ARENATURIST Shareholder Company
for Tourism and Catering

ANNUAL REPORT
FOR THE YEAR 2014

ARENATURIST Shareholder Company
for Tourism and Catering

CONTENT

ARENATURIST Shareholder Company
for Tourism and Catering

I STATEMENT OF EXECUTIVE DIRECTORS' RESPONSIBILITY

The Executive Directors present the financial statements for the year ended 31 December 2014 to the Management Board.

Pursuant to the Croatian Accounting Act (Official Gazette 109/07), the Executive Directors are required to ensure that the financial statements are prepared in accordance with International Financing reporting Standards (IFRS) as issued by the International Accounting Standards Board and so give a true and fair view of the Company's financial performance and its results for the reporting period.

According to the best knowledge of the Executive Directors':

- The financial statements have been prepared in accordance with International Financial Reporting Standards and give a true and fair view of the assets and liabilities, profits and losses, financial position and operations of the Company.
- The financial statements contain a faithful presentation of the Company's operating results and development with a description of the principal risks and uncertainties the Company is exposed to.

The Executive Directors have reasonable expectation that the Company has adequate resources to continue in business and the going concern principle was applied in preparing these financial statements.

In preparing the financial statements, the Executive Directors are responsible:

- To select and consistently apply appropriate accounting policies
- For making reasonable and prudent judgments and estimates
- To comply with applicable accounting standards, while reporting and explaining all material departures in the financial statements
- To prepare the financial statements under the going concern principle, unless it is inappropriate due to the Company's actual position
- 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.

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Dr. Igor Štoković
Executive Director

Milena Perković
Executive Director

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

Reuel Israel Gavriel Slonim
Executive Director

pp

Abraham Thomas
Executive Director

Pula, 31 March 2015

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 for 40 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 2014, 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 4,498 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 8,300 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 1,395 rooms, two apartment settlements with 579 units and eight 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 2014, 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 18 August 2014, ten members were re-elected, and the Employees' Council reappointed its representative.

The mandate of the Management Board members runs from 25 September 2014 to 25 September 2015.

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 28 August 2014 for the period up to 18 September 2016:

Igor Štoković	Chief Executive Director
Milena Perković	Executive Director
Reuel Israel Gavriel Slonim	Executive Director
Abraham Thomas	Executive Director

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 2014.

General Assembly

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

During 2014, 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 2013, the discharge of the Management Board members for the year 2013, the election of the Management board members for a new one-year mandate (2014/2015) and the appointment of the Company's auditor for the year 2014.

The number of potential maximum votes at the General Assembly meeting is 2,182,331, which is equal to the number of shares issued (2,182,500) deducted by 169 treasury shares.

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 18 August 2014, 74.7% of total votes were presented.

2014 Highlights

- Hotel Belvedere in Medulin reopened as Park Plaza Belvedere in June 2014. The investment was worth EUR 17.1 million.
- In November 2014, the Company started with the reconstruction of the Hotel Park, located on the Verudela peninsula, in the amount of EUR 6.5 million financed by loan funds from HBOR and Zagrebačka banka.

Operating results in 2014

In 2014, number of guests was at last year's level. Slight decrease of guests in campsites, due to nearly 40 rainy days, was substituted with higher number of guests in hotels and apartments despite the fact that hotel Belvedere was closed for six months because of renovation.

Traditionally, most of the Company's guests are from Germany, Slovenia, Austria and Italy, amounted to 70% of total guests. Number of guests from the Great Britain continue to increase also in 2014 by 42% in relation to the previous year. Despite the fact that the number of guests was at last's year level, higher average room rate and better extra services resulted in higher operating revenues in 2014 compared to the last year.

Operating revenue was realised in the amount of HRK 315.5 million, which represents an increase of HRK 17.8 million or 5.7% in relation to the previous year, primarily due to the growth of average prices of accommodation.

Operating expenses amounted to HRK 298.6 million, which represents an increase of HRK 27.8 million or 10.3% compared to the previous year. The growth in operating expenses was mainly effected by the increase of depreciation, higher commission costs due to more room nights from online travel agents and extraordinary costs related to net book value of assets in hotels Belvedere and Park amounted to HRK 15.9 million due to refurbishment. The investment in Hotel Belvedere was completed in June 2014, and the reconstruction of Hotel Park started in November 2014.

In 2014, the operating profit amounted to HRK 16.8 million, it is lower by 39.0% or HRK 10.8 million compared to the year 2013.

In 2014, finance revenues amounted to HRK 15.2 thousand. Finance costs amounted to HRK 24.4 million of which interest expenses amounted to HRK 22.2 million and negative effect of exchange rate differences emerged from revaluation of outstanding principles of loans denominated in foreign currency amounted to HRK 1.6 million.

In 2014, the Company realised a net loss of HRK 9.2 million, in 2013, net profit after adjustment was HRK 3.0 million. The loss is mostly effected by extraordinary costs related to net book value of assets amounted to HRK 15.9 million. Corrections of prior period was made after using IAS 39 Financial Instruments: Recognition and Measurement. Amortised cost using the effective interest rate method was applied for calculation of interest on borrowings.

Assets

Total value of assets on 31 December 2014 was HRK 1,227.0 million; it represents a HRK 116.8 million increase in relation to previous year. Long-term assets increased by HRK 88.6 million due to investments, short-term assets increased by HRK 28.2 million. Long-term assets amounts to HRK 1,149.1 million and short-term assets amounts to HRK 77.9 million. Cash at the bank doubled comparing to the previous year.

Capital, reserves and liabilities

U 2014, the management made the decision of changes in accounting policies. In line with the IAS 39 interest expense from related parties is calculated by using amortised cost using the effective interest rate method. Changes in accounting policies resulted in adjustments of prior period results. As of 1 January 2013 and 31 December 2013, the correction of prior calculated interest decreased interest expense, increased Company's profit and decreased Company's long-term borrowings in the amount of HRK 10.1 million.

Capital and reserves decreased in relation to the previous year by HRK 9.1 million and amounted to HRK 684.7 million.

Total provisions and long-term liabilities of the Company amounted to HRK 484.3 million, which represents an increase of HRK 119.1 million compared to the 2013 due to investment in Hotel Belvedere. Short-term liabilities increased by HRK 6.9 million compared to last year and amounted to HRK 58.0 million.

