



**PLAVA LAGUNA**  
HOTELS & TOURIST COMPANY d.d.



FOR THE YEAR 2014

**CONSOLIDATED  
FINANCIAL STATEMENTS**

Poreč, June 2015

**PLAVA LAGUNA**  
HOTELS & TOURIST COMPANY d.d.

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**PLAVA LAGUNA d.d., POREČ**

**INDEPENDENT AUDITOR'S REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2014**



## ***Independent Auditor's Report***

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

We have audited the accompanying consolidated financial statements of Plava laguna d.d. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2014 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 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.

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### **Emphasis of matter**

We draw attention to Note 25 to these financial statements that describes the Group's contingencies with respect to ownership of land not evaluated in the transformation and privatisation process. Problems with respect to land ownership disputes are common for the majority of tourism companies in the Republic of Croatia. Their resolution is expected in the future upon completion of the process of obtaining concessions and establishing ownership rights in accordance with and pursuant to the provisions of the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, which entered into force on 1 August 2010. Our opinion was not qualified in this respect.

PricewaterhouseCoopers d.o.o.  
Zagreb, 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.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

| <i>(all amounts expressed in thousands of HRK)</i>  | <b>Note</b> | <b>2014</b>   | <b>2013</b>    |
|---|-------------|---------------|----------------|
| Sales   | 5           | 483,180       | 582,634        |
| Other income  |             | 3,221         | 2,061          |
| Cost of materials and services  | 6           | (135,550)     | (165,856)      |
| Staff costs   | 7           | (125,192)     | (138,865)      |
| Depreciation and amortisation   | 13, 14      | (112,029)     | (126,999)      |
| Other operating expenses  | 8           | (41,817)      | (37,367)       |
| Other gains – net   |             | 435           | 1,240          |
| <b>Operating profit</b>   |             | <b>72,248</b> | <b>116,848</b> |
| Finance income  | 9           | 9,194         | 8,963          |
| Finance costs   | 9           | (5,652)       | (3,542)        |
| Finance income – net  | 9           | 3,542         | 5,421          |
| Share of profit of associate  | 15          | 12,363        | 3              |
| <b>Profit before tax</b>  |             | <b>88,153</b> | <b>122,272</b> |
| Income tax expense  | 10          | (2,321)       | (1,814)        |
| <b>Profit for the year</b>  |             | <b>85,832</b> | <b>120,458</b> |
| <b>Other comprehensive income:</b>  |             |               |                |
| Changes in value of available-for-sale financial assets   | 22          | (251)         | (14)           |
| <b>Total comprehensive income for the year</b>  |             | <b>85,581</b> | <b>120,444</b> |
| <b>Profit attributable to:</b>  |             |               |                |
| <b>Equity holders of the Company</b>  |             | 86,888        | 119,593        |
| Non-controlling interests   |             | (1,056)       | 865            |
| <b>Profit for the year</b>  |             | <b>85,832</b> | <b>120,458</b> |
| <b>Basic and diluted earnings per share (in HRK) attributable to the equity holders of the Company during the year:</b> | 11          |               |                |
| - ordinary shares   |             | 135.14        | 186.07         |
| - preference shares   |             | 136.14        | 187.07         |

These consolidated financial statements set out on pages 3 to 52 were approved by the Group's Management Board on 29 April 2015.

Member of the Management Board  
Neven Staver

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

**PLAVA LAGUNA d.d., POREČ**

**CONSOLIDATED BALANCE SHEET**

**AS AT 31 DECEMBER 2014**

| <i>(all amounts expressed in thousands of HRK)</i>                        | <b>Note</b> | <b>31 December</b> |                  |
|---|-------------|--------------------|------------------|
|   |             | <b>2014</b>        | <b>2013</b>      |
| <b>ASSETS</b>   |             |                    |                  |
| <b>Non-current assets</b>   |             |                    |                  |
| Property, plant and equipment   | 13          | 2,461,047          | 1,405,306        |
| Intangible assets   | 14          | 10,301             | 1,053            |
| Investments in associate  | 15          | 203,095            | 1,490            |
| Available-for-sale financial assets                                       | 16          | 6,318              | 6,821            |
| Deposits and loans receivable   |             | 104                | -                |
| Deferred tax asset  |             | 2,725              | -                |
|   |             | 2,683,590          | 1,414,670        |
| <b>Current assets</b>   |             |                    |                  |
| Inventories   |             | 4,766              | 3,590            |
| Trade and other receivables   | 17          | 18,508             | 14,974           |
| Income tax receivable   | 10          | 20,282             | 19,711           |
| Deposits and loans receivable   | 18          | 177,950            | 217,546          |
| Financial assets at fair value through profit or loss                     | 19          | 13,344             | 100              |
| Cash and cash equivalents   | 20          | 12,104             | 3,971            |
|   |             | 246,954            | 259,892          |
| <b>Total assets</b>   |             | <b>2,930,544</b>   | <b>1,674,562</b> |
| <b>EQUITY</b>   |             |                    |                  |
| <b>Capital and reserves attributable to equity holders of the Company</b> |             |                    |                  |
| Share capital   | 21          | 1,263,194          | 1,181,246        |
| Share premium   | 21          | 7,896              | 6,525            |
| Treasury shares   | 21          | (19,381)           | (18,010)         |
| Reserves  | 22          | 70,131             | 73,587           |
| Retained earnings   | 22          | 198,246            | 266,506          |
|   |             | 1,520,086          | 1,509,854        |
| Non-controlling interests   |             | 62,372             | 22,312           |
|   |             | 1,582,458          | 1,532,166        |
| <b>LIABILITIES</b>  |             |                    |                  |
| <b>Non-current liabilities</b>  |             |                    |                  |
| Borrowings  | 23          | 1,119,348          | 33,546           |
| Provisions for other liabilities and expenses                             | 25          | 2,000              | 2,000            |
|   |             | 1,121,348          | 35,546           |
| <b>Current liabilities</b>  |             |                    |                  |
| Trade and other payables  | 24          | 128,715            | 87,011           |
| Borrowings  | 23          | 87,940             | 19,839           |
| Provisions for other liabilities and expenses                             | 25          | 1,021              | -                |
| Derivative financial instruments  | 23          | 9,062              | -                |
|   |             | 226,738            | 106,850          |
| <b>Total liabilities</b>  |             | 1,348,086          | 142,396          |
| <b>Total equity and liabilities</b>                                       |             | <b>2,930,544</b>   | <b>1,674,562</b> |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

| <i>(all amounts expressed<br/>in thousands of HRK)</i>                                 | Attributable to equity holders of the Company |                  |                    |                |                      | Total            | Non-<br>controlling<br>interest | Total            |
|--|---|------------------|--------------------|----------------|----------------------|------------------|---------------------------------|------------------|
|  | Share capital                                 | Share<br>premium | Treasury<br>shares | Reserves       | Retained<br>earnings |                  |                                 |                  |
| <b>Year ended 31<br/>December 2013</b>   |   |                  |                    |                |                      |                  |                                 |                  |
| At 1 January 2013  | 1,088,372                                     | 5,149            | (17,046)           | 76,071         | 298,369              | 1,450,915        | 21,447                          | 1,472,362        |
| Profit for the year  | -   | -                | -                  | -              | 119,593              | 119,593          | 865                             | 120,458          |
| Other comprehensive<br>losses  | -   | -                | -                  | (14)           | -                    | (14)             | -                               | (14)             |
| <b>Total comprehensive<br/>income for 2013</b>   | -   | -                | -                  | <b>(14)</b>    | <b>119,593</b>       | <b>119,579</b>   | <b>865</b>                      | <b>120,444</b>   |
| Share capital increase<br>(Note 21)  | 92,874  | 1,554            | (1,554)            | -              | (92,874)             | -                | -                               | -                |
| Effect of merger (Note<br>28)  | -   | (178)            | 590                | (2,470)        | -                    | (2,058)          | -                               | (2,058)          |
| Dividend relating to<br>2012 (Note 12)   | -   | -                | -                  | -              | (58,582)             | (58,582)         | -                               | (58,582)         |
| <b>Total transactions<br/>with owners of the<br/>Company, recognised<br/>in equity</b> | <b>92,874</b>                                 | <b>1,376</b>     | <b>(964)</b>       | <b>(2,470)</b> | <b>(151,456)</b>     | <b>(60,640)</b>  | -                               | <b>(60,640)</b>  |
| <b>At 31 December 2013</b>   | <b>1,181,246</b>                              | <b>6,525</b>     | <b>(18,010)</b>    | <b>73,587</b>  | <b>266,506</b>       | <b>1,509,854</b> | <b>22,312</b>                   | <b>1,532,166</b> |
| <b>Year ended 31<br/>December 2014</b>   |   |                  |                    |                |                      |                  |                                 |                  |
| At 1 January 2014  | 1,181,246                                     | 6,525            | (18,010)           | 73,587         | 266,506              | 1,509,854        | 22,312                          | 1,532,166        |
| Profit for the year  | -   | -                | -                  | -              | 86,888               | 86,888           | (1,056)                         | 85,832           |
| Other comprehensive<br>losses  | -   | -                | -                  | (251)          | -                    | (251)            | -                               | (251)            |
| <b>Total comprehensive<br/>income for 2014</b>   | -   | -                | -                  | <b>(251)</b>   | <b>86,888</b>        | <b>86,637</b>    | <b>(1,056)</b>                  | <b>85,581</b>    |
| Share capital increase<br>(Note 21)  | 81,948  | 1,371            | (1,371)            | -              | (81,948)             | -                | -                               | -                |
| Effect of shares swap<br>(Note 28)   | -   | -                | -                  | (76,300)       | -                    | (76,300)         | (22,312)                        | (98,612)         |
| Transfer from retained<br>earnings (Note 28)   | -   | -                | -                  | 67,632         | (67,632)             | -                | -                               | -                |
| Effect of acquisition<br>(Note 28)   | -   | -                | -                  | -              | -                    | -                | 63,428                          | 63,428           |
| Distribution of profit<br>from 2013  | -   | -                | -                  | 5,463          | (5,463)              | -                | -                               | -                |
| Dividend relating to<br>2013 (Note 12)   | -   | -                | -                  | -              | (105)                | (105)            | -                               | (105)            |
| <b>Total transactions<br/>with owners of the<br/>Company, recognised<br/>in equity</b> | <b>81,948</b>                                 | <b>1,371</b>     | <b>(1,371)</b>     | <b>(3,205)</b> | <b>(155,148)</b>     | <b>(76,405)</b>  | <b>41,116</b>                   | <b>(35,289)</b>  |
| <b>At 31 December 2014</b>   | <b>1,263,194</b>                              | <b>7,896</b>     | <b>(19,381)</b>    | <b>70,131</b>  | <b>198,246</b>       | <b>1,520,086</b> | <b>62,372</b>                   | <b>1,582,458</b> |

