 | 107,0 | 160,7 | 150,2 |
| VILLAGE LAGUNA GALIJOT | 94 | 94 | 13.177 | 13.115 | 100,5 | 140,2 | 139,5 |
| HOTEL LAGUNA PARK | 202 | 202 | 34.873 | 38.476 | 90,6 | 172,6 | 190,5 |
| GRAND HOTEL BONAVIA | 231 | 231 | 26.648 | 29.290 | 91,0 | 115,4 | 126,8 |
| **HOTELS 4*** | **2.329** | **2.329** | **358.265** | **375.081** | **95,5** | **153,8** | **161,0** |
| LAGUNA MEDITERAN | 645 | 645 | 92.066 | 97.181 | 94,7 | 142,7 | 150,7 |
| PLAVI | 392 | 392 | 61.994 | 68.002 | 91,2 | 158,1 | 173,5 |
| ZORNA | 412 | 412 | 51.458 | 53.437 | 96,3 | 124,9 | 129,7 |
| LAGUNA GRAN VISTA | 336 | 336 | 39.901 | 39.115 | 102,0 | 118,8 | 116,4 |
| LAGUNA ISTRA | 376 | 376 | 45.775 | 46.628 | 98,2 | 121,7 | 124,0 |
| LAGUNA MATERADA | 774 | 774 | 113.919 | 110.676 | 102,9 | 147,2 | 143,0 |
| VILLAGE LAGUNA PARK | 152 | 152 | 17.888 | 20.053 | 89,2 | 117,7 | 131,9 |
| **HOTELS 3*** | **3.087** | **3.087** | **423.001** | **435.092** | **97,2** | **137,0** | **140,9** |
| DELFIN | 1.478 | 1.478 | 178.334 | 182.119 | 97,9 | 120,7 | 123,2 |
| **HOTELS 2*** | **1.478** | **1.478** | **178.334** | **182.119** | **97,9** | **120,7** | **123,2** |
| **TOTAL: HOTELS** | **6.894** | **6.894** | **959.600** | **992.292** | **96,7** | **139,2** | **143,9** |
| APP LAGUNA GALIJOT | 332 | 332 | 36.458 | 37.091 | 98,3 | 109,8 | 111,7 |
| VILLE LAGUNA BELLEVUE | 76 | 76 | 7.889 | 9.328 | 84,6 | 103,8 | 122,7 |
| APP LAGUNA BELLEVUE | 365 | 365 | 39.245 | 39.375 | 99,7 | 107,5 | 107,9 |
| STUDIO APP LAGUNA BELLEVUE | 246 | 246 | 33.206 | 33.130 | 100,2 | 135,0 | 134,7 |
| **APARTMENTS 4*** | **1.019** | **1.019** | **116.798** | **118.924** | **98,2** | **114,6** | **116,7** |
| VILLE LAGUNA PARK | 80 | 80 | 8.179 | 7.551 | 108,3 | 102,2 | 94,4 |
| APP LAGUNA PARK | 168 | 168 | 17.767 | 18.241 | 97,4 | 105,8 | 108,6 |
| **APARTMENTS 3*** | **248** | **248** | **25.946** | **25.792** | **100,6** | **104,6** | **104,0** |
| APP ASTRA | 504 | 504 | 43.708 | 44.283 | 98,7 | 86,7 | 87,9 |
| **APARTMENTS 2*** | **504** | **504** | **43.708** | **44.283** | **98,7** | **86,7** | **87,9** |
| **TOTAL: APARTMENTS** | **1.771** | **1.771** | **186.452** | **188.999** | **98,7** | **105,3** | **106,7** |
| **TOTAL: BUILT OBJECTS** | **8.665** | **8.665** | **1.146.052** | **1.181.291** | **97,0** | **132,3** | **136,3** |
| AC ZELENA LAGUNA | 2.700 | 2.700 | 245.613 | 256.973 | 95,6 | 91,0 | 95,2 |
| AC BIJELA UVALA | 6.000 | 6.000 | 511.910 | 541.211 | 94,6 | 85,3 | 90,2 |
| AC ULIKA | 3.000 | 3.000 | 278.502 | 287.475 | 96,9 | 92,8 | 95,8 |
| **CAMPS 4*** | **11.700** | **11.700** | **1.036.025** | **1.085.659** | **95,4** | **88,5** | **92,8** |
| AC PUNTICA | 700 | 700 | 64.461 | 64.929 | 99,3 | 92,1 | 92,8 |
| **CAMPS 2*** | **700** | **700** | **64.461** | **64.929** | **99,3** | **92,1** | **92,8** |
| **TOTAL: CAMPS** | **12.400** | **12.400** | **1.100.486** | **1.150.588** | **95,6** | **88,7** | **92,8** |
| **T O T A L** | **21.065** | **21.065** | **2.246.538** | **2.331.879** | **96,3** | **106,6** | **110,7** |

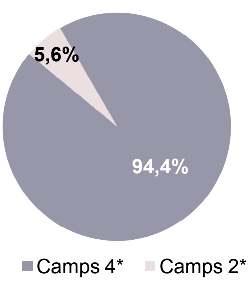
**The structure capacity in hotels 2013**




**The structure capacity in apartments 2014**

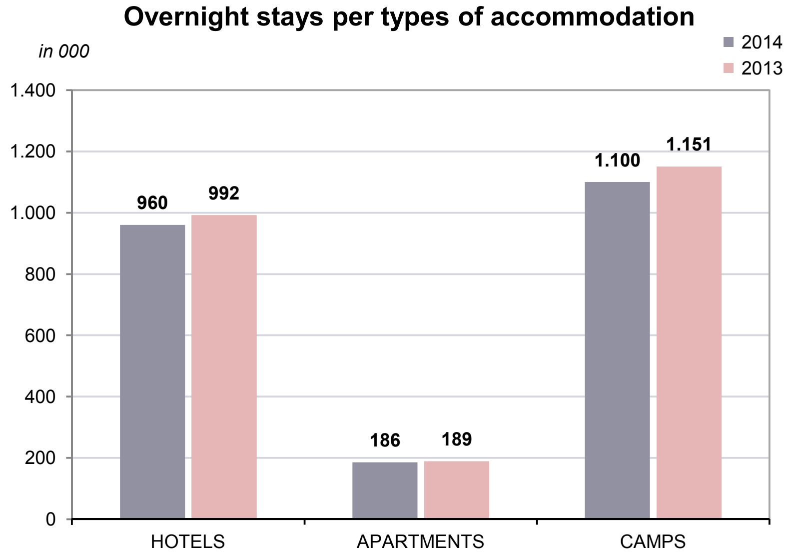



**The structure capacity in camps 2014**



Plava laguna d.d. concluded the business year with a realization of 2,246.538 overnight stays what represents a decrease of 3.7% or nominally 85 thousand overnight stays compared to the previous year.

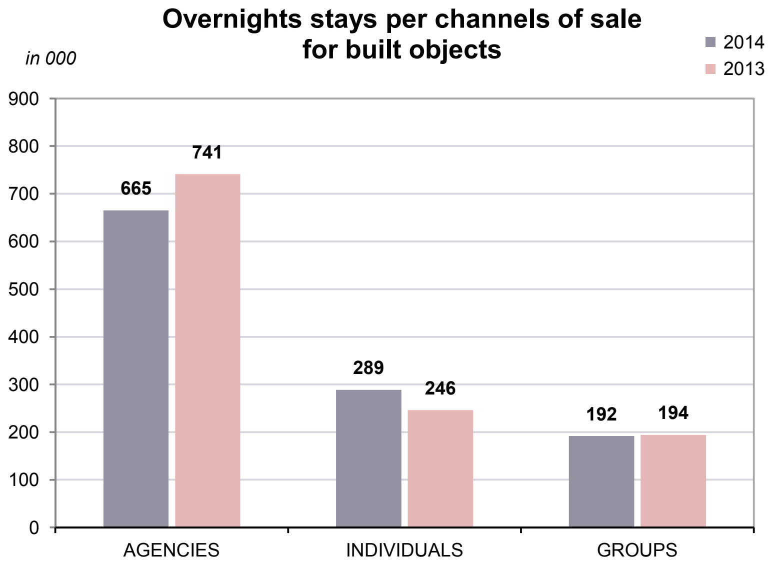
The Company had available capacities of 8,665 beds in built objects (hotels and apartments) of two-star, three-star and four-star categories and 12,400 units in campsites of two-star and four-star categories.




Reduced physical volume of business in built objects of 3%, is primarily determined by a further decline of the Russian market of 22% or nominally 53 thousand overnight stays due to the continuation of unfavorable macroeconomic influences on that market. The negative trend that began in 2013 resulted with a reduction of the share of Russian overnights in built objects from record 26.3% in 2012 to 16.7% in the observed year. With timely activities, the lack of demand from the Russian market was partly compensated by sales on traditional Western European markets (Germany, Austria, Italy and Slovenia) that record an increase in overnight stays of 4.6% in built objects.

**Review of overnight stays in BUILT OBJECTS per emissive markets**

| COUNTRY | 2014 | % | 2013 | % | INDEX |
|---|---|---|---|---|---|
| Germany | 263.108 | 22,9 | 260.043 | 22,0 | 101,2 |
| Russia | 191.057 | 16,7 | 244.443 | 20,7 | 78,2 |
| Austria | 169.414 | 14,8 | 162.480 | 13,8 | 104,3 |
| Italy | 84.732 | 7,4 | 74.599 | 6,3 | 113,6 |
| Slovenia | 79.983 | 7,0 | 73.639 | 6,2 | 108,6 |
| Czech Republic | 65.023 | 5,7 | 60.719 | 5,2 | 107,1 |
| Great Britain | 31.711 | 2,7 | 27.415 | 2,3 | 115,7 |
| Ukraine | 17.980 | 1,6 | 38.975 | 3,3 | 46,1 |
| Other countries | 199.753 | 17,4 | 203.336 | 17,2 | 98,2 |
| Croatia | 43.291 | 3,8 | 35.642 | 3,0 | 121,5 |
| **TOTAL** | **1.146.052** | **100,0** | **1.181.291** | **100,0** | **97,0** |




The relevant changes and modern trends in the organization of travel result in a shift from the organized, allotment segment towards flexible, individual channel of arrivals.

**Review of overnight stays in CAMPS per emissive markets**

| COUNTRY | 2014 | % | 2013 | % | INDEX |
|---|---|---|---|---|---|
| Germany | 430.492 | 39,1 | 433.828 | 37,7 | 99,2 |
| The Netherlands | 237.668 | 21,6 | 270.894 | 23,5 | 87,7 |
| Slovenia | 116.170 | 10,6 | 118.263 | 10,3 | 98,2 |
| Austria | 88.889 | 8,1 | 88.078 | 7,7 | 100,9 |
| Italy | 81.791 | 7,4 | 85.211 | 7,4 | 96,0 |
| Czech Republic | 33.619 | 3,0 | 34.426 | 3,0 | 97,7 |
| Other countries | 106.580 | 9,7 | 114.564 | 9,9 | 93,1 |
| Croatia | 5.277 | 0,5 | 5.324 | 0,5 | 98,2 |
| **TOTAL** | **1.100.486** | **100,0** | **1.150.588** | **100,0** | **95,6** |

In 2014, campsites, as an important accommodation segment of the Company, record a decrease in overnight stays of 4.4% or nominally 50 thousand. Physical occupancy of campsites is mainly determined by unfavorable holiday schedules on the Dutch market in terms of overlap with the German market, and unfavorable weather conditions, especially in July due to a high number of rainy days.

