ARENA TURIST

**ARENATURIST d.d. za ugostiteljstvo i turizam**

# ANNUAL REPORT
# FOR THE YEAR 2013

ARENATURIST Sharehloder  Company
for Tourism and Catering

## CONTENT

# I STATEMENT OF EXECUTIVE DIRECTOR'S RESPONSIBILITY

The Executive Directors are presenting to the Board of Directors financial statements for Arenaturist d.d. for the year ended 31/12/2012.

Pursuant to the Croatian Accounting Law (Official Gazette 109/07), the Executive Directors are required to ensure that financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the Croatian Committee for International Accounting Standards and so giving a true and fair view of the state and results of the Company for the reporting period.

According to the best knowledge of the executive directors :

- The financial statements have been prepared in accordance with the financial reporting standards, give a true and fair view of the assets and liabilities, profits and losses, financial position and operations of the Company

- The report contains a faithful presentation of the results of operations and development of the Company, with a description of the principal risks and uncertainties to which the Company is exposed

The Executive Directors have reasonable expectation that the Group has adequate resources to continue in business and principle of continuity while preparing the financial statements was applied.

In preparing financial statements, the Executive Directors are responsible:

- To select and consistently apply appropriate accounting policies

- For the reasonable and prudent judgments and estimates

- To apply consistently accounting standards and subject of any material deviation to be published and explained in the financial statements

- The financial statements to be prepared on the business continuity basis unless it is estimated that it is inappropriate due to the Company's business problems.

- To establish appropriate and statutory accounting records so that they disclose,with reasonable accuracy, the financial position of the Company, income and expenses

The Executive Directors are responsible for protecting the assets of the Company, operating control and the prevention and detection of fraud and other irregularities.

**EXECUTIVE DIRECTORS**

Dr Igor Štoković

Milena Perković

Pula,1/04/2014

ARENATURIST
d.d. za turizam i ugostiteljstvo
PULA (1)

Reuel Israel Gavriel Slonim

Abraham Thomas

Athomas

## II EXECUTIVE DIRECTORS' REPORT ON BUSINESS RESULTS

### General data

Arenaturist d.d. from Pula (the "Company") is one of the biggest hotel companies in Croatia that manages its business in the south of the Istrian peninsula, and has been present in the tourist market over 39 years.

For more than 20 years, the Company has been a joint stock company with its registered office in Pula, Smareglina 3, Croatia.

Previously, the Company was a socially-owned enterprise and was transformed into a joint-stock company based on the Decision on privatisation and transformation issued in 1994 by the Croatian Privatisation Fund.

The Company's shares are listed on the regular listing on the Zagreb Stock Exchange.

According to the ownership structure as of 31 December 2013, W 2005/ Dvadeset Osam d.o.o. holds 74.15% of the Company's shares.

Restructuring and Sale Centre (successor of the Government Asset Management Agency) owns 1,95% of the Company's shares, treasury shares amount to 0.01%, while the other 4,443 shareholders own the remaining 23.89% of the Company's shares.

Since 2008, the Company has been managed by the PPHE Hotel Group, a company that manages 38 hotels and tourist resorts, offering more than 8,100 rooms located in Europe, the Middle East and Africa. Their primary activities are operating and franchising full-service upscale and lifestyle hotels.

PPHE Hotel Group is committed to improve performances of the Company and introduce the brand Park Plaza to the accommodation capacities of Arenaturist.

### Primary business activity and accommodation capacities

The Company's primary business activity is providing tourist and catering services. In addition to vacation tourism during summer months, moderate climate and numerous sports grounds such as tennis courts and football pitches, mini-golf courts, athletic and bicycle paths, open air and indoor swimming pools, saunas and similar facilities enable year-round sports activities. Congress tourism is a significant segment of the tourist offer of Arenaturist owing to excellent traffic connections (vicinity of airport) and hotels with well-developed infrastructure.

Arenaturist tourist facilities are situated in prestigious locations in Pula, Medulin, Premantura and Banjole. These are beautiful tourist centres of exceptional natural, cultural and historical value. With its accommodation units in hotels, apartments, detached villas, tourist settlements, campsites and their accompanying catering and other facilities and its personnel, the Company is able to offer high-quality tourist product.

The Company's accommodation capacities consist of six hotels with 1,418 rooms, two apartment settlements with 579 units and seven campsites with 5,658 units, which represent a total accommodation potential of over 21,000 guests per day. In the Company's overall accommodation offer, campsites have the largest share of 74%, while the remaining 26% is shared by hotels and tourist settlements.

## Company Management Structure

The Company has a Management Board and Executive Directors.

### Management Board

The Management Board represents the Company towards the shareholders and has other duties according the Croatian Companies Act and the Company's Articles of Association.

The Management Board consists of eleven members. Members of the Management Board are elected or appointed for a one-year period and they can be re-elected or reappointed.

In 2013, members of the Management Board were as follows:

| | |
|---|---|
| Boris Ivesha | President |
| Heather Mulahasani | Deputy President |
| Ana Estrada | Deputy President |
| Chen Moravsky | Member |
| Erik Honing | Member |
| Stanko Zenzerović | Member and employees representative |
| Marielle Stijger | Member |
| Šime Vidulin | Member |
| Marcus Hubertus Gertrudis Vennekens | Member |
| Abraham Thomas | Member |
| Michael Furth | Member |

At the regular Company's General Assembly held on 28 August 2013, ten members were re-elected, and the Employees' Council reappointed its representative.

The mandate of the Management Board members runs from 25 September 2013 to 25 September 2014.

### Executive Directors

The Executive Directors manage the Company's operations and represent the Company only together and jointly.
The following Executive Directors were reappointed on 18 September 2009 for a 5-year mandate:

| | |
|---|---|
| Milena Perković | Executive Director |
| Reuel Slonim | Executive Director |
| Abraham Thomas | Executive Director (elected on 1 March 2012 instead of Kurt Kuen) |

The Management Board re-elected Igor Štoković as a Chief Executive Officer for the period up to 31 August 2014.
The Audit Committee which supports the Management Board consists of three members:

| | |
|---|---|
| Arnould Duin | President |
| Damir Veizović | Member |
| Abraham Thomas | Member |

The General Assembly appointed PricewaterhouseCoopers d.o.o. from Zagreb as the Company's auditor for 2013.

## General Assembly

The General Assembly has duties and rights according Croatian Companies Act and the Company's Articles of Association.

During 2013, the General Assembly convened once as a regular annual meeting at which decisions were made in accordance with the law and the Company's Articles of Association.

The General Assembly's decisions related to the financial statements for 2012, the discharge of the Management Board members for the year 2012, the election of the Management board members for a new one-year mandate (2013/2014) and the appointment of the Company's auditor for the year 2013.

The number of potential maximum votes at the General Assembly meeting is 2,182,500, which is equal to the number of shares issued.

The shareholder W2005/Dvadeset Osam d.o.o. has 1,618,263 votes or 74.15% of total votes.

At the last General Assembly held on 28 August 2013, 76.2% of total votes were present.

## 2013 Highlights

- Former Hotel Palma has been fully refurbished and reopened as Marina Wing, annex of Hotel Park Plaza Histria. This investment amounted to EUR 4.3 million.
- In December, the Company signed the loan for financing the reconstruction of the Hotel Belvedere in the amount of EUR 17.1 million of which EUR 12.0 million are loan funds from HBOR loan programme for tourism and EUR 5.1 million was provided by Zagrebačka Banka. When reopen, in June 2014, it will be a 4* hotel operating under the Park Plaza brand.

## Operating results in 2013

In 2013, despite the bad weather conditions, unfavourable holiday schedule and the introduction of visa controls for Russian guests, the Company realised 1% more overnights than last year.

Overnights in hotels slightly decreased in relation to the previous year. In 2013, overnights realised by Russian guests dropped by 46% compared to the last year. Overnights in apartments and campsites increased by 2% to last year.

Traditionally, most of the Company's guests are from Germany, Slovenia, Austria and Italy. Number of guests from the Great Britain increased by 40% in relation to the previous year. Despite the fact that the increase in number of guests was only 1%, higher average room rate and better extra services resulted in higher operating revenues in 2013 compared to the last year.

Operating revenue was realised in the amount of HRK 298.5 million, which represents an increase of HRK 23.8 million or 8.6% in relation to the previous year, primarily due to the growth of average prices of accommodation.

Operating expenses amounted to HRK 270.8 million, which represents an increase of HRK 18.3 million or 7.3% compared to the previous year. The growth in operating expenses was mainly effected by the increase in business volume, increase of depreciation due to the renovated facilities, provision made due to the legal proceeding with the Herculanea d.o.o. Pula, which has not been resolved yet, legalisation costs in campsites, higher commission costs due to more room nights from online travel agents and the provision for bad debts due to the bankruptcy of two travel agencies from Slovenia and Poland.

In 2013, the operating profit amounted to HRK 27.6 million, it is higher by 24.3% or HRK 5.4 million compared to the year 2012.

Finance costs amounted to HRK 25.1 million of which interest expenses amounted to HRK 22.0 million and negative effect of exchange rate differences emerged from revaluation of outstanding principles of loans denominated in foreign currency amounted to HRK 2.7 million.

In 2013, the Company realised a net profit of HRK 734 thousand, in 2012, net profit was HRK 667 thousand.

**Assets and liabilities**

Total value of assets on 31 December 2013 was HRK 1,110.2 million; it represents a HRK 4.6 million increase in relation to previous year. Capital and reserves amounted to HRK 683.8 million, which represents an increased in relation to previous year due to profit realised in 2013.