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



**PLAVA LAGUNA d.d., POREČ**

**CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

| <i>(all amounts expressed in thousands of HRK)</i>          | <b>Note</b> | <b>2014</b>      | <b>2013</b>      |
|---|-------------|------------------|------------------|
| <b>Cash flows generated from operating activities</b>       |             |                  |                  |
| Cash generated from operations                              | 26          | 154,049          | 256,346          |
| Income tax paid   |             | (2,846)          | (8,012)          |
| Interest paid   |             | (5,482)          | (3,965)          |
| <b>Net cash generated from operating activities</b>         |             | <b>145,721</b>   | <b>244,369</b>   |
| <b>Cash flows from investing activities</b>                 |             |                  |                  |
| Purchases of property, plant and equipment                  | 13          | (67,609)         | (51,367)         |
| Purchases of intangible assets                              | 14          | (2,913)          | (507)            |
| Decrease in investments in funds                            |             | 23,193           | -                |
| Decrease/(increase) in deposits and loans                   |             | 59,156           | (89,286)         |
| Proceeds from sale of property, plant and equipment         |             | 684              | 602              |
| Effect of merger  | 28          | -                | 5,301            |
| Effect of shares swap                                       | 28          | (1,561)          |                  |
| Acquisition of subsidiary                                   | 28          | (922,973)        | -                |
| Effect of acquisition of subsidiary                         | 28          | 11,636           | -                |
| Interest received   |             | 4,738            | 5,226            |
| Dividends received  |             | 398              | 382              |
| <b>Net cash used in investing activities</b>                |             | <b>(892,251)</b> | <b>(129,649)</b> |
| <b>Cash flows from financing activities</b>                 |             |                  |                  |
| Proceeds from borrowings                                    |             | 766,936          | -                |
| Repayment of borrowings                                     |             | (9,109)          | (63,242)         |
| Dividends paid to Company's shareholders                    |             | (164)            | (56,340)         |
| <b>Net cash from financing activities</b>                   |             | <b>757,663</b>   | <b>(119,582)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |             | <b>8,133</b>     | <b>(4,862)</b>   |
| Cash and cash equivalents at beginning of the year          |             | 3,971            | 8,833            |
| Cash and cash equivalents at end of the year                |             | <b>12,104</b>    | <b>3,971</b>     |

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

**NOTE 1 – GENERAL INFORMATION**

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

- Laguna Invest, services, with an ownership interest of 100%,
- Hotel Bonavia-usluge d.o.o. in liquidation, with an ownership interest of 100%, until 1 December 2014, after which the company was liquidated and deleted from the court register;
- Istraturist Umag d.d. in 93.04% ownership from 28 November 2014 when the parent company acquired the company and assumed control;
- Hoteli Croatia d.d. a joint stock company registered for hospitality and tourism, with an ownership interest of 92.28% until 1 January 2014 when the company merged with the company Jadranski luksuzni hoteli d.d., Dubrovnik.

The structural changes within the Group are set out in Note 28.

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

The Plava laguna Group, Poreč is controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is E. Abaroa Foundation, registered in Vaduz, Liechtenstein (2013.: Luksburg Foundation, Vaduz, Liechtenstein). The equity structure as at 31 December 2014 and 2013 is presented in Note 25.

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

As at 31 December 2014 and 2013, the shares of the parent company were listed on the regular joint stock company listing on the Zagreb Stock Exchange.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1 Basis of preparation**

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

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

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

**2.1 Basis of preparation (continued)**

*(a) New and amended standards*

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

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

**2.2 Consolidation**

*a) Subsidiaries*

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

*c) Associates*

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

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

**2.3 Segment reporting**

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

**2.4 Foreign currencies**

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

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

**2.5 Property, plant and equipment**

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

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

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

|                     |               |
|---------------------|---------------|
| Buildings           | 10 - 35 years |
| Plant and equipment | 3 - 20 years  |
| Other assets        | 4 - 20 years  |

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

**2.5 Property, plant and equipment (continued)**

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

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

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

**2.6 Intangible assets**

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

**2.7 Impairment of non-financial assets**

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

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

**2.8 Financial assets**

**2.8.1 Classification**

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

*(a) Financial assets at fair value through profit or loss*

This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets.

*(b) Loans, deposits and receivables*

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

*(c) Available-for-sale financial assets*

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

**2.8.2 Measurement and recognition**

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

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



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

**2.8 Financial assets (continued)**

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

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

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of 'other income' when the Group's right to receive payment is established.

**2.9 Impairment of financial assets**

*(a) Assets carried at amortised cost*

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

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

*(b) Assets classified as available for sale*

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

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

**2.9 Impairment of financial assets (continued)**

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income and recorded within 'other gains-net'.

**2.10 Derivative financial instruments**

Derivative financial instruments, including foreign exchange forward and swap contracts (exchange of variable with fixed interest rate). Derivative financial instruments are recognised in the balance sheet at fair value. Fair values are determined according to market prices on stock exchanges or through pricing models, if appropriate. All derivatives are recognised in the balance sheet as assets when their fair value is positive, and as liabilities when their fair value is negative. These derivatives do not meet the conditions for hedge accounting and are therefore treated as derivatives held for trading. Gains and losses arising from the forecast transaction are recognised in profit or loss in the period in which the effect of the forecast transaction is reflected in profit or loss.

**2.11 Leases**

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

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

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance costs is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

**2.12 Inventories**

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

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

**2.13 Trade receivables, deposits and loans**

Trade receivables are amounts due from customers for services performed in the ordinary course of business. Deposits are amounts held with banks with original maturities over three months. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

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

**2.14 Cash and cash equivalents**

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

**2.15 Share capital**

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

**2.16 Borrowings**

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

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

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

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

**2.17 Trade payables**

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

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

**2.18 Current and deferred income tax**

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

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

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

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

**2.19 Employee benefits**

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

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

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

**2.19 Employee benefits (continued)**

*(b) Termination benefits*

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

*(c) Short-term employee benefits*

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

**2.20 Provisions**

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

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

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

**2.21 Revenue recognition**

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

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

*(a) Sales of services*

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

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

**2.21 Revenue recognition (continued)**

*(b) Rental services*

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

*(c) Interest income*

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

*(d) Dividend income*

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

**2.22 Dividend distribution**

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

**2.23 Earnings per share**

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

**2.24 Value added tax**

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

**2.25 Merger of entities under common control**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 3 – FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