## Profit and Loss Account

*u 000 HRK*

| | DESCRIPTION | 2014 | 2013 | INDEX '14 / '13 | STRUCTURE IN % 2014 | STRUCTURE IN % 2013 |
|---|---|---|---|---|---|---|
| I | SALES REVENUES | 455.062 | 470.389 | 96,7 | 94,4 | 94,7 |
| 1. | Accommodation | 401.474 | 411.216 | 97,6 | 83,2 | 82,8 |
| 2. | Food | 58.534 | 63.721 | 91,9 | 12,1 | 12,8 |
| 3. | Bars | 17.990 | 17.353 | 103,7 | 3,7 | 3,5 |
| 4. | Merchandise | 136 | 128 | 106,3 | 0,0 | 0,0 |
| 5. | Sports | 1.210 | 1.138 | 106,3 | 0,3 | 0,2 |
| 6. | Mooring | 7.337 | 7.226 | 101,5 | 1,5 | 1,5 |
| 7. | Granted discount and commissions | -39.045 | -37.711 | 103,5 | -8,1 | -7,6 |
| 8. | Other revenues | 7.426 | 7.318 | 101,5 | 1,5 | 1,5 |
| II | REVENUES FROM SALE OF COMP. GOODS, MERCH. AND SERVICES | - | - | - | - | - |
| III | OTHER REVENUES FROM OPERATIONS | 23.724 | 22.371 | 106,0 | 4,9 | 4,5 |
| | Revenues from the lease of business space | 23.022 | 21.965 | 104,8 | 4,8 | 4,4 |
| | Revenues from elimination of long-term reserves | 670 | - | - | - | - |
| | Other business revenues | 32 | 406 | 7,9 | 0,0 | 0,1 |
| IV | OTHER REVENUES | 3.488 | 3.850 | 90,6 | 0,7 | 0,8 |
| **A)** | **TOTAL OPERATING REVENUES (I to IV)** | **482.274** | **496.610** | **97,1** | **100,0** | **100,0** |
| V | CHANGES IN THE STOCK VALUE OF INTER. AND FINISHED GOODS | - | - | - | - | - |
| VI | MATERIAL EXPENSES | 125.171 | 130.737 | 95,7 | 26,0 | 26,3 |
| VII | EMPLOYEES EXPENSES | 110.070 | 111.619 | 98,6 | 22,8 | 22,5 |
| VIII | DEPRECIATION | 106.225 | 105.464 | 100,7 | 22,0 | 21,2 |
| IX | VALUE ADJUSTMENT OF LONG-TERM ASSETS | - | - | - | - | - |
| X | VALUE ADJUSTMENT OF SHORT-TERM ASSETS | 423 | 412 | 102,7 | 0,1 | 0,1 |
| XI | PROVISIONS FOR EXPENSES AND AGAINST RISK | - | 1.657 | - | - | 0,3 |
| XII | OTHER BUSINESS EXPENSES | 48.353 | 44.491 | 108,7 | 10,0 | 9,0 |
| XIII | OTHER EXPENSES | 5.077 | 548 | 926,5 | 1,1 | 0,1 |
| **B)** | **TOTAL OPERATING EXPENSES (V to XIII)** | **395.319** | **394.928** | **100,1** | **82,0** | **79,5** |
| | PROFIT FROM OPERATING ACTIVITY (A-B) | 86.955 | 101.682 | 85,5 | 18,0 | 20,5 |
| **C)** | **TOTAL FINANCIAL REVENUES** | **8.726** | **9.966** | **87,6** | **1,8** | **2,0** |
| **D)** | **TOTAL FINANCIAL EXPENSES** | **4.742** | **1.991** | **238,2** | **1,0** | **-** |
| | PROFIT FROM FINANCIAL ACTIVITIES (C-D) | 3.984 | 7.975 | 50,0 | 0,8 | 1,6 |
| | **TOTAL REVENUES** | **491.000** | **506.576** | **96,9** | **101,8** | **102,0** |
| | **TOTAL EXPENSES** | **400.061** | **396.919** | **100,8** | **83,0** | **79,9** |
| **G)** | **EARNINGS BEFORE TAXES** | **90.939** | **109.657** | **82,9** | **-** | **-** |
| **H)** | **CORPORATE INCOME TAX AND OTHER TAXES** | **2.321** | **402** | **577,4** | **-** | **-** |
| **I)** | **NET INCOME** | **88.618** | **109.255** | **81,1** | **-** | **-** |

| | | 2014 | 2013 | INDEX '14 / '13 | STRUCTURE IN % 2014 | STRUCTURE IN % 2013 |
|---|---|---|---|---|---|---|
| | **EBITDA** | **194.769** | **203.844** | **95,5** | **40,4** | **41,0** |

The Company concluded business year 2014 by achieving 482.3 million HRK in operating income which represents a decrease of 14.3 mil HRK or 2.9% compared to year 2013. This was mainly generated by a decrease in board income of 15.3 mil HRK or 3.5% due to lower realization of overnight stays of 3.7%. At the same time, the negative effect of macroeconomic factors should be mentioned as well as, the increase of the VAT rate from 10% to 13% which was quantified in the amount of 11.5 mil HRK decrease of revenue and earnings.

Operating expenses in totality, together with the category other expenses, were realized at last year's level and amount to 395.3 million HRK. In addition, it should be pointed out that related to the structure there was a reduction variable components of the cost while the increase was generated by growth of parafiscal fees (fee to the cost of water and health contributions), in the amount of 3.5 mil HRK, and one-time expenses related to the purchase of the company Istraturist Umag d.d.

Following above movements, within business activities in 2014 the Company realized EBITDA in the amount of 194.7 mil HRK, which compared to year 2013 represents a decrease of 9.1 mil HRK while maintaining EBITDA margin of 40.7% compared to 41.4% in 2013.

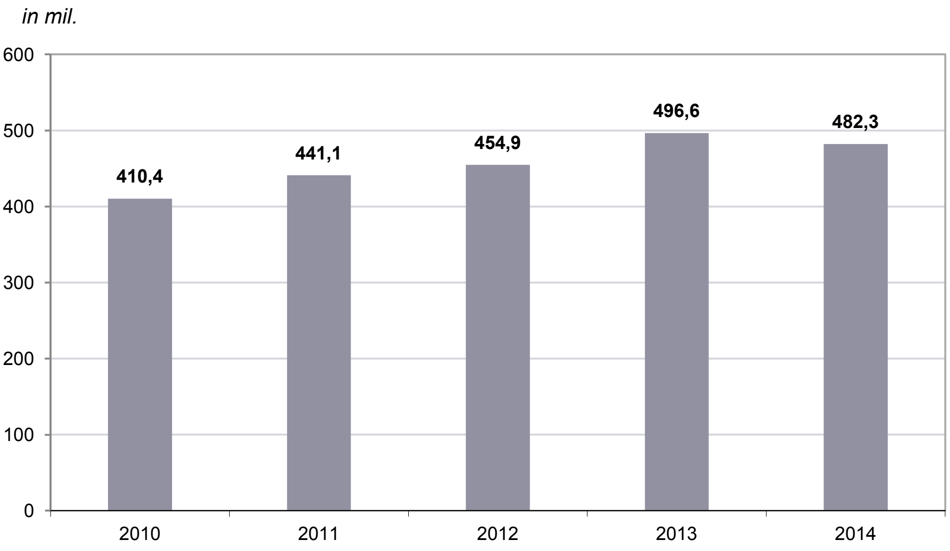
Within other activities in the observed year, the Company evidenced potential tax obligations and other payments based on the Minutes of competent authorities, which at the same time explains the increase on the position of other expenses compared to the previous year.

The effect of financial activities compared to 2013 was lower by 4 mil HRK due to the borrowings for the purpose of financing a part of the acquisition of a majority stake in the company Istraturist Umag d.d., and consequently accrued interest in the amount of 4.1 mil HRK.

Ultimately, in the context of above movements, in 2014, the Company realized a profit before tax of 90.9 mill HRK, representing a decrease of 17.1% or nominally 18.7 million HRK compared to year 2013.

In accordance with the legislation in the field of profit tax, the Company uses the tax relief for 2014 based on reinvesting earnings in the amount of 84.1 million HRK and therefore the net profit for the period mentioned amounts to 88.6 million HRK.

**Operating Revenues movement over the years 2010 - 2014**

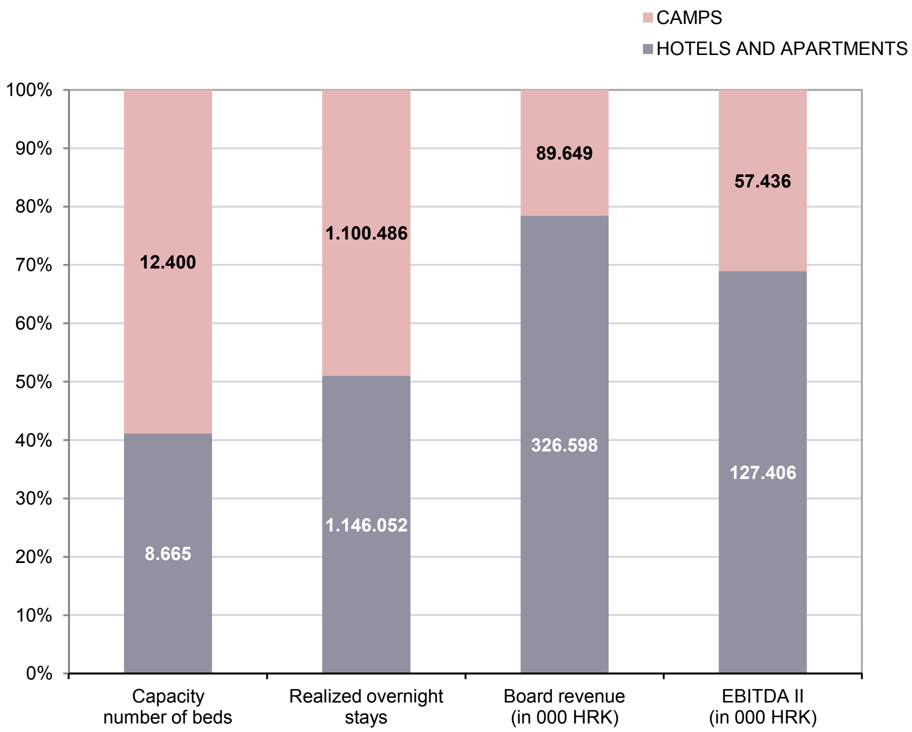


## Essential operational indicators by segments

In the context of physical and financial achievements of the Company in the year concerned, the following are the reported effects obtained at the level of basic business segments.

| DESCRIPTION | HOTELS AND APARTMENTS 2014 | 2013 | INDEX | CAMPS 2014 | 2013 | INDEX |
|---|---|---|---|---|---|---|
| Capacity - number of beds | 8.665 | 8.665 | 100,0 | 12.400 | 12.400 | 100,0 |
| Realized overnight stays | 1.146.052 | 1.181.291 | 97,0 | 1.100.486 | 1.150.588 | 95,6 |
| Days of occupancy | 132 | 136 | 97,0 | 89 | 93 | 95,6 |
| Annual occupancy in % (beds) | 36,2 | 37,4 | 97,0 | 24,3 | 25,4 | 95,6 |
| Board revenue in 000 HRK | 326.598 | 340.116 | 96,0 | 89.649 | 91.451 | 98,0 |
| Average net price per overnight stay in EUR | 37,5 | 38,2 | 98,2 | 10,6 | 10,4 | 101,9 |
| Average net price per unit (ADR) in EUR | 82,3 | 83,9 | 98,2 | 30,2 | 29,8 | 101,5 |
| Board revenue per accommodation unit in HRK | 78.679 | 81.936 | 96,0 | 21.691 | 22.127 | 98,0 |
| EBITDA I (direct) | 166.690 | 172.429 | 96,7 | 68.112 | 68.896 | 98,9 |
| EBITDA II (after overhead) | 127.406 | 133.267 | 95,6 | 57.436 | 59.046 | 97,3 |
| EBITDA II margin in % | 34,9 | 35,3 | 98,9 | 57,4 | 58,0 | 99,0 |

### Indicators by segments for 2014



# Balance sheet

## Assets structure in the Balance sheet

*u 000 HRK*

| ITEM | 31.12.2014 | % | 31.12.2013 | % | INDEX |
|---|---|---|---|---|---|
| RECEIVABLES FOR SUBSCRIBED BUT UNPAID CAPITAL | - | - | - | - | |
| LONG-TERM ASSETS | 2.169.927 | 91,5 | 1.294.539 | 85,7 | 167,6 |
| Intangible assets | 762 | - | 777 | - | 98,1 |
| Tangible assets | 1.055.984 | 44,5 | 1.096.113 | 72,6 | 96,3 |
| Financial assets | 1.113.181 | 47,0 | 197.649 | 13,1 | 563,2 |
| Receivables | - | - | - | - | - |
| SHORT-TERM ASSETS | 200.103 | 8,4 | 213.108 | 14,1 | 93,9 |
| Inventory | 2.524 | 0,1 | 2.481 | 0,2 | 101,7 |
| Accounts receivables | 28.602 | 1,2 | 21.222 | 1,4 | 134,8 |
| Financial assets | 163.955 | 6,9 | 186.995 | 12,4 | 87,7 |
| Cash in register and upon account | 5.022 | 0,2 | 2.410 | 0,2 | 208,4 |
| ADVANCED PAYMENTS OF THE FUTURE EXPENSES AND UNDUE COLL. OF REV. | 1.375 | 0,1 | 3.564 | 0,2 | 38,6 |
| **TOTAL ASSETS** | **2.371.405** | **100,0** | **1.511.211** | **100,0** | **156,9** |

## Liabilities structure in the Balance sheet

*u 000 HRK*

| ITEM | 31.12.2014 | % | 31.12.2013 | % | INDEX |
|---|---|---|---|---|---|
| CAPITAL AND RESERVES | 1.521.763 | 64,2 | 1.433.500 | 94,9 | 106,2 |
| LONG-TERM P. FOR RISKS AND EXP. | 2.000 | 0,1 | 2.000 | 0,1 | 100,0 |
| LONG-TERM LIABILITIES | 766.147 | 32,3 | - | - | - |
| SHORT-TERM LIABILITIES | 62.128 | 2,6 | 63.510 | 4,2 | 97,8 |
| DEF. PAY. OF EXPEN. AND FUT. REV. | 19.367 | 0,8 | 12.201 | 0,8 | 158,7 |
| **TOTAL LIABILITIES** | **2.371.405** | **100,0** | **1.511.211** | **100,0** | **156,9** |

Total balance sheet value of the Company property increased by 57% or 860 mil HRK and on 31 December 2014 amounts to 2.371 billion HRK.