Total liabilities of the Company amounted to HRK 426.5 million, which represents an increase of HRK 3.9 million compared to the previous year.

**Human Resources**

- At 31 December 2013, Arenaturist had 306 permanent employees, and at the peak of the season (August) additional 614 employees were employed. Annually, based on working hours, Arenaturist employs 524 employees. The Company concluded Temporary Service Contracts for permanent seasonal jobs with 50 long-term seasonal employees.

- The Company is continuously working on decreasing the average age of the Company's employees by employing young and educated people as permanent employees.

- Last year the Company continued to educate almost all of its employees as well as part of the seasonal work force through various forms of trainings and seminars for improving professional and social skills, organized by external institutions or the Park Plaza human resources team.

## Risk exposure and Risk Management

### Market and financial risk factors

The Company is exposed to a variety of financial risks that are related to foreign exchange risk, interest rate risks, credit risk and liquidity risk. The Company monitors all risks and makes efforts at reducing their potential effect on the Company's financial exposure.

The company does not use derivative financial instruments to actively hedge financial risk exposure.

The Company operates internationally and is exposed to foreign exchange risk. Revenues are mainly realised in EUR, while operating liabilities are mainly realised in HRK.

The Croatian Kuna experienced a slight tendency to decline in value. The Company's policy is to hold cash reserves in foreign currency on its foreign exchange bank account. Also, the Company has entered into an agreement with banks on the basis of which EUR is exchanged into HRK at the best exchange rate and under special conditions.

The Company's long-term borrowings are linked to the currency clause (EUR), but the Company has sufficient EUROs for their repayment.

Interest rate risk arises from the Euribor rate, which after its continuous decline during 2012, in 2013 recorded an average slight increase. Banks offered hedging instruments in line with their estimates of movements in Euribor in 2013, which the Company estimated as unfavourable and did not accept.

The Company's liabilities have been contracted with an average payment deadline of 60 days, which is consistent with the collection of receivables.

Since credit risk may arise from trade receivables, the Company's policies include payment in advance, cash and credit cards, taking collaterals in case of new or financially doubtful partners. The Company had no high credit risk in the reporting period, but in some cases the collection of receivables was past due. The Company was very active in seeking partners for closing claims by assignment. In general credit risk is increasing due to the economic stagnation of the market.

The potential liquidity risk due to the seasonal business was mitigated by contracts with Hypo Bank and Zagrebačka banka on the use of overdrafts, which in 2013 was used only twenty days in a smaller amount. The Company regularly met all their financial obligations.

### Litigation as a risk factor in business

In addition to financial risk factors, the Company is exposed to the risk of the adverse outcomes of legal proceedings, some of which in particular have been material:

- The case titled " The dispute over sewage in Pula " is still in progress. The lawsuit initiated by Herculanea and Vodovod (companies owned by the City of Pula), refers to the sewage development contribution, dates back to 1998, reached an amount of HRK 25,912 thousand (including penalty interest).

The Company is also a party to a number of other disputes with the Municipality of Medulin and the City of Pula that involve title to many of the Company's properties. The Company believes that these cases will be resolved in its favour once the Government of the Republic of Croatia fully implements the 2010 Tourist Property Law.

Management with shareholder representatives and lawyers (internal and external) is monitoring all litigations and processes very carefully and responsibly in order to prevent possible negative outcomes.

**Code of Corporate Governance**

In its business operations, the Company applies the Code of Corporate Governance of the Zagreb Stock Exchange.

Information regarding the share ownership structure is summarised in Note 23 of these Annual financial statements.

There are no limitations on voting rights within the Company.

**Expectations for the year 2014**

In 2014, the Company continues with the investment projects started in 2012. After fully refurbishment of the Hotel Histria and Palma and the tourist settlement Punta Verudela, in June 2014, completely reconstructed Hotel Belvedere in Medulin is planned to be reopen. It will be a 4* hotel operating under Park Plaza brand. After completion, the hotel will become a perfect oasis for couples and families with children during the summer season, while in the fall and winter period it will be a perfect destination for sports teams, especially athletics and footballs, owing to the numerous sports and wellness facilities.

In 2014, we expect that realised investments, restructuring of operations, better cost management and preparations for continued investments will enable revenue growth and increase the operating performance of the Company as a whole.

The negative impact on the results will have an increase in the VAT rate on tourism and catering services from 10% to 13% from 1January of 2014. As the prices for our services in 2014 were already agreed with our foreign partners, the increase in VAT will affect our revenues.

In 2014, we also expect a continued decline in the number of overnights from the Russian market due to the introduction of visas and the unstable political situation in Ukraine.

In addition, we expect an increase in operating expenses due to announcements of increasing various contributions.

We believe that in 2014 the Croatian Government and the Ministry of Tourism will fully implement the Law on Concessions from 2010, which will, among other benefits, encourage investments in campsites and thus improve their quality.

After attending the biggest tourism fairs, the Company's bookings for 2014 are good, with a significant last minute booking trend. We are optimistic about the season 2014 due to the anticipated slight economic recovery of the EU countries, our main business market.

This Report is submitted by Executive Directors to Company's Management Board.

Integral part of the Report are the following Financial Statements:

1. Independent Auditor's Report for the business year 2013
2. Statement of Comprehensive Income
3. Balance Sheet
4. Statement of Changes in Equity
5. Statement of Cash Flows
6. Notes to the Financial Statements

The Independent Auditor PricewaterhouseCoopers d.o.o. Zagreb prepared statements 1 – 6 .

**Executive Directors:**

Dr. Igor Štoković

Reuel Israel Gavriel Slonim

Milena Perković

ARENATURIST
d.d. za turizam i ugostiteljstvo
PULA (1)

Abraham Thomas

Pula,01/04/2014.

*Independent Auditor's Report*

**To the Shareholders and Board of Directors of Arenaturist d.d., Pula**

We have audited the accompanying financial statements of Arenaturist d.d., Pula (the "Company"), which comprise the balance sheet as at 31 December 2013 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 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

***Report on Other Legal and Regulatory Requirements***

We have read the accompanying Annual Report of the Company for the year ended 31 December 2013 set out on pages 4 to 10. We have verified that the information included in the Annual Report which describes matters that are also presented in the financial statements is consistent, in all material respects, with the financial statements referred to above.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 14 April 2014

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**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

| *(all amounts in thousands of HRK)* | **Note** | **2013** | **2012** |
|---|---|---|---|
| Sales | 5 | 296,237 | 273,706 |
| Other income | 6 | 499 | 543 |
| Cost of materials and services | 7 | (99,443) | (93,643) |
| Staff costs | 8 | (85,226) | (86,805) |
| Depreciation and amortisation | 14, 15 | (47,088) | (39,591) |
| Other operating expenses | 9 | (39,091) | (32,452) |
| Other gains - net | 10 | 1,718 | 449 |
| **Operating profit** | | **27,606** | **22,207** |
| Finance income | | 51 | 658 |
| Finance costs | | (25,121) | (20,530) |
| Finance costs – net | 11 | (25,070) | (19,872) |
| **Profit before tax** | | **2,536** | **2,335** |
| Income tax | 12 | (1,802) | (1,668) |
| **Profit for the year** | | **734** | **667** |
| Other comprehensive income: | | | |
| Fair value gains/(losses) on available-for-sale financial assets | 20 | (16) | 7 |
| **Total comprehensive income for the year** | | **718** | **674** |
| **Earnings per share (in HRK)** – basic and diluted | 13 | **0.34** | **0.31** |

# ARENATURIST D.D., PULA

## BALANCE SHEET

## AS AT 31 DECEMBER 2013

| *(all amounts in thousands of HRK)* | Note | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 1,048,801 | 1,047,388 |
| Intangible assets | 15 | 3,474 | 4,256 |
| Investments in subsidiaries | 16 | 40 | 40 |
| Available-for-sale financial assets | 20 | 135 | 151 |
| Deferred tax assets | 17 | 7,766 | 9,567 |
| Deposit receivables | 21 | 322 | 333 |
| | | **1,060,538** | **1,061,735** |
| **Current assets** | | | |
| Inventories | 18 | 613 | 688 |
| Trade and other receivables | 21 | 11,526 | 15,590 |
| Income tax receivable | 12 | 5,101 | - |
| Cash and cash equivalents | 22 | 32,439 | 27,615 |
| | | **49,679** | **43,893** |
| | | **1,110,217** | **1,105,628** |
| **EQUITY** | | | |
| Share capital | 23 | 43,650 | 43,650 |
| Treasury shares | 23 | (4) | (4) |
| Reserves | 24 | 638,715 | 638,731 |
| Retained earnings | 24 | 1,401 | 667 |
| | | **683,762** | **683,044** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 25 | 336,283 | 311,036 |
| Provisions for other liabilities and expenses | 26 | 26,809 | 26,240 |
| Trade and other payables | 27 | 12,274 | 32,765 |
| | | **375,366** | **370,041** |
| **Current liabilities** | | | |
| Borrowings | 25 | 14,201 | 22,746 |
| Current income tax payable | | - | 823 |
| Trade and other payables | 27 | 36,888 | 28,974 |
| | | **51,089** | **52,543** |
| **Total liabilities** | | **426,455** | **422,584** |
| **Total equity and liabilities** | | **1,110,217** | **1,105,628** |