Human Resources

- At 31 December 2014, Arenaturist had 306 permanent employees, and at the peak of the season (August) additional 684 employees were employed of which 50 employees have concluded Temporary Service Contract for permanent seasonal jobs. Annually, based on working hours, Arenaturist employs 534 employees.
- The Company in cooperation with the Park Plaza continuously invests in training and development of employees towards higher performance and quality.
- The Company's strategy is to permanently employ seasonal workers with the best performances.

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 significantly decreased in 2014. Banks offered hedging instruments in line with their estimates of movements in Euribor in 2014, 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 2014 was used only few 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. Most significant are:

- 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 27.3 million (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 2015

In 2014, the Company continues with the investment projects initiated in 2012. After fully refurbishment of Hotel Histria and Palma, tourist settlement Punta Verudela and hotel Belvedere in Medulin, in June 2015 the Company plans to reopen hotel Park as a 3 star hotel operating under Park Plaza brand as well as the other refurbished facilities.

In 2015, we expect that realised investments, better cost management and preparations for continued investments will enable revenue growth and increase the operating performance of the Company as a whole.

Increase of VAT rate on tourism and catering services from 10% to 13% implemented on 1January 2014 will still have a negative impact on Company's performances, likewise other taxes and charges imposed by local community and government. In 2015, 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.

We believe that in 2015 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 2015 is at last year's level. Bookings for hotels and apartments with higher categorisation increases and the ones for campsites is at last year's level. Bookings for hotels and apartments of lower category is slightly slower than last year's, which is in line with the slower booking trend from German market than it was in 2014. Bookings made by Great Britain's guests increases, different than the one from Russian guests. Situation on other market is stable, with a significant last minute booking trend. Bookings for Hotel Park are missing, due to the renovation process after which the hotel will operate as Park Plaza Arena Pula.

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ARENATURIST Shareholder Company
for Tourism and Catering

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

Integral part of the Report are the following Financial Statements:

1. Annual Directors' report
2. Balance Sheet
3. Statement of Comprehensive Income
4. Statement of Cash Flows
5. Independent Auditor's Report for the business year 2014
6. Statement of Changes in Equity
7. Notes to the Financial Statements

EXECUTIVE DIRECTORS:

Dr. Igor Štoković — Reuel Israel Gavriel Slonim

Milena Perković — Abraham Thomas

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

Pula, 31 March 2015

Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

We have read the accompanying Annual Report of the Company for the year ended 31 December 2014 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, 22 April 2015

ARENATURIST D.D., PULA

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts in thousands of HRK)	**Note**	**2014**	**Restated 2013**
Sales	5	314,699	296,237
Other income	6	428	499
Cost of materials and services	7	(106,844)	(99,443)
Staff costs	8	(86,030)	(85,226)
Depreciation and amortisation	14, 15	(49,921)	(47,088)
Other operating expenses	9	(55,853)	(39,091)
Other gains – net	10	357	1,718
Operating profit		**16,836**	**27,606**
Finance income		51	51
Finance costs		(24,440)	(22,822)
Finance costs – net	11	(24,389)	(22,771)
(Loss)/profit before tax		**(7,553)**	**4,835**
Income tax	12	(1,621)	(1,802)
(Loss)/profit for the year		**(9,174)**	**3,033**
Other comprehensive income:			
Fair value gains/(losses) on available-for-sale financial assets	20	25	(16)
Total comprehensive (loss)/income for the year		**(9,149)**	**3,017**
(Loss)/earnings per share (in HRK) – basic and diluted	13	**(4.20)**	**1.39**

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

BALANCE SHEET

AS AT 31 DECEMBER 2014

(all amounts in thousands of HRK)	Note	31 December 2014	Restated 31 December 2013	Restated 1 January 2013
ASSETS				
Non-current assets				
Property, plant and equipment	14	1,137,143	1,048,801	1,047,388
Intangible assets	15	2,510	3,474	4,256
Investments in subsidiaries	16	40	40	40
Available-for-sale financial assets	20	160	135	151
Deferred tax assets	17	6,145	7,766	9,567
Non-current receivables	21	2,801	-	-
Deposit receivables	21	341	322	333
		1,149,140	**1,060,538**	**1,061,735**
Current assets				
Inventories	18	1,065	613	688
Trade and other receivables	21	6,508	11,526	15,590
Current income tax receivable	12	3,579	5,101	-
Cash and cash equivalents	22	66,724	32,439	27,615
		77,876	**49,679**	**43,893**
		1,227,016	**1,110,217**	**1,105,628**
EQUITY				
Share capital	23	43,650	43,650	43,650
Treasury shares	23	(4)	(4)	(4)
Reserves	24	638,793	638,715	638,731
Retained earnings	24	2,260	11,487	8,454
		684,699	**693,848**	**690,831**
LIABILITIES				
Non-current liabilities				
Borrowings	25	441,012	326,197	303,249
Provisions for other liabilities and expenses	26	28,335	26,809	26,240
Trade and other payables	27	14,985	12,274	32,765
		484,332	**365,280**	**362,254**
Current liabilities				
Borrowings	25	18,697	14,201	22,746
Current income tax payable		-	-	823
Trade and other payables	27	39,288	36,888	28,974
		57,985	**51,089**	**52,543**
Total liabilities		**542,317**	**416,369**	**414,797**
Total equity and liabilities		**1,227,016**	**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 2014

(all amounts in thousands of HRK)	**Note**	**Share capital**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**
Year ended 31 December 2013 – restated						
At 1 January 2013 – restated	23,24	43,650	(4)	638,731	8,454	690,831
Profit for the year – restated		-	-	-	3,033	3,033
Other comprehensive loss	20	-	-	(16)	-	(16)
Total comprehensive income/(loss)		**-**	**-**	**(16)**	**3,033**	**3,017**
At 31 December 2013 – restated		**43,650**	**(4)**	**638,715**	**11,487**	**693,848**
Year ended 31 December 2014						
At 1 January 2014	23,24	43,650	(4)	638,715	11,487	693,848
Loss for the year		-	-		(9,174)	(9,174)
Other comprehensive income	20	-	-	25	-	25
Total comprehensive income/(loss)		**-**	**-**	**25**	**(9,174)**	**(9,149)**
Transfer to legal reserves	24	-	-	53	(53)	-
At 31 December 2014		**43,650**	**(4)**	**638,793**	**2,260**	**684,699**