The above mentioned was primarily generated by the growth of long-term financial assets, as a result of purchasing of a majority stake in the company Istraturist Umag d.d. in the amount of 916.1 mil HRK.

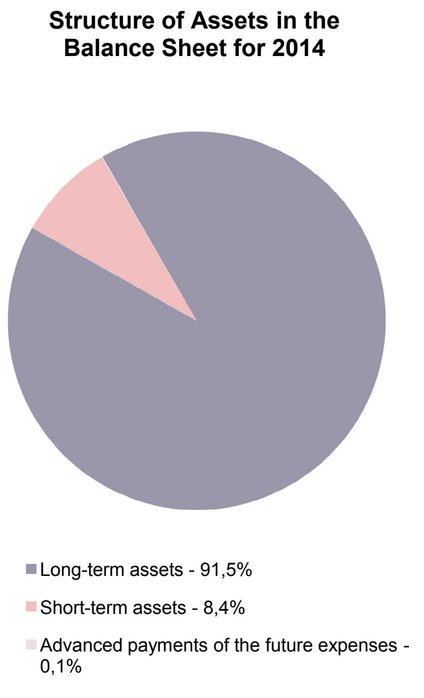
At the same time, in the structure of assets positions, short-term assets decreased in value due to the decrease of the deposit for financing part of the mentioned transaction from own savings.

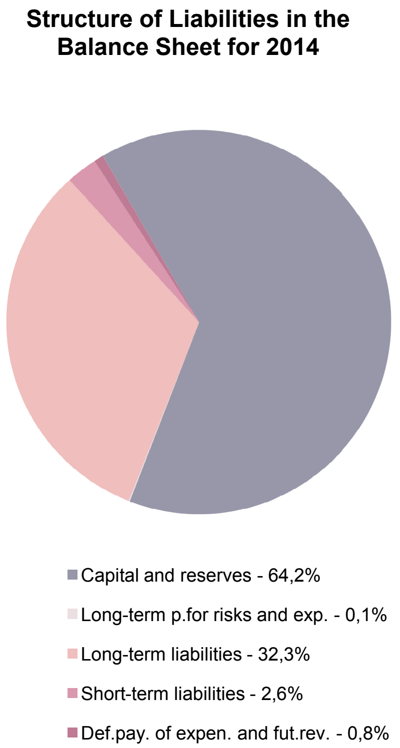
With the mentioned movements, long-term assets continue to be a dominant active material item with a share that grows from 85.7% in 2013 to 91.5% in 2014.

Within the shareholders' equity and liabilities side as at 31 December 2014, the structure significantly changed compared to the equivalent day last year. Total liabilities of the Company increased by 771.9 mil HRK, primarily due to financing the aforementioned transaction of purchase with a long-term loan by commercial bank and owner in total amount of 100 mil EUR. On the reporting date, the share of credit resources in total balance sheet resources amounted to 32.3%.

The growth of capital and reserves value is determined by the resolution of the General Assembly on the use of profit gained in business year 2013, with which part of profit in the amount of 81.9 mil HRK is used as reinvested earnings to increase the Company's share capital, 5.5 mil HRK are allocated to legal reserves and 21.7 mil HRK in retained earnings, and on the other side by the profit of the Company gained in 2014.

Indicators such as the general liquidity ratio (2.5) and aforementioned share of credit resources, indicate that the Company is able to cover its commitments.



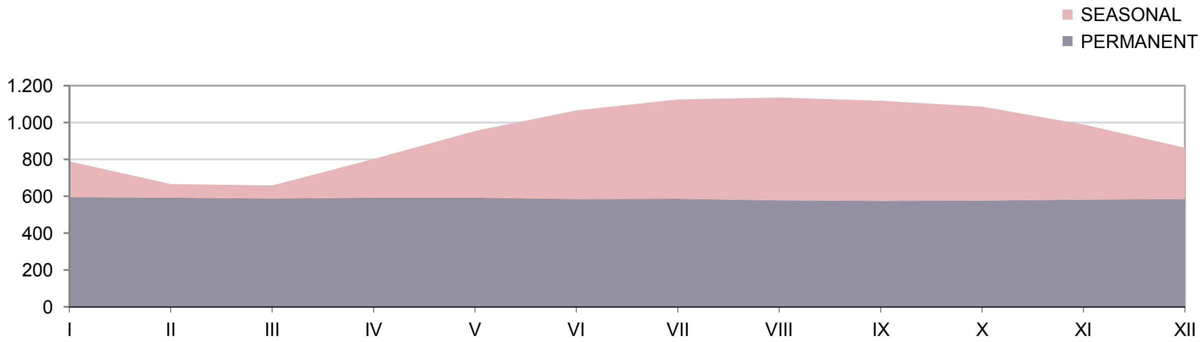



## Employment

| DESCRIPTION | 2014 | % | 2013 | % | INDEX |
|---|---|---|---|---|---|
| PERMANENT | 587 | 62,4 | 596 | 61,9 | **98,5** |
| SEASONAL | 354 | 37,6 | 367 | 38,1 | **96,5** |
| TOTAL | 941 | 100,0 | 963 | 100,0 | 97,7 |

In the observed year, we recorded a decrease in total employment of 2.3%, in line with the volume and structure of realized overnight stays which points to a respectable level of achieved productivity of work and permanent attention that the Company pays to the management and engagement of work.

**Average number of employees in 2014 (based on the hours paid)**




During 2014, the trend of reducing the number of permanent employees continued through natural attrition of workforce, mostly due to retirement. Since at the end of the year a few long-standing, high-ranking managers went into well-deserved retirement, there were new appointments that the Company readily faced thanks to the succession program developed in previous years.

In the segment of seasonal employment, the tourist season 2014 was characterized by late employment, especially of the assisting staff, in line with the realized overnight stays and dynamics of business activity in the broadest sense.

For more efficient management of the domain, the Department of Human Resources and General Affairs was formed in June which integrated both the human resources management and the Department of payroll and personnel records.

In 2014, the already traditional educational programs continued and in the area of employment, employment contracts were signed for permanent seasonal jobs with new seasonal employees, in order to ensure long-term stability of workforce.

## Investments

Company's orientation to raise the level of quality of accomodation, as well as the introduction of modern technologies in all business segments continued throughout the year 2014.

The total value of capital investments in the observed year amounts to 63.3 million HRK of which the major part was focused on investments into raising the quality of services and improvement of work processes.

The most valuable investment in the observed year in the amount of 17.8 mil HRK referred to arranging of the entrance, entrance lobby and accommodational units of hotel Laguna Materada.

Among other most significant investments, the following can be ponited out:

- Improvements of bathrooms in part of accomodational units of hotel Delfin
- Installation of air-conditioning system in the big hall of Intersport centre
- Reconstruction of the kitchen and related space of hotel L. Mediteran
- Regulation of the power supply of electricity for TRs Zelena and Plava laguna

In line with the Company's orientation to preserving the natural resources, we continued with the investments in the beaches and beach areas in the amount of three million HRK.

The ongoing efforts of the Company towards raising the quality and high standards of services provided have been recognized by reputable awards for our hotels, apartments and campsites, and among the most recent are: HolidayCheck 2014 (Laguna Parentium), Tripadvisor 2014 (L.Parentium, L.Molindrio, L.Materada, L.Mediteran, L.Bellevue), Zoover highly recommended (L.Molindrio, L.Albatros) and other.

# ECOLOGY AND SUSTAINABLE DEVELOPMENT

The natural environment and its preservation are the foundations for providing quality tourist product and long-term development of the Company. It is particularly important to bear in mind that many resources, without which we cannot imagine the present world, non-renewable or that their quantity is limited and the only logical treatment of the Company is the rational use of existing natural resources in order to preserve the ecological balance.

Therefore, the Company's investments are focused also on rational use of resources and the application of new technologies which in addition to preserving them have positive economic effects.

Saving the drinking water is achieved by the installation of water saving diffusers, system for remote monitoring, control and optimization of water consumption, the use of practical systems for watering green areas, installation of showers on the beach with a push valve and by informing guests about the importance of rational use and preservation of this important natural resource. With the strict supervision, proper storage and use, the possibility of chemical leakage, contamination of water and soil, is reduced.

Energy saving is achieved by using energy efficient lighting, highly energy efficient equipment and solar panels for heating drinking water. Also, for the purpose of energy saving, underground brackish water is used for the operation of the water-water heat pump system. Heat pump is capable to convert the energy from the underground brackish water into usable heat used for heating and cooling of buildings and for water heating.

Correct waste management enables us to have a larger quantity of secondary raw material suitable for recycling. By collecting hazardous waste such as edible oil, mineral oil, batteries, lighting (fluorescent tubes and light bulbs) and electric and electronic waste through specialized companies, as well as proper disposal of bulky and other waste through authorised companies that comply with the principles of the environmental protection, important preconditions for the preservation of the environment are created.

High quality of the sea is monitored by regular analyses of seawater, and the investments and regular maintenance of beaches managed by the Company represent an important determinant in Company's plans which is recognized by the eco-label Blue flag which is an international label for the ecological program of the protection of environment, sea and coastline whose primary goal is sustainable management of the sea and coastal zone.



# EXPECTED FUTURE DEVELOPMENT OF THE COMPANY

During 2014, in the area of growth and development of the company, a strong step forward was made with the acquisition of the company Istraturist Umag d.d.. This transaction significantly changed the potential of the Group with respect to the size and structure of accommodational capacity. Besides, it should be mentioned that we have the ownership share of 32.48% in the company Jadranski luksuzni hoteli d.d., a company with a portfolio dominated by 5* category hotels in the area of destination Dubrovnik.

This is a crown to the overall concept of strategic development with the main goals of preserving financial stability and choosing projects that serve the creation of added value.

In addition to the life expectancy of the product in terms of functionality and process obsolescence, structural changes in demand that began with the reduction of the share of Russian and Ukrainian markets in built objects of the Company, require adjustments focused on seeking new markets and the introduction and consequently adaptation of accommodational capacities to guests of other preferences. In some areas, the processes are subject to faster change given that during the mature phase of the demand, indicators of slight decrease in attractiveness of certain products have been observed.

Thus, in the coming period, the work on finding and preparing the conceptual solution for the TR Galijot is about to occur that during the past 10 years has mainly been directed towards Russian guests whose demand determined the achieved levels of occupancy and operational results. In doing so, the factors of the location and natural environment will be of great importance and a starting point in defining the overall product.

The TR Laguna Park is located in a residential village, unlike most other accommodation capacities of the Company located within major tourist resorts in which a certain degree of integration with other tourist facilities exists. In addition to the deterioration of some buildings as well as shortcomings in terms of access and quality of the beach, there is a decline in the attractiveness of the whole resort Laguna Park and the processes have been initiated to prepare a conceptual solution with water facilities emphasized in particular.

The forthcoming work in the future includes the new solutions for four hotels with a former prefix Lotos in their names (Zorna, Plavi, Laguna Gran Vista and Laguna Istra).

The structure of apartment capacities, in addition to more than half of accommodation units being 4*, the challenge is represented in finding and developing the optimum product for the apartment Villas Astra, 2* category with 504 beds.

An important component of the Company's products makes carefully preserved and nurtured environment. The said commitment is translated into a development policy through which for many years, an aliquot part of funds have been directed to landscaping and beach development. In future, the Company is going to intensify the activities of development and implementation of energy efficiency projects and projects of renewable energy.

During 2011, the Company timely performed all necessary actions and procedures prescribed by the Law on tourist and other construction land that was not appraised in the process of transformation and privatization and other pertinent regulations, and in accordance with that submitted a request for granting the concession. The aforementioned represents an essential prerequisite for planning the development of certain segments of assets, especially campsites.

Furthermore, in the following period, it is necessary to move forward the implementation of the Master plan for tourist village Zelena Laguna, with the purpose of improving the offer outside the services already provided in the associated facilities, in order to improve the overall site offer.

Besides the aforementioned, the possibilities for growth and qualitative changes in the structure of capacity through external growth or acquisitions, will continue to be reviewed and evaluated.

# BUSINESS RISKS

Plava laguna is within own activities exosed to various financial risks: market risk (including currency risk, interest rate risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. Overall risk management aimed at minimizing their impact on business operations is carried out by the Management Board by taking control activities and careful shaping of Company policies and procedures.

Since the sale of capacity takes place on foreign markets, sales policy is defined in EUR (prices, inflows) and on the other hand, by doing business on the domestic market, inputs and other obligatory payments are defined in local currency. The Company is especially exposed to currency risk. Therefore, the ratio between foreign and local currency can significantly affect future operations and cash flows i.e. cause significant deviations from the planned figures and goals.

The Company is exposed to the interest rate risk as it has a financial assets which generates interest income, as well as through borrowings in EUR, of which 50% are contracted with variable interest rate.

The remaining borrowings, with fixed interest rate contracted, are exposing the Company to the fair value interest rate risk.

The Company owns equity securities classified as financial assets available for sale and thus exposed to the risk of price changes of securities quoted on the stock exchange.