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

The accounting policies are applied to financial instruments as follows:

| <i>(in thousands of HRK)</i>                | Loans and<br>receivables | Financial<br>assets at fair<br>value through<br>profit or loss | Available-for-<br>sale financial<br>assets | Total          |
|---|--------------------------|--|--|----------------|
| <b>31 December 2014</b>                     |                          |  |  |                |
| <b>Assets at the balance sheet date</b>     |                          |  |  |                |
| Investments in shares of domestic companies | -                        | 1,579  | 6,318                                      | 7,897          |
| Trade and other receivables                 | 12,682                   | -  | -  | 12,682         |
| Deposits with banks and loans given         | 178,054                  | -  | -  | 178,054        |
| Investments in investment funds             | -                        | 11,765   | -  | 11,765         |
| Cash and cash equivalents                   | 12,104                   | -  | -  | 12,104         |
| <b>Total</b>                                | <b>202,840</b>           | <b>13,344</b>  | <b>6,318</b>                               | <b>222,502</b> |
| <b>31 December 2013</b>                     |                          |  |  |                |
| <b>Assets at the balance sheet date</b>     |                          |  |  |                |
| Investments in shares of domestic companies | -                        | 100  | 6,821                                      | 6,921          |
| Trade and other receivables                 | 10,072                   | -  | -  | 10,072         |
| Deposits and loans given                    | 217,546                  | -  | -  | 217,546        |
| Cash and cash equivalents                   | 3,971                    | -  | -  | 3,971          |
| <b>Total</b>                                | <b>231,589</b>           | <b>100</b>   | <b>6,821</b>                               | <b>238,510</b> |

|  | <u>2014</u>      | <u>2013</u>   |
|--|------------------|---------------|
| <i>(in thousands of HRK)</i>                                     |                  |               |
| <b>Liabilities at the balance sheet date – at amortised cost</b> |                  |               |
| Trade and other payables   | 70,099           | 45,820        |
| Borrowings   | 1,207,288        | 47,374        |
|  | <b>1,277,387</b> | <b>93,194</b> |
| <b>Liabilities at the balance sheet date – at fair value</b>     |                  |               |
| Derivative financial instruments                                 | 9,062            | -             |
|  | <b>9,062</b>     | <b>-</b>      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

## 3.1 Financial risk factors (continued)

## (a) Market risk

## (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro (EUR), and after acquiring the company Istraturist Umag d.d., with respect to the Swiss franc (CHF), which was offset by contracting a EURCHF currency interest rate swap. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

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

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

| <b>2014</b>   | <b>EUR</b>     | <b>HRK</b>     | <b>CHF</b>     | <b>Other</b> | <b>Total</b>     |
|---|----------------|----------------|----------------|--------------|------------------|
| <b>Financial assets</b>                               |                |                |                |              |                  |
| Trade and other receivables                           | 8,504          | 4,178          | -              | -            | 12,682           |
| Loans and deposits given                              | 177,950        |                | -              | -            | 177,950          |
| Available-for-sale financial assets                   |                | 6,318          | -              |              | 6,318            |
| Financial assets at fair value through profit or loss |                | 13,344         | -              | -            | 13,344           |
| Cash and cash equivalents                             | 6,452          | 5,540          | -              | 112          | 12,104           |
|   | <b>192,906</b> | <b>29,380</b>  | <b>-</b>       | <b>112</b>   | <b>222,398</b>   |
| <b>Financial liabilities – at amortised cost</b>      |                |                |                |              |                  |
| Borrowings  | 979,977        | 42,000         | 185,311        | -            | 1,207,288        |
| Trade and other payables                              | 1,753          | 68,346         | -              | -            | 70,099           |
|   | <b>981,730</b> | <b>110,346</b> | <b>185,311</b> | <b>-</b>     | <b>1,277,387</b> |
| <b>2013</b>   |                |                |                |              |                  |
| <b>Financial assets</b>                               |                |                |                |              |                  |
| Trade and other receivables                           | 8,591          | 1,481          | -              | -            | 10,072           |
| Loans and deposits given                              | 217,532        | 14             | -              | -            | 217,546          |
| Available-for-sale financial assets                   | -              | 6,821          | -              | -            | 6,821            |
| Financial assets at fair value through profit or loss | -              | 100            | -              | -            | 100              |
| Cash and cash equivalents                             | 2,713          | 709            | -              | 549          | 3,971            |
|   | <b>228,836</b> | <b>9,125</b>   | <b>-</b>       | <b>549</b>   | <b>238,510</b>   |
| <b>Financial liabilities – at amortised cost</b>      |                |                |                |              |                  |
| Borrowings  | 43,312         | 4,062          | -              | -            | 47,374           |
| Trade and other payables                              | 268            | 45,552         | -              | -            | 45,820           |
|   | <b>43,580</b>  | <b>49,614</b>  | <b>-</b>       | <b>-</b>     | <b>93,194</b>    |



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

**3.1 Financial risk factors (continued)**

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 7,793 thousand (2013: HRK 1,482 thousand) higher/lower, mainly as a result of foreign exchange (losses)/gains on translation of EURO-denominated trade and deposit and loan receivables, trade payables, borrowings and foreign cash funds, including borrowing in CHF for which a EURCHF currency interest rate swap was agreed.

For the purpose of managing foreign exchange risk, as at 30 October 2014 a EURCHF currency interest rate swap was agreed on the remaining unpaid borrowing principal of the UniCredit Group initially contracted in CHF at an interest rate of CHF 3m LIBOR + 1.5% k.m. where the 3m LIBOR is fixed at 1.78%. Thereby, initially contracted cash flows in CHF are changed into cash flows in EUR at a fixed interest rate of 4.7% until the borrowing expires (in 2017).

(ii) Cash flow and fair value interest rate risk

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

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

For the purpose of managing interest rate risk at the balance sheet date, the derivative cash flow hedging instrument IRSwap - interest rate swap - is active. This was used to exchange the variable interest rate 3M Libor for CHF with the fixed interest rate of 1.78% per annum for the entire borrowing term, i.e. until 2017. Also, the EURCHF currency interest rate swap is active in accordance with the above-mentioned conditions

At 31 December 2014, if interest rates on borrowings had been 1% (2013: 1%) higher/lower, with all other variables held constant, the profit after tax for the year would have been HRK 5,091 thousand lower /higher (2013: the profit after tax would have been HRK 119 thousand lower /higher); as a result of higher/lower interest expense on borrowings.

(iii) Equity securities risk

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

As at 31 December 2014 and 2013, if equity prices on the stated stock exchange had been lower/higher by 3.10% (which was the average index movement at the ZSE), with all other variables held constant and under the assumption all the Group's equity instruments moved according to the historical correlation with the index, reserves within equity and other comprehensive income would have been HRK 190 thousand (2013: HRK 144 thousand) lower/higher, and the profit for the period would have been lower/higher by HRK 330 thousand (2013: HRK 3 thousand) as a result of losses/gains on available-for-sale financial assets and financial assets at fair value through profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

## 3.1 Financial risk factors (continued)

## b) Credit risk

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

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

|                             | <b>2014</b>                  | <b>2013</b>    |
|-----------------------------|------------------------------|----------------|
|                             | <i>(in thousands of HRK)</i> |                |
| Trade and other receivables | 12,682                       | 10,072         |
| Deposits and loans given    | 178,054                      | 217,546        |
| Cash and cash equivalents   | 12,104                       | 3,971          |
| <b>Total</b>                | <b>202,840</b>               | <b>231,589</b> |

The credit quality of financial assets:

|                               | <b>2014</b>                  | <b>2013</b>    |
|-------------------------------|------------------------------|----------------|
|                               | <i>(in thousands of HRK)</i> |                |
| Neither past due nor impaired | 199,390                      | 223,942        |
| Past due but not impaired     | 3,450                        | 7,647          |
| Impaired                      | 3,587                        | 1,745          |
| Impairment                    | (3,587)                      | (1,745)        |
|                               | <b>202,840</b>               | <b>231,589</b> |

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

|                             | <b>2014</b>                  | <b>2013</b>    |
|-----------------------------|------------------------------|----------------|
|                             | <i>(in thousands of HRK)</i> |                |
| Trade and other receivables | 9,232                        | 2,439          |
| Deposits and loans given    |                              |                |
| - Financial institutions    | 177,914                      | 217,532        |
| - Other                     | 140                          | -              |
|                             | 178,054                      | 217,532        |
| Cash at bank                | 12,104                       | 3,971          |
|                             | <b>199,390</b>               | <b>223,942</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

## 3.1 Financial risk factors (continued)

Past due but not impaired receivables relate to trade receivables. The ageing analysis of these receivables is as follows:

|                            | <u>2014</u>                  | <u>2013</u>  |
|----------------------------|------------------------------|--------------|
|                            | <i>(in thousands of HRK)</i> |              |
| Up to 1 month              | 781                          | 249          |
| 1 to 2 months              | 486                          | 1,415        |
| 2 to 3 months              | 261                          | 179          |
| Over 3 months up to 1 year | 1,922                        | 5,804        |
|                            | <u>3,450</u>                 | <u>7,647</u> |

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

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

Receivables are mainly secured by advances received and mortgages over property. Impaired receivables relate to trade receivables in the amount of HRK 3,587 thousand (2013: HRK 1,745 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.

*(c) Liquidity risk*

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

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

| <i>In thousands of HRK</i> | <u>Up to 1 year</u> | <u>1-5<br/>years</u> | <u>Over 5<br/>years</u> | <u>Total</u>     |
|----------------------------|---------------------|----------------------|-------------------------|------------------|
| <b>At 31 December 2014</b> |                     |                      |                         |                  |
| Trade and other payables   | 70,099              | -                    | -                       | 70,099           |
| Borrowings                 | 133,103             | 747,805              | 617,903                 | 1,498,811        |
| <b>Total liabilities</b>   | <b>203,202</b>      | <b>747,805</b>       | <b>617,903</b>          | <b>1,568,910</b> |
| <b>At 31 December 2013</b> |                     |                      |                         |                  |
| Trade and other payables   | 45,820              | -                    | -                       | 45,820           |
| Borrowings                 | 15,079              | 35,494               | -                       | 50,573           |
| <b>Total liabilities</b>   | <b>60,899</b>       | <b>35,494</b>        | <b>-</b>                | <b>96,393</b>    |

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

**3.2 Capital management**

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

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

**3.3 Fair value estimation**

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

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

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

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

*Fair value hierarchy*

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- 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).

