VALAMAR RIVIERA

ANNUAL REPORT 2014

ANNUAL REPORT OF THE GROUP AND THE COMPANY VALAMAR RIVIERA D.D.

for the period from 1 January 2014 to 31 December 2014

Valamar Dubrovnik President Hotel 5*, Dubrovnik

2014 Executive summary

- Management, hospitality property portfolio and shareholding structure of the Group consolidated in Valamar Riviera
- Increase in market capitalisation by 85%
- Valamar Riviera awarded the stock of the year by public votes on the Zagreb Stock Exchange
- Successfully continued intercompany merger and reorganisation processes and improved efficiency of operations during 2014
- Good operating results achieved through increased revenues and cost efficiency, despite the challenges of rainy tourist season and an increase in the VAT rate on hospitality and accommodation services (from 10% to 13%, resulting in additional tax burden of approximately HRK 26 million)
- Increase in the Group's total revenues and sales revenues of 2,9%
- Stable average daily rate per accommodation unit
- Increase in the number of overnights and accommodation units sold, especially in Dubrovnik where the highest investments in accommodation capacities in the previous 5 years were made and despite later opening of newly invested assets
- 26% increase in revenues from the 4* and 5* hotels and apartments segment driven by an increase in overnights, average daily rate and the total number of units
- Increase in revenues in campsites of almost 8% despite adverse weather conditions
- A modest increase of Group's operating expenses of 0.7%
- Adjusted EBITDA of the Group increased by 10%, to HRK 317 million, and Group's EBT by 48%, to HRK 59 million (adjusted EBITDA excludes extraordinary result and one-off items totaling HRK 33 million)
- While profit before tax increased from HRK 39mn to HRK 59 mn, net profit fell by 52% compared to the previous year, due to one off tax profits booked in 2013
- Total assets increased by 10%, to HRK 3,015 million, and the Group's total liabilities by 11%, to HRK 1,048 million (as a result of consolidation of business in Valamar Riviera and a strong investment cycle)
- Continued cycle of large investments in repositioning of the portfolio toward 4* and 5* (Valamar Hotel & Casa Sanfior 4* and Camping Krk 4* in 2013, Valamar Dubrovnik President 5*, Valamar Argosy 4* and Valamar Zagreb 4* in 2014, Valamar Isabella Island Resort 4* in 2015)
- Improved quality of services and customer satisfaction; many prestigious awards received: World Travel Awards (new openings Valamar Sanfior and Casa Sanfior, Valamar Club Tamaris, Valamar Riviera, Valamar Lacroma), Travelife Sustainability System (Valamar Sanfior and Casa Sanfior, Fortuna Island Hotel, Valamar Diamant), Tourist Flower – Quality for Croatia (Valamar Sanfior and Casa Sanfior, Valamar Koralj Romantic, camping Krk), ADAC/ANWB – Leading Campings of Europe for 2014 (camping Lanterna, camping Krk), Leading Campings of Europe (camping Lanterna, camping Krk) and TripAdvisor (Valamar Bellevue Hotel & Residence)
- Valamar Riviera Supervisory Board reinforced with the appointment of long term management board members Georg Eltz Vukovarski and Vicko Ferić at the completion of the intergroup merger

2015 Outlook

- In 2015, we expect to finalise the organisational restructuring process and achieve a significantly more efficient management structure: after the announced appointment of Željko Kukurin as the new President of the Management Board from mid 2015 and the running mandate of Marko Čižmek as Management Board member the number of Management Board members of the Company Valamar Riviera d.d. is reduced to two
- The involvement of Nikola Koncul and Edi Černjul as Management Board advisors and Ivana Budin Arhanić and David Poropat as Vice-presidents ensures the continuity of management knowledge and experience going forward, while the arrival of new Vice-presidents Davor Brenko and Alen Benković to lead Sales & Marketing and Asset development, maintenance and technical services, respectively, further strengthens our core executive team
- We expect further growth in EBITDA and operational efficiency
- We expect to complete another significant investment cycle totaling HRK 330 million for the 2015 season resulting in a successful opening of 4* Valamar Isabella Island Resort in May 2015 (total investment of HRK 250 million), which is already very well booked for the upcoming season
- We continue to actively pursue expansion, partnership and acquisition options in Croatia and the region, and continue investments in the current portfolio (in a somewhat reduced volume than prior to the increase in the VAT rate and due to still unresolved "touristic" land regulation which is significantly constraining investments in tourism)

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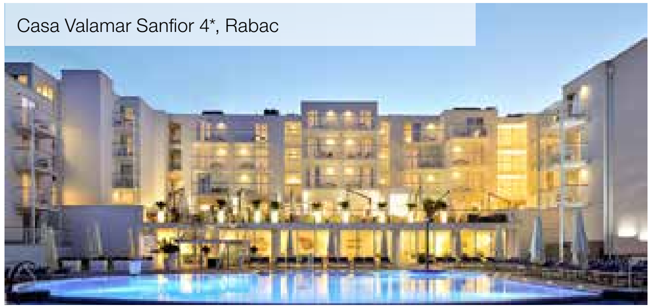
SIGNIFICANT BUSINESS EVENTS