Plava laguna with its business policy, rooted in the tourism sector as a whole, reduces the concentration of credit risk regarding receivables given that the predominant part of the sale is ensured by advance payment. In the segment of property management and lease of the same, the contracted amount is secured by collateral payments. Collection of accounts receivables is monitored through weekly reports on individual balances of receivables. Available funds are placed in time deposits in high quality banks in Croatia which limits exposure to credit risk with respect to individual financial institution.

Liquidity risk management implies maintaining sufficient levels of cash, ensuring timely availability of financial resources through contracting credit lines and the ability to meet all obligations. Through daily and weekly reports, the Company monitors the status of all forms of monetary assets and liabilities, and makes the plan of inflows and outflows on a daily basis for the period of one month.

# STATEMENT ON APPLICATION OF THE CORPORATE MANAGEMENT CODEX

In accordance with the provisions of Article 272p of the Companies Act, the Management of the Company declares that they voluntarily apply the Corporate Management Codex (hereinafter: the Codex) which was jointly made by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange. Once a year, the Company fills-in the Annual Questionnaire which makes an integral part of the Codex for the period the annual financial reports relates to and submits it to the Zagreb Stock Exchange for the purpose of its publication. This questionnaire reflects the situation and practice of corporate governance accompanied by explanations of a certain divergence from the recommendations contained in the Codex. The Management and the Supervisory Board make permanent efforts aimed at establishing an adequate and transparent corporate governance system and pay due care to efficient system of responsibilities and risk management.

During 2014, the Company did not fully apply the recommendations from the Codex, and the divergences relate to publication of detailed data on awarding the Management and the Supervisory Board, i.e. the statement on the policy of awarding. Furthermore, given that the Supervisory Board of the Company consists of seven members, it did not establish the committee for awarding and appointing but performs these duties itself.

In the course of 2009, the Company commenced publicising quarter, semi-annual and annual financial reports in its own internet pages, and during 2014, these pages contain publicly available all relevant documents related to the meetings of the General Assembly.

Description of fundamental characteristics of risk management and Shareholder data management on 31 December 2014 are contained in this Annual Report.

The rules on appointing and removing members of the Management are contained in the Company's Articles of Incorporation. The members of the management are appointed by the Supervisory Board, hence, according to the most recent decision, the Management consists of one member appointed for the three-year term. The Supervisory Board may revoke its decision on appointment where important reason exists as provided in the statutory provisions.

The Management's authorities are established in the Articles of Incorporation and Companies Act, thus the Company may acquire treasury shares in accordance with Article 233 of the Companies Act, and on the basis of authorization by the General Assembly. Currently, the Management has not been give authorization to acquire such shares.

Amendments and supplements to the Company's Articles of Incorporation are regulated in a manner prescribed by the Act, as provided in Article 61 of the Articles of Incorporation.

The Company's Management conducts business operations independently and unlimitedly, and certain operations listed in Article 38 of the Articles of Incorporation (such as founding a company, purchasing and selling shares in other companies, purchasing and selling real estate above 1% of the share capital value, taking the loan above 2% share capital value and other) the management may perform solely upon the consent of the Supervisory Board.

In accordance with the Articles of Incorporation and the decision by the General Assembly, the Supervisory Board of the company consists of seven members who among themselves elect their president and vice-president. Election of these members is carried out pursuant to the Companies Act, the Articles of Incorporation and the general Assembly's Rules of Procedure, and as long as it is prescribed by the special legislation, workers by virtue of the Working Council have the right to appoint one member. The term of the members in the Supervisory Board lasts four years. The Supervisory Board operates at the meetings held on a monthly basis, where they discuss and decide all matters falling under their competence pursuant to the Companies Act and the Company's Articles of Incorporation.

In accordance with the provisions of Article 250a paragraph 4 and Article 272p paragraph 1 of the Companies Act, this statement is a special section and an integral part of the Annual Report on the Situation in the Company for the year of 2014.

President of the Company

Neven Staver

# REPORT OF THE AUDITING COMMITTEE

The auditing committee of the Company representing Mr. Davor Luksic Lederer, Ms. Danira Rančić and Ms. Suzana Kocijančić drafted this report in line with the provisions set forth below:

- Plava laguna j.s.c. Poreč in accordance with the positive legislation of the Republic of Croatia has the obligation at the end of the business year to make an unconsolidated and consolidated financial reports
- The Company's General Assembly appointed the company PricewaterhouseCoopers d.o.o. Zagreb as the auditor of its annual financial statements
- The Supervisory Board of the Company appointed the Auditing Committee pursuant to the Audit Act.

In accordance with the Companies Act, auditor of the Company was appointed on the General Assembly's meeting held on 29 August 2014, and on 1 October 2014 an agreement was concluded concerning performance of audit and issuance of annual financial statements to Company's shareholders, and on 23 March 2015, an annex to the agreement was signed, due to the new subsidiary Istraturist Umag d.d..

Audit of the Company was completed in two parts, as follows:

- Preliminary proceedings (examination of the internal control system and work on temporary balance sheets)
- Final audit (control of data reported in ledgers and financial statements)

Members of the auditing committee met on several occasions, during the year 2014 and until the issuance of the report in the first half of 2015, with the representatives of the authorised auditor and the responsible executors with the aim to discuss the applied accounting policies, the recording of important business events and other observations of the auditor.

In accordance with the discussions with the auditing company and with the employees in charge of preparation of the financial statement, the Auditing Committee determined the following:

- The preparation of financial statements passed without any difficulty,
- The Company and the auditors were consistent in the interpretation of international accounting standards as well as local regulations and requirements governing the preparation of financial statements,
- In terms of the effectiveness of internal control system and risk management, there were no irregularities with material consequences observed,
- There were no circumstances that would lead to questioning the independence of the auditor.

Accordingly, the Auditing Committee assumes that the financial statements are eligible for the adoption of appropriate decisions based on the same.

THE AUDITING COMMITTEE

# SUPERVISORY BOARD

| | |
|---|---|
| Davor Luksic Lederer | President |
| Patricio Tomas Balmaceda Tafra | Vice president |
| Oscar Eduardo Hasbun Martinez<br>*(until 28 November 2014)* | Member |
| José Ignacio Bulnes León<br>*(from 29 November 2014)* | Member |
| Đenio Radić | Member |
| Borislav Škegro | Member |
| Davor Domitrovic Grubisic | Member |
| Stipe Liović | Member |

# COMPANY MANAGEMENT

**MANAGEMENT BOARD**

| | |
|---|---|
| Neven Staver | Member of the Management Board |

**THE COMPANY EXECUTIVES**

| | |
|---|---|
| mr. Loreto Radojković | Operations Department Manager,<br>PC Sport and supporting activities |
| Darko Ivić | Sales Department Manager |
| Damir Mendica | Development Department Manager |
| Ronald Korotaj | Corporate and Legal affairs Department Manager |
| Sandra Elisa Touma Massu | Marketing Department Manager |
| Danira Rančić | Economics and Finance Department Manager |
| Goran Kukurin | Human resources and general matters Department Manager |
| Luciano Daris | Purchase and Property Management Department Manager |
| Vladimir Zović | PC Hotels and Apartments 4* Manager |
| Vladimir Mofardin | PC Hotels and Apartments 3* Manager |
| Franko Beaković | PC Hotels and Apartments 2* Manager |
| Đuljano Ravnik | PC Auto-camps Manager |
| Marina Rogović | PC GH Bonavia Manager |

*Independent Auditor's Report on the Annual Report*

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

We have audited the financial statements of Plava laguna d.d. ("the Company") as of and for the year ended 31 December 2014 disclosed on pages 3 to 49 and issued the opinion dated 30 April 2015 disclosed on pages 1 and 2.

**Management's Responsibility for the Annual Report**

Management is responsible for the preparation, content and accuracy of the Annual Report of the Company for the year ended 31 December 2014.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the consistency of the Annual Report with the financial statements referred to above, based on our verification procedures.

We conducted our verification procedures in accordance with the International Standards on Auditing. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the information included in the Annual Report which describes matters that are also presented in the financial statements ("other information") is, in all material respects, consistent with the financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

**Opinion**

In our opinion, the other information included in the Annual Report of the Company for the year ended 31 December 2014 is consistent, in all material respects, with the financial statements. The information included in the income statement differ from the information included in the financial statements due differences in classification.

PricewaterhouseCoopers d.o.o.
Zagreb, 17 June 2015

# INDEPENDENT AUDITOR'S REPORT

*Independent Auditor's Report*

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

We have audited the accompanying financial statements of Plava laguna d.d. (the "Company"), which comprise the balance sheet as at 31 December 2014 and the 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 Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, 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.

*PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia*
*T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr*

**Emphasis of matter**

We draw attention to Note 23 to these financial statements that describes the Company'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, 30 April 2015

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.

**PLAVA LAGUNA d.d., POREČ**

**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

| *(all amounts in thousands of HRK)* | **Note** | **2014** | **2013** |
|---|---|---|---|
| Sale of services | 5 | 479,665 | 494,493 |
| Other income | | 2,368 | 1,678 |
| Cost of materials and services | 6 | (131,156) | (137,242) |
| Staff costs | 7 | (119,043) | (120,215) |
| Depreciation | 13 | (106,225) | (105,464) |
| Other operating expenses | 8 | (38,945) | (31,315) |
| Other gains – net | | 398 | 782 |
| **Operating profit** | | **87,062** | **102,717** |
| Finance income | 9 | 7,955 | 8,661 |
| Finance costs | 9 | (4,078) | (1,721) |
| Finance income – net | 9 | 3,877 | 6,940 |
| **Profit before taxation** | | **90,939** | **109,657** |
| Income tax | 10 | (2,321) | (402) |
| **Profit for the year** | | **88,618** | **109,255** |
| Other comprehensive income: | | | |
| Changes in fair value of available-for-sale financial assets | 21 | (251) | (14) |
| **Total comprehensive income for the year** | | **88,367** | **109,241** |
| Basic and diluted earnings per share (in HRK): | | | |
| - ordinary shares | 11 | 137.83 | 169.97 |
| - preference shares | | 138.83 | 170.97 |

The financial statements set out on pages 3 to 49 were approved by the Company's Management Board on 29 April 2015.

Member of the Management Board:

Neven Staver

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

**PLAVA LAGUNA d.d., POREČ**

**BALANCE SHEET**

**AS AT 31 DECEMBER 2014**

| *(all amounts in thousands of HRK)* | **Note** | **31 December 2014** | **2013** |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 1,055,984 | 1,096,113 |
| Intangible assets | | 762 | 777 |
| Investments in subsidiaries and associate | 14 | 1,106,863 | 190,828 |
| Available-for-sale financial assets | 15 | 6,318 | 6,821 |
| | | 2,169,927 | 1,294,539 |
| **Current assets** | | | |
| Inventories | | 2,524 | 2,481 |
| Trade and other receivables | 16 | 10,814 | 6,072 |
| Income tax prepayments receivable | 10 | 19,163 | 18,714 |
| Loans and deposits given | 17 | 163,955 | 186,995 |
| Cash and cash equivalents | 18 | 5,022 | 2,410 |
| | | 201,478 | 216,672 |
| **Total assets** | | **2,371,405** | **1,511,211** |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 19 | 1,263,194 | 1,181,246 |
| Capital reserves | 19 | 7,896 | 6,525 |
| Treasury shares | 19 | (19,381) | (18,010) |
| Reserves | 20 | 70,131 | 64,919 |
| Retained earnings | 20 | 199,923 | 198,820 |
| **Total shareholders' equity** | | 1,521,763 | 1,433,500 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 21 | 766,148 | - |
| Provisions for other liabilities and expenses | | 2,000 | 2,000 |
| | | 768,148 | 2,000 |
| **Current liabilities** | | | |
| Current portion of borrowings | | 2,446 | - |
| Trade and other payables | 22 | 79,048 | 75,711 |
| | | 81,494 | 75,711 |
| **Total liabilities** | | 849,642 | 77,711 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **2,371,405** | **1,511,211** |

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

## STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2014

| *(all amounts in thousands of HRK)* | **Note** | **Share capital** | **Capital reserves** | **Treasury shares** | **Reserves** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|---|---|
| At 1 January 2013 | | 1,088,372 | 5,149 | (17,046) | 67,403 | 241,021 | 1,384,899 |
| Profit for the year | | - | - | - | - | 109,255 | 109,255 |
| Other comprehensive losses | | - | - | - | (14) | - | (14) |
| **Total comprehensive income for 2013** | | **-** | **-** | **-** | **(14)** | **109,255** | **109,241** |
| Share capital increase | 20 | 92,874 | 1,554 | (1,554) | - | (92,874) | - |
| Effect of merger | 26 | - | (178) | 590 | (2,470) | - | (2,058) |
| Dividend relating to 2012 | 11 | - | - | - | - | (58,582) | (58,582) |
| **Total transactions with owners of the Company, recognised in equity** | | **92,874** | **1,376** | **(964)** | **(2,470)** | **(151,456)** | **(60,640)** |
| **At 31 December 2013** | | **1,181,246** | **6,525** | **(18,010)** | **64,919** | **198,820** | **1,433,500** |
| At 1 January 2014 | | 1,181,246 | 6,525 | (18,010) | 64,919 | 198,820 | 1,433,500 |
| Profit for the year | | - | - | - | - | 88,618 | 88,618 |
| Other comprehensive losses | | - | - | - | (251) | - | (251) |
| **Total comprehensive income for 2014** | | **-** | **-** | **-** | **(251)** | **88,618** | **88,367** |
| Share capital increase | 20 | 81,948 | 1,371 | (1,371) | - | (81,948) | - |
| Distribution of profit from 2013 | | - | - | - | 5,463 | (5,463) | - |
| Dividend relating to 2013 | 11 | - | - | - | - | (105) | (105) |
| **Total transactions with owners of the Company, recognised in equity** | | **81,948** | **1,371** | **(1,371)** | **5,463** | **(87,516)** | **(105)** |
| **At 31 December 2014** | | **1,263,194** | **7,896** | **(19,381)** | **70,131** | **199,923** | **1,521,763** |