At 31 December 2014, assets measured at fair value in the amount of HRK 19,442 thousand (2013: HRK 5,904 thousand) were included in level 1, and liabilities measured at fair value in the amount of HRK 9,062 thousand in level 2 (2013: -).

Available-for-sale investment securities in the amount of HRK 120 thousand (2013: HRK 120 thousand) are unlisted and carried at cost or according to the latest available price parameters for shares delisted from a regulated market. All available-for-sale financial assets are denominated in HRK.

**NOTE 4 – CRITICAL ACCOUNTING ESTIMATES**

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

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

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

Based on historical information, and in line with the technical department, the useful life of buildings was assessed by Management to be 10-35 years. The useful lives of equipment and other assets have also been assessed as disclosed in Note 2.5.

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

If the useful lives of property, plant and equipment had been 10% longer, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 7,725 thousand higher (2013: HRK 9,202 thousand higher), not taking into account the assets of the subsidiary at 31 December 2014, since the effect is immaterial because it was acquired at the end of November 2014.

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 9422 thousand lower (2013: HRK 11,247 thousand lower), not taking into account the assets of the subsidiary at 31 December 2014, since the effect is immaterial because it was acquired at the end of November 2014.

*(b) Land ownership*

The problems with respect to land ownership are common in other tourist companies in the Republic of Croatia. On 1 August 2010, the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures for submitting requests for concessions and other prescribed requests. In the period since the adoption of legal regulations, in the procedures initiated, and in line with requirements of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land etc. Until 31 December 2014, the Company settled all liabilities arising from the invoices received, issued by competent authorities on the basis of the Ordinance provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 5 – SEGMENT INFORMATION

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

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

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

| <i>(in thousands of HRK)</i>                   | <b>Hotels &amp;<br/>apartments</b> | <b>Campsites</b> | <b>Other business<br/>segments</b> | <b>Total</b>     |
|--|------------------------------------|------------------|------------------------------------|------------------|
| Total sales                                    | 368,638                            | 100,497          | 40,695                             | 509,830          |
| Inter-segment revenue                          | (1,486)                            |                  | (25,164)                           | (26,650)         |
| Revenue from external customers                | 367,152                            | 100,497          | 15,531                             | 483,180          |
| <b>EBITDA</b>                                  | <b>125,106</b>                     | <b>56,545</b>    | <b>3,924</b>                       | <b>185,575</b>   |
| Depreciation and amortisation (Note 13 and 14) | 87,839                             | 13,926           | 10,264                             | 112,029          |
| Income tax expense                             |                                    |                  |                                    | <b>2,321</b>     |
| Share in profit in the associate               |                                    |                  |                                    | <b>12,363</b>    |
| <b>Total assets</b>                            | <b>1,868,246</b>                   | <b>354,298</b>   | <b>162,588</b>                     | <b>2,385,132</b> |
| <b>Investment in associate</b>                 |                                    |                  |                                    | <b>203,094</b>   |
| <b>Total liabilities</b>                       | <b>11,690</b>                      | <b>2,385</b>     | <b>2,099</b>                       | <b>16,174</b>    |

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

| <i>(in thousands of HRK)</i>                   | <b>Hotels &amp;<br/>apartments</b> | <b>Campsites</b> | <b>Other business<br/>segments</b> | <b>Total</b>     |
|--|------------------------------------|------------------|------------------------------------|------------------|
| Total sales                                    | 466,189                            | 101,880          | 40,845                             | 608,914          |
| Inter-segment revenue                          | (497)                              |                  | (25,783)                           | (26,280)         |
| Revenue from external customers                | 465,692                            | 101,880          | 15,062                             | 582,634          |
| <b>EBITDA</b>                                  | <b>168,510</b>                     | <b>59,046</b>    | <b>11,531</b>                      | <b>239,087</b>   |
| Depreciation and amortisation (Note 13 and 14) | 104,143                            | 12,979           | 9,877                              | 126,999          |
| Income tax expense                             |                                    |                  |                                    | <b>1,814</b>     |
| Share in profit in the associate               |                                    |                  |                                    | <b>3</b>         |
| <b>Total assets</b>                            | <b>1,161,807</b>                   | <b>161,966</b>   | <b>69,805</b>                      | <b>1,393,578</b> |
| <b>Investment in associate</b>                 | <b>-</b>                           | <b>-</b>         | <b>-</b>                           | <b>1,490</b>     |
| <b>Total liabilities</b>                       | <b>71,172</b>                      | <b>1,940</b>     | <b>1,820</b>                       | <b>74,932</b>    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 5 – SEGMENT INFORMATION (continued)

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

|  | 2014                         | 2013           |
|--|------------------------------|----------------|
|  | <i>(in thousands of HRK)</i> |                |
| EBITDA by segments   | 181,651                      | 227,556        |
| EBITDA by other segments                                     | 3,924                        | 11,531         |
| <b>Total segments</b>  | <b>185,575</b>               | <b>239,087</b> |
| Depreciation and amortisation                                | (112,029)                    | (126,999)      |
| Share in profit in the associate                             | 12,363                       | 3              |
| Interest income  | 26                           | 13             |
| Dividend income  | 398                          | 382            |
| Other expenses   | (643)                        | -              |
| Net other income (expenses)                                  | (1,405)                      | 3,311          |
| Net foreign exchange gains – other                           | 91                           | 1,337          |
| Impairment of non-current financial assets/ loan receivables | (20)                         | (257)          |
| Gain on sale of available-for-sale financial assets          | 255                          | (26)           |
| Finance income – net   | 3,542                        | 5,421          |
| <b>Profit before tax</b>                                     | <b>88,153</b>                | <b>122,272</b> |

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

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

| <i>(in thousands of HRK)</i>                          | 2014             |                  | 2013             |                |
|---|------------------|------------------|------------------|----------------|
|   | Assets           | Liabilities      | Assets           | Liabilities    |
| Segment assets/liabilities                            | 2,222,544        | 14,075           | 1,323,773        | 73,112         |
| Other segment assets/liabilities                      | 162,588          | 2,099            | 69,805           | 1,820          |
| Unallocated:  | 545,412          | 1,331,912        | 280,984          | 67,464         |
| Available-for-sale financial assets                   | 6,318            |                  | 6,821            | -              |
| Loans and deposits                                    | 177,950          |                  | 217,546          | -              |
| Financial assets at fair value through profit or loss | 13,344           |                  | 100              |                |
| Cash and cash equivalents                             | 12,104           |                  | 3,971            |                |
| Share in associate                                    | 203,095          |                  | 1,490            | -              |
| Other receivables                                     | 132,601          |                  | 51,056           | -              |
| Provisions  |                  | 3,021            | -                | 2,000          |
| Derivative financial instruments                      |                  | 9,062            |                  |                |
| Borrowings  |                  | 1,207,288        |                  |                |
| Income tax payable                                    |                  |                  | -                | 1,814          |
| Other liabilities                                     |                  | 112,541          | -                | 63,650         |
| <b>Total</b>  | <b>2,930,544</b> | <b>1,348,086</b> | <b>1,674,562</b> | <b>142,396</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 5 – SEGMENT INFORMATION (continued)

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

|                          | <u>2014</u>                  | <u>2013</u>           |
|--------------------------|------------------------------|-----------------------|
|                          | <i>(in thousands of HRK)</i> |                       |
| <b>Sale of services:</b> |                              |                       |
| Domestic sales           | 79,439                       | 77,315                |
| Foreign sales            | 403,741                      | 505,319               |
|                          | <u><b>483,180</b></u>        | <u><b>582,634</b></u> |

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

| <b>Foreign sales</b> | <u>2014</u>           | <u>%</u>             | <u>2013</u>           | <u>%</u>             |
|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| Germany              | 108,360               | 26.84                | 114,389               | 22.64                |
| Austria              | 56,279                | 13.94                | 54,315                | 10.74                |
| Russia               | 55,927                | 13.85                | 75,123                | 14.87                |
| Slovenia             | 32,254                | 7.99                 | 30,041                | 5.94                 |
| Italy                | 31,763                | 7.87                 | 28,018                | 5.55                 |
| Netherlands          | 27,516                | 6.82                 | 30,463                | 6.03                 |
| Czech Republic       | 21,526                | 5.33                 | 20,375                | 4.03                 |
| Great Britain        | 8,405                 | 2.08                 | 43,460                | 8.60                 |
| Other                | 61,711                | 15.28                | 109,135               | 21.60                |
|                      | <u><b>403,741</b></u> | <u><b>100.00</b></u> | <u><b>505,319</b></u> | <u><b>100.00</b></u> |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 6 – COST OF MATERIALS AND SERVICES

|  | <b>2014</b>                  | <b>2013</b>    |
|--|------------------------------|----------------|
|  | <i>(in thousands of HRK)</i> |                |
| <b>Raw materials and supplies</b>              |                              |                |
| Cost of raw materials and supplies             | 43,664                       | 54,113         |
| Energy consumed and water cost                 | 34,352                       | 37,993         |
| Costs of small inventories                     | 2,558                        | 5,210          |
|  | <u>80,574</u>                | <u>97,316</u>  |
| <b>External services</b>                       |                              |                |
| Maintenance                                    | 19,379                       | 21,676         |
| Laundry and cleaning services                  | 10,048                       | 10,079         |
| Entertainment and animation                    | 6,169                        | 6,327          |
| Telecommunication and other transport services | 1,983                        | 1,959          |
| Advertising and promotion                      | 5,743                        | 6,266          |
| Municipal services                             | 4,456                        | 4,678          |
| Rental costs (Note 25)                         | 1,104                        | 1,487          |
| Other services – related companies (Note 27)   | -                            | 10,627         |
| Other services                                 | 6,094                        | 5,441          |
|  | <u>54,976</u>                | <u>68,540</u>  |
|  | <b>135,550</b>               | <b>165,856</b> |