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

## STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2013

| *(all amounts in thousands of HRK)* | **Note** | **Share capital** | **Treasury shares** | **Reserves** | **(Accumulated loss)/retained earnings** | **Total** |
|---|---|---|---|---|---|---|
| At 1 January 2012 | 23, 24 | 43,650 | (4) | 643,284 | (4,560) | 682,370 |
| Profit for the year | | - | - | - | 667 | 667 |
| Other comprehensive income | 20 | - | - | 7 | - | 7 |
| **Total comprehensive income** | | **-** | **-** | **7** | **667** | **674** |
| Coverage of loss from reserves | 24 | - | - | (4,560) | 4,560 | - |
| **At 31 December 2012** | | **43,650** | **(4)** | **638,731** | **667** | **683,044** |
| | | | | | | |
| At 1 January 2013 | 23, 24 | 43,650 | (4) | 638,731 | 667 | 683,044 |
| Profit for the year | | - | - | - | 734 | 734 |
| Other comprehensive loss | 20 | - | - | (16) | - | (16) |
| **Total comprehensive income/(loss)** | | **-** | **-** | **(16)** | **734** | **718** |
| **At 31 December 2013** | | **43,650** | **(4)** | **638,715** | **1,401** | **683,762** |

## CASH FLOW STATEMENT

## FOR THE YEAR ENDED 31 DECEMBER 2013

| *(all amounts in thousands of HRK)* | Note | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 29 | 70,687 | 65,290 |
| Income tax paid | | (5,924) | - |
| Interest paid | | (11,906) | (9,108) |
| **Net cash from operating activities** | | 52,857 | 56,182 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 14 | (52,154) | (176,654) |
| Purchase of intangible assets | 15 | (504) | (1,260) |
| Proceeds on sale of property, plant and equipment | 29 | 455 | 976 |
| Deposits given | | 119 | 1,293 |
| Interest received | 11 | 51 | 658 |
| **Net cash used in investing activities** | | **(52,033)** | **(174,987)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 26,500 | 291,565 |
| Proceeds from finance lease | | 531 | 361 |
| Repayments of borrowings | | (22,500) | (145,647) |
| Repayments of finance lease | | (531) | (393) |
| **Net cash from financing activities** | | **4,000** | **145,886** |
| **Net increase in cash and cash equivalents** | | **4,824** | **27,081** |
| Cash and cash equivalents at beginning of year | | 27,615 | 534 |
| Cash and cash equivalents at end of year | 22 | **32,439** | **27,615** |

## NOTE 1 – GENERAL INFORMATION

ARENATURIST is a joint-stock company (the "Company") with its registered office in Pula in the Republic of Croatia. The Company's activities are tourism, catering and trade activities. 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 1994 and registered at the Commercial Court in Rijeka.

The ownership structure as at 31 December 2013 and 2012 is disclosed in Note 23.

The registered office of Arenaturist d.d. is in Pula, Smareglina 3, Croatia.

As at 31 December 2013 and 2012, the Company's shares are listed on the regular listing on the Zagreb Stock Exchange.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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 (IFRS) as adopted in the European Union. The 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 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.

### 2.1.1 Changes in accounting policies and application of new standards and interpretations

1) *New and amended standards adopted by the Company*

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.

- *Amendment to IAS 1 Financial Statement Presentation Regarding Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012).* The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially subsequently reclassifiable to the statement of comprehensive income (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment affects presentation only and therefore did not have an impact on the Company's financial position or performance.

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

### 2.1 Basis of preparation (continued)

- *Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013).* The amendment significantly changes the recognition and measurement of the cost of defined pensions and termination benefits and disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

- *Amendment to IFRS 1 First Time Adoption on Government Loans (effective for annual periods beginning on or after 1 January 2013).* This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. This amendment is not relevant to the Company's operations because they are not first-time adopters or users of government loans.

- *Amendment to IFRS 7 Financial Instruments: Disclosures on Asset and Liability Offsetting (effective for annual periods beginning on or after 1 January 2013).* This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The amendment has impact on disclosure only. This amendment did not have an impact on the Company’s financial position or performance.

- *IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).* IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. IFRS 13 impacts presentation and disclosure and has no impact on measurement in the Company’s financial statements.

- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013).* This interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. This interpretation is not relevant to the Company's operations.

- *Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013).* These annual improvements address six issues in the 2009-2011 reporting cycle. It includes changes to:
  IFRS 1, 'First time adoption'
  IAS 1, 'Financial statement presentation'
  IAS 16, 'Property plant and equipment'
  IAS 32, 'Financial instruments; Presentation'
  IAS 34, 'Interim financial reporting'

These improvements did not have an impact on the Company’s financial statements.

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

### 2.1 Basis of preparation (continued)

*2) Standards and interpretations issued but not yet effective*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 01 January 2013, and have not been applied in preparing these financial statements.

- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014).* The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation and sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It sets out the accounting requirements for the preparation of consolidated financial statements. Management is currently assessing the impact that IFRS 10 will have on the financial statements but does not expect any impact on them, and plans to adopt this new standard on its effective date. The Company does not expect IFRS 10 to have an impact on the financial statements.

- *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014).* IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Company does not expect IFRS 11 to have an impact on the financial statements.

- *IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014).* IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special-purpose vehicles and other off-balance sheet vehicles. Management does not expect IFRS 12 to have an impact on the financial statements of the Company, and plans to adopt this new standard on its effective date.

- *IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014).* IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. Management is currently assessing the impact that IAS 27 will have on the financial statements but does not expect any impact on them, and plans to adopt this new standard on its effective date.

- *IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014).* IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. Management does not expect IAS 28 to have an impact on the financial statements of the Company, and plans to adopt this new standard on its effective date.

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

### 2.1 Basis of preparation (continued)

- *Amendment to IFRSs 10, 11 and 12 on Transition Guidance (effective for annual periods beginning on or after 1 January 2014).* These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. Management is currently assessing the impact of the amendment on its financial statements, and plans to adopt this amendment on its effective date.

- *Amendments to IFRS 10, IFRS 12 and IAS 27 – on Consolidation for Investment Entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014)*
  These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through comprehensive income. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make. Management does not expect this amendment to have an impact on the financial statements of the Company, and plans to adopt this new standard on its effective date.

- *Amendment to IAS 32 Financial Instruments: Presentation on Asset and Liability Offsetting (issued in December 2012 and effective for annual periods beginning on or after 1 January 2014)*
  These amendments are to the application guidance in IAS 32 Financial instruments: *Presentation*, and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. Management does not expect this amendment to have an impact on the financial statements of the Company, and plans to adopt this new standard on its effective date.

- *Amendment to IAS 36 Impairment of Assets on Recoverable Amount Disclosures (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014)*
  This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment could have an impact on disclosure only, but not on measurement and recognition of the assets in the Company's financial position or performance. Management plans to adopt this amendment on its effective date.

- *Amendment to IAS 39 Financial Instruments: Recognition and Measurement 'Novation of Derivatives' (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014).*
  This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria. The amendment is not relevant for the Company's operations because derivatives are not used.

- *IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015).*
  IFRS 9 is the first standard issued as part of a wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The Company is currently assessing the impact of IFRS 9 on the financial statements. The Company plans to adopt this new standard on its effective date and after being adopted by the EU.

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

### 2.1 Basis of preparation (continued)

- *IFRIC 21 Levies (issued on 20 May 2013 and effective for annual periods beginning on or after 1 January 2014).* This is an interpretation of IAS 37 Provisions, contingent liabilities and contingent assets. IAS 37 sets out the criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. Management does not expect IFRIC 21 to have an impact on the financial statements, and plans to adopt this new standard on the effective date as of and when endorsed by the EU.

- *Amendments to IAS 19 – Defined benefit plans: Defined benefit plans: Employee contributions (issued in November 2013, and effective for annual periods beginning 1 July 2014).*
  The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Company is currently assessing the impact of the amendments on the financial statements.

- *Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after1 July 2014, unless otherwise stated below).* The improvements consist of changes to seven standards.

  IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

  IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

  IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

  The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

  IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

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

### 2.1 Basis of preparation (continued)

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Company is currently assessing the impact of the amendments on the financial statements.

- *Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after1 July 2014)*. The improvements consist of changes to four standards.

  The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

  IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

  The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

  IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

### 2.2 Investments in subsidiaries

Subsidiaries are those entities in which Arenaturist 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 has subsidiaries, disclosed in Note 16, which are accounted at cost less impairment. There are no consolidated financial statements prepared due to the fact that the subsidiaries are not material and have not started their operations. The Company does not control any other enterprises.

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

### 2.3 Foreign currencies

*(a) Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (‘the functional currency’). The 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 within 'Finance costs - net'. All other foreign exchange losses and gains are recorded in the statement of comprehensive income within ‘other gains – net’.

### 2.4 Segment reporting

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

### 2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes the cost that is directly attributable to the purchase of the 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 items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 25 - 60 years |
| Plant and equipment | 4 - 10 years |

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

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

In 2013, the Management Board revised the residual value and the useful life of a building. The effect of revising the useful life and the application of new depreciation rates resulted in an increased depreciation charge in 2013 in the amount of HRK 1,832 thousand and a decrease in the remaining useful life of the building from 27 to 9 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 2.7). 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".

### 2.6 Intangible assets

Intangible assets comprise technical documentation (surveying projects) and computer software licences and are stated at cost less accumulated amortisation and impairment losses. They are amortised over their estimated useful lives (4 to 10 years).

### 2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, such as land, are not subject to depreciation. Such assets 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 (cash-generating units). Non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

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

### 2.8 Financial assets

#### 2.8.1 Classification

The 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 reporting date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet (Notes 2.11 and 2.12).

*(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.