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

**PLAVA LAGUNA d.d., POREČ**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

| *(all amounts expressed in thousands of HRK)* | **Note** | **2014** | **2013** |
|---|---|---|---|
| **Profit before taxation** | | **90,939** | **109,657** |
| **Adjustments for:** | | | |
| Depreciation | 13 | 106,225 | 105,464 |
| Impairment of intangible assets | | - | 6 |
| Gains on sale of property, plant and equipment | | (73) | (138) |
| Provision for impairment of loans and receivables - net | 8 | 423 | 412 |
| Dividend income | | (398) | (382) |
| Other gains – net | | (322) | (644) |
| Interest income | 9 | (4,733) | (4,925) |
| Interest expense | 9 | 4,078 | 1,721 |
| Finance income and costs - other | 9 | (3,222) | (3,736) |
| Other adjustments | | 73 | 189 |
| **Changes in working capital:** | | | |
| Trade and other receivables | | 2,060 | 1,079 |
| Inventories | | (43) | 301 |
| Trade and other payables | | 3,396 | 9,685 |
| **Cash flow from operating activities** | | **198,403** | **218,689** |
| Interest and fees paid | | (1,631) | (6,968) |
| Income tax paid | | (2,770) | (3,474) |
| **Net cash flow from operating activities** | | **194,002** | **208,247** |
| **Cash flow from investing activities** | | | |
| Purchase of intangible assets | | (246) | (507) |
| Purchase of property, plant and equipment | 13 | (66,033) | (49,917) |
| Effect of merger | 26 | - | 5,301 |
| Acquisition of subsidiary | | (922,973) | - |
| Proceeds from sale of property, plant and equipment | | 271 | 309 |
| Proceeds from sale of available-for-sale financial assets | | 432 | |
| Deposits given | | 25,248 | (64,017) |
| Dividend received | | 398 | 382 |
| Interest received | | 4,741 | 4,924 |
| **Net cash used in investing activities** | | **(958,162)** | **(103,525)** |
| **Cash flow from financing activities** | | | |
| Proceeds from borrowings | | 766,936 | - |
| Repayment of borrowings | 26 | - | (52,641) |
| Dividends paid | | (164) | (56,337) |
| **Net cash generated from/(used in) financing activities** | | **766,772** | **(108,978)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **2,612** | **(4,256)** |
| Cash and cash equivalents at beginning of year | | 2,410 | 6,666 |
| Cash and cash equivalents at end of year | | 5,022 | 2,410 |

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

## NOTE 1 – GENERAL INFORMATION

Plava laguna d.d., Poreč (the Company), a joint-stock company for hospitality and tourism, is incorporated in the Republic of Croatia. The Company's principal activities are hotel and hospitality services. In accordance with the laws of the Republic of Croatia and with the approval of the Croatian Privatisation Fund, the Company was transformed from a state-owned into a joint-stock company in 1993. The Company is registered at the Commercial Court in Pazin.

Plava laguna d.d., Poreč is controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is E. Abaroa Foundation, registered in Vaduz, Liechtenstein (2013.: Luksburg Foundation, registered in Vaduz Liechtenstein). The ownership structure as at 31 December 2014 and 2013 is disclosed in Note 20.

The Company's registered address is in Poreč, Rade Končara 12, Croatia.

At 31 December 2014 and 2013, the Company's shares 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.

### 2.1 Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU (IFRS). The separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with International Financial Reporting Standards as endorsed by the EU (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries ("the Group"). In the consolidated financial statements, subsidiary undertakings - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. The consolidated financial statements may be obtained at Plava laguna d.d., Rade Končara 12, Poreč. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2014 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

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

### 2.1 Basis of preparation (continued)

*(a) New and amended standards*

The Company 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 Company, its impact is described below.

Below is a list of standards/interpretations that have been issued and are effective for periods beginning on or after 1 January 2014.

- *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, 12 and IAS 27 on consolidation for investment entities (effective for annual periods beginning on or after 1 January 2014)*
- *Amendment to IAS 32, 'Financial Instruments: Presentation' on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2014)*
- *Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective for annual periods beginning on or after 1 January 2014)*
- *Amendment to IAS 39, 'Financial instruments: recognition and measurement' on novation of derivatives (effective for annual periods beginning on or after 1 January 2014)*

These standards and amendments did not have a significant impact on the Company's financial position or performance.

**Forthcoming requirements**

Below is a list of standards/interpretations that have been issued and are not effective for periods starting on 1 January 2014, but will be effective for later periods

- *IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)* Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception: Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.
- *IFRS 14, 'Regulatory deferral accounts' (effective for annual periods beginning on or after 1 January 2016)*
- *IFRS 15, 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2017)*

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

### 2.1 Basis of preparation (continued)

- *IFRIC 21, 'Levies' (effective in the EU for annual periods beginning on or after 17 June 2014)*
- *Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after 1 January 2016)*
- *Amendment to IFRS 11, 'Joint arrangements' regarding acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 July 2016)*
- *Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016)*
- *Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' regarding bearer plants (effective for annual periods beginning on or after 1 January 2016)*
- *Amendment to IAS 19, 'Employee benefits' regarding employee or third party contributions to defined benefit plans (effective for annual periods beginning on or after 1 July 2014)*
- *Amendment to IAS 27, 'Separate financial statements' regarding the equity method (effective for annual periods beginning on or after 1 January 2016)*

The Company plans to adopt these new standards, amendments and interpretations on the effective date as of and when endorsed by the EU. The Company is still assessing the impact of this standard, but it is not expected to have a significant impact on the Company's financial statements.

- *Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014)*

These annual improvements amend standards from the 2010 - 2012 reporting cycle. It includes changes to:

- IFRS 2, 'Share based payments'
- IFRS 3, 'Business combinations'
- IFRS 8, 'Operating segments'
- IFRS 13, 'Fair value'
- IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets'
- IAS 24, 'Related party disclosures'

The Company plans to adopt this annual improvement on the effective date as of and when endorsed by the EU. The Company is still assessing the impact of these amendments, but it is not expected to have a significant impact on the Company's financial statements.

- *Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014)*

These annual improvements amend standards from the 2011 - 2013 reporting cycle. It includes changes to:

- IFRS 1, 'First time adoption of IFRS'
- IFRS 3, 'Business combinations'
- IFRS 13, 'Fair value measurement'
- IAS 40, 'Investment property'

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

### 2.1 Basis of preparation (continued)

The Company plans to adopt this annual improvement on the effective date as of and when endorsed by the EU. The Company is still assessing the impact of these amendments, but it is not expected to have a significant impact on the Company's financial statements.

- *Annual improvements 2014 (effective for annual periods beginning on or after 1 July 2016)*

These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to:

- IFRS 5, 'Non-current assets held for sale and discontinued operations'
- IFRS 7, 'Financial instruments: Disclosures' – There are two amendments:
- IAS 19, 'Employee benefits'
- IAS 34, 'Interim financial reporting'

The Company plans to adopt this annual improvement on the effective date as of and when endorsed by the EU. The Company is still assessing the impact of these amendments, but it is not expected to have a significant impact on the Company's financial statements.

### 2.2 Investments in subsidiaries

Subsidiaries are those entities in which Plava laguna d.d., directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. The Company's subsidiaries are disclosed in Note 17 and are accounted for at cost. The Company does not control any other enterprises.

### 2.3 Investments in associates

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

### 2.4 Foreign currencies

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

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

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

### 2.5 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 Company determined the Management Board as the chief operating decision-maker for business segments.

### 2.6 Property, plant and equipment

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

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

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

| | |
|---|---|
| Buildings | 10 - 25 years |
| Plant and equipment | 3 - 10 years |
| Other assets | 4 - 10 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income within "other gains – net".

### 2.7 Intangible assets

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

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

### 2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and 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 are reviewed for possible reversal of the impairment at each reporting date.

### 2.9 Financial assets

#### 2.9.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. 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) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade, deposit, loan and other receivables and cash and cash equivalents (Notes 2.13 and 2.14).

*(b) 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 of the balance sheet date. Available-for-sale financial assets are carried at fair value.

#### 2.9.2 Measurement and recognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Loans, deposits 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 the 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, and other changes in carrying amount are recognised in other comprehensive income.

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

### 2.9 Financial assets (continued)

#### 2.9.2 Measurement and recognition (continued)

Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income in 'gains and losses on investment securities' within "other gains - net".

Interest on available-for-sale securities calculated using the effective interest rate 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 payment is established.

### 2.10 Impairment of financial assets

*(a) Assets carried at amortised cost*

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

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivables are 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 effective interest rate. The amount of the provision is recognised in the statement of comprehensive income within ‘other operating expenses’. Subsequent recoveries of amounts previously written off are credited against ‘other operating expenses’ in the statement of comprehensive income as a deductive item.

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

### 2.10 Impairment of financial assets (continued)

*(b) Assets classified as available for sale*

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 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 statement of comprehensive income – is removed from equity and recognised in the income statement. Impairment losses which are recognised in the income statement for equity instruments are not reversed through the income statement.

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'.

### 2.11 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.

### 2.12 Leases

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease 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 balance outstanding. The corresponding rental obligations, net of finance charges, are included in other non-current liabilities. 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.

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

### 2.13 Trade, deposit and loan receivables

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, deposit and loan receivables 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 Inventories

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

### 2.16 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 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.

### 2.17 Borrowings

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

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

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

### 2.18 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.

### 2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In that case the tax is 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 regulations are subject to interpretation and consider establishing 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 investment in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

### 2.20 Employee benefits

*(a) Pension obligations and post-employment benefits*

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

*(b) Termination benefits*

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

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

### 2.20 Employee benefits (continued)

*(c) Short-term employee benefits*
The Company recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Company recognises a liability for accumulated compensated absences based on unused vacation days at the balance sheet date.

### 2.21 Provisions

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

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

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

### 2.22 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 Company's activities. Revenue is shown, net of value-added tax.

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

*(a) Sales of services*

Revenues from hotel and tourism services are recognised when the services are provided.

Revenue from fixed-price contracts for services is generally recognised in the period the services are provided. Revenue from individual guests who pay by credit cards – the commission is recognised as a decrease in income.

*(b) Rental services*

Revenue from rental services is generally recognised in the period the services are provided, using a straight-line basis over the contracts terms with lessors.

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

### 2.22 Revenue recognition (continued)

*(c) Interest income*

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

### 2.23 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.

### 2.24 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.

### 2.25 Value added tax

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

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

The accounting policies are applied to financial instruments as follows:

- *Assets*

| | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| **31 December 2014** | | | |
| Investments in shares of domestic companies | - | 6,318 | 6,318 |
| Trade and other receivables | 7,850 | - | 7,850 |
| Deposits and loans given | 163,955 | - | 163,955 |
| Cash and cash equivalents and deposits given | 5,022 | - | 5,022 |
| **Total** | **176,827** | **6,318** | **183,145** |
| **31 December 2013** | | | |
| Investments in shares of domestic companies | - | 6,821 | 6,821 |
| Trade and other receivables | 3,076 | - | 3,076 |
| Deposits and loans given | 186,995 | - | 186,995 |
| Cash and cash equivalents and deposits given | 2,410 | - | 2,410 |
| **Total** | **192,481** | **6,821** | **199,302** |

- *Liabilities – at amortised cost*

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Borrowings | 768,594 | - |
| Trade and other payables | 39,759 | 31,228 |
| | **804,303** | **31,228** |

*(a) Market risk*

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The majority of foreign sales revenue and deposits are denominated in EUROs. Therefore, movements in exchange rates between the EURO and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow. The Company uses derivative instruments on an occasional basis.