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

ARENATURIST D.D., PULA

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts in thousands of HRK)	**Note**	**2014**	**Restated 2013**
Cash flows from operating activities			
Cash generated from operations	29	95,442	70,687
Income tax paid		(3,579)	(5,924)
Interest paid		(13,756)	(11,906)
Net cash from operating activities		78,107	52,857
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(153,433)	(52,154)
Purchase of intangible assets	15	(143)	(505)
Proceeds on sale of property, plant and equipment	29	346	457
Deposits given		(39)	118
Interest received	11	51	51
Net cash used in investing activities		**(153,218)**	**(52,033)**
Cash flows from financing activities			
Proceeds from borrowings		139,992	26,500
Proceeds from finance lease		269	531
Repayments of borrowings		(30,507)	(22,500)
Repayments of finance lease		(358)	(531)
Net cash from financing activities		**109,396**	**4,000**
Net increase in cash and cash equivalents		**34,285**	**4,824**
Cash and cash equivalents at beginning of year		32,439	27,615
Cash and cash equivalents at end of year	22	**66,724**	**32,439**

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

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 2014 and 2013 is disclosed in Note 23.

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

As at 31 December 2014 and 2013, 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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

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. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.
This standard did not have a significant impact on the Company's financial position or performance.

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.
This standard did not have a significant impact on the Company's financial position or performance.

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.
This standard did not have a significant impact on the Company's financial position or performance.

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.

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.

Amendment to IFRSs 10, 11 and 12 on Transition Guidance (effective for annual periods beginning on or after 1 January)
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.
The amendment did not have a significant impact on the Company's financial position or performance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities (effective for annual periods beginning on or after 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 profit or loss. 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.
The amendment did not have a significant impact on the Company's financial position or performance.

Amendment to IAS 32, 'Financial instruments: Presentation,' on asset and liability offsetting (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 balance sheet.

The amendment did not have a significant impact on the Company's financial position or performance.

Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective for annual periods beginning on or after 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 did not have a significant impact on the Company's financial position or performance.

Amendment to IAS 39, 'Financial instruments: recognition and measurement' on novation of derivatives (effective for annual periods beginning on or after 1 January 2014)
This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.
The amendment did not have a significant impact on the Company's financial position or performance.

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

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

IFRS 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018)
Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception:
Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

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

IFRS 14, 'Regulatory deferral accounts.' (effective for annual periods beginning on or after 1 January 2016)
This standard permits first-time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

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

IFRS 15, 'Revenue from contracts with customers.' (effective for annual periods beginning on or after 1 January 2017)
This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts,' IAS 18,'Revenue' and related interpretations.

Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

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

IFRIC 21, 'Levies' (effective in EU for annual periods beginning on or after 17 June 2014)
This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets.' IAS 37 sets out 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 addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised.

The Company is still assessing the impact on this interpretation, but it is not expected to have a significant impact on the Company's financial statements.

Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after 1 January 2016)
These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

Amendment to IFRS 11, 'Joint arrangements' regarding acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016)
This amendment provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business.' The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.
The Company plans to adopt this new amendment on the effective date as of and when endorsed by the EU. The Company is still assessing the impact on this amendment, but it is not expected to have a significant impact on the Company's financial statements.

Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation. (effective for annual periods beginning on or after 1 January 2016)
This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
The presumption may only be rebutted in certain limited circumstances. These are where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.
The Company plans to adopt this new amendment on the effective date as of and when endorsed by the EU. The Company is still assessing the impact on this amendment, but it is not expected to have a significant impact on the Company's financial statements.

Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' regarding bearer plants (effective for annual periods beginning on or after 1 January 2016)
These amendments change the reporting for bearer plants, such as grape vines, rubber trees and oil palms. Bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. The amendments include them in the scope of IAS 16 rather than IAS 41. The produce on bearer plants will remain in the scope of IAS 41.
The Company plans to adopt this new amendment on the effective date as of and when endorsed by the EU. The Company is still assessing the impact on this amendment, but it is not expected to have a significant impact on the Company's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

Amendment to IAS 19, 'Employee benefits' regarding employee or third party contributions to defined benefit plans (effective for annual periods beginning on or after 1 July 2014)
The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period.
The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary.
Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employee's working lives.
The Company plans to adopt this new amendment on the effective date as of and when endorsed by the EU. The Company is still assessing the impact on this amendment, but it is not expected to have a significant impact on the Company's financial statements.

Amendment to IAS 27, 'Separate financial statements' regarding the equity method (effective for annual periods beginning on or after 1 January 2016)
The amendment allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
The Company plans to adopt this new amendment on the effective date as of and when endorsed by the EU. The Company is still assessing the impact on this amendment, but it is not expected to have a significant impact on the Company's financial statements.

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

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

- IFRS 2, 'Share based payments,' and clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition.'
- IFRS 3, 'Business combinations,' and clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation.' It also clarifies that all non-equity contingent consideration is measured at fair value at each reporting date, with changes in value recognised in profit and loss.
- IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in aggregating operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.
- IFRS 13, 'Fair value' which amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short term receivables and payables at invoice amounts where the effect of discounting is immaterial.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

- IAS 16,'Property, plant and equipment' and IAS 38,'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
- IAS 24,'Related party disclosures' is 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'). Disclosure of the amounts charged to the reporting entity is required.

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

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

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

- IFRS 1, 'First time adoptions of IFRSs,' basis of conclusions is amended to clarify that where a new standard is not 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, 'Business combinations' is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint venture under IFRS 11.
- IFRS 13, 'Fair value measurement' is amended to clarify that the portfolio exception in IFRS 13 applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.
- IAS 40, 'Investment property' is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. IAS 40 assists users to distinguish between investment property and owner-occupied property. Preparers also need to consider the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

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

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

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

- IFRS 5, 'Non-current assets held for sale and discontinued operations' – The amendment clarifies that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution,' or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as 'held for sale.'