#### 2.8.2 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. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between interest accrued using effective interest rate 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 changes arising from fair value are recognised in equity. 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'.

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.

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

### 2.9 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.

(*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 statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

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

### 2.10 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. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Small inventory and tools are expensed when put into use.

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

### 2.11 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

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

### 2.12 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.

### 2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.14 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.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale,are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

### 2.15 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 recognised directly 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.

### 2.16 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, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. 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)

### 2.16 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 jubilee awards, accumulated compensated absences based on unused vacation days at the balance sheet date, as well as labour hours realised from the reorganisation of working hours not utilised up to the balance sheet date.

*(b) Long-term employee benefits*

The Company recognises a provision for jubilee awards where contractually obliged or where there is a past practice that has created a constructive obligation.

### 2.17 Trade and other payables

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

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

### 2.18 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 due to passage of time is recognised as interest expense.

### 2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in hotels and apartments, campsites and restaurants 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.

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

### 2.19 Revenue recognition (continued)

*(a) Sales of services*

Revenue from hotel and tourist services is recognised in the period when the services are provided. Revenue from fixed-price contracts for services is generally recognised in the period the services are provided, using a straight-line basis over the terms of the contracts with tourist agencies and tour operators.

*(b) Rental income*

Revenue from the rental of business premises is recognised based on a callable lease agreement with a term up to 12 months with a fixed rent price. Revenue is recognized on a straight-line basis over the lease term.

*(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.

### 2.20 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.

### 2.21 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.

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

### 2.22 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.

## NOTE 3 – FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The 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.

*(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 (EUR). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The majority of the Company's foreign sales revenue and long-term debt (Note 25) is 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.

At 31 December 2013, if the EURO had weakened/strengthened by 1% (2012: 1.5%) against the HRK, with all other variables held constant, the profit for the year would have been HRK 1,719 thousand higher/lower (2012: HRK 3,569 thousand higher/lower profit), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated borrowings, trade payables, trade and other receivables and foreign cash funds. This risk is decreased by the fact that the majority of revenues is contracted in EUROs.

The Company maintains an active policy of foreign exchange risk hedging by keeping cash on foreign currency accounts, concluding contracts with banks on using a more favourable exchange rate than the one officially published, contracting operating liabilities in HRK without linking to the currency clause.

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

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from borrowings (Note 25). Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company is exposed to fair value interest rate risk with respect to borrowings from related parties.

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

## NOTE 3 – FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors (continued)

At 31 December 2013, if 3M EURIBOR on EURO-denominated borrowings had been higher/lower by 0.4% (2012: 0.8%), with all other variables held constant, the profit for the year would have been HRK 670 thousand (lower)/higher (2012: HRK 1,886 thousand), mainly as a result of higher/lower interest expense on variable-rate borrowings.

In 2013, the interest rate risk hedges were rated unfavourable, and the contracts were not concluded. The Company actively monitors changes in interest rates and in cases of above-average growth seeks to replace the borrowings with more favourable debt facilities or renew negotiations with banks.
In 2013, there was no adverse impact of interest rate risk.

*(iii) Equity securities risk*

The Company owns equity securities and is exposed to price risk of listed equity securities, which are classified as available-for-sale financial assets. The Company invests in securities listed on the Zagreb Stock Exchange (ZSE). The Company is not exposed to commodity price risk.

At 31 December 2013 and 2012, if the indices of the ZSE had been higher/lower by 10% for 2013 (2012: 20%), which was the expected potential annual index movement at the ZSE, with all other variables held constant, revaluation reserves within equity and other comprehensive income would have been HRK 10 thousand (2012: HRK 22 thousand) higher/lower, as a result of fair value gain/losses on available-for-sale financial assets.

*(b) Credit risk*

Credit risk arises from cash, time deposits and trade receivables. 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). Provisions for impairment of trade 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 three months or less. See Notes 19b and 21 for further disclosure on credit risk.

*(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash (Note 22), the availability of funding through an adequate amount of committed credit facilities (Note 25) 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.

## NOTE 3 – FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors (continued)

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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | **Less than 3 months** | **3 months 1 year** | **1 - 2 years** | **2 - 5 years** | **Over 5 years** |
|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | |
| Trade payables | 10,451 | 909 | - | - | - |
| Accrued fee for the tourist land concession | | 1,953 | 12,274 | | |
| Due to Park Plaza Hotels | | 9,982 | | | |
| Borrowings | 11,864 | 14,016 | 28,638 | 84,236 | 413,066 |
| **Total liabilities (contractual maturities)** | **22,315** | **26,860** | **40,912** | **84,236** | **413,066** |
| **At 31 December 2012** | | | | | |
| Trade payables | 9,748 | 193 | 915 | - | - |
| Accrued fee for the tourist land concession | | 624 | 10,570 | | |
| Due to Park Plaza Hotels | - | - | - | 22,195 | - |
| Borrowings | 3,750 | 41,318 | 33,213 | 103,019 | 289,946 |
| **Total liabilities (contractual maturities)** | **13,498** | **42,135** | **44,698** | **125,214** | **289,946** |

### 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. The Company's share capital amounts to HRK 43.6 million, and the nominal value per share is HRK 20.00, which is above the norm for joint stock companies as defined by the Companies Act. The Company has no objectives or policies with respect to managing capital. Equity as presented in these financial statements is considered as the Company's capital.

### 3.3 Fair value estimation

Fair value represents the amount at which an asset could be exchanged or a liability settled between knowledgeable and willing parties acting in their best interest.

The fair value of available-for-sale investments are estimated based on their market value at the balance sheet date.

The Company's principal financial instruments not carried at fair value are trade receivables, other receivables, trade payables, borrowings and other liabilities. The carrying value of current financial assets approximates their fair values due to the short-term nature of these financial instruments. The fair value of non-current borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 3.3 Fair value estimation (continued)

*Fair value hierarchy*

The Company adopted the amendment to IFRS 7 Financial instruments, which requires the fair value measurement to be presented in the statement of financial position by level of 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).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **At 31 December 2013** | | | | |
| Available-for-sale financial assets: | | | | |
| - equity securities | 95 | | 40 | 135 |
| **Total assets** | **95** | | **40** | **135** |
| **At 31 December 2012** | | | | |
| Available-for-sale financial assets: | | | | |
| - equity securities | 111 | | 40 | 151 |
| **Total assets** | **111** | | **40** | **151** |

Level 3 includes available-for-sale investment securities, which are carried at cost and include a small share in an unlisted Croatian limited liability company. The stated company represents a strategic investment whose fair value cannot be measured reliably. There is no similar company and there was no distribution of profits to members/shareholders, and it is not possible to assess the fair value of these investments.

## 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.

According to the technical department, the useful life of buildings of 25 to 60 years was assessed to be appropriate for undisturbed operations. The useful lives of equipment and other assets have also been reassessed as disclosed in Note 2.5.

## NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

If the depreciation rates on property, plant and equipment had been 5% higher/lower, with all other variables held constant, the profit for the year would have been lower/higher, and the net carrying value of property, plant and equipment would have been lower/higher by HRK 2,354 thousand (2012: HRK 1,980 thousand).

In accordance with the accounting policy stated in Note 2.7, where there are indicators of impairment the Company tests whether property, plant and equipment has suffered any impairment through expected cash flow based on an updated business plan. The recoverable amount test includes a forecast Euro exchange rate of HRK 7.71 /EUR for 2013. If the EURO had strengthened/weakened by 1% against the HRK over the forecast period, value in use would be, on average, HRK 10,488 thousand higher/lower.

*(b) Land ownership*

On 28 January 2011, regulations were issued elaborating in more detail the manner of complying with the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process. The stated law, which entered into force on 1 August 2010, mandated companies to submit the relevant requirements under this law within six months from the date of its entry into force (up to 1 February 2011). On 31 January 2011, the Company submitted the relevant requirements to the governing authorities in respect of the property on which the above-mentioned law can be applied. Until 31 December 2013, none of the initiated disputes under the provisions of the stated law have been finalised. Management expects a favourable outcome of these disputes.

*(c) Classification of liabilities into non-current and current portion*

When classifying liabilities without fixed payment maturities, the Company had to make a best estimate of expectations when the outflow of cash will occur in order to settle these liabilities. The stated issue is especially emphasised when determining the classification of accrued liabilities for the payment of the agreed management fee. Under the management fee contract, the cash outflow depends on the Company's estimates of the availability of cash flows to meet these liabilities and in case of the accrued liability for the concession fee for which an invoice was not received as yet due to the current inability to determine the exact amount (based on the joint ownership ratio) or due to unregulated ownership relations.

With respect to accrued concession fees, Management expects that in 2014 the variable portion of the concession fee for tourist land in campsites in the amount of HRK 1,953 thousand will be invoiced.

## 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 Board (whose function is Company management), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Company records its operating revenue and costs by the type of services rendered in several operating segments: hospitality and tourism, operating segments of accompanying activities, and administrative and management services. In hospitality and tourism, the following is monitored: operating profit of overnights, food and beverages, administration, technical department. The segment 'accompanying activities' comprises services of the lease of business premises, central laundry facilities, maintenance of greenery and environment, technical maintenance of buildings, fixed and movable equipment and other similar services. The administrative segment comprises administrative and operating services, staff, legal, technical and development, financial and accounting services and services of the operating management of operating segments.