## NOTE 7 – STAFF COSTS

|   | <b>2014</b>                  | <b>2013</b>    |
|---|------------------------------|----------------|
|   | <i>(in thousands of HRK)</i> |                |
| Salaries                                  | 67,577                       | 77,684         |
| Pension contributions                     | 19,513                       | 22,069         |
| Health insurance contributions            | 14,974                       | 14,943         |
| Other contributions and taxes on salaries | 12,881                       | 14,097         |
| Termination benefits                      | -                            | 257            |
| Other staff costs /i/                     | 10,247                       | 9,815          |
|   | <u>125,192</u>               | <u>138,865</u> |
| Number of employees as at 31 December     | <u>1,416</u>                 | <u>1,011</u>   |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 8 – OTHER OPERATING EXPENSES

|   | <u>2014</u>                  | <u>2013</u>   |
|---|------------------------------|---------------|
|   | <i>(in thousands of HRK)</i> |               |
| Municipal and similar charges and contributions         | 21,520                       | 21,639        |
| Professional services                                   | 6,663                        | 4,419         |
| Provision for impairment of trade and other receivables | 423                          | 562           |
| Collection of receivables previously written-off        | (323)                        | (351)         |
| Compensation of damages                                 | 1,673                        | -             |
| Bank charges  | 1,609                        | 1,953         |
| Insurance premiums                                      | 2,449                        | 2,929         |
| Travel and entertainment                                | 831                          | 763           |
| Expenses arising from reviews of state bodies /i/       | 3,227                        | -             |
| Impairment charge for property, plant and equipment     | 124                          | 40            |
| Other   | 3,621                        | 5,413         |
|   | <u>41,817</u>                | <u>37,367</u> |

/i/ During 2014, the governing state bodies 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

|   | <u>2014</u>                  | <u>2013</u>    |
|---|------------------------------|----------------|
|   | <i>(in thousands of HRK)</i> |                |
| <b>Finance income</b>                             |                              |                |
| Interest income from cash deposits                | 4,766                        | 5,227          |
| Other finance income                              | 225                          | 297            |
| Net change in fair value of financial liabilities | 440                          | -              |
| Net foreign exchange gains                        | 3,763                        | 3,439          |
|   | <u>9,194</u>                 | <u>8,963</u>   |
| <b>Finance costs</b>                              |                              |                |
| Interest and commission expense                   | (5,559)                      | (3,338)        |
| Net change in fair value of financial assets      | (93)                         | -              |
| Net foreign exchange losses                       | -                            | (204)          |
|   | <u>(5,652)</u>               | <u>(3,542)</u> |
| <b>Finance income – net</b>                       | <u>3,542</u>                 | <u>5,421</u>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 10 – INCOME TAX

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

|  | <u>2014</u>                  | <u>2013</u>    |
|--|------------------------------|----------------|
|  | <i>(in thousands of HRK)</i> |                |
| <b>Profit before taxation</b>                            | <b>88,153</b>                | <b>122,272</b> |
| Tax calculated at 20%                                    | 17,631                       | 24,453         |
| Effect of income not subject to tax                      | (565)                        | (1,103)        |
| Effect of reinvested profit /i/                          | (16,827)                     | (16,389)       |
| Effect of expenses not deductible for tax purposes       | 2,085                        | 1,666          |
| Effect of utilisation of tax losses carried forward /ii/ | (3)                          | (6,049)        |
| Tax benefits for areas under special state care /iii/    | -                            | (764)          |
|  | <u>2,321</u>                 | <u>1,814</u>   |
| <b>Income tax charge</b>                                 | <b>2,321</b>                 | <b>1,814</b>   |
| Income tax prepayment                                    | (22,603)                     | (21,525)       |
| Income tax receivable                                    | 20,282                       | 19,711         |
| Effective tax rate                                       | 2.63%                        | 1.48%          |

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

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

/iii/ In 2013, the former subsidiary Hoteli Croatia d.d (merged to the company Jadranski luksuzni hoteli d.d as of 1 January 2014 ) utilised the last tax benefit of EUR 100 thousand, or HRK 764 thousand in line with the Law on Areas under Special State Care.

In accordance with local regulations, the Tax Authority may at any time inspect the Group companies' books and records within 3 years subsequent to the year in which the tax liability is reported, and may impose additional tax assessments and penalties. To date, the Tax Authority carried out a full scope tax audit of the Company's income tax and VAT returns for 2003, 2004, 2005, 2008 and 2013. Currently there is no outstanding tax liability.

During 2014, a review was performed of the parent company's income tax and VAT returns. 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.

In 2013, the subsidiary Istraturist Umag d.d. received a certificate on utilising tax incentives in line with the Act on Investment Promotion and Enhancement of the Investment Environment in the total amount of HRK 65,119 thousand. The utilised incentive as the reporting date is HRK 24,623 thousand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 11 – EARNINGS PER SHARE

**Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares (ordinary and preference) in issue during the year excluding ordinary and preference shares purchased by the Company and held as treasury shares (Note 22).

|  | <b>2014</b>                  |                            |               |
|--|------------------------------|----------------------------|---------------|
|  | <i>(in thousands of HRK)</i> |                            |               |
|  | <b>Preference<br/>shares</b> | <b>Ordinary<br/>shares</b> | <b>Total</b>  |
| Dividends declared and paid in the year                                  | 105                          | -                          | 105           |
| Undistributed earnings   | 14,190                       | 72,593                     | 86,783        |
| <b>Profit for the year attributable to equity holders of the Company</b> | <b>14,295</b>                | <b>72,593</b>              | <b>86,888</b> |
| Weighted average number of shares excluding own shares                   | 105,000                      | 537,176                    |               |
| Distributed earnings   | 1.00                         | -                          |               |
| Undistributed earnings   | 135.14                       | 135.14                     |               |
| <b>Basic earnings per share (in HRK)</b>                                 | <b>136.14</b>                | <b>135.14</b>              |               |

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

**Diluted**

Diluted earnings per share for 2014 and 2013 are equal to basic earnings per share, since the Group did not have any convertible instruments and share options outstanding during both 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 5,522 thousand) are disclosed as dividends payable in “trade and other payables” (Note 24).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

| <i>(in thousands of HRK)</i>             | <b>Land and buildings</b> | <b>Plant and equipment</b> | <b>Other assets</b> | <b>Assets under construction</b> | <b>Total</b>     |
|--|---------------------------|----------------------------|---------------------|----------------------------------|------------------|
| <b>Year ended 31 December 2013</b>       |                           |                            |                     |                                  |                  |
| Opening net book amount                  | 1,360,031                 | 58,951                     | 6,297               | 3,022                            | 1,428,301        |
| Additions                                | 34,956                    | 15,739                     | 866                 | (194)                            | 51,367           |
| Effect of merger (Note 28)               | 50,394                    | 2,162                      | 263                 | -                                | 52,819           |
| Transfer                                 | (968)                     | 968                        | -                   | -                                | -                |
| Decrease                                 | -                         | (40)                       | (151)               | (257)                            | (448)            |
| Disposal and impairment                  | -                         | (205)                      | -                   | -                                | (205)            |
| Depreciation                             | (105,583)                 | (18,973)                   | (1,972)             | -                                | (126,528)        |
| Closing net book amount                  | 1,338,830                 | 58,602                     | 5,303               | 2,571                            | 1,405,306        |
| <b>At 31 December 2013</b>               |                           |                            |                     |                                  |                  |
| Cost                                     | 2,747,375                 | 362,850                    | 34,375              | 2,571                            | 3,147,171        |
| Accumulated depreciation and impairments | (1,408,545)               | (304,248)                  | (29,072)            | -                                | (1,741,865)      |
| <b>Net book amount</b>                   | <b>1,338,830</b>          | <b>58,602</b>              | <b>5,303</b>        | <b>2,571</b>                     | <b>1,405,306</b> |
| <b>Year ended 31 December 2014</b>       |                           |                            |                     |                                  |                  |
| Opening net book amount                  | 1,338,830                 | 58,602                     | 5,303               | 2,571                            | 1,405,306        |
| Effect of shares swap (Note 28)          | (300,688)                 | (8,458)                    | -                   | (47)                             | (309,193)        |
| Effect of acquisition (Note 28)          | 1,323,231                 | 84,647                     | -                   | 1,674                            | 1,409,552        |
| Additions                                | 55,049                    | 12,461                     | 1,640               | (1,541)                          | 67,609           |
| Transfer                                 | 2,450                     | (2,450)                    | -                   | -                                | -                |
| Disposal and impairment                  | (99)                      | (512)                      | -                   | -                                | (611)            |
| Depreciation                             | (92,883)                  | (17,006)                   | (1,727)             | -                                | (111,616)        |
| Closing net book amount                  | 2,325,890                 | 127,284                    | 5,216               | 2,657                            | 2,461,047        |
| <b>At 31 December 2014</b>               |                           |                            |                     |                                  |                  |
| Cost                                     | 4,298,801                 | 576,979                    | 34,832              | 2,657                            | 4,913,269        |
| Accumulated depreciation and impairments | (1,972,911)               | (449,695)                  | (29,616)            | -                                | (2,452,222)      |
| <b>Net book amount</b>                   | <b>2,325,890</b>          | <b>127,284</b>             | <b>5,216</b>        | <b>2,657</b>                     | <b>2,461,047</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