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

- IFRS 7, 'Financial instruments: Disclosures' – There are two amendments:
  - Servicing contracts – If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to IFRS 1 to give the same relief to first time adopters.
  - Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective.
- IAS 19, 'Employee benefits' – The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.
- IAS 34, 'Interim financial reporting' – the amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report.' The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.

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

2.2. Restatement of error of the previous period

IAS 8, Accounting policies, changes in accounting estimates and errors, requires a retrospective restatement of significant errors of the previous period in the first set of financial statements after an error has been detected, by restating comparative amounts for the presented previous period, i.e. previous periods, in which the error occurred.

Restatement description

During 2014, management found that the interest expense on borrowings from a related company is not calculated in accordance with the requirements of IAS 39 – Financial Instruments, according to the amortised cost method using the effective interest rate.

As at 1 January 2013, the overstated interest expense was corrected by which amount the Company's retained earnings were increased and long-term borrowing were decreased. The restatement had an effect on the statement of comprehensive income and the cash flow statement in 2013, in a way that the interest expense in 2013 was decreased, by which amount the liability for long-term borrowings was additionally decreased as at 31 December 2013.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Effects on the balance sheet at 31 December 2013:

(in thousands of HRK)		**31 December 2013**		**31 December 2013**
Item	**Description of error**	**Before restatement**	**Corrected**	**After restatement**
EQUITY AND LIABILITIES				
Profit for 2013	Increase in profit for the year by the amount of the reduction of overstated interest expense for 2013	734	2.299	3.033
Retained earnings	Increase in retained earnings by the amount of the reduction of overstated interest expense up to 31 December 2013	1.401	10.086	11.487
Long-term borrowings	Reconciliation of assessment of borrowings according to the amortised cost method.	336.283	(10.086)	326.197

Effects on the balance sheet at 1 January 2013:

(in thousands of HRK)		**1 January 2013**		**1 January 2013**
Item	**Description of error**	**Before restatement**	**Restated**	**After restatement**
EQUITY AND LIABILITIES				
Retained earnings	Increase in retained earnings by the amount of the reduction of overstated interest expense up to 1 January 2013.	667	7.787	8.454
Long-term borrowings	Reconciliation of assessment of borrowings according to the amortised cost method.	311.036	(7.787)	303.249

2.3 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.

2.4 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies (continued)

(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’.

2.5 Segment reporting

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

2.6 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	20 - 60 years
Plant and equipment	4 - 10 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment (continued)

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

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

2.7 Intangible assets

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).

2.8 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.

2.9 Financial assets

2.9.1 Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the 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 2.12 and 2.13).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

(b) Available-for-sale financial assets

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

2.9.2 Measurement and recognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. 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.

2.10. Impairment of financial assets

(a) Assets carried at amortised cost

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of financial assets (continued)

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.

2.11 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.

2.12 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 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.

2.14 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.

2.15 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.

2.16 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Current and deferred income tax (continued)

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.

2.17 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.

(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.

(d) 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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.

2.19 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.

2.20 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.

(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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Revenue recognition (continued)

(c) Interest income

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

2.21 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.

2.22 Earnings per share

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

2.23 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 2014, if the EURO had weakened/strengthened by 0.74% (2013: 1.0%) against the HRK, with all other variables held constant, the profit for the year would have been HRK 1,660 thousand higher/lower (2013: HRK 1,719 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.

3.1 Financial risk factors

At 31 December 2014, if 3M EURIBOR on EURO-denominated borrowings had been higher/lower by 0.01% (2013: 0.4%), with all other variables held constant, the profit for the year would have been HRK 29 thousand (2013: HRK 670 thousand) (lower)/higher, mainly as a result of higher/lower interest expense on variable-rate borrowings.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

In 2014, 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 only in a small amount 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 2014 and 2013, if the indices of the ZSE had been higher/lower by 5% for 2014 (2013: 10%), 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 5 thousand (2013: HRK 10 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 (continued)

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 to 1 year	1 - 2 years	2 - 5 years	Over 5 years
At 31 December 2014					
Trade payables	22,580				
Accrued fee for the tourist land concession		3,679	14,985		
Due to Park Plaza Hotels					
Borrowings	1,798	32,689	36,633	117,752	471,667
Total liabilities (contractual maturities)	**24,378**	**36,368**	**36,633**	**117,752**	**471,667**
At 31 December 2013					
Trade payables	10,451	908	-	-	-
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**	**26,859**	**40,912**	**84,236**	**413,066**

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 2014				
Available-for-sale financial assets:				
- equity securities	120	-	40	160
Total assets	**120**	**-**	**40**	**160**
At 31 December 2013				
Available-for-sale financial assets:				
- equity securities	95	-	40	135
Total assets	**95**	**-**	**40**	**135**

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 2.6.

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 2,441 thousand (2013: HRK 2,354 thousand).

In accordance with the accounting policy stated in Note 2.8, 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 7.72/EUR for 2014. If the EURO had strengthened/weakened by 0.74% against the HRK over the forecast period, value in use would be, on average, HRK 8,315 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 2014, 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 3,679 thousand (2013: 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 2014 is as follows:

(in thousands of HRK)	**Hospitality and tourism**	**Accompanying activities**	**Administrative services**	**Total**
Total sales	307,324	21,481	3,209	332,014
Inter-segment revenue	(951)	(16,364)	-	(17,315)
Revenue from external customers	306,373	5,117	3,209	314,699
Restated GOP	123,896	5,198	(25,070)	104,024
Depreciation and amortisation (Note 14 and 15)	45,945	2,817	1,159	49,921
Total assets	**1,045,610**	**91,819**	**13,377**	**1,150,806**
Total liabilities	**423,175**	**9,004**	**3,576**	**435,755**

The segment results for the year ended 31 December 2013 are 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**	**14,763**	**1,069,451**
Total liabilities	**303,044**	**5,249**	**3,192**	**311,485**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2014	2013
	(in thousands of HRK)	
Restated GOP – hospitality and tourism	123,896	126,795
Restated GOP – accompanying activities	5,198	4,246
Restated GOP – administrative services	(25,070)	(27,027)
Restated GOP	104,024	104,014
Fixed costs	(37,268)	(29,269)
Interest	(22,161)	(19,705)
Depreciation of property, plant and equipment	(49,920)	(47,088)
Other finance costs/income - net	(2,228)	(3,117)
Profit before tax	**(7,553)**	**4,835**