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2014 and 2013, the currency structure of the Company's financial instruments within the scope of IAS 39 is as follows:

| 2014 | EUR | HRK | Other | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | 7,220 | 630 | - | 7,850 |
| Loans and deposits given | 163,955 | | - | 163,955 |
| Available-for-sale financial assets | - | 6,318 | - | 6,318 |
| Cash and cash equivalents | 3,430 | 1,482 | 110 | 5,022 |
| | **174,605** | **8,430** | **110** | **183,145** |
| **Financial liabilities - at amortised costs** | | | | |
| Borrowings | 768,594 | - | - | 768,594 |
| Trade and other payables | 590 | 39,131 | 38 | 39,759 |
| | **769,184** | **39,131** | **38** | **808,353** |
| **2013** | | | | |
| **Financial assets** | | | | |
| Trade and other receivables | 2,468 | 608 | - | 3,076 |
| Loans and deposits given | 186,981 | 14 | - | 186,995 |
| Available-for-sale financial assets | - | 6,821 | - | 6,821 |
| Cash and cash equivalents | 1,414 | 447 | 549 | 2,410 |
| | **190,863** | **7,890** | **549** | **199,302** |
| **Financial liabilities - at amortised costs** | | | | |
| Trade and other payables | 72 | 31,156 | - | 31,228 |
| | **72** | **31,156** | **-** | **31,228** |

At 31 December 2014, if the EURO had weakened/strengthened by 1% (2013: 1%) against the HRK, with all other variables held constant, the net profit for the reporting period would have been HRK 4,757 thousand higher/lower (2013: HRK 1,526 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated borrowings and bank deposits.

(ii) Cash flow and fair value interest rate risk

The Company has interest-bearing assets and from 2014, it has borrowings from it generates interest expense. The Company's net result and operating cash flows are dependent on changes in market interest rates since bank deposits and half of the borrowings have been issued at variable interest rates. Half of the borrowings were issued at fixed interest rates and expose the Company to fair value interest rate risk. Borrowings issued at variable rates expose the Company to interest rate changes in the period up to one year.

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

Interest rates on borrowings are set at 12m EURIBOR + 4.34% to 5.12% p.a.

**NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)**

**3.1 Financial risk factors (continued)**

(ii) Cash flow and fair value interest rate risk (continued)

The carrying amount of borrowings approximates their fair values due to the amount of contractual interest rates.

At 31 December 2014, if interest rates on borrowings and given deposits had been 1 p.p. higher/lower, with all other variables held constant, the net profit for the year would have been HRK 1,752 thousand lower/higher, mainly as a result of higher/lower interest expense on variable-rate borrowings. At 31 December 2013, if interest rates on given deposits had been 1 p.p. higher/lower, with all other variables held constant, the net profit for the year would have been HRK 1,496 thousand higher/lower, mainly as a result of higher/lower interest income on variable-rate given deposits.

(iii) Equity securities risk

The Company has no significant exposure to equity securities risk. The Company own equity securities and are exposed to price risk of listed equity securities, classified as available-for-sale financial assets. The Company is not exposed to commodity price risk (e.g. oil or gold) due to the nature of its operations. The Company invests in securities listed on the Zagreb Stock Exchange (ZSE).

If the indices of the ZSE had been lower/higher by 3% for 2014 (2013: 3.10%) (which was the average ZSE index movement), with all other variables held constant and provided that all the Company's equity instruments moved according to the historical correlation with the index, reserves within equity and other comprehensive income would have been HRK 149 thousand (2013: HRK 144 thousand) lower/higher as a result of losses/gains on available-for-sale financial assets.

*(b) Credit risk*

The Company has no significant concentrations of credit risk. Credit risk arises from cash, time deposits and trade receivables.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The maximum exposure to credit risk at the reporting date arises from financial assets classified as loans and receivables as follows:

| | **2014** | **2013** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Trade and other receivables | 7,850 | 3,076 |
| Deposits and loans given | 163,955 | 186,995 |
| Cash and cash equivalents | 5,022 | 2,410 |
| **Total** | **176,827** | **192,481** |

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

*(b) Credit risk (continued)*

The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Company's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Receivables are mainly secured by advances received and mortgages over property in the business premises lease segment. The provisions for impairment of trade, loan and other receivables have been made based on credit risk assessment. Management monitors the collectibility of receivables through weekly reports on individual balances of receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. The Company has policies that limit the amount of credit exposure to any financial institution. Cash transactions are carried out through high quality Croatian banks. The Company has only short-term highly liquid instruments with maturity periods of 3 to 12 months.

The credit quality of financial assets:

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Neither past due nor impaired | 176,163 | 191,712 |
| Past due but not impaired | 664 | 769 |
| Impaired | 1,669 | 1,573 |
| Impairment | (1,669) | (1,573) |
| | **176,827** | **192,481** |

The credit quality of financial assets that is neither past due nor impaired

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Trade and other receivables | 7,186 | 2,307 |
| Deposits and loans given | | |
| - Financial institutions | 163,955 | 186,981 |
| - Existing customers – payments within maturity period | - | 14 |
| | 163,955 | 186,995 |
| Cash at bank | 5,022 | 2,410 |
| | **176,163** | **191,712** |

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

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

*(b) Credit risk (continued)*

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

At 31 December 2014, trade receivables were past due but not impaired. The ageing analysis of these receivables is as follows:

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Up to 1 month | 201 | 249 |
| 1 to 2 months | 53 | 204 |
| 2 to 3 months | 32 | 179 |
| Over 3 months up to 1 year | 378 | 137 |
| | **664** | **769** |

Receivables are mainly secured by advances received and mortgages over property. Impaired receivables relate to trade receivables in the amount of HRK 1,669 thousand (2013: HRK 1,573 thousand). The majority of impaired trade receivables is subject to legal disputes. Both the outcome of the disputes related to sued receivables or the extent to which they will be collected cannot be anticipated with certainty.

The carrying amounts of trade and other receivables approximate their fair value.

*(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash (Note 23), the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Company aims to maintain flexibility in funding by keeping committed credit lines available. Management monitors available cash resources based on reports on the balance of cash and liabilities on a daily basis.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Up to 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **At 31 December 2014** | | | | |
| Borrowings | 33,083 | 476,352 | 495,471 | 1,004,906 |
| Trade payables | 39,759 | - | - | 39,759 |
| **Total liabilities** | **72,842** | **476,352** | **495,471** | **1,044,665** |
| **At 31 December 2013** | | | | |
| Trade payables | 31,228 | - | - | 31,228 |
| **Total liabilities** | **31,228** | **-** | **-** | **31,228** |

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Company 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 Company is 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 held by the Company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company 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.

*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 Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

As at 31 December 2014, assets carried at fair value in the amount of HRK 6,198 thousand (2013: HRK 5,804 thousand) were allocated into level 1.

Available-for-sale investment securities in the amount of HRK 120 thousand (2013: HRK 1,017 thousand) are not listed and 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 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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

By using a certain asset, the Company uses the economic benefits contained in this asset, which diminish more intensely with economic and technological 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.
Guided by these historical facts and in line with the technical department, Management agreed on a useful life of buildings of 10 - 25 years. The useful lives of equipment and other assets have also been reassessed as disclosed in Note 2.6.
The useful lives of property, plant and equipment will periodically be 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 7,725 thousand higher (2013: HRK 7,655 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 9,442 thousand lower (2013: HRK 9,357 thousand lower).

*(b) Land ownership*

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 2014, the Company settled all liabilities arising from the invoices received, issued by governing authorities on the basis of the provisions of the Regulations.

## NOTE 5 – SEGMENT INFORMATION

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

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

The segment information provided to the Company's Management for the year ended 31 December 2014 is as follows:

| *(in thousands of HRK)* | **Hotels & apartments** | **Campsites** | **Other business segments** | **Total** |
|---|---|---|---|---|
| Total sales | 365,835 | 100,260 | 40,158 | 506,253 |
| Inter-segment revenue | (1,486) | - | (25,102) | (26,588) |
| Revenue from external customers | 364,349 | 100,260 | 15,056 | 479,665 |
| **EBITDA** | **127,406** | **57,436** | **9,927** | **194,769** |
| Depreciation (Note 13) | 83,386 | 12,976 | 9,863 | 106,225 |
| Income tax | | | | 2,321 |
| **Total assets** | **810,863** | **160,203** | **68,233** | **1,039,299** |
| **Total liabilities** | **11,690** | **2,385** | **2,099** | **16,174** |

The segment information for the year ended 31 December 2013 is as follows:

| *(in thousands of HRK)* | **Hotels & apartments** | **Campsites** | **Other business segments** | **Total** |
|---|---|---|---|---|
| Total sales | 378,046 | 101,880 | 40,845 | 520,771 |
| Inter-segment revenue | (497) | - | (25,781) | (26,278) |
| Revenue from external customers | 377,549 | 101,880 | 15,064 | 494,493 |
| **EBITDA** | **133,267** | **59,046** | **11,531** | **203,844** |
| Depreciation (Note 13) | 82,608 | 12,979 | 9,877 | 105,464 |
| Income tax | | | | 402 |
| **Total assets** | **845,342** | **161,966** | **69,805** | **1,077,113** |
| **Total liabilities** | **9,190** | **1,940** | **1,820** | **12,950** |

## NOTE 5 – SEGMENT INFORMATION (continued)

**Reconciliation of EBITDA with profit before tax is as follows:**

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| EBITDA by segments | 184,842 | 192,313 |
| EBITDA by other segments | 9,927 | 11,531 |
| **Total segments** | **194,769** | **203,844** |
| Depreciation | (106,225) | (105,464) |
| Dividend income from subsidiary | - | - |
| Interest income | 26 | 12 |
| Dividend income | 398 | 382 |
| Other expenses | (643) | (3) |
| Net other income/(expenses) | (1,589) | 3,302 |
| Net foreign exchange gains – other | 91 | 900 |
| Impairment of non-current financial assets/loan receivable | (20) | (256) |
| Gains on sale of available-for-sale financial assets | 255 | - |
| Finance income - net | 3,877 | 6,940 |
| **Profit before tax** | **90,939** | **109,657** |

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

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Segment assets/liabilities | 971,066 | 14,075 | 1,007,308 | 11,130 |
| Other segment assets/liabilities | 68,233 | 2,099 | 69,805 | 1,820 |
| Unallocated: | 1,332,106 | 833,468 | 434,098 | 64,761 |
| Investments in subsidiaries and associate | 1,106,863 | - | 190,828 | - |
| Available-for-sale financial assets | 6,318 | - | 6,821 | - |
| Loans and deposits given | 163,955 | - | 186,995 | - |
| Cash and cash equivalents | 5,022 | - | 2,410 | - |
| Other assets | 49,948 | - | 47,044 | - |
| Provisions | - | 2,000 | - | 2,000 |
| Borrowings | | 768,594 | | - |
| Other liabilities | - | 62,874 | - | 62,761 |
| **Total** | **2,371,405** | **849,642** | **1,511,211** | **77,711** |

All assets and capital expenditures are located in the Republic of Croatia.

## NOTE 5 – SEGMENT INFORMATION (continued)

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

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Sales of services:** | | |
| Domestic sales | 77,263 | 74,719 |
| Foreign sales | 402,402 | 419,774 |
| | **479,665** | **494,493** |

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

| **Foreign sales** | **2014** | **%** | **2013** | **%** |
|---|---|---|---|---|
| Germany | 108,360 | 26.93 | 107,665 | 25.65 |
| Austria | 56,193 | 13.96 | 54,315 | 12.94 |
| Russia | 55,927 | 13.90 | 72,069 | 17.17 |
| Slovenia | 31,986 | 7.95 | 30,041 | 7.16 |
| Italy | 30,827 | 7.66 | 28,018 | 6.67 |
| Netherlands | 27,516 | 6.84 | 30,463 | 7.26 |
| Czech Republic | 21,526 | 5.35 | 20,375 | 4.85 |
| Other countries | 70,067 | 17.41 | 76,828 | 18.30 |
| | **402,402** | **100.00** | **419,774** | **100.00** |

## NOTE 6 – COST OF MATERIALS AND SERVICES

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Raw materials and supplies** | | |
| Raw materials and supplies used | 43,258 | 45,603 |
| Energy and water used | 33,660 | 33,964 |
| Small inventories | 2,558 | 4,427 |
| | 79,476 | 83,994 |
| **External services** | | |
| Maintenance services | 18,479 | 19,988 |
| Laundry and cleaning services | 10,045 | 9,068 |
| Entertainment and animation | 6,105 | 6,011 |
| Transportation and telecommunication | 1,782 | 1,800 |
| Advertising and promotion | 4,513 | 5,268 |
| Utility services | 4,417 | 4,678 |
| Rentals | 882 | 1,481 |
| Other services | 5,457 | 4,954 |
| | 51,680 | 53,248 |
| | **131,156** | **137,242** |

## NOTE 7 – STAFF COSTS

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Salaries | 65,462 | 67,829 |
| Pension insurance contributions | 18,197 | 18,942 |
| Health insurance contributions | 14,066 | 12,519 |
| Other contributions and taxes on salaries | 12,345 | 12,329 |
| Other staff costs /i/ | 8,974 | 8,552 |
| Termination benefits and provisions for termination benefits | - | 44 |
| | **119,043** | **120,215** |
| Number of employees at 31 December | 827 | 870 |

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

## NOTE 8 – OTHER OPERATING EXPENSES

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Utility and similar charges, taxes and contributions | 19,925 | 19,256 |
| Professional services | 6,237 | 3,697 |
| Insurance premiums | 2,282 | 2,451 |
| Travel and entertainment | 614 | 541 |
| Bank charges and membership fees | 1,406 | 1,397 |
| Provisions for impairment of trade and other receivables (Note 17) | 423 | 412 |
| Collected receivables written off | (323) | (351) |
| Compensation of damages | 1,673 | 45 |
| Expenses arising from reviews of state bodies /i/ | 3,227 | - |
| Other | 3,481 | 3,867 |
| | **38,945** | **31,315** |

/i/ During 2014, the governing state authorities performed a review and established additional tax liabilities in the amount of HRK 1,048 thousand (Note 10), and additional liabilities for concessions in the amount of HRK 2,179 thousand.