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

| *(in thousands of HRK)* | **Hospitality and tourism** | **Accompanying activities** | **Administrative services** | **Total** |
|---|---|---|---|---|
| Total sales | 289,680 | 20,020 | 2,836 | 312,536 |
| Inter-segment revenue | (1,001) | (15,298) | - | (16,299) |
| Revenue from external customers | 288,679 | 4,722 | 2,836 | 296,237 |
| Restated GOP | 126,795 | 4,246 | (27,027) | 104,014 |
| Depreciation and amortisation (Note 14 and 15) | 42,935 | 2,919 | 1,234 | 47,088 |
| **Total assets** | **962,322** | **92,366** | **15,281** | **1,069,969** |
| **Total liabilities** | **303,044** | **5,249** | **3,192** | **311,485** |

The segment results for the year ended 31 December 2012 are as follows:

| *(in thousands of HRK)* | **Hospitality and tourism** | **Accompanying activities** | **Administrative services** | **Total** |
|---|---|---|---|---|
| Total sales | 266,647 | 18,898 | 3,229 | 288,774 |
| Inter-segment revenue | (961) | (14,107) | - | (15,068) |
| Revenue from external customers | 265,686 | 4,791 | 3,229 | 273,706 |
| Restated GOP | 113,229 | 3,556 | (25,198) | 91,587 |
| Depreciation and amortisation (Note 14 and 15) | 35,200 | 2,995 | 1,396 | 39,591 |
| **Total assets** | **962,322** | **92,503** | **12,924** | **1,067,749** |
| **Total liabilities** | **314,923** | **5,289** | **3,932** | **324,144** |

## NOTE 5 – SEGMENT INFORMATION (continued)

**Reconciliation of restated GOP with profit before tax is as follows:**

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Restated GOP – hospitality and tourism | 126,795 | 113,229 |
| Restated GOP – accompanying activities | 4,246 | 3,556 |
| Restated GOP – administrative services | (27,027) | (25,198) |
| Restated GOP | 104,014 | 91,587 |
| Fixed costs | (29,320) | (29,789) |
| Interest | (22,004) | (19,920) |
| Depreciation of property, plant and equipment | (47,088) | (39,591) |
| Other finance costs/income - net | (3,066) | 48 |
| **Profit before tax** | **2,536** | **2,335** |

The Company reports to Management using the Uniform System of Accounts for the Lodging Industry (USALI) method. This methodology supports the demanding system of monitoring and reporting in the hotel industry and obtaining appropriate and better information. According to the USALI standards, subject to observation and hence reporting are the responsibility centres that may be organised as cost, revenue, profit and investment centres, taking into account the specific nature of the hotel business. The Company's responsibility centres are organised as profit centres. Reporting under the USALI method is possible at the Company, due to the fact that the Company already operates according to the methodology that requires a developed accounting system, developed and comprehensive IT support, a decentralized organisational system and management that is interested in performance or non-performance and the place of their generation. The operating performance indicator based on this method is the restated GOP (Gross operating profit) as stated above.

Segment assets and liabilities are reconciled to the Company's assets and liabilities as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Segment assets/liabilities | 1,069,451 | 311,485 | 1,067,749 | 324,144 |
| Unallocated: | 40,766 | 114,970 | 37,879 | 98,440 |
| Cash and cash equivalents | 32,439 | - | 27,615 | - |
| Deferred tax assets | 7,766 | - | 9,567 | - |
| Other financial assets | 561 | - | 697 | - |
| Borrowings | - | 114,970 | - | 98,440 |
| **Total** | **1,110,217** | **426,455** | **1,105,628** | **422,584** |

## NOTE 5 – SEGMENT INFORMATION (continued)

The Company's sales revenues can be split according to products:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Accommodation | 235,147 | 216,538 |
| Food and beverages | 38,628 | 35,677 |
| Rentals | 11,369 | 11,159 |
| Other | 11,093 | 10,332 |
| | **296,237** | **273,706** |

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Domestic sales | 24,919 | 23,100 |
| Foreign sales | 271,318 | 250,606 |
| | **296,237** | **273,706** |

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

| **Foreign sales** | **2013** | **%** | **2012** | **%** |
|---|---|---|---|---|
| Germany | 78,700 | 29 | 76,916 | 31 |
| Italy | 30,555 | 11 | 28,540 | 11 |
| Slovenia | 41,491 | 15 | 31,111 | 12 |
| Austria | 34,946 | 13 | 31,899 | 13 |
| Netherlands | 14,223 | 5 | 14,719 | 6 |
| Czech Republic | 8,423 | 3 | 8,184 | 3 |
| France | 4,215 | 2 | 3,853 | 2 |
| Other EU members | 35,287 | 13 | 30,417 | 12 |
| Other | 23,478 | 9 | 24,967 | 10 |
| Total | **271,318** | **100** | **250,606** | **100** |

All non-current assets are located in Croatia.

## NOTE 6 – OTHER INCOME

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Court claims recovered | - | 19 |
| Income from refunding | 483 | 464 |
| Other | 16 | 60 |
| | **499** | **543** |

## NOTE 7 – COST OF MATERIALS AND SERVICES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Raw materials and supplies** | | |
| Food and beverages | 16,535 | 15,817 |
| Materials consumed | 6,120 | 5,647 |
| Energy and water | 20,103 | 18,359 |
| Small inventory | 13 | 25 |
| | **42,771** | **39,848** |
| **External services** | | |
| Utility services | 13,466 | 11,686 |
| Marketing and promotion | 14,268 | 13,350 |
| Repairs and maintenance | 4,788 | 5,388 |
| Art and entertainment services | 1,739 | 2,049 |
| Telephone, postal and transportation services | 1,475 | 1,516 |
| Rentals | 551 | 432 |
| Concession fee | 8,132 | 10,699 |
| Agency services for sale of tourist packages | 8,705 | 5,548 |
| Other | 3,548 | 3,127 |
| | **56,672** | **53,795** |
| | **99,443** | **93,643** |

## NOTE 8 – STAFF COSTS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Net salaries | 44,773 | 44,152 |
| Pension contributions | 13,103 | 12,850 |
| Health insurance contribution | 8,807 | 8,857 |
| Other contributions, tax and surtax | 9,256 | 8,781 |
| Provision for termination benefits and jubilee awards (Note 26) | (654) | 41 |
| Termination benefits | 4,131 | 6,228 |
| Other staff costs /i/ | 5,810 | 5,896 |
| | **85,226** | **86,805** |
| Number of employees at 31 December | **494** | **530** |

/i/ Other staff costs comprise fees and transportation costs and remunerations for temporary services.

## NOTE 9 – OTHER OPERATING EXPENSES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Professional services | 3,195 | 2,307 |
| Utility and similar fees | 7,875 | 7,289 |
| Management fees (Note 30) | 11,867 | 10,838 |
| Management fees - reversal of provision (Note 30) | - | (4,256) |
| Insurance premiums | 1,653 | 1,551 |
| Bank charges, payment transaction costs and membership fees | 3,051 | 2,766 |
| Provisions for legal disputes (Note 26) | 1,406 | 1,281 |
| Entertainment | 819 | 804 |
| Impairment of property, plant and equipment | 4,588 | 6,374 |
| Provisions for impairment of receivables (Note 21) | 452 | 44 |
| Collection of receivables previously written-off (Note 21) | (62) | (623) |
| Penalty interest | 716 | 36 |
| Professional literature and education | 553 | 506 |
| Donations and sponsorships | 541 | 525 |
| Franchise costs | 633 | 471 |
| Other | 1,804 | 2,539 |
| | **39,091** | **32,452** |

## NOTE 10 – OTHER GAINS – NET

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Net gain on sale of property, plant and equipment | 105 | 36 |
| Net foreign exchange gains – other | 1,613 | 413 |
| | **1,718** | **449** |

## NOTE 11 – FINANCE COSTS AND INCOME

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Finance income** | | |
| Interest income on cash deposits with banks | 51 | 658 |
| | 51 | 658 |
| **Finance costs** | | |
| Interest expense | (22,004) | (19,920) |
| Bank charges | (432) | (465) |
| Foreign exchange losses - net | (2,685) | (145) |
| | (25,121) | (20,530) |
| **Finance costs - net** | **(25,070)** | **(19,872)** |

## NOTE 12 – INCOME TAX

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Deferred tax expense – Origination and reversal of temporary differences (Note 17) | 1,802 | 775 |
| Current tax | - | 893 |
| **Income tax expense** | **1,802** | **1,668** |

## NOTE 12 – INCOME TAX (continued)

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Profit before tax** | 2,536 | 2,335 |
| Income tax at 20% | 507 | 467 |
| Expenses not deductible for tax purposes | 2,955 | 4,160 |
| Income not subject to tax | (2,823) | (2,870) |
| Expiry of unused tax losses | - | (89) |
| Effect of tax losses for which deferred tax assets were recognised | 1,163 | - |
| **Net income tax expense** | **1,802** | **1,668** |

In 2013, the Company realised a tax loss in the amount of HRK 5,815 thousand based on which deferred tax assets were recognised in the amount of HRK 1,163 thousand. The stated amount of tax losses carried forward can be utilised by the end of 2018.

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.

## NOTE 13 – EARNINGS PER SHARE

### Basic

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (Note 23).

| | 2013 | 2012 |
|---|---|---|
| Profit for the year *(in thousands of HRK)* | 734 | 667 |
| Weighted average number of ordinary shares (basic) | 2,182,331 | 2,182,331 |
| **Earnings per share (basic)** ***(in HRK)*** | **0.34** | **0.31** |

### Diluted

Diluted earnings per share for 2013 and 2012 is equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either 2013 or 2012.

## NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

| *(in thousands of HRK)* | Land and buildings | Plant and equipment | Property and assets under construction | Total |
|---|---|---|---|---|
| **At 31 December 2011** | | | | |
| Cost | 1,310,766 | 145,965 | 30,226 | 1,486,957 |
| Accumulated depreciation and impairment | (457,021) | (113,501) | - | (570,522) |
| **Net book amount** | **853,745** | **32,464** | **30,226** | **916,435** |
| **Year ended 31 December 2012** | | | | |
| Opening net book amount | 853,745 | 32,464 | 30,226 | 916,435 |
| Additions | 155,907 | 41,371 | (20,624) | 176,654 |
| Disposals and impairment | (6,306) | (1,008) | - | (7,314) |
| Depreciation (Note 29) | (26,671) | (11,716) | - | (38,387) |
| Closing net book amount | 976,675 | 61,111 | 9,602 | 1,047,388 |
| **At 31 December 2012** | | | | |
| Cost | 1,458,759 | 169,620 | 9,602 | 1,637,981 |
| Accumulated depreciation and impairment | (482,084) | (108,509) | - | (590,593) |
| **Net book amount** | **976,675** | **61,111** | **9,602** | **1,047,388** |
| **Year ended 31 December 2013** | | | | |
| Opening net book amount | 976,675 | 61,111 | 9,602 | 1,047,388 |
| Additions | 34,337 | 15,398 | 2,419 | 52,154 |
| Disposals and impairment | (4,251) | (689) | - | (4,940) |
| Depreciation (Note 29) | (31,084) | (14,717) | - | (45,801) |
| Closing net book amount | 975,677 | 61,103 | 12,021 | 1,048,801 |
| **At 31 December 2013** | | | | |
| Cost | 1,484,960 | 172,264 | 12,021 | 1,669,245 |
| Accumulated depreciation and impairment | (509,283) | (111,161) | - | (620,444) |
| **Net book amount** | **975,677** | **61,103** | **12,021** | **1,048,801** |

In 2013, the item 'Disposals and impairment' includes the write-off of a portion of hotels Palma and Belvedere for the purposes of reconstruction in the net carrying value of HRK 4,515 thousand. In 2012, a portion of the hotel Histria and the apartment complex Punta Verdula was written off in the amount of HRK 6,306 thousand.

## NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Property with a carrying value of HRK 432,207 thousand (2012: HRK 471,685 thousand) has been pledged as collateral for the repayment of bank borrowings (Note 25).

Borrowing costs amounting to HRK 322 thousand were capitalised during 2013 and included in the value of buildings (2012: HRK 2,170 thousand). The borrowing costs include interest for financing construction work on tourist buildings. The capitalisation rate was 5.00% (2012: 4.90%).

Of the total value of the Company's equipment, those leased under a finance lease contract are as follows:

| | **2013** | **2012** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Cost | 1,816 | 1,389 |
| Accumulated depreciation | (703) | (364) |
| Net book amount | **1,113** | **1,025** |

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

| | **2013** | **2012** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Cost | 223,102 | 188,038 |
| Accumulated depreciation as at 1 January | (116,204) | (100,346) |
| Depreciation charge for the year | (3,475) | (2,866) |
| **Net book amount** | **103,423** | **84,826** |

The operating lease relates to the lease of shops and restaurants or premises and equipment. During 2013, the Company realised rental income in the amount of HRK 11,369 thousand (2012: HRK 11,159 thousand).

**Operating lease commitments – where the Company is the lessor.** The future aggregate minimum lease payments receivable from operating leases based on lease agreements concluded up to 31 December are as follows:

| | **2013** | **2012** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Up to 1 year | 10,153 | 11,605 |
| From 2 to 5 years | 12,921 | 16,922 |
| Over 5 years | 48,117 | 56,592 |
| | **71,191** | **85,119** |

In 2013 and 2012, there were no contingent rents recognised as income in the statement of comprehensive income. All lease agreements are renewable and the existing lessees have a priority right with respect to the extension of the lease agreement. There is no purchase option.

## NOTE 15 – INTANGIBLE ASSETS

| *(in thousands of HRK)* | **Technical documentation** | **Licences** | **Total** |
|---|---|---|---|
| **At 31 December 2011** | | | |
| Cost | 8,978 | 4,756 | 13,734 |
| Accumulated amortisation | (7,587) | (1,562) | (9,149) |
| **Net book amount** | **1,391** | **3,194** | **4,585** |
| **Year ended 31 December 2012** | | | |
| Opening net book amount | 1,391 | 3,194 | 4,585 |
| Additions | 910 | 350 | 1,260 |
| Disposals | (385) | - | (385) |
| Amortisation for the year (Note 29) | (239) | (965) | (1,204) |
| Closing net book amount | 1,677 | 2,579 | 4,256 |
| **At 31 December 2012** | | | |
| Cost | 9,503 | 5,093 | 14,596 |
| Accumulated amortisation | (7,826) | (2,514) | (10,340) |
| **Net book amount** | **1,677** | **2,579** | **4,256** |
| **Year ended 31 December 2013** | | | |
| Opening net book amount | 1,677 | 2,579 | 4,256 |
| Additions | - | 505 | 505 |
| Amortisation for the year (Note 29) | (204) | (1,083) | (1,287) |
| Closing net book amount | 1,473 | 2,001 | 3,474 |
| **At 31 December 2013** | | | |
| Cost | 9,503 | 5,597 | 15,100 |
| Accumulated amortisation | (8,030) | (3,596) | (11,626) |
| **Net book amount** | **1,473** | **2,001** | **3,474** |

## NOTE 16 – INVESTMENTS IN SUBSIDIARIES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At 1 January | 40 | 40 |
| At 31 December | **40** | **40** |

The subsidiaries are:

| | Country | Ownership % | |
|---|---|---|---|
| | | 2013 | 2012 |
| Mažurana d.o.o., Zagreb | Croatia | 100 | 100 |
| Ulika d.o.o., Zagreb | Croatia | 100 | 100 |

The subsidiaries were founded on 17 June 2008 and have not been active to date.

## NOTE 17 – DEFERRED TAX ASSETS

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Deferred tax assets** | | |
| Deferred tax asset to be recovered after more than 12 months | 5,863 | 8,653 |
| Deferred tax assets to be recovered within 12 months | 1,903 | 914 |
| | **7,766** | **9,567** |

## NOTE 17 – DEFERRED TAX ASSETS (continued)

| | Provisions for concessions | Provisions for legal disputes | Accruals for management services | Retirement benefit obligation | Tax loss carry forward | Total |
|---|---|---|---|---|---|---|
| At 1 January 2012 | 1,028 | 2,323 | 5,856 | 1,046 | 89 | 10,342 |
| Credited to the statement of comprehensive income | 1,186 | 283 | 498 | 936 | - | 2,903 |
| Charged to the statement of comprehensive income | (901) | (5) | (1,990) | (693) | (89) | (3,678) |
| **At 31 December 2012** | **1,313** | **2,601** | **4,364** | **1,289** | **-** | **9,567** |
| Credited to the statement of comprehensive income | 564 | 281 | - | 762 | 1,163 | 2,770 |
| Charged to the statement of comprehensive income | (1,028) | - | (2,442) | (1,101) | - | (4,571) |
| **At 31 December 2013** | **849** | **2,882** | **1,922** | **950** | **1,163** | **7,766** |

Temporary differences between the accounting profit and tax base arose due to expenses not recognised for tax purposes such as accruals for management services, the legal costs provided for, uninvoiced concession costs and provisions for retirement benefit expenses.

## NOTE 18 – INVENTORIES

Inventories comprise the following:

| | **2013** | **2012** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Food and beverages | 528 | 574 |
| Small inventory | 79 | 91 |
| Trade goods | 5 | 5 |
| Advances for goods | 1 | 18 |
| | **613** | **688** |

## NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY

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

| *(in thousands of HRK)* | Loans and receivables | Available-for-sale financial assets | **Total** |
|---|---|---|---|
| **At 31 December 2013** | | | |
| **Financial assets at balance sheet date** | | | |
| Available-for-sale financial assets | - | 135 | 135 |
| Deposits | 386 | - | 386 |
| Trade and other receivables | 7,249 | - | 7,249 |
| Cash and cash equivalents | 32,439 | - | 32,439 |
| **Total** | **40,074** | **135** | **40,209** |

| *(in thousands of HRK)* | Loans and receivables | Available-for-sale financial assets | **Total** |
|---|---|---|---|
| **At 31 December 2012** | | | |
| **Financial assets at balance sheet date** | | | |
| Available-for-sale financial assets | - | 151 | 151 |
| Deposits | 505 | - | 505 |
| Trade and other receivables | 9,053 | - | 9,053 |
| Cash and cash equivalents | 27,615 | - | 27,615 |
| **Total** | **37,173** | **151** | **37,324** |

The above amounts of financial assets represent the Company's maximum exposure to credit risk at the reporting date. The carrying amount approximates its fair value due to the short-term maturities.

| | **2013** | **2012** |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Financial liabilities at the balance sheet date – *at amortised cost*** | | |
| Trade and other payables | 35,568 | 44,245 |
| Borrowings | 350,484 | 333,782 |
| | **387,372** | **362,756** |

## NOTE 19 b – CREDIT QUALITY OF FINANCIAL ASSETS

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Trade and other receivables** | | |
| Existing domestic customers – past payments within maturity period (no defaults) | 1,476 | 2,299 |
| Existing foreign customers – with some defaults in the past | 118 | 125 |
| | **1,594** | **2,424** |

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Deposits and loans** | | |
| Financial institutions – no credit rating | 386 | 505 |
| | **386** | **505** |

The Company deposits cash at banks with the following credit ratings by Standard & Poor's:

| **Cash at bank** | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Without rating | 161 | 428 |
| BB (Zagrebačka banka, PBZ, Hypo Alpe Adria Bank) | 32,278 | 27,187 |
| | **32,439** | **27,615** |

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

## NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| *Equity securities* | | |
| *Listed* | | |
| Privredna banka d.d., Zagreb | 95 | 111 |
| *Unlisted* | | |
| IRTA d.o.o., Poreč | 40 | 40 |
| | **135** | **151** |

Unlisted securities are stated at cost. Available-for-sale financial assets are denominated in HRK.