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:

	2014		2013	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	1,150,805	435,755	1,069,451	311,485
Unallocated:	76,211	106,562	40,766	104,884
Cash and cash equivalents	66,724		32,439	-
Deferred tax assets	6,145		7,766	-
Other financial assets	3,342		561	-
Borrowings	-	106,562	-	104,884
Total	**1,227,016**	**542,317**	**1,110,217**	**416,369**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2014	2013
	(in thousands of HRK)	
Accommodation	249,881	235,147
Food and beverages	41,957	38,628
Rentals	11,330	11,369
Other	11,531	11,093
	314,699	**296,237**

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:

	2014	2013
	(in thousands of HRK)	
Domestic sales	29,563	24,919
Foreign sales	285,136	271,318
	314,699	**296,237**

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

Foreign sales	**2014**	**%**	**2013**	**%**
Germany	85,258	30	78,700	29
Italy	33,520	12	30,555	11
Slovenia	41,058	15	41,491	15
Austria	38,915	14	34,946	13
Netherlands	12,438	4	14,223	5
Czech Republic	9,107	3	8,423	3
France	3,849	1	4,215	2
Other EU members	38,205	13	35,287	13
Other	22,786	8	23,478	9
Total	**285,136**	**100**	**271,318**	**100**

All non-current assets are located in Croatia.

NOTE 6 – OTHER INCOME

	2014	2013
	(in thousands of HRK)	
Income from refunding	351	483
Other	77	16
	428	**499**

NOTE 7 – COST OF MATERIALS AND SERVICES

	2014	2013
	(in thousands of HRK)	
Raw materials and supplies		
Food and beverages	16,840	16,535
Materials consumed	6,485	6,120
Energy and water	19,896	20,103
Small inventory	41	13
	43,262	**42,771**
External services		
Utility services	14,498	13,466
Marketing and promotion	15,549	14,268
Repairs and maintenance	5,286	4,788
Art and entertainment services	1,896	1,739
Telephone, postal and transportation services	1,455	1,475
Rentals	718	551
Concession fee	8,217	8,132
Agency services for sale of tourist packages	11,970	8,705
Other	3,993	3,548
	63,582	**56,672**
	106,844	**99,443**

NOTE 8 – STAFF COSTS

	2014	2013
	(in thousands of HRK)	
Net salaries	45,704	44,773
Pension contributions	13,417	13,103
Health insurance contribution	10,168	8,807
Other contributions, tax and surtax	9,421	9,256
Provision for termination benefits and jubilee awards (Note 26)	315	(654)
Termination benefits	942	4,131
Other staff costs /i/	6,063	5,810
	86,030	**85,226**
Number of employees at 31 December	**463**	**494**

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

NOTE 9 – OTHER OPERATING EXPENSES

	2014	2013
	(in thousands of HRK)	
Professional services	2,891	3,195
Utility and similar fees	8,610	7,875
Management fees (Note 30)	18,304	11,867
Management fees – reversal of provision (Note 30)	(967)	-
Insurance premiums	1,867	1,653
Bank charges, payment transaction costs and membership fees	3,358	3,051
Provisions for legal disputes (Note 26)	1,422	1,406
Entertainment	787	819
Impairment of property, plant and equipment	16,018	4,588
Provisions for impairment of receivables (Note 21)	190	452
Collection of receivables previously written-off (Note 21)	(15)	(62)
Penalty interest	2	716
Professional literature and education	261	553
Donations and sponsorships	406	541
Franchise costs	1,035	633
Other	1,684	1,804
	55,853	**39,091**

NOTE 10 – OTHER GAINS – NET

	2014	2013
	(in thousands of HRK)	
Net gain on sale of property, plant and equipment	90	105
Net foreign exchange gains – other	267	1,613
	357	**1,718**

NOTE 11 – FINANCE COSTS – NET

	2014	2013
	(in thousands of HRK)	
Finance income		
Interest income on cash deposits with banks	51	51
	51	51
Finance costs		
Interest expense	(22,161)	(19,705)
Bank charges	(642)	(432)
Foreign exchange losses – net	(1,637)	(2,685)
	(24,440)	(22,822)
Finance costs – net	**(24,389)**	**(22,771)**

NOTE 12 – INCOME TAX

	2014	2013
	(in thousands of HRK)	
Deferred tax expense – Origination and reversal of temporary differences (Note 17)	1,621	1,802
Current tax	-	-
Income tax expense	**1,621**	**1,802**

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% (2013: 20%) as follows:

	2014	Restated 2013
	(in thousands of HRK)	
(Loss)/profit before tax	(7,553)	4,835
Income tax at 20%	(1,511)	907
Effect of restatement in 2013	-	(400)
Expenses not deductible for tax purposes	4,546	2,955
Income not subject to tax	(1,264)	(2,823)
Effect of used tax losses	(150)	-
Effect of tax losses for which deferred tax assets were recognised	-	1,163
Net income tax expense	**1,621**	**1,802**

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. In 2014, the amount of HRK 150 thousand was utilised. The remaining amount of tax losses carried forward of HRK 5,065 thousand 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 – (LOSS)/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).

	2014	**2013**
(Loss)/profit for the year *(in thousands of HRK)*	(9,174)	3,033
Weighted average number of ordinary shares (basic)	2,182,331	2,182,331
(Loss)/earnings per share (basic) *(in HRK)*	**(4.20)**	**1.39**

Diluted

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

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 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**
Year ended 31 December 2014				
Opening net book amount	975,677	61,103	12,021	1,048,801
Additions	117,150	36,284	(1)	153,433
Disposals and impairment	(15,913)	(361)	-	(16,274)
Depreciation (Note 29)	(32,689)	(16,128)	-	(48,817)
Closing net book amount	**1,044,225**	**80,898**	**12,020**	**1,137,143**
At 31 December 2014				
Cost	1,578,392	198,019	12,020	1,788,431
Accumulated depreciation and impairment	(534,167)	(117,121)	-	(651,288)
Net book amount	**1,044,225**	**80,898**	**12,020**	**1,137,143**

In 2014, the item 'Disposals and impairment' includes the write-off of a portion of hotels Belvedere and Park for the purposes of reconstruction in the net carrying value of HRK 15,913 thousand. In 2013, a portion of hotels Palma and Belvedere was written off due to the reconstruction in the amount of HRK 4,251 thousand.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Property with a carrying value of HRK 507,643 thousand (2013: HRK 432,207 thousand) has been pledged as collateral for the repayment of bank borrowings (Note 25).