## NOTE 9 – FINANCE INCOME AND COSTS

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Finance income** | | |
| Interest income on cash deposits and loans | 4,733 | 4,925 |
| Net foreign exchange gains from financing activities | 2,997 | 3,439 |
| Other finance income | 225 | 297 |
| | 7,955 | 8,661 |
| **Finance costs** | | |
| Interest expense | (4,078) | (1,721) |
| | (4,078) | (1,721) |
| **Finance income - net** | **3,877** | **6,940** |

## NOTE 10 – INCOME TAX

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 20% (2013: 20%) as follows:

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Profit before taxation** | **90,939** | **109,657** |
| Income tax (20%) | 18,188 | 21,931 |
| Effect of income not subject to tax | (1,125) | (1,099) |
| Effect of reinvested profit /i/ | (16,827) | (16,389) |
| Effect of expenses not deductible for tax purposes | 2,085 | 1,518 |
| Utilisation of tax losses carried forward /ii/ | - | (5,559) |
| **Income tax expense** | **2,321** | **402** |
| Income tax prepayments | (21,484) | (19,116) |
| Income tax prepayments receivable | 19,163 | 18,714 |
| Effective tax rate | 2.55% | 0.37% |

/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 increase its share capital by the amount of HRK 84 million in 2014 (2013: HRK 82 million) in accordance with special provisions.

/ii/ In 2013, the Company utilised tax losses carried forward incurred at the company Hotel Bonavia d.d., Rijeka.

In accordance with local regulations, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

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, 2008 and 2013. In 2014, a review was performed of the income tax and VAT returns for 2013. At the balance sheet date, the outstanding tax liability in the amount of HRK 939 thousand and penalty interest in the amount of HRK 109 thousand were recognised. The liability and interest were paid in February 2015. In March 2015, the Company filed an appeal to the second instance body with respect to the administrative procedure.

## NOTE 11 – EARNINGS PER SHARE

### Basic earnings per share

Basic earnings per share is calculated as follows:

| | 2014 | | |
|---|---|---|---|
| | *(in thousands of HRK)* | | |
| | **Preference shares** | **Ordinary shares** | **Total** |
| Dividends declared and paid in the year | 105 | - | 105 |
| Undistributed earnings | 14,472 | 74,041 | 88,513 |
| **Profit for the year** | **14,577** | **74,041** | **88,618** |
| Weighted average number of shares in issue excluding own shares | 105,000 | 537,176 | |
| Distributed earnings | 1.00 | - | |
| Undistributed earnings | 137.83 | 137.83 | |
| **Basic earnings per share *(in HRK)*** | **138.83** | **137.83** | |

| | 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 | 8,286 | 42,387 | 50,673 |
| **Profit for the year** | **17,952** | **91,303** | **109,255** |
| Weighted average number of shares in issue excluding own shares | 105,000 | 537,176 | |
| Distributed earnings | 92.06 | 91.06 | |
| Undistributed earnings | 78.91 | 78.91 | |
| **Basic earnings per share *(in HRK)*** | **170.97** | **169.97** | |

### Diluted earnings per share

Diluted earnings per share for 2014 and 2013 are equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either years.

## NOTE 12 – 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 2014 of HRK 5,365 thousand (2013: HRK 5,424 thousand) are disclosed as dividends payable in “trade and other payables” (Note 22).

## NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

| *(in thousands of HRK)* | **Land and buildings** | **Plant and equipment** | **Other assets** | **Assets under construction** | **Total** |
|---|---|---|---|---|---|
| **At 1 January 2013** | | | | | |
| Cost | 2,234,518 | 284,308 | 33,397 | 2,718 | 2,554,941 |
| Accumulated depreciation and impairment | (1,192,884) | (235,961) | (27,100) | - | (1,455,945) |
| **Net book amount** | **1,041,634** | **48,347** | **6,297** | **2,718** | **1,098,996** |
| **Year ended 31 December 2013** | | | | | |
| Opening net book amount | 1,041,634 | 48,347 | 6,297 | 2,718 | 1,098,996 |
| Additions | 34,910 | 14,335 | 866 | (194) | 49,917 |
| Effect of merger (Note 26) | 50,394 | 2,162 | 263 | - | 52,819 |
| Transfer | (968) | 968 | - | - | - |
| Decrease | - | - | (151) | - | (151) |
| Disposal and impairment | - | (205) | - | - | (205) |
| Depreciation | (87,828) | (15,463) | (1,972) | - | (105,263) |
| **Closing net book amount** | 1,038,142 | 50,144 | 5,303 | 2,524 | 1,096,113 |
| **At 31 December 2013** | | | | | |
| Cost | 2,354,469 | 300,311 | 34,375 | 2,524 | 2,691,679 |
| Accumulated depreciation and impairment | (1,316,327) | (250,167) | (29,072) | - | (1,595,566) |
| **Net book amount** | **1,038,142** | **50,144** | **5,303** | **2,524** | **1,096,113** |
| **Year ended 31 December 2014** | | | | | |
| Opening net book amount | 1,038,142 | 50,144 | 5,303 | 2,524 | 1,096,113 |
| Additions | 54,574 | 11,360 | 1,640 | (1,541) | 66,033 |
| Transfer | 2,450 | (2,450) | - | - | - |
| Disposal and impairment | (99) | (99) | - | - | (198) |
| Depreciation | (89,188) | (15,049) | (1,727) | - | (105,964) |
| **Closing net book amount** | **1,005,879** | **43,906** | **5,216** | **983** | **1,055,984** |
| **At 31 December 2014** | | | | | |
| Cost | 2,413,538 | 293,702 | 34,832 | 983 | 2,743,055 |
| Accumulated depreciation and impairment | (1,407,659) | (249,796) | (29,616) | - | (1,687,071) |
| **Net book amount** | **1,005,879** | **43,906** | **5,216** | **983** | **1,055,984** |

Additions under ‘Land and buildings’ relate to various construction works in hotels and campsites which were completed in 2014 and 2013, respectively.

At 31 December 2014, the net book amount of assets pledged as security for the repayment of borrowings is HRK 218,404 thousand. At 31 December 2013, the Company had no pledged assets.

**NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (continued)**

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

| | **2014** | **2013** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Cost | 117,924 | 109,960 |
| Accumulated depreciation at 1 January | (74,609) | (70,964) |
| Depreciation charge for the year | (8,350) | (3,645) |
| **Net book amount** | **34,965** | **35,351** |

Operating leases relate to leases of land, business premises and hospitality facilities. During 2014, the Company realised rental income in the amount of HRK 23,022 thousand (2013: HRK 21,965 thousand). During the year, there were no direct operating expenses arising from the utilisation of these assets except for the depreciation charge.

**Operating lease commitments - where the Company is the lessor.** The future aggregate proceeds from operating leases are as follows:

| | **2014** | **2013** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Up to 1 year | 18,617 | 18,853 |
| From 2 to 5 years | 74,468 | 75,412 |
| | **93,085** | **94,265** |

In 2014 and 2013, there were no contingent rents recognised as income in the statement of comprehensive income. There is no purchase option.

## NOTE 14 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Subsidiaries | 916,131 | 190,808 |
| Associates | 190,732 | 20 |
| | **1,106,863** | **190,828** |

### *a) Subsidiaries*

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At beginning of year | 190,808 | 190,788 |
| Effect of loss of control /i/ | (190,712) | - |
| Effect of liquidation of subsidiary /ii/ | (20) | - |
| Effect of acquisition /iii/ | 916,055 | - |
| Effect of merger (Note 26) | - | 20 |
| | **916,131** | **190,808** |

The subsidiaries are:

| | Country | Ownership % | |
|---|---|---|---|
| | | 2014 | 2013 |
| Hoteli Croatia d.d., Cavtat /i/ | Croatia | - | 92.28 |
| Laguna invest d.o.o., Poreč | Croatia | 100.00 | 100.00 |
| Hotel Bonavia-usluge d.o.o., Rijeka | Croatia | - | 100.00 |
| Istraturist Umag d.d., Umag | Croatia | 93.04 | - |

The subsidiaries Laguna invest d.o.o., Poreč and Hotel Bonavia-usluge d.o.o., Rijeka did not have any business activities in 2014 or 2013.

/i/ In line with the Merger Agreement concluded on 13 June 2013 between Hoteli Croatia d.d., Cavtat, as the merged company, and the company Jadranski luksuzni hoteli d.d., Duborvnik, as the acquiring company, and the decision of the General Assemblies of the merging companies, on 31 December 2013 the Commercial Court in Split (Dubrovnik office) adopted the Decision based on which the stated merger was entered into the court register. The merger is effective as of 1 January 2014. At the balance sheet date, the number of shares owned by Plava laguna d.d. in the company Jadranski luksuzni hoteli d.d. is 30,988,522 or 32.48%.

/ii/ The subsidiary Hotel Bonavia-usluge d.o.o., Rijeka was liquidated on 1 December 2014.

/iii/ In November 2014, the Company acquired 93.04% shares in the company Istraturist Umag d.d. based on a purchase agreement from August 2014. In line with the purchase agreement, the Company has a claim against the seller at the balance sheet date in the amount of HRK 6,918 thousand (Note 16).

## NOTE 14 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

### *b) Associate*

Until 31 May 2013, the Company had a 0.87% share in the company Jadranski luksuzni hoteli d.o.o., Dubrovnik and 18.18% of votes in the General Assembly.

Based on the merger agreement, the General Assemblies' 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 a result of the exchange, the number of shares owned by Plava laguna d.d. is 28 or 0.000053% of the share capital of Jadranski luksuzni hoteli d.d., Dubrovnik.

The stated merger was followed by a merger of the company Hoteli Croatia d.d., Cavtat with the company Jadranski luksuzni hoteli d.d., Dubrovnik under the Merger Agreement concluded on 13 June 2013 between the company Hoteli Croatia d.d., Cavtat as the merged company and the company Jadranski luksuzni hoteli d.d., Dubrovnik. The merger is effective as of 1 January 2014. At the balance sheet date, the ownership share of Plava laguna d.d. in the company Jadranski luksuzni hoteli d.d. is 32.48% or nominally 30,988,522 shares.

## NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Ownership | 2014 | 2013 |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| Investments in banks | 3.63 % | 4,936 | 5,378 |
| Investments in companies | /i/ | 1,382 | 1,443 |
| | | **6,318** | **6,821** |

/i/ Investments represent less than 1% ownership interest in the shareholders' equity of these companies, except for the investment in IRTA d.o.o. of 11.1%.

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At beginning of year | 6,821 | 6,839 |
| Effect of merger (Note 26) | - | 150 |
| Impairment | - | (150) |
| Effect of sale | (432) | - |
| Revaluation losses | (71) | (19) |
| **At end of year** | **6,318** | **6,821** |

Available-for-sale investments are as follows:

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Equity securities<br>- listed | 6,198 | 5,804 |
| Equity securities<br>- unlisted | 120 | 1,017 |
| | **6,318** | **6,821** |

The fair values of unlisted available-for-sale securities are stated 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 16 – TRADE AND OTHER RECEIVABLES

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Domestic trade receivables | 2,024 | 1,777 |
| Foreign trade receivables | 510 | 622 |
| Due from brokers – agencies | 8 | 123 |
| Provision for impairment of trade receivables | (1,669) | (1,573) |
| Trade receivables – net | 873 | 949 |
| Receivables arising from purchase agreement on the acquisition of subsidiary (Note 14) /i/ | 6,918 | - |
| Interest receivable | 3 | 11 |
| Accrued income not yet invoiced | 56 | 2,116 |
| *Total financial assets* | 7,850 | 3,076 |
| Due from state institutions | 2,360 | 2,309 |
| VAT prepayments | 2,048 | 2,045 |
| Advances to suppliers | 571 | 593 |
| Other current receivables | 178 | 242 |
| Provision for impairment of other receivables | (2,193) | (2,193) |
| | **10,814** | **6,072** |

/i/ The receivables arising from the purchase agreement on the acquisition of the subsidiary were settled in February 2015.

Movements on the provision for impairment of trade and other receivables are as follows:

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At 1 January | 3,766 | 3,725 |
| Additional provisions (Note 8) | 423 | 412 |
| Collection | (222) | (351) |
| Write-off | (105) | (20) |
| At 31 December | **3,862** | **3,766** |

The majority of impaired trade receivables is subject to legal disputes. Both the outcome of the disputes related to sued receivables or the extent to which they will be collected cannot be anticipated with certainty.

## NOTE 17 – DEPOSITS AND LOANS GIVEN

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Loans given | 98 | 261 |
| Provision for impairment of loan receivables | (98) | (247) |
| Loans – net | - | 14 |
| Deposits given | 163,955 | 186,981 |
| Current | **163,955** | **186,995** |

Deposits bear an interest rate of 1.1% - 2.3% (2013: 1.9% - 3.5%). Loans are secured by a mortgage over property with an interest rate set at 7.25% - 8.5% (2013: 7.25% - 8.5%). The carrying amounts of loans and deposits approximate the carrying amounts.