As at 31 December 2014 the net carrying value of land and buildings pledged by the Group as collateral for repayment of long-term borrowings amounted to HRK 957,576 thousand (2013: HRK 295,586 thousand).

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

|                                       | <u>2014</u>                  | <u>2013</u>          |
|---------------------------------------|------------------------------|----------------------|
|                                       | <i>(in thousands of HRK)</i> |                      |
| Cost                                  | 150,000                      | 111,298              |
| Accumulated depreciation at 1 January | (90,305)                     | (71,373)             |
| Depreciation charge for the year      | (9,179)                      | (3,725)              |
| <b>Net book amount</b>                | <b><u>50,516</u></b>         | <b><u>36,200</u></b> |

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

During 2014, the Group realised rental income in the amount of HRK 23,907 thousand (2013: HRK 22,974 thousand). During the year, there were no direct operating expenses arising from the use of these assets except for the depreciation charge.

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

|                   | <u>2014</u>                  | <u>2013</u>          |
|-------------------|------------------------------|----------------------|
|                   | <i>(in thousands of HRK)</i> |                      |
| Up to 1 year      | 26,381                       | 19,922               |
| From 2 to 5 years | 76,604                       | 78,056               |
| Over 5 years      | 99                           | -                    |
|                   | <b><u>103,084</u></b>        | <b><u>97,978</u></b> |

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

## NOTE 16 – INTANGIBLE ASSETS

*(in thousands of HRK)*

|                                    | <u>Software</u> |
|------------------------------------|-----------------|
| <b>Year ended 31 December 2013</b> |                 |
| Opening net book amount            | 841             |
| Effect of merger (Note 28)         | 182             |
| Additions                          | 507             |
| Impairment                         | (6)             |
| Amortisation                       | (471)           |
| Closing net book amount            | 1,053           |
| <b>At 31 December 2013</b>         |                 |
| Cost                               | 13,090          |
| Accumulated amortisation           | (12,037)        |
| <b>Net book amount</b>             | <b>1,053</b>    |
| <b>Year ended 31 December 2014</b> |                 |
| Opening net book amount            | <b>1,053</b>    |
| Effect of acquisition (Note 28)    | 7,024           |
| Effect of shares swap (Note 28)    | (276)           |
| Additions                          | 2,913           |
| Amortisation                       | (413)           |
| Closing net book amount            | <b>10,301</b>   |
| <b>At 31 December 2014</b>         |                 |
| Cost                               | 26,711          |
| Accumulated amortisation           | (16,410)        |
| <b>Net book amount</b>             | <b>10,301</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 15 – INVESTMENTS IN ASSOCIATE

|                                     | <u>2014</u>                  | <u>2013</u>  |
|-------------------------------------|------------------------------|--------------|
|                                     | <i>(in thousands of HRK)</i> |              |
| At beginning of year                | 1,490                        | 1,487        |
| Effect of share exchange (Note 28): |                              |              |
| - Increase                          | 190,712                      | -            |
| - Decrease                          | (1,470)                      | -            |
| Net gains in associate              | 12,363                       | 3            |
| At end of year                      | <u>203,095</u>               | <u>1,490</u> |

The unlisted associate is the following:

*(in thousands of HRK)*

**2014**

| <u>Name</u>                                  | <u>Assets</u> | <u>Liabilities</u> | <u>Revenue<br/>/i/</u> | <u>Profit</u> | <u>% share in<br/>ownership</u> |
|--|---------------|--------------------|------------------------|---------------|---------------------------------|
| Jadranski luksuzni hoteli<br>d.d., Dubrovnik | 1,295,562     | 708,475            | 388,536                | 38,064        | 32.48                           |

**2013**

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

Based on the merger agreement, the General Assembly decisions and the Decision of the Commercial Court of 31 May 2013, the associate and other companies under common control merged with the company Jadranski luksuzni hoteli d.d., Dubrovnik. As a result of the merger of the associate, the shares of the company Jadranski luksuzni hoteli d.d., Dubrovnik were exchanged for the shares of the merged company. The number of shares owned by the Group was 1,608 or 0,003039% 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 (Note 28).

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 16 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                    | <u>Ownership</u> | <u>2014</u>                  | <u>2013</u>  |
|------------------------------------|------------------|------------------------------|--------------|
|                                    |                  | <i>(in thousands of HRK)</i> |              |
| Investments in credit institutions | 3.63%            | 4,936                        | 5,378        |
| Investments in companies           | /i/              | 1,382                        | 1,443        |
|                                    |                  | <b>6,318</b>                 | <b>6,821</b> |

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

|                            | <u>2014</u>                  | <u>2013</u>  |
|----------------------------|------------------------------|--------------|
|                            | <i>(in thousands of HRK)</i> |              |
| At beginning of year       | 6,821                        | 6,839        |
| Effect of merger (Note 28) | -                            | 150          |
| Impairment                 | -                            | (150)        |
| Effect of sale             | (432)                        | -            |
| Revaluation losses         | (71)                         | (19)         |
| <b>At end of year</b>      | <b>6,318</b>                 | <b>6,821</b> |

Available-for-sale investments are as follows:

|                       | <u>2014</u>                  | <u>2013</u>  |
|-----------------------|------------------------------|--------------|
|                       | <i>(in thousands of HRK)</i> |              |
| Equity securities     |                              |              |
| - listed              | 6,198                        | 5,804        |
| Equity securities     |                              |              |
| - unlisted            | 120                          | 1,017        |
| <b>At end of year</b> | <b>6,318</b>                 | <b>6,821</b> |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 17 – TRADE AND OTHER RECEIVABLES

|  | <b>2014</b>                  | <b>2013</b>   |
|--|------------------------------|---------------|
|  | <i>(in thousands of HRK)</i> |               |
| Domestic trade receivables   | 6,170                        | 2,556         |
| Trade receivables-related parties (Note 27)  | -                            | 202           |
| Foreign trade receivables  | 2,273                        | 6,807         |
| Due from brokers – agencies  | 23                           | 123           |
| Provision for impairment of trade receivables  | (3,587)                      | (1,745)       |
| Trade receivables – net  | 4,879                        | 7,943         |
| Receivables arising from purchase agreement on the acquisition of subsidiary (Note 28) /i/ | 6,918                        | -             |
| Interest receivable  | 39                           | 11            |
| Accrued income not yet invoiced  | 846                          | 2,118         |
| <i>Total financial assets</i>  | 12,682                       | 10,072        |
| Due from state institutions  | 2,473                        | 2,348         |
| VAT receivable   | 2,558                        | 3,093         |
| Advances to suppliers  | 1,905                        | 1,035         |
| Other receivables  | 2,862                        | 619           |
| Provision for impairment of other receivables  | (3,972)                      | (2,193)       |
|  | <b>18,508</b>                | <b>14,974</b> |

Movements in provisions for impairment of trade and other receivables.

|                       | <b>2014</b>                  | <b>2013</b>  |
|-----------------------|------------------------------|--------------|
|                       | <i>(in thousands of HRK)</i> |              |
| At 1 January          | 3,938                        | 3,768        |
| Additions             | 423                          | 562          |
| Effect of acquisition | 3,697                        | -            |
| Effect of shares swap | (172)                        | -            |
| Collection            | (222)                        | (351)        |
| Write-off             | (105)                        | (41)         |
| At 31 December        | <b>7,559</b>                 | <b>3,938</b> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 18 – DEPOSITS AND LOANS RECEIVABLE

|                                    | <u>2014</u>                  | <u>2013</u>           |
|------------------------------------|------------------------------|-----------------------|
|                                    | <i>(in thousands of HRK)</i> |                       |
| Loans receivable – current portion | 36                           | -                     |
| Deposits with banks                | <u>177,914</u>               | <u>217,546</u>        |
|                                    | <u><b>177,950</b></u>        | <u><b>217,546</b></u> |

The deposits are placed at an interest rate of 1.1% - 2.3% (2013: 1.9% - 3.5%). Loans are approved by the subsidiary to employees at an interest rate from 1% - 4% for the purchase of apartments and education for a period of 2-5 years at an interest rate of 4%.