Borrowing costs amounting to HRK 459 thousand were capitalised during 2014 and included in the value of buildings (2013: HRK 322 thousand). The borrowing costs include interest for financing construction work on tourist buildings. The capitalisation rate was 5.00% (2013: 5.00%).

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

	2014	2013
	(in thousands of HRK)	
Cost	2,032	1,816
Accumulated depreciation	(1,085)	(703)
Net book amount	**947**	**1,113**

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

	2014	2013
	(in thousands of HRK)	
Cost	223,800	223,102
Accumulated depreciation as at 1 January	(119,679)	(116,204)
Depreciation charge for the year	(3,873)	(3,475)
Net book amount	**100,248**	**103,423**

The operating lease relates to the lease of shops and restaurants or premises and equipment. During 2014, the Company realised rental income in the amount of HRK 11,330 thousand (2013: HRK 11,369 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:

	2014	2013
	(in thousands of HRK)	
Up to 1 year	10,936	10,153
From 2 to 5 years	9,308	12,921
Over 5 years	47,880	48,117
	68,124	**71,191**

In 2014 and 2013, 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 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**
Year ended 31 December 2014			
Opening net book amount	1,473	2,001	3,474
Additions	5	138	143
Disposals and impairment	-	(3)	(3)
Amortisation for the year (Note 29)	(147)	(957)	(1,104)
Closing net book amount	1,331	1,179	2,510
At 31 December 2014			
Cost	9,508	5,590	15,098
Accumulated amortisation	(8,177)	(4,411)	(12,588)
Net book amount	**1,331**	**1,179**	**2,510**

NOTE 16 – INVESTMENTS IN SUBSIDIARIES

	2014	2013
	(in thousands of HRK)	
At 1 January	40	40
At 31 December	**40**	**40**

The subsidiaries are:

	Country	Ownership %	
		2014	**2013**
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.

(in thousands of HRK)	31 December 2014	31 December 2013
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	1,739	5,863
Deferred tax assets to be recovered within 12 months	4,406	1,903
	6,145	**7,766**

NOTE 17 – DEFERRED TAX ASSETS (continued)

(in thousands of HRK)	Provisions for concessions	Provisions for legal disputes	Accruals for management services	Termination benefits, overtime hours and jubilee awards	Tax loss carry forward	Total
At 1 January 2013	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**
Credited to the statement of comprehensive income	577	284	-	817	-	1,678
Charged to the statement of comprehensive income	(417)	-	(1,922)	(810)	(150)	(3,299)
At 31 December 2014	**1,009**	**3,166**	**-**	**957**	**1,013**	**6,145**

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:

(in thousands of HRK)	**31 December 2014**	**31 December 2013**
Food and beverages	876	528
Small inventory	146	79
Trade goods	4	5
Advances for goods	39	1
	1,065	**613**

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 2014			
Financial assets at balance sheet date			
Available-for-sale financial assets	-	160	160
Deposits	425	-	425
Trade and other receivables	5,604	-	2,803
Cash and cash equivalents	66,724	-	66,724
Total	**72,753**	**160**	**70,112**

(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**

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.

	2014	**2013**
	(in thousands of HRK)	
Financial liabilities at the balance sheet date – *at amortised cost*		
Trade and other payables	41,244	35,568
Borrowings	459,709	340,398
	500,953	**375,966**

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:

	2014	2013
	(in thousands of HRK)	
Trade and other receivables		
Existing domestic customers – past payments within maturity period (no defaults)	1,040	1,476
Existing foreign customers – with some defaults in the past	878	118
	1,918	**1,594**

	2014	2013
	(in thousands of HRK)	
Deposits and loans		
Financial institutions – no credit rating	425	386
	425	**386**

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

Cash at bank	2014	2013
	(in thousands of HRK)	
Without rating	128	161
BB (Zagrebačka banka, PBZ, Hypo Alpe Adria Bank)	66,596	32,278
	66,724	**32,439**

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

NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

(in thousands of HRK)	**31 December 2014**	**31 December 2013**
Equity securities		
Listed		
Privredna banka d.d., Zagreb	120	95
Unlisted		
IRTA d.o.o., Poreč	40	40
	160	**135**

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

	31 December 2014	**31 December 2013**
At beginning of the year	135	151
Fair value (losses)/gains on available-for-sale financial assets (Note 24)	25	(16)
At end of the year	**160**	**135**

None of these assets is either past due or impaired.

NOTE 21 – TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	**31 December 2014**	**31 December 2013**
Domestic trade receivables	6,304	9,386
Trade receivables – related parties (Note 30)	822	648
Foreign trade receivables	1,513	2,891
Provision for impairment of trade receivables	(5,836)	(5,676)
Trade receivables – net	2,803	7,249
Trade receivables – non-current portion /i/	2,801	-
Deposit receivables – non-current portion /ii/	341	322
Deposit receivables – current portion /ii/	84	64
Total financial assets	6,029	7,635
Prepaid VAT receivable	964	1,296
Prepaid expenses	2,505	2,750
Other receivables	152	167
	9,650	**11,848**
Less: non-current portion	**(3,142)**	**(322)**
Current portion	**6,508**	**11,526**

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

/i/ Non-current trade receivables relate to receivables from Puljanka d.d. on the basis of leases classified according to the maturity plan as defined in the pre-bankruptcy settlement plan for the stated company.

/ii/ 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 425 thousand (2013: HRK 386 thousand).

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

(in thousands of HRK)	**31 December 2014**	**31 December 2013**
Trade receivables – net	2,803	7,249
Deposit receivables	391	354
	3,194	**7,603**

The fair values of deposit receivables are based on cash flows discounted using a rate based on the borrowing rate of 3.76% (2013: 5%).