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At beginning of the year | 151 | 144 |
| Fair value (losses)/gains on available-for-sale financial assets (Note 24) | (16) | 7 |
| At end of the year | **135** | **151** |

None of these assets is either past due or impaired.

## NOTE 21 – TRADE AND OTHER RECEIVABLES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Domestic trade receivables | 9,386 | 10,402 |
| Trade receivables – related parties (Note 30) | 648 | 1,199 |
| Foreign trade receivables | 2,891 | 3,012 |
| Provision for impairment of trade receivables | (5,676) | (5,560) |
| Trade receivables – net | 7,249 | 9,053 |
| Deposit receivables – non-current portion /i/ | 322 | 333 |
| Deposit receivables – current portion /i/ | 64 | 172 |
| *Total financial assets* | 7,635 | 9,558 |
| Prepaid VAT receivable | 1,296 | 3,954 |
| Prepaid expenses | 2,750 | 2,121 |
| Other receivables | 167 | 290 |
| | **11,848** | **15,923** |
| Less: non-current portion | **(322)** | **(333)** |
| **Current portion** | **11,526** | **15,590** |

/i/ The deposit receivables relate to an interest-free deposit given as a collateral for the operating lease of vehicles over a 5-year term in the amount of HRK 386 thousand (2012: HRK 505 thousand).

The fair values of trade and other receivables are as follows:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Trade receivables – net | 7,249 | 9,053 |
| Deposit receivables | 354 | 448 |
| | **7,603** | **9,501** |

The fair values of deposit receivables are based on cash flows discounted using a rate based on the borrowing rate of 5% (2012: 5.5%).

## NOTE 21 – TRADE AND OTHER RECEIVABLES (CONTINUED)

The maturity of the non-current portion of the deposit is as follows:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| From 1 to 2 years | 62 | 124 |
| From 2 to 5 years | 260 | 209 |
| | **322** | **333** |

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At 1 January | 5,560 | 6,139 |
| Additional provision | 452 | 44 |
| Write-off | (274) | - |
| Collection of previously impaired receivables | (62) | (623) |
| At 31 December | **5,676** | **5,560** |

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Trade receivables – gross:** | | |
| Neither past due nor impaired | 1,594 | 2,424 |
| Past due, but not impaired | 5,655 | 6,629 |
| Past due and impaired | 5,676 | 5,560 |
| | **12,925** | **14,613** |

As at 31 December 2013, trade receivables in the amount of HRK 5,655 thousand (2012: HRK 6,629 thousand) were past due but not impaired. The ageing analysis of these receivables is as follows:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Up to one month | 1,241 | 370 |
| One to two months | 358 | 1,001 |
| Two to three months | 1,437 | 861 |
| Over three months up to 1 year | 2,619 | 4,397 |
| | **5,655** | **6,629** |

## NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| EUR | 3,236 | 3,492 |
| HRK | 4,399 | 6,066 |
| | **7,635** | **9,558** |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company requires advances and promissory notes as security.

## NOTE 22 – CASH AND CASH EQUIVALENTS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Giro accounts | 661 | 2,322 |
| Foreign currency accounts | 31,617 | 24,865 |
| Cash in hand | 161 | 428 |
| | **32,439** | **27,615** |

Giro accounts bear an interest rate from 0.01% to 0.25% (2012: 0.01% to 5.5%).

The carrying amount of cash and cash equivalents is denominated in the following currencies:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| HRK | 822 | 2,750 |
| EUR | 31,617 | 24,865 |
| | **32,439** | **27,615** |

## NOTE 23 – SHARE CAPITAL

/i/ The ownership structure as at 31 December was as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Number of shares** | **%** | **Number of shares** | **%** |
| W2005/Dvadeset Osam d.o.o. | 1,618,263 | 74.15 | 1,618,263 | 74.15 |
| Restructuring and Sale Center (CERP)*ex AUDIO | 42,590 | 1.95 | - | - |
| ERSTE BANK d.d. / joint custodian account | 36,364 | 1.67 | - | - |
| SG-SB d.d./ KD Victoria Fond | 30,183 | 1.38 | 46,430 | 2.13 |
| ZABA d.d. / joint account for Unicredit Bank Austria AG | 27,504 | 1.26 | 28,170 | 1.29 |
| Piovesana Ezio | 11,926 | 0.55 | 11,844 | 0.54 |
| Dinova Diona d.o.o. | 11,273 | 0.52 | 11,273 | 0.52 |
| ZABA d.d. / joint custodian account | 10,039 | 0.46 | 6,491 | 0.30 |
| Bakić Nenad | 6,708 | 0.31 | 36,314 | 1.66 |
| SG-SB d.d. / (joint account – domestic investors) | 5,182 | 0.24 | 6,535 | 0.30 |
| Treasury shares | 169 | 0.01 | 169 | 0.01 |
| Other | 382,299 | 17.52 | 361,506 | 16.56 |
| State Property Management Agency (AUDIO) | - | - | 42,539 | 1.95 |
| RBA d.d. (custodian accounts) | - | - | 8,473 | 0.39 |
| Hypo Alpe Adria Bank d.d. / Gianpaolo de Lucca | - | - | 4,493 | 0.21 |
| **TOTAL** | **2,182,500** | **100.00** | **2,182,500** | **100.00** |

/ii/ As at 31 December 2013 and 2012, the Company’s share capital amounts to HRK 43,650 thousand and is divided into 2,182,500 ordinary shares of with a nominal value of HRK 20 per share.

## NOTE 24 – RESERVES AND (ACCUMULATED LOSS)/RETAINED EARNINGS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Legal reserves | 2,129 | 2,129 |
| Other reserves | 636,586 | 636,602 |
| Retained earnings | 1,401 | 667 |
| | **640,116** | **639,398** |
| **Changes in reserves:** | | |
| **Legal reserves** | | |
| At beginning of the year | 2,129 | 2,129 |
| **At end of the year** | **2,129** | **2,129** |
| **Other reserves** | | |
| At beginning of the year | 636,602 | 641,155 |
| Coverage of accumulated loss | - | (4,560) |
| Fair value (losses)/gains on available-for-sale financial assets (Note 20) | (16) | 7 |
| **At end of the year** | **636,586** | **636,602** |
| **Retained earnings/(accumulated loss)** | | |
| At beginning of the year | 667 | (4,560) |
| Transfer from other reserves | - | 4,560 |
| Profit for the year | 734 | 667 |
| **At end of the year** | **1,401** | **667** |

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 share premium reach 5% of the Company's share capital. This reserve is not distributable.

As at 31 December 2013 and 2012, legal reserves amounted to HRK 2,129 thousand or 4.88% of the share capital.

At 31 December 2013, other reserves amounting to HRK 636,586 thousand (2012: HRK 636,602 thousand) comprise of HRK 611,100 thousand (2012: HRK 611,100 thousand) which relate to the share capital decrease, retained earnings from previous years of HRK 25,441 thousand (2012: HRK 25,441 thousand), reserves for treasury shares of HRK 4 thousand (2012: HRK 4 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 41 thousand (2012: HRK 57 thousand).

Other reserves in the amount of HRK 636,541 thousand (2012: HRK 636,541 thousand) are distributable.

## NOTE 25 – BORROWINGS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Short-term** | | |
| Finance lease /ii/ | 273 | 370 |
| Bank borrowings – current portion of long-term borrowings | 12,985 | 22,376 |
| Borrowings from related parties – current portion of long-term borrowings (Note 30) | 943 | - |
| | 14,201 | 22,746 |
| **Long-term** | | |
| Bank borrowings | 221,320 | 212,711 |
| Finance lease /ii/ | 456 | 348 |
| Borrowings from related parties (Note 30) /i/ | 114,507 | 97,977 |
| | 336,283 | 311,036 |
| | **350,484** | **333,782** |

/i/ Borrowings from related parties including interest payable mature on 31 December 2021, while the interest rate on the original principal amount is 15% p.a., which results in an effective interest rate of 8.85%.

All bank borrowings are secured by a mortgage over hotel facilities (Note 14) with a net carrying amount of HRK 432,207 thousand (2012: HRK 471,685 thousand).

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| 6 months or less | 243,520 | 235,805 |
| Fixed interest rate | 106,964 | 97,977 |
| | **350,484** | **333,782** |

The carrying amount of the Company's borrowings is denominated in the following currencies:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| EUR | 223,577 | 235,805 |
| HRK | 126,907 | 97,977 |
| | **350,484** | **333,782** |

**NOTE 25 – BORROWINGS (continued)**

Maturities of long-term borrowings are as follows:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| From 1 to 2 years | 17,702 | 28,054 |
| From 2 to 5 years | 56,266 | 48,248 |
| Over 5 years | 262,315 | 234,734 |
| | **336,283** | **311,036** |

At the balance sheet date the average annual effective interest rate on bank borrowings was 5.00% (2012: 5.28%), while on borrowings from related parties it was 8.85% (2012: 8.85%).