NOTE 19 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

|                      | <u>2014</u>                  | <u>2013</u>       |
|----------------------|------------------------------|-------------------|
|                      | <i>(in thousands of HRK)</i> |                   |
| Shares and interests | 1,579                        | 100               |
| Investment funds     | <u>11,765</u>                | <u>-</u>          |
|                      | <u><b>13,344</b></u>         | <u><b>100</b></u> |

NOTE 20 – CASH AND CASH EQUIVALENTS

|                                     | <u>2014</u>                  | <u>2013</u>         |
|-------------------------------------|------------------------------|---------------------|
|                                     | <i>(in thousands of HRK)</i> |                     |
| Giro and current accounts           | 5,375                        | 707                 |
| Foreign currency accounts           | 6,469                        | 2,743               |
| Cash in hand                        | 198                          | 5                   |
| Time deposits – interest receivable | <u>62</u>                    | <u>516</u>          |
|                                     | <u><b>12,104</b></u>         | <u><b>3,971</b></u> |

The interest rate for cash on giro and current accounts is set at 0.2-0.4% (2013: 0.15-0.50%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 21 – SHAREHOLDERS' EQUITY

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

| Shareholder                                | Total number<br>of shares | Total amount<br>(HRK) | Interest in<br>share capital<br>% |
|--|---------------------------|-----------------------|-----------------------------------|
| <b>Ownership of ordinary shares:</b>       |                           |                       |                                   |
| 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                             |
|  | <b>546,318</b>            | <b>1,158,194,160</b>  | <b>100.00</b>                     |
| <b>Ownership of preference shares:</b>     |                           |                       |                                   |
| Sutivan Investments Anstalt, Liechtenstein | 105,000                   | 105,000,000           | 100.00                            |
| Total                                      | <b>651,318</b>            | <b>1,263,194,160</b>  |                                   |

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

| Shareholder                                | Total number<br>of shares | Total amount<br>(HRK) | Interest in<br>share capital<br>% |
|--|---------------------------|-----------------------|-----------------------------------|
| <b>Ownership of ordinary shares:</b>       |                           |                       |                                   |
| 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                             |
|  | <b>546,318</b>            | <b>1,076,246,460</b>  | 100.00                            |
| <b>Ownership of preference shares:</b>     |                           |                       |                                   |
| Sutivan Investments Anstalt, Liechtenstein | 105,000                   | 105,000,000           | 100.00                            |
| Total                                      | <b>651,318</b>            | <b>1,181,246,460</b>  |                                   |

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 25 – SHAREHOLDERS' EQUITY (continued)

/i/ As at 31 December 2014 and 2013, treasury shares comprise 9,142 own shares that were redeemed in the period from 1997 to 2002 at prices ranging from HRK 718.70 to HRK 1,516.50 per share through a commission house broker, and the total average price of HRK 1,256.27. Gains and losses on purchase and sale of treasury shares are recorded within capital reserves and amount to HRK 7,896 thousand (2013: HRK 6,525 thousand).

Of the initial number of 9,470 treasury shares as at 31 December 2012, in order to implement the merger of Hotel Bonavia d.d. as of 1 January 2013, Plava laguna d.d. as the acquiring company, based on the shares exchange ratio determined using the discounted cash flow method used 328 treasury shares with the carrying value of HRK 412 thousand (Note 28).

## NOTE 22 – RESERVES AND RETAINED EARNINGS

|  | <b>2014</b>                  | <b>2013</b>    |
|--|------------------------------|----------------|
|  | <i>(in thousands of HRK)</i> |                |
| Legal reserves                                     | 38,999                       | 42,204         |
| Other reserves                                     | 31,132                       | 31,383         |
| Retained earnings                                  | 198,246                      | 266,506        |
|  | <b>268,377</b>               | <b>340,093</b> |
| <b>Changes in reserves:</b>                        |                              |                |
| <b>Legal reserves</b>                              |                              |                |
| At beginning of the year                           | 42,204                       | 42,204         |
| Transfer from profit                               | 5,463                        | -              |
| Effect of shares swap (Note 28)                    | (8,668)                      | -              |
| <b>At end of the year</b>                          | <b>38,999</b>                | <b>42,204</b>  |
| <b>Other reserves</b>                              |                              |                |
| At beginning of the year                           | 31,383                       | 33,867         |
| Effect of shares swap (Note 28)                    | (67,632)                     | (2,470)        |
| Transfer from retained earnings                    | 67,632                       | -              |
| Transfer to income                                 | (194)                        | -              |
| Revaluation of available-for-sale financial assets | (57)                         | (14)           |
| <b>At end of the year</b>                          | <b>31,132</b>                | <b>31,383</b>  |
| <b>Retained earnings</b>                           |                              |                |
| At beginning of the year                           | 266,506                      | 298,369        |
| Net profit for the year                            | 86,888                       | 119,593        |
| Distribution of dividends                          | (105)                        | (58,582)       |
| Transfer to legal reserves                         | (5,463)                      | -              |
| Transfer to other reserves                         | (67,632)                     | -              |
| Increase in share capital                          | (81,948)                     | (92,874)       |
| <b>At end of the year</b>                          | <b>198,246</b>               | <b>266,506</b> |

**NOTE 22 – RESERVES AND RETAINED EARNINGS (continued)**

The legal reserve is required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve together with the capital reserves reaches 5% of the Company's share capital. This reserve is not distributable. Based on the Decision of the General Assembly 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.

As at 31 December 2013, the legal reserves of the Subsidiary Hoteli Croatia d.d. amounted to HRK 8,668 thousand.

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 fixed dividend was paid to holders of eligible capital in the amount of HRK 105 thousand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 23 – BORROWINGS

|  | <u>2014</u>                | <u>2013</u>          |
|--|----------------------------|----------------------|
|  | <i>In thousands of HRK</i> |                      |
| <b>Long-term borrowings:</b>                 |                            |                      |
| Bank borrowings                              | 736,274                    | 33,546               |
| Borrowings from owner                        | 383,074                    | -                    |
|  | <u>1,119,348</u>           | <u>33,546</u>        |
| <b>Short-term borrowings:</b>                |                            |                      |
| Current portion of long-term bank borrowings | 85,438                     | 9,766                |
| Accrued interest and fees                    | 2,502                      | 6,011                |
| Government of the Republic of Croatia        | -                          | 4,062                |
|  | <u>87,940</u>              | <u>19,839</u>        |
| <b>Total borrowings</b>                      | <b><u>1,207,288</u></b>    | <b><u>53,385</u></b> |

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

The maturity of long-term borrowings is as follows:

|                       | <u>2014</u>                | <u>2013</u>   |
|-----------------------|----------------------------|---------------|
|                       | <i>In thousands of HRK</i> |               |
| Between 1 and 2 years | 134,462                    | 9,766         |
| Between 2 and 5 years | 441,620                    | 23,780        |
| Over 5 years          | 543,266                    | -             |
|                       | <u>1,119,348</u>           | <u>33,546</u> |

For the purpose of hedging its exposure to cash flow interest rate risk, arising from financial liabilities (debt) subject to a variable interest rate (3m Libor CHF + 1.5% k.m.), during 2009 the company Istraturist Umag d.d. entered into an interest rate swap contract until the borrowing expires (in 2017) in order exchange cash flows at variable interest rates with cash flows at fixed interest rates.

In 2014, a EURCHF currency interest rate swap was contracted whereby the cash flows as per the remaining unpaid bank borrowing principal contracted at an interest rate of CHF 3m LIBOR + 1.5% k.m. and interest rate swap with 3m LIBOR fixed at 1.78% are changed to cash flows in EUR at a fixed interest rate of 4.7% until the borrowing expires (in 2017).

As at 31 December 2014, the fair value of derivative financial instruments amounted to HRK 9,062 thousand and is recorded within liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 24 – TRADE AND OTHER PAYABLES

|   | <b>2014</b>                  | <b>2013</b>          |
|---|------------------------------|----------------------|
|   | <i>(in thousands of HRK)</i> |                      |
| Trade payables  | 31,439                       | 14,682               |
| Trade payables – related parties (Note 27)              | -                            | 7,674                |
| Dividends payable (Note 12)                             | 5,365                        | 5,522                |
| Accrued costs not yet invoiced                          | 8,418                        | 2,238                |
| Liabilities for concession /i/                          | 24,877                       | 9,693                |
| <i>Total financial liabilities</i>                      | <u>70,099</u>                | <u>39,809</u>        |
| Gross salaries payable                                  | 21,587                       | 15,324               |
| Taxes and contributions payable                         | 13,529                       | 10,184               |
| Advances received                                       | 14,997                       | 14,779               |
| Liabilities arising from findings of supervisory bodies | 3,227                        | -                    |
| Other current liabilities                               | 5,276                        | 6,915                |
|   | <u><b>128,715</b></u>        | <u><b>87,011</b></u> |

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



**NOTE 25 – CONTINGENCIES AND COMMITMENTS**

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

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

The stated problems with respect to land ownership are common in other tourism companies in the Republic of Croatia. On 1 August 2010, the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures by submitting requests for concessions and other prescribed requests. In the period since the adoption of legal regulation, in the procedures initiated, and in line with requirements of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land etc. Until 31 December 2014, the Company settled all liabilities arising from the invoices received, issued by competent authorities on the basis of the Ordinance provisions.