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

(in thousands of HRK)	**31 December 2014**	**31 December 2013**
From 1 to 2 years	31	62
From 2 to 5 years	310	260
	341	**322**

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

(in thousands of HRK)	**31 December 2014**	**31 December 2013**
At 1 January	5,676	5,560
Additional provision	190	452
Write-off	(15)	(274)
Collection of previously impaired receivables	(15)	(62)
At 31 December	**5,836**	**5,676**

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

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.

(in thousands of HRK)	31 December 2014	31 December 2013
Trade receivables – gross:		
Neither past due nor impaired	1,918	1,594
Past due, but not impaired	885	5,655
Past due and impaired	5,836	5,676
	8,639	**12,925**

As at 31 December 2014, trade receivables in the amount of HRK 885 thousand (2013: 5,655 thousand) were past due but not impaired. The ageing analysis of these receivables is as follows:

(in thousands of HRK)	31 December 2014	31 December 2013
Up to one month	141	1,241
One to two months	41	358
Two to three months	222	1,437
Over three months up to 1 year	481	2,619
	885	**5,655**

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

(in thousands of HRK)	31 December 2014	31 December 2013
EUR	1,176	3,236
HRK	4,853	4,399
	6,029	**7,635**

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

(in thousands of HRK)	**31 December 2014**	**31 December 2013**
Giro accounts	288	661
Foreign currency accounts	66,308	31,617
Cash in hand	128	161
	66,724	**32,439**

Giro accounts bear an interest rate from 0.01% to 0.25% (2013: 0.01% to 0.5%).

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

(in thousands of HRK)	**31 December 2014**	**31 December 2013**
HRK	416	822
EUR	66,308	31,617
	66,724	**32,439**

NOTE 23 – SHARE CAPITAL

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

	2014		**2013**	
	Number of shares	**%**	**Number of shares**	**%**
W2005/Dvadeset Osam d.o.o.	1,618,263	74.15	1,618,263	74.15
Bakić Nenad	51,186	2.35	6,708	0.31
Restructuring and Sale Center (CERP)*ex AUDIO	42,454	1.95	42,590	1.95
SG-SB d.d./ KD Victoria Fond	22,697	1.04	30,183	1.38
ZABA d.d. / Ardenas Estates S.A:	19,170	0.88		
Piovesana Ezio	11,926	0.55	11,926	0.55
RBA d.d. (custodian accounts)	11,273	0.52		
Interkapital vrijednosni papiri d.o.o. / custodian account	8,444	0.39	-	-
OTP banka d.d. / custodian account	6,465	0.30	-	-
OTP banka d.d. / custodian account	4,573	0.21	-	-
Treasury shares	169	0.01	169	0.01
Other	385,880	17.65	382,299	17.52
ERSTE BANK d.d. / joint custodian account	-	-	36,364	1.67
ZABA d.d. / joint account for Unicredit Bank Austria AG	-	-	27,504	1.26
Dinova Diona d.o.o.	-	-	11,273	0.52
ZABA d.d. / joint custodian account	-	-	10,039	0.46
SG-SB d.d. / (joint account – domestic investors)	-	-	5,182	0.24
TOTAL	**2,182,500**	**100.00**	**2,182,500**	**100.00**

/ii/ As at 31 December 2014 and 2013, 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 RETAINED EARNINGS

(in thousands of HRK)	**2014**	**31 December 2013**	**1 January 2013**
Legal reserves	2,182	2,129	2,129
Other reserves	636,611	636,586	636,602
Retained earnings	2,260	11,487	8,454
	641,053	**650,202**	**647,185**
Changes in reserves:			
Legal reserves			
At beginning of the year	2,129	2,129	2,129
Transfer from retained earnings	53	-	-
At end of the year	**2,182**	**2,129**	**2,129**
Other reserves			
At beginning of the year	636,586	636,602	641,155
Coverage of accumulated loss	-	-	(4,560)
Fair value (losses)/gains on available-for-sale financial assets (Note 20)	25	(16)	7
At end of the year	**636,611**	**636,586**	**636,602**
Retained earnings			
At beginning of the year	11,487	8,454	-
Transfer to legal reserves	(53)	-	-
(Loss)/Profit for the year	(9,174)	3,033	8,454
At end of the year	**2,260**	**11,487**	**8,454**

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 2014, legal reserves amounted to HRK 2,182 thousand or 5.00% of the share capital (2013: HRK 2,129 thousand or 4.88%).

At 31 December 2014, other reserves amounting to HRK 636,611 thousand (2013: HRK 636,586 thousand) comprise of HRK 611,100 thousand (2013: HRK 611,100 thousand) which relate to the share capital decrease, retained earnings from previous years of HRK 25,441 thousand (2013: HRK 25,441 thousand), reserves for treasury shares of HRK 4 thousand (2013: HRK 4 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 66 thousand (2013: HRK 41 thousand).

Other reserves in the amount of HRK 636,541 thousand (2013: HRK 636,541 thousand) are distributable.

NOTE 25 – BORROWINGS

(in thousands of HRK)	**31 December 2014**	**31 December 2013**	**1 January 2013**
Short-term			
Finance lease /ii/	182	273	370
Bank borrowings – current portion of long-term borrowings	18,515	12,985	22,376
Borrowings from related parties – current portion of long-term borrowings (Note 30)	-	943	-
	18,697	14,201	22,746
Long-term			
Bank borrowings	334,452	221,320	212,711
Finance lease /ii/	461	456	348
Borrowings from related parties (Note 30) /i/	106,099	104,421	90,190
	441,012	326,197	303,249
	459,709	**340,398**	**325,995**

/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 507,643 thousand (2013: HRK 432,207 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:

(in thousands of HRK)	**31 December 2014**	**31 December 2013**	**1 January 2013**
6 months or less	353,610	243,520	235,805
Fixed interest rate	106,099	96,878	90,190
	459,709	**340,398**	**325,995**

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

(in thousands of HRK)	**31 December 2014**	**31 December 2013**	**1 January 2013**
EUR	334,611	223,577	235,805
HRK	125,098	116,821	90,190
	459,709	**340,398**	**325,995**

NOTE 25 – BORROWINGS (continued)

Maturities of long-term borrowings are as follows:

(in thousands of HRK)	**31 December 2014**	**31 December 2013**	**1 January 2013**
From 1 to 2 years	21,668	17,702	28,054
From 2 to 5 years	79,853	56,266	48,248
Over 5 years	339,491	252,229	226,947
	441,012	**326,197**	**303,249**

At the balance sheet date the average annual effective interest rate on bank borrowings was 4.72% (2013: 5.00%), while on borrowings from related parties it was 8.85% (2013: 8.85%).