## NOTE 18 – CASH AND CASH EQUIVALENTS

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Giro accounts and current accounts | 1,481 | 445 |
| Cash in hand | 11 | 5 |
| Foreign currency accounts | 3,468 | 1,444 |
| Time deposits – interest receivable | 62 | 516 |
| | **5,022** | **2,410** |

The deposits were placed with an option to be discontinued. The Company can call them partially or in full at any time, with at least 3 days' notice. The interest rate is set at 1.1%-2.3% (2013: 1.9%-3.5%). The interest rate for cash on giro and other current accounts is set at 0.2-0.4% (2013: 0.15-0.50%).

## NOTE 19 – SHAREHOLDERS' EQUITY

The equity ownership structure as at 31 December 2014 was as follows:

| Shareholder | Total number of shares | Total amount (HRK) | Holding in share capital % |
|---|---|---|---|
| **Ownership of ordinary shares:** | | | |
| Sutivan Investments Anstalt, Liechtenstein | 438,899 | 930,465,880 | 80.34 |
| Deutsche Bank Trust Company Americas | 23,939 | 50,750,680 | 4.38 |
| Treasury shares /i/ | 9,142 | 19,381,040 | 1.67 |
| Other legal entities and natural persons | 74,338 | 157,596,560 | 13.61 |
| | **546,318** | **1,158,194,160** | **100.00** |
| **Ownership of preference shares:** | | | |
| Sutivan Investments Anstalt, Liechtenstein | 105,000 | 105,000,000 | 100.00 |
| Total | **105,000** | **105,000,000** | **100.00** |
| | **651,318** | **1,263,194,160** | |

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

| Shareholder | Total number of shares | Total amount (HRK) | Holding 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:** | | | |
| Sutivan Investments Anstalt, Liechtenstein | 105,000 | 105,000,000 | 100.00 |
| | **105,000** | **105,000,000** | **100.00** |
| **Total** | **651,318** | **1,181,246,460** | |

Following the decision of the Company's General Assembly of 29 August 2014 (2013: 2 August 2013) the Company's share capital was increased by reinvesting a portion of profit in the amount of HRK 81,948 thousand (2013: HRK 92,874 thousand). At the General Assembly held on 2 August 2013, a decision was made on converting shares with a nominal value into shares without nominal value. The share capital is distributed among 546,318 ordinary shares, without nominal value, and 105,000 preference series "B" shares, registered, 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 19 – SHAREHOLDERS' EQUITY (continued)

/i/ As at 31 December 2014 and 2013, treasury shares comprise 9,142 own shares 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 the purchase and sale of treasury shares are recorded within capital reserves and amount to HRK 7,896 thousand (2013: HRK 6,525 thousand).

As at 31 December 2012, in order to implement the merger of Hotel Bonavia d.d. as of 1 January 2013, of the initial number of 9,470 treasury shares, Plava laguna d.d. as the acquiring company used 328 treasury shares with the carrying value of HRK 412 thousand based on the share exchange ratio determined using the discounted cash flow method (Note 26).

## NOTE 20 – RESERVES AND RETAINED EARNINGS

| | **2014** | **2013** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Legal reserves | 38,999 | 33,536 |
| Other reserves | 31,132 | 31,383 |
| Retained earnings | 199,923 | 198,820 |
| | **270,054** | **263,739** |
| **Changes in reserves:** | | |
| **Legal reserves** | | |
| At beginning of year | 33,536 | 33,536 |
| Transfer from retained earnings | 5,463 | - |
| **At end of year** | 38,999 | **33,536** |
| **Other reserves** | | |
| At beginning of year | 31,383 | 33,867 |
| Effect of merger (Note 26) | - | (2,470) |
| Revaluation of available-for-sale financial assets | (57) | (14) |
| Transfer to income statement | (194) | - |
| **At end of year** | **31,132** | **31,383** |
| **Retained earnings** | | |
| At beginning of year | 198,820 | 241,021 |
| Net profit for the year | 88,618 | 109,255 |
| Share capital increase | (81,947) | (92,874) |
| Dividend distribution | (105) | (58,582) |
| Transfer to legal reserves | (5,463) | - |
| **At end of year** | **199,923** | **198,820** |

## NOTE 20 – RESERVES AND RETAINED EARNINGS (continued)

Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until total reserves together with the capital reserves reach 5% of the Company's share capital. Legal reserves are not distributable. Based on the Decision of the General Assembly of 29 August 2014, the Company transferred an amount of HRK 5,463 thousand from current profit to legal reserves. As at 31 December 2014, legal reserves amounted to HRK 38,999 thousand or 3.09% of the share capital (2013: 2.84%), while the share of legal reserves together with capital reserves which are not distributable (HRK 18,824 thousand) and which were formed by denominating the share value in 2001 (from HRK 1,860 to HRK 1,800 per share), form a share of 4.58% (2013: 4.43%) in the Company’s share capital.

At 31 December 2014, other reserves amounted to HRK 31,132 thousand (2013: HRK 31,383 thousand) and comprise treasury shares reserves of HRK 11,485 thousand (2013: HRK 11,485 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 823 thousand (2013: HRK 1,074 thousand). These other reserves are not distributable. The remaining other reserves in the amount of HRK 18,824 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 the 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 26).

Based on the decision of the General Assembly from 29 August 2014, a preference dividend was paid to holders of eligible capital in the amount of HRK 105 thousand.

## NOTE 22 – BORROWINGS

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Long-term:** | | |
| Bank borrowings | 383,074 | - |
| Borrowings from owner | 383,074 | - |
| | **766,148** | |
| **Short-term:** | | |
| Accrued interest and fees | 2,446 | - |
| | **2,446** | **-** |
| | **768,594** | **-** |

Bank borrowings are secured by properties (Note 13). Borrowings from the owner were contracted without registering a lien on properties.

Long-term borrowings mature as follows:

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| From 1 to 2 years | 47,885 | - |
| From 2 to 5 years | 287,305 | - |
| Over 5 years | 430,958 | - |
| | **766,148** | **-** |

## NOTE 22 – TRADE AND OTHER PAYABLES

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Trade payables | 17,550 | 13,740 |
| Due to related parties (Note 25) | 131 | 132 |
| Dividends payable (Note 11) | 5,365 | 5,424 |
| Accrued costs not yet invoiced | 3,995 | 2,239 |
| Concession payable /i/ | 12,718 | 9,693 |
| *Total financial liabilities* | 39,759 | 31,228 |
| | | |
| Net salaries payable | 12,973 | 13,899 |
| Taxes and contributions payable | 8,639 | 9,645 |
| Advances payable | 10,119 | 14,365 |
| Liabilities arising from findings of supervisory bodies | 3,227 | - |
| | | |
| Other current liabilities | 4,331 | 6,574 |
| | **79,048** | **75,711** |

/i/ The concession payable is calculated on the basis of the submitted relevant requirements to the governing authorities for concessions on tourist land in campsites, hotels and tourist resorts in accordance with the Law on Tourist and Other Construction Land not evaluated in the transformation and privatisation process and the Regulations which elaborate in more detail the manner of complying with the stated Law.

## NOTE 23 – 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 to determine the ownership of part of the land used by the Company and over 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 dispute 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 dispute or 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 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 2014, the Company settled all liabilities arising from the invoices received, issued by governing authorities on the basis of the provisions of the Regulations.

**Provisions for other contingent liabilities.** In the financial statements for the years ended 31 December 2014 and 2013, the Company anticipates payment of other contingent liabilities in the amount of HRK 2,000 thousand.

**Capital commitments.** Future commitments contracted for investments in tourist facilities, for which provisions were not made, as at 31 December 2014 amounted to HRK 8,495 thousand (2013: HRK 27,701 thousand).

**Operating lease commitments – where the Company is the lessee (Note 6).** The future aggregate operating lease payments are as follows:

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Up to 1 year | 403 | 150 |
| From 2 to 5 years | 1,095 | 147 |
| | **1,498** | **297** |

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

## NOTE 23 – CONTINGENCIES AND COMMITMENTS (continued)

**Legal disputes of the subsidiary Istraturist Umag d.d., Umag.** At the beginning of the 1990s, Istraturist Umag d.d. and Ljubljanska bank d.d. entered into borrowing agreements and other financial arrangements in the approximate amount of DEM 31 million (approximately EUR 16 million). In accordance with applicable regulations which define the settlement of deposits of Croatian citizens with banks domiciled outside of Croatia, Zagrebačka banka d.d. retained part of its receivables from Ljubljanska banka d.d. relating to "old foreign currency savings" in the amount of DEM 31 million and sold them to its client Istraturist Umag d.d., Umag, gaining in return a share in the share capital of Istraturist Umag d.d. Istraturist Umag d.d. offset the (purchased) receivable from Ljubljanska banka d.d. in the amount of DEM 31 million with its financial liabilities to Ljubljanska banka d.d. in the same amount.

In line with a special Constitutional Act adopted after performing the stated offset, the Republic of Slovenia founded Nova Ljubljanska banka d.d. (NLB). All receivables were transferred to NLB, as opposed to the liabilities of Ljubljanska banka, thereby also excluding from the transfer the liabilities of Ljubljanska banka to Istraturist Umag d.d.

In the period from 1994, several legal disputes were initiated before the Croatian and Slovenian courts, in which NLB demanded payment of liabilities by Istraturist Umag d.d. On the basis of NLB's enforcement proposal, proceedings were initiated before the Commercial Court in Rijeka. During October 2014, the Supreme Court of the Republic of Croatia dismissed the audit of NLB and confirmed all verdicts of the lower courts, whereby the highest appellate court of the Republic of Croatian confirmed that the above stated offset of Istraturist Umag d.d. with respect to the borrowings covered by this verdict, was entirely valid and lawful.

In line with the agreement on the purchase of shares of the company Istraturist Umag d.d. from 26 August 2014 (Note 28), Zagrebačka banka d.d., acting as the Seller, gave the so-called "NLJB guarantee", under the conditions and restrictions set forth in the provisions of the stated agreement, that the legal disputes with the stated bank will not cause any losses for the Plava laguna Group.

## NOTE 24 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the power to exercise control over the other party or under common control or if it has significant influence over the other party in making financial or operational decisions. Plava laguna d.d., Poreč is controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate parent and controlling company is E. Abaroa Foundation, registered in Vaduz, Liechtenstein (2013.: Luksburg Foundation, Vaduz, Liechtenstein).

In the ordinary course of business, the Company enters into transactions with related parties. Related parties are the companies within E. Abaroa Foundation and Luksburg Foundation, parties under common control. These transactions were carried out under commercial terms and conditions and at market rates.

### 1) Transactions with related companies within the Plava laguna Group are as follows:

| | **2014** | **2013** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Trade and other payables | 131 | 132 |
| Loans given | | |
| Loans acquired at merger | - | 5 |
| Decrease | - | (5) |
| At end of year | - | - |
| Other expenses | 2 | 6 |
| Impairment of non-current financial assets | 20 | - |

### 2) Transactions with the owner were as follows:

During 2014, the Company obtained a borrowing from the owner in the amount of EUR 50 million (Note 22). As at 31 December 2014, borrowing liabilities and interest payable amounted to HRK 385,242 thousand. In 2014, interest and fee expense amounted to HRK 2,179 thousand. In 2013, the Company did not have any transactions with the owner.

## NOTE 24 – RELATED PARTY TRANSACTIONS (continued)

### 3) Transactions with related companies under common control:

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Trade and other payables:** | | |
| Liabilities acquired at merger | - | 2,010 |
| Decrease | - | (2,010) |
| | - | - |
| **Interest payable:** | | |
| Liabilities acquired at merger | - | 5,248 |
| Increase | - | 623 |
| Decrease | - | (5,871) |
| | - | - |
| **Borrowings** | | |
| Borrowings acquired at merger (Note 26) | - | 52,641 |
| Decrease: | - | (52,641) |
| | - | - |
| **Income and expenses:** | | |
| Foreign exchange differences – net | - | (9) |
| Interest expense and withholding tax | - | 1,720 |
| Other expenses | - | 40 |

### 4) Key Management and Supervisory Board compensation

| | 2014 | 2013 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Net salaries | 6,252 | 5,570 |
| Pension insurance contributions | 1,627 | 1,476 |
| Health insurance contributions | 1,580 | 1,294 |
| Other costs (contribution and taxes) | 3,505 | 3,126 |
| | **12,964** | **11,466** |
| Supervisory Board compensation | 2,500 | 2,334 |
| | **15,464** | **13,800** |

Key management comprises 16 persons (2013: 15 persons). The Supervisory Board has 7 members (2013: 7 members).

## NOTE 25 – 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 merger is effective as of 1 January 2013. Since the merger applies to companies under common control of Luksburg Foundation Vaduz, Liechtenstein, the effect of the merger in the amount of HRK 2,058 thousand was recognised in capital and reserves.

The effect of the 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 company being merged. 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 25).