**Legal disputes of the subsidiary Istraturist Umag d.d., Umag.** At the beginning of the 1990s, Istraturist Umag d.d. and Ljubljanska banka 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 Croatia 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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**NOTE 25 – CONTINGENCIES AND COMMITMENTS (continued)**

**Provisions for other contingencies.** In the financial statements for the year ended 31 December 2014, the Company anticipates payments of other contingencies in the amount of HRK 3,021 thousand (2013: HRK 2,000 thousand).

**Capital commitments.** Future commitments contracted for investments in tourist buildings, for which provisions were not made, as at 31 December 2014 amounted to HRK 14,900 thousand (2013: HRK 27,701 thousand).

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

|                   | <u>2014</u>                  | <u>2013</u>       |
|-------------------|------------------------------|-------------------|
|                   | <i>(in thousands of HRK)</i> |                   |
| Up to 1 year      | 1,462                        | 150               |
| From 2 to 5 years | <u>2,306</u>                 | <u>147</u>        |
|                   | <u><b>3,768</b></u>          | <u><b>297</b></u> |

The lease terms are between 1 and 5 years and the majority of the lease contracts for land and business premises is renewable at the end of the lease term at market prices. Operating lease commitments of the subsidiary relate to the operating lease of a vehicle fleet.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 26 – CASH GENERATED FROM OPERATIONS

Adjustment of profit with cash generated from operations:

|   | <u>2014</u>                  | <u>2013</u>    |
|---|------------------------------|----------------|
|   | <i>(in thousands of HRK)</i> |                |
| Profit before tax   | 88,153                       | 122,272        |
| Adjustments for:  |                              |                |
| Depreciation and amortisation (Note 13, 14)                                     | 112,029                      | 126,999        |
| Impairment of property, plant and equipment                                     | -                            | 6              |
| Gains on sale of property, plant and equipment                                  | (74)                         | (174)          |
| Provision for impairment of trade and other receivables and loans, net          | 423                          | 561            |
| Changes in fair value of financial assets                                       | -                            | 283            |
| Dividend income   | (398)                        | (382)          |
| Other gains – net   | 252                          | (1,348)        |
| Finance income – net (Note 9)   | (3,542)                      | (5,421)        |
| Profit of associate   | (12,363)                     | (3)            |
| Other non-cash items  | (190)                        | (61)           |
| Changes in working capital (excluding the effects of acquisition and disposal): |                              |                |
| - trade and other receivables   | (14,135)                     | 92             |
| - inventories   | (239)                        | 412            |
| - trade and other payables  | (15,867)                     | 13,110         |
| <b>Cash generated from operations</b>   | <b>154,049</b>               | <b>256,346</b> |

## NOTE 27 – RELATED PARTY TRANSACTIONS

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

In the ordinary course of business, a number of transactions were entered into 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.

**Transactions with the owner:**

During 2014, the Company obtained a borrowing from the owner in the amount of EUR 50 million (Note 22). As at 31 December 2014, borrowings 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 had no transactions with the owner.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

## NOTE 27 – RELATED PARTY TRANSACTIONS (continued)

**Transactions with the associate:**

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

|                                    | <u>2014</u>                  | <u>2013</u> |
|------------------------------------|------------------------------|-------------|
|                                    | <i>(in thousands of HRK)</i> |             |
| Trade and other payables (Note 24) | -                            | 7,624       |
| Accounting services (Note 6)       | -                            | 6,140       |
| Sales                              | -                            | 127         |

**Transactions with other related companies:**

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

|                                    | <u>2014</u>                  | <u>2013</u> |
|------------------------------------|------------------------------|-------------|
|                                    | <i>(in thousands of HRK)</i> |             |
| Trade receivables (Note 17)        | -                            | 202         |
| Trade and other payables (Note 24) | -                            | 50          |
| Other receivables                  | -                            | 134         |
| Sales                              | -                            | 127         |
| Seasonal work force (Note 6)       | -                            | 4,487       |
| Other expenses (Note 6)            | -                            | 1,031       |
| Finance income                     | -                            | 128         |
| Finance costs                      | -                            | 1,857       |

**Group Key Management and Supervisory Board compensation**

*(in thousands of HRK)*

|                                       | <u>2014</u>   | <u>2013</u>   |
|---------------------------------------|---------------|---------------|
| Net salaries                          | 12,674        | 6,341         |
| Pensions insurance contributions      | 3,570         | 1,737         |
| Health insurance contributions        | 3,081         | 1,492         |
| Other costs (contributions and taxes) | 5,613         | 3,428         |
|                                       | <b>24,938</b> | <b>12,998</b> |
| Supervisory Board fees                | 2,500         | 2,813         |
|                                       | <b>27,438</b> | <b>15,811</b> |

Key management comprises 36 persons (2013: 19 persons), and the Supervisory Board comprises 12 members (2013: 14 members).

**NOTE 28 – BUSINESS COMBINATIONS****1.) Hoteli Croatia d.d. – shares swap**

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., Dubrovnik, 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 date of the merger and shares swap, the share owned by Plava laguna d.d. in the company Hoteli Croatia d.d. is 92.28%.

In exchange for the shares of Hoteli Croatia d.d., the company Plava Laguna d.d. received shares of the company Jadranski luksuzni hoteli d.d. As of 1 January 2014, the Company owns 30,988,522 shares of the company Jadranski luksuzni hoteli d.d. or 32.48% of the share capital.

The business combination comprised entities under common control, and the effect of the shares swap for the Plava laguna Group was as follows:

| <i>(in thousands of HRK)</i>   | <b>2013</b>     |
|--|-----------------|
| Fair value of investments in Jadranski luksuzni hoteli d.d. at the share exchange date | 190,712         |
| Net value of assets at the share exchange date:  |                 |
| Property, plant and equipment  | 309,193         |
| Intangible assets  | 276             |
| Investment securities  | 100             |
| Investment in related parties  | 1,470           |
| Inventories  | 1,109           |
| Trade and other receivables  | 39,456          |
| Cash and cash equivalents  | 1,561           |
| Income tax paid  | 997             |
| Borrowings   | (47,374)        |
| Trade and other payables   | (17,464)        |
| Minority interest  | (22,312)        |
| Net value of assets of Hoteli Croatia d.d. at the share exchange date                  | 267,012         |
| <b>Effect of share exchange</b>  | <b>(76,300)</b> |

**2.) Istraturist Umag d.d. – acquisition**

In November 2014, the Company acquired 93.04% of the shares of Istraturist Umag d.d. from Zagrebačka banka d.d. in line with the purchase agreement from August 2014. Based on the purchase agreement, at the balance sheet date the Group has a receivable from the seller in the amount of HRK 6,918 thousand (Note 17). The receivable was settled in 2015.

Details on the acquisition are as follows:

| <i>(in thousands of HRK)</i>      | <b>Total</b> |
|-----------------------------------|--------------|
| Consideration paid                | 916,055      |
| Fair value of net assets acquired | (916,055)    |
| Difference                        | -            |

**NOTE 28 – BUSINESS COMBINATIONS (continued)**

Details of assets acquired are as follows:

| <i>(in thousands of HRK)</i>                | <u><b>1 December 2014</b></u> |
|---|-------------------------------|
| Property, plant and equipment               | 1,409,552                     |
| Intangible assets                           | 7,024                         |
| Deferred tax assets                         | 2,726                         |
| Loans and receivables                       | 13,983                        |
| Financial assets                            | 36,437                        |
| Inventories                                 | 2,046                         |
| Trade and other receivables                 | 24,236                        |
| Cash and cash equivalents                   | 11,636                        |
| Borrowings                                  | (448,552)                     |
| Trade and other payables                    | (69,083)                      |
| Financial liabilities at fair value         | (9,501)                       |
| Provisions                                  | (1,021)                       |
| Net value of assets at the acquisition date | <u>979,483</u>                |
| Minority interest                           | <u>(63,428)</u>               |
| <b>Net assets</b>                           | <u><b>916,055</b></u>         |

**3.) Hotel Bonavia d.d. - merger with a company under common control in 2013**

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

The effect of the merger is as follows:

| <i>(in thousands of HRK)</i>              | <u><b>1 January 2013</b></u> |
|---|------------------------------|
| 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)                      |
| <b>Net assets – effect of merger</b>      | <u><b>(2,058)</b></u>        |
| Treasury shares given in exchange /i/     | (412)                        |
| <b>Effect on capital and reserves</b>     | <u><b>(2,470)</b></u>        |

**NOTE 28 – BUSINESS COMBINATIONS (continued)**

/i/ By merging with the company Hotel Bonavia d.d., the shares of Plava laguna d.d. were exchanged for the shares of the merged company. Based on the share 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.