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

(in thousands of HRK)	**Carrying amount**		**Fair value**	
	2014	**2013**	**2014**	**2013**
Borrowings	441,012	326,197	464,456	355,180

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 4.72%. (2013: 5.00%).

/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).

(in thousands of HRK)	**31 December 2014**	**31 December 2013**	**1 January 2013**
Future minimum finance lease payments:			
No later than one year	182	293	404
Later than 1 year and no later than 5 years	527	487	375
	709	780	779
Future interest charge	(66)	(51)	(61)
Present value of finance lease liabilities	**643**	**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	1,406	-	-	1,406
Reversal of provisions through profit	-	(336)	(318)	(654)
Used during the year	-	(16)	(167)	(183)
At 31 December 2013	**25,912**	**239**	**658**	**26,809**
Additional provisions through profit	1,422	109	206	1,737
Used during the year	-	(8)	(203)	(211)
At 31 December 2014	**27,334**	**340**	**661**	**28,335**

/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 2016.

/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

(in thousands of HRK)	31 December 2014	31 December 2013
Domestic trade payables	5,677	5,062
Related parties – domestic (Note 30)	1,142	915
Related parties – foreign (Note 30)	10,797	2,464
Foreign trade payables	1,350	75
Interest payable	3,614	2,738
Interest payable – related parties (Note 30)	-	105
Accruals for concession of tourist land – non-current portion	14,985	12,274
Accruals for concession of tourist land – current portion	3,679	1,953
Accruals for management services – related parties (Note 30)	-	9,982
Total financial liabilities	41,244	35,568
Advances received	1,571	1,619
Due to employees/salaries	6,778	6,990
Taxes and contributions from and on salaries	2,114	2,350
Accrued liabilities for other employee benefits	94	105
Termination benefits payable	941	1,465
Deferred income	936	786
Other accruals and liabilities	595	279
	54,273	**49,162**
Less: non-current portion	**14,985**	**12,274**
Current portion	**39,288**	**36,888**

NOTE 27 – TRADE AND OTHER PAYABLES (continued)

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

(in thousands of HRK)	**31 December 2014**	**31 December 2013**
HRK	29,097	20,957
EUR	12,147	14,611
	41,244	35,568

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 2014, provisions for certain legal disputes have been made for which the Company anticipates an outflow of economic benefits in the amount of HRK 27,334 thousand (2013: HRK 25,912 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 2014, future commitments with respect to the reconstruction of the hotel Park amounted to HRK 35,850 thousand (2013: HRK 92,501 thousand for the reconstruction of the hotel Belvedere). 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 HRK 49,500 thousand and is fully funded by bank sources.

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

	2014	**2013**
	(in thousands of HRK)	
Up to 1 year	219	64
From 1 to 5 years	421	322
	640	**386**

Lease agreements relate to the operating lease of vehicles.

NOTE 29 – CASH GENERATED FROM OPERATIONS

Reconciliation of profit and cash generated from operations:

	2014	Restated 2013
	(in thousands of HRK)	
Profit before tax	(7,553)	4,835
Adjustments for:		
Depreciation (Note 14, 15)	49,921	47,088
Impairment of property, plant and equipment (Note 9)	16,018	4,588
Gains on sale of property, plant and equipment (Note 10)	(90)	(105)
Provision for impairment of receivables – net (Note 9)	175	390
Finance costs – net (Note 11)	24,389	22,771
Penalty interest expense (Note 9)	2	716
Increase in provisions (Note 26)	1,737	752
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade and other receivables	7,167	3,564
- inventories	(452)	75
- trade and other payables	4,128	(13,987)
Cash generated from operations	**95,442**	**70,687**

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

	2014	2013
	(in thousands of HRK)	
Net book value of sold property, plant and equipment	256	352
Gain on sale of property, plant and equipment (Note 10)	90	105
Proceeds on sale of property, plant and equipment	**346**	**457**

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	2014	2013
		(in thousands of HRK)	
a) Sale of services			
- AT Hoteli Medulin d.o.o., Medulin		5,057	4,078
- AT Zlatne stijene d.o.o., Pula		4,562	3,602
- AT Turistička naselja d.o.o., Pula		1,025	312
		10,644	7,992
b) Marketing and promotion costs			
- AT Hoteli Medulin d.o.o., Medulin		11,189	9,580
c) Management services			
- Park plaza Hotels	9	18,304	11,867
- Reversal of provision PPH	9	(967)	-
d) Interest expense			
- W2005/Dvadeset Osam d.o.o., Zagreb		8,277	7,621
- Arenaturist Hoteli d.o.o.		384	209

NOTE 30 – RELATED PARTY TRANSACTIONS (continued)

	Note	2014	2013
		(in thousands of HRK)	
e) Trade and other receivables:			
- AT Hoteli Medulin d.o.o., Pula		236	204
- AT Zlatne stijene d.o.o., Pula		136	13
- AT Turistička naselja d.o.o., Pula		15	55
- Park Plaza Hotels		435	376
	21	**822**	**648**
f) Trade and other payables:			
- AT Hoteli Medulin d.o.o., Medulin		1,132	1,006
- AT Zlatne stijene d.o.o., Pula		10	14
- Park plaza Hotels		10,797	12,446
	27	**11,939**	**13,466**
g) Borrowings			
Arenaturist Hoteli d.o.o.		-	7,543
W 2005/ Dvadeset Osam d.o.o., Zagreb		106,099	97,821
	25	**106,099**	**105,364**
h) Key management compensation (Executive Directors)			
Net salaries		2,043	2,028
Pension insurance contributions		260	252
Health insurance contribution		203	246
Other contributions, tax and surtax		793	667
		3,299	**3,193**

The Company has 4 Executive directors (2013: 4).

These financial statements set out on pages 11 to 65 were approved by the Executive Directors of the Company on 31 March 2015.

Dr. Igor Štoković
Chief Executive Director

Milena Perković
Executive Director

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

Reuel Israel Gavriel Slonim
Executive Director

Abraham Thomas
Executive Director