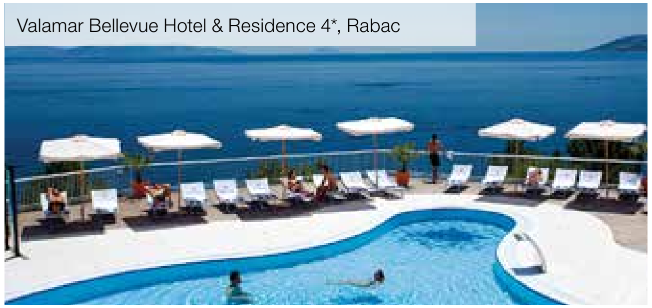
Valamar Zagreb Hotel 4*, Poreč

Casa Valamar Sanfior 4*, Rabac



Valamar Argosy Hotel 4*, Dubrovnik

Valamar Bellevue Hotel & Residence 4*, Rabac



In June 2014, the Management Boards of the companies Riviera Adria d.d., Valamar grupa d.d. and Valamar Adria holding d.d. signed an Agreement on the merger of Valamar grupa d.d. and Valamar Adria holding d.d. to the company Riviera Adria d.d. The General Assemblies of all the three companies approved the Agreement in August 2014. The merger was finalised on 30 September 2014 and registered with the Commercial Court in Rijeka, Permanent Office Pazin. Simultaneously, the company Riviera Adria d.d. registered a change of name to Valamar Riviera d.d.

On 15 December 2014, the merger of the company Linteum savjetovanje d.o.o., Zagreb to Valamar Riviera d.d. was finalised, while on 18 December 2014, the process of merging the company Valamar hoteli i ljetovališta d.o.o., Zagreb to Valamar Riviera d.d. was initiated by concluding the Merger Agreement, and was successfully finalised at the end of February 2015.

The described transactions represent a continuation of the process of consolidation and statutory and legal mergers of the companies within the Group. The process was initiated back in 2011 by merging the tourism companies Zlatni otok d.d. and Rabac d.d. to Riviera Adria d.d. and was continued in 2013 by merging the company Dubrovnik-Babin kuk d.d. to its parent company Riviera Adria d.d., whereby the leading tourism company in Croatia was created.

The objective of the performed and initiated statutory changes is to directly consolidate the management, hospitality property portfolio and shareholding structure of the Group into one strategic company for core tourism activities, which will rationalise operations and additionally strengthen the balance sheet of the consolidated company Valamar Riviera d.d., create added value for more than 22,000 shareholders and enable a more transparent corporate governance and investor valuation.

The Valamar Riviera Group operates from Istria and Kvarner to Dubrovnik. It owns the Valamar Hotels & Resorts and Camping Adriatic brands and a hospitality facilities portfolio encompassing twenty-two hotels, seven apartment resorts, two hostels and ten campsites; it can accommodate approximately 43 thousand guests daily, which makes it one of the leading tourism groups in Croatia.

The Company's management hereby presents the annual audited business report for 2014, noting that the presented reports should be viewed in the context of the above mentioned changes resulting from mergers, and provides the information on the status of the Company and significant events.

The Group's financial statements for 2014 comprise (1) the data for the companies: Valamar Adria holding d.d., Valamar grupa d.d., Linteum savjetovanje d.o.o. and Epima d.o.o. through their separate results until the date of their mergers and thereafter through the operations of their universal legal successor (the company Valamar Riviera), (2) entire year data for the companies: Valamar hoteli i ljetovališta d.o.o., Valamar Hotels & Resorts GmbH Franfurkt am Main, Puntižela d.o.o., Bastion upravljanje d.o.o., Citatis d.o.o., Elafiti Babin kuk d.o.o., Palme turizam d.o.o., Magične stijene d.o.o., Pogača Babin kuk d.o.o., Bugenvilia d.o.o., as well as (3) the data for Valamar poslovni razvoj d.o.o. only for the period from 1 October 2014 to 28 November 2014. Therefore, all significant variations in the financial statements should be considered the results of the mentioned mergers and changes in the organisational and legal structure of the Group. Please note that the data for the current year is not fully comparable to the data for the previous period, whereby the presented results may be compared to the consolidated financial statements of Valamar grupa d.d. for 2013.

The Company's financial statements for 2014 include the data for the merged companies Valamar grupa d.d. and Valamar Adria holding d.d. for the period from 1 October 2014 to 31 December 2014, and those of Linteum savjetovanje d.o.o. for the period from 15 December 2014 to 31 December 2014. All significant changes in the financial statements should be considered the result of the mentioned merger. Please note that the data for the current year is not fully comparable to the data for the previous period also due to the merger of the subsidiary Dubrovnik–Babin kuk d.d. as of 31 October 2013.

Results of the Group

Key financial indicators for Valamar Riviera Group[1]