The carrying amount and fair value of long-term borrowings is as follows:

| *(in thousands of HRK)* | **Carrying amount** | | **Fair value** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Borrowings | 336,283 | 311,036 | 355,180 | 329,022 |

The fair value of short-term borrowings approximates their carrying amount because the impact of discounting is not significant. The fair value is based on cash flows discounted using a rate based on the market rate of 5.00% (2012: 5.47%).

*/ii/ Finance lease liabilities*

The finance leases were granted in EUR.
Lease liabilities were effectively secured as the rights to the leased asset revert to the lessor in the event of default (Note 14).

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Future minimum finance lease payments: | | |
| No later than one year | 293 | 404 |
| Later than 1 year and no later than 5 years | 487 | 375 |
| | 780 | 779 |
| Future interest charge | (51) | (61) |
| Present value of finance lease liabilities | **729** | **718** |

## NOTE 26 – PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

| *(in thousands of HRK)* | **Legal disputes /i/** | **Termination benefits /ii/** | **Jubilee awards /ii/** | **Total** |
|---|---|---|---|---|
| At 1 January 2013 | **24,506** | **591** | **1,143** | **26,240** |
| Additional provisions through profit or loss | 1,406 | - | - | 1,406 |
| Reversal of provisions through profit or loss | - | (336) | (318) | (654) |
| Used during the year | - | (16) | (167) | (183) |
| **At 31 December 2013** | **25,912** | **239** | **658** | **26,809** |

/i/ The provision relates to the legal dispute with the companies Herculanea d.o.o. Pula and Vodovod d.o.o. Pula which has as yet not been finalised (Note 28). These provisions are expected to be utilised during 2015.

/ii/ Provisions for termination benefits and jubilee awards were made in accordance with agreed employee rights as defined by the Collective bargaining agreement. The amount will be utilised in the period from 2015 to 2053.

## NOTE 27 – TRADE AND OTHER PAYABLES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Domestic trade payables | 5,062 | 4,634 |
| Related parties – domestic (Note 30) | 915 | 2,126 |
| Related parties – foreign (Note 30) | 2,464 | 1,227 |
| Foreign trade payables | 75 | 48 |
| Interest payable | 2,738 | 2,821 |
| Interest payable – related parties (Note 30) | 105 | - |
| Accruals for concession of tourist land – non-current portion | 12,274 | 10,570 |
| Accruals for concession of tourist land – current portion | 1,953 | 624 |
| Accruals for management services (Note 30) | 9,982 | 22,195 |
| *Total financial liabilities* | 35,568 | 44,245 |
| Advances received | 1,619 | 2,122 |
| Due to employees/salaries | 6,990 | 7,681 |
| Taxes and contributions from and on salaries | 2,350 | 2,119 |
| Accrued liabilities for other employee benefits | 105 | 119 |
| Termination benefits payable | 1,465 | 3,914 |
| Deferred income | 786 | 765 |
| Other accruals and liabilities | 279 | 774 |
| | **49,162** | **61,739** |
| Less: non-current portion | **12,274** | **32,765** |
| **Current portion** | **36,888** | **28,974** |

The carrying amounts of trade and other payables are denominated in the following currencies:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| HRK | 20,957 | 21,506 |
| EUR | 14,611 | 22,739 |
| | 35,568 | 44,245 |

## NOTE 28 – CONTINGENCIES AND COMMITMENTS

### Legal disputes

The Company is involved in a number of legal disputes, both as defendant and as plaintiff, arising from the ordinary course of business, including the legal dispute with the company Herculanea d.o.o. Pula which has as yet not been resolved. In the financial statements for the year ended 31 December 2013, provisions for certain legal disputes have been made for which the Company anticipates an outflow of economic benefits in the amount of HRK 25,912 thousand (2012: HRK 17,022 thousand), as set out in Note 26. The possible uncertainties and risks were taken into account in reaching the best estimate of the provision.

### Capital commitments

As at 31 December 2013, future commitments with respect to investments in tourist facilities amounted to HRK 92,501 thousand (2012: HRK 0 thousand). The objective of the investment is the finalisation of the building, raising the standard of service to 4* and becoming a member of the Park Plaza brand. The total investment amounts to EUR 17 million and is fully funded by bank sources.

**Operating lease commitments – where the Company is the lessee.** The future aggregate minimum lease payments under operating leases are as follows:

| | **2013** | **2012** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Up to 1 year | 64 | 321 |
| From 1 to 5 years | 322 | 404 |
| | **386** | **725** |

Lease agreements relate to the operating lease of vehicles.

## NOTE 29 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Profit before tax | 2,536 | 2,335 |
| Adjustments for: | | |
| Depreciation (Note 14, 15) | 47,088 | 39,591 |
| Impairment of property, plant and equipment (Note 9) | 4,588 | 6,760 |
| Gains on sale of property, plant and equipment (Note 10) | (105) | (36) |
| Provision for impairment of receivables – net (Note 9) | 390 | (579) |
| Finance costs – net (Note 11) | 25,070 | 19,872 |
| Penalty interest expense (Note 9) | 716 | 36 |
| Increase in provisions (Note 26) | 752 | 1,304 |
| Changes in working capital (excluding the effects of acquisition and disposal): | | |
| - trade and other receivables | 3,564 | 3,269 |
| - inventories | 75 | (352) |
| - trade and other payables | (13,987) | (6,910) |
| Cash generated from operations | **70,687** | **65,290** |

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Net book value of sold property, plant and equipment | 350 | 940 |
| Gain on sale of property, plant and equipment (Note 10) | 105 | 36 |
| Proceeds on sale of property, plant and equipment | **455** | **976** |

## NOTE 30 – 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. Arenaturist d.d. Pula is controlled by W2005/Dvadeset Osam d.o.o. Zagreb, which owns 74.15% of the Company's shares as of 1 August 2007. The ultimate parent is Goldman Sachs Company, Inc. USA.

W2005/Dvadeset devet d.o.o., Zagreb is the parent company of the following subsidiaries: W2005/Dvadeset Osam d.o.o., AT Hoteli Medulin d.o.o., Medulin, AT Zlatne stijene d.o.o., Pula, AT Turistička naselja d.o.o., Pula.

Arenaturist d.d., Pula is the parent company of the subsidiaries Ulika d.o.o., Zagreb and Mažurana d.o.o., Zagreb.

Related parties in the W2005/Dvadeset Devet Group are as follows: W2005/Dvadeset Osam d.o.o., Zagreb, AT Hoteli Medulin d.o.o., Medulin, AT Zlatne stijene d.o.o., Pula, AT Turistička naselja d.o.o., Pula, Ulika d.o.o., Zagreb and Mažurana d.o.o., Zagreb.

Goldman Sachs Group owns 80%, and Park Plaza Hotels indirectly owns 20% of the shares of the company W2005/Dvadeset Devet d.o.o., Zagreb.

Related party transactions were as follows:

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| **a) Sale of services** | | | |
| - AT Hoteli Medulin d.o.o., Medulin | | 4,078 | 4,215 |
| - AT Zlatne stijene d.o.o., Pula | | 3,602 | 3,630 |
| - AT Turistička naselja d.o.o., Pula | | 312 | 286 |
| | | 7,992 | 8,131 |
| **b) Marketing and promotion costs** | | | |
| - AT Hoteli Medulin d.o.o., Medulin | | 9,580 | 8,939 |
| **c) Management services** | | | |
| - Park plaza Hotels | 9 | 11,867 | 10,838 |
| - Reversal of provision PPH | 9 | - | (4,256) |
| **d) Interest expense** | | | |
| - W2005/Dvadeset Osam d.o.o., Zagreb | | 9,930 | 10,274 |
| - Arenaturist Hoteli d.o.o. | | 209 | - |

## NOTE 30 – RELATED PARTY TRANSACTIONS (continued)

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| **e) Trade and other receivables:** | | | |
| - AT Hoteli Medulin d.o.o., Pula | | 204 | 508 |
| - AT Zlatne stijene d.o.o., Pula | | 13 | 67 |
| - AT Turistička naselja d.o.o., Pula | | 55 | 5 |
| - Park Plaza Hotels | | 376 | 619 |
| | 21 | **648** | **1,199** |
| **f) Trade and other payables:** | | | |
| - AT Hoteli Medulin d.o.o., Pula | | 1,007 | 2,116 |
| - AT Zlatne stijene d.o.o., Pula | | 14 | 8 |
| - AT Turistička naselja d.o.o., Pula | | - | 2 |
| - Park plaza Hotels | | 12,445 | 23,422 |
| | 27 | **13,466** | **25,548** |
| **g) Borrowings** | | | |
| Arenaturist Hoteli d.o.o. | | 7,543 | - |
| W 2005/ Dvadeset Osam d.o.o., Zagreb | | 107,907 | 97,977 |
| | 25 | **115,450** | **97,977** |
| **h) Key management compensation (Executive Directors)** | | | |
| Net salaries | | 2,028 | 2,052 |
| Pension insurance contributions | | 252 | 248 |
| Health insurance contribution | | 246 | 262 |
| Other contributions, tax and surtax | | 667 | 647 |
| | | **3,193** | **3,209** |

The Company has 4 Executive directors (2012: 4).

These financial statements set out on pages 11 to 62 were approved by the Executive Directors of the Company on 1 April 2014.

Dr. Igor Štoković
Chief Executive Director

Milena Perković
Executive Director

Reuel Israel Gavriel Slonim
Executive Director

Abraham Thomas
Executive Director