PLAVA LAGUNA d.d., POREČ

INDEPENDENT AUDITOR'S REPORT AND 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 financial statements of Plava laguna d.d. (the "Company"), which comprise the balance sheet as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

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Emphasis of matter

We draw attention to Note 23 to these financial statements that describes the Company's contingencies with respect to ownership of land not evaluated in the transformation and privatisation process. Problems with respect to land ownership disputes are common for the majority of tourism companies in the Republic of Croatia. Their resolution is expected in the future upon completion of the process of obtaining concessions and establishing ownership rights in accordance with and pursuant to the provisions of the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, which entered into force on 1 August 2010. Our opinion was not qualified in this respect.

PricewaterhouseCoopers d.o.o.
Zagreb, 30 April 2015

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

Member of the Management Board:

Neven Staver

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

PLAVA LAGUNA d.d., POREČ

BALANCE SHEET

AS AT 31 DECEMBER 2014

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

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

PLAVA LAGUNA d.d., POREČ

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

NOTE 1 – GENERAL INFORMATION

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

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

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

At 31 December 2014 and 2013, the Company's shares were listed on the regular joint stock company listing on the Zagreb Stock Exchange.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards

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

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

- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)*
- *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)*
- *IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)*
- *IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)*
- *IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014)*
- *Amendment to IFRSs 10, 11 and 12 on Transition Guidance (effective for annual periods beginning on or after 1 January 2014)*
- *Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities (effective for annual periods beginning on or after 1 January 2014)*
- *Amendment to IAS 32, 'Financial Instruments: Presentation' on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2014)*
- *Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective for annual periods beginning on or after 1 January 2014)*
- *Amendment to IAS 39, 'Financial instruments: recognition and measurement' on novation of derivatives (effective for annual periods beginning on or after 1 January 2014)*

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

Forthcoming requirements

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

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

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

2.2 Investments in subsidiaries

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

2.3 Investments in associates

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

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Company determined the Management Board as the chief operating decision-maker for business segments.

2.6 Property, plant and equipment

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

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

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

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

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

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

2.7 Intangible assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of non-financial assets

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

2.9 Financial assets

2.9.1 Classification

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

(a) Loans and receivables

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

(b) Available-for-sale financial assets

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

2.9.2 Measurement and recognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Loans, deposits and receivables are carried at amortised cost using the effective interest method.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

2.9.2 Measurement and recognition (continued)

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

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

Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the statement of comprehensive income within other income.

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

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of financial assets (continued)

(b) Assets classified as available for sale

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

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

2.11 Derivative financial instruments

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

2.12 Leases

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade, deposit and loan receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Inventories

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

2.16 Share capital

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

2.17 Borrowings

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Trade payables

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

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

2.19 Current and deferred income tax

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

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

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

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

2.20 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits (continued)

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

2.21 Provisions

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

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

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

2.22 Revenue recognition

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

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

(a) Sales of services

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

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

(b) Rental services

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue recognition (continued)

(c) Interest income

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

(d) Dividend income

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

2.23 Dividend distribution

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

2.24 Earnings per share

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

2.25 Value added tax

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

2.26 Merger of entities under common control

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

The accounting policies are applied to financial instruments as follows:

- *Assets*

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

- *Liabilities – at amortised cost*

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

(a) Market risk

(i) Foreign exchange risk

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(i) Foreign exchange risk (continued)

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

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

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

(ii) Cash flow and fair value interest rate risk

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

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

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

(iii) Equity securities risk

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

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

(b) Credit risk

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

The credit quality of financial assets:

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

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

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

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

(c) Liquidity risk

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

3.3 Fair value estimation

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

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

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

Fair value hierarchy

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

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

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

Available-for-sale investment securities in the amount of HRK 120 thousand (2013: HRK 1,017 thousand) are not listed and are recorded at cost or according to the latest available price parameters for shares delisted from a regulated market. All available-for-sale financial assets are denominated in HRK.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

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

By using a certain asset, the Company uses the economic benefits contained in this asset, which diminish more intensely with economic and technological aging. Consequently, in the process of determining the useful life of an asset, in addition to assessing the expected physical utilisation, it is necessary to consider the changes in demand on the tourist market, which will cause a faster economic obsolescence as well as a more intense development of new technologies. Current business operations in the hotel industry impose the need for more frequent investments, and this circumstance contributes to the fact that the useful life of an asset is decreasing.
Guided by these historical facts and in line with the technical department, Management agreed on a useful life of buildings of 10 - 25 years. The useful lives of equipment and other assets have also been reassessed as disclosed in Note 2.6.
The useful lives of property, plant and equipment will periodically be revised to reflect any changes in circumstances since the previous assessment. Changes in estimate, if any, will be reflected prospectively in a revised depreciation charge over the remaining, revised useful life.

If the useful lives of property, plant and equipment had been 10% longer, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 7,725 thousand higher (2013: HRK 7,655 thousand higher).

If the useful lives of property, plant and equipment had been 10% shorter, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 9,442 thousand lower (2013: HRK 9,357 thousand lower).

(b) Land ownership

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

NOTE 5 – SEGMENT INFORMATION

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

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

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

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

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of EBITDA with profit before tax is as follows:

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

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

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

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

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

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

NOTE 6 – COST OF MATERIALS AND SERVICES

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

NOTE 7 – STAFF COSTS

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

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

NOTE 8 – OTHER OPERATING EXPENSES

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

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

NOTE 9 – FINANCE INCOME AND COSTS

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

NOTE 10 – INCOME TAX

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

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

/i/ In accordance with article 6, paragraph 1, item 6 of the Income Tax Act, the Company decided to reinvest the profit for the period and increase its share capital by the amount of HRK 84 million in 2014 (2013: HRK 82 million) in accordance with special provisions.

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

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

To date, the Tax Authority carried out a full scope tax audit of the Company's income tax and VAT returns for 2003, 2004, 2005, 2008 and 2013. In 2014, a review was performed of the income tax and VAT returns for 2013. At the balance sheet date, the outstanding tax liability in the amount of HRK 939 thousand and penalty interest in the amount of HRK 109 thousand were recognised. The liability and interest were paid in February 2015. In March 2015, the Company filed an appeal to the second instance body with respect to the administrative procedure.

NOTE 11 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated as follows:

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

	2013 (in thousands of HRK)		
	Preference shares	**Ordinary shares**	**Total**
Dividends declared and paid in the year	9,666	48,916	58,582
Undistributed earnings	8,286	42,387	50,673
Profit for the year	**17,952**	**91,303**	**109,255**
Weighted average number of shares in issue excluding own shares	105,000	537,176	
Distributed earnings	92.06	91.06	
Undistributed earnings	78.91	78.91	
Basic earnings per share *(in HRK)*	**170.97**	**169.97**	

Diluted earnings per share

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

NOTE 12 – DIVIDEND PER SHARE

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

Unpaid dividends in respect of 2005 through 2014 of HRK 5,365 thousand (2013: HRK 5,424 thousand) are disclosed as dividends payable in “trade and other payables” (Note 22).

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

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

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

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

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

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

NOTE 14 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

a) Subsidiaries

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

The subsidiaries are:

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

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

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

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

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

NOTE 14 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

b) Associate

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

Based on the merger agreement, the General Assemblies' decisions and the Decision of the Commercial Court of 31 May 2013, the associate and other companies under common control merged with the company Jadranski luksuzni hoteli d.d., Dubrovnik. As a result of the merger of the associate, the shares of the company Jadranski luksuzni hoteli d.d., Dubrovnik were exchanged for the shares of the merged company. As a result of the exchange, the number of shares owned by Plava laguna d.d. is 28 or 0.000053% of the share capital of Jadranski luksuzni hoteli d.d., Dubrovnik.

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

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

Available-for-sale investments are as follows:

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

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

NOTE 16 – TRADE AND OTHER RECEIVABLES

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

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

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

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

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

NOTE 17 – DEPOSITS AND LOANS GIVEN

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

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

NOTE 18 – CASH AND CASH EQUIVALENTS

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

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

NOTE 19 – SHAREHOLDERS' EQUITY

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

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

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

Shareholder	Total number of shares	Total amount (HRK)	Holding in share capital %
Ownership of ordinary shares:			
Sutivan Investments Anstalt, Liechtenstein	438,899	864,631,030	80.34
Deutsche Bank Trust Company Americas	23,939	47,159,830	4.38
Treasury shares /i/	9,142	18,009,740	1.67
Other legal entities and natural persons	74,338	146,445,860	13.61
	546,318	**1,076,246,460**	**100.00**
Ownership of preference shares:			
Sutivan Investments Anstalt, Liechtenstein	105,000	105,000,000	100.00
	105,000	**105,000,000**	**100.00**
Total	**651,318**	**1,181,246,460**	

Following the decision of the Company's General Assembly of 29 August 2014 (2013: 2 August 2013) the Company's share capital was increased by reinvesting a portion of profit in the amount of HRK 81,948 thousand (2013: HRK 92,874 thousand). At the General Assembly held on 2 August 2013, a decision was made on converting shares with a nominal value into shares without nominal value. The share capital is distributed among 546,318 ordinary shares, without nominal value, and 105,000 preference series "B" shares, registered, with a nominal value of HRK 1,000.00.

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

NOTE 19 – SHAREHOLDERS' EQUITY (continued)

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

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

NOTE 20 – RESERVES AND RETAINED EARNINGS

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

NOTE 20 – RESERVES AND RETAINED EARNINGS (continued)

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

At 31 December 2014, other reserves amounted to HRK 31,132 thousand (2013: HRK 31,383 thousand) and comprise treasury shares reserves of HRK 11,485 thousand (2013: HRK 11,485 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 823 thousand (2013: HRK 1,074 thousand). These other reserves are not distributable. The remaining other reserves in the amount of HRK 18,824 thousand relate to the above stated capital reserves formed by denominating the nominal value of shares in HRK. During 2013, they were increased based on the above stated decrease in reserves by treasury shares in the amount of the released treasury shares as a result of the merger (HRK 412 thousand), since treasury share reserves are generated in the amount of the purchased treasury shares. Following the Supervisory Board’s decision, these reserves were used to cover the negative effect of the merger in the amount of HRK 2,470 thousand (Note 26).

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

NOTE 22 – BORROWINGS

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

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

Long-term borrowings mature as follows:

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

NOTE 22 – TRADE AND OTHER PAYABLES

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

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

NOTE 23 – CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

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

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

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

NOTE 23 – CONTINGENCIES AND COMMITMENTS (continued)

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

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

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

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

NOTE 24 – RELATED PARTY TRANSACTIONS

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

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

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

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

2) Transactions with the owner were as follows:

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

NOTE 24 – RELATED PARTY TRANSACTIONS (continued)

3) Transactions with related companies under common control:

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

4) Key Management and Supervisory Board compensation

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

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

NOTE 25 – MERGER

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

The effect of the merger is as follows:

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

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

/ii/ Following the merger, the Company fully settled borrowings and interest payable to related companies (Note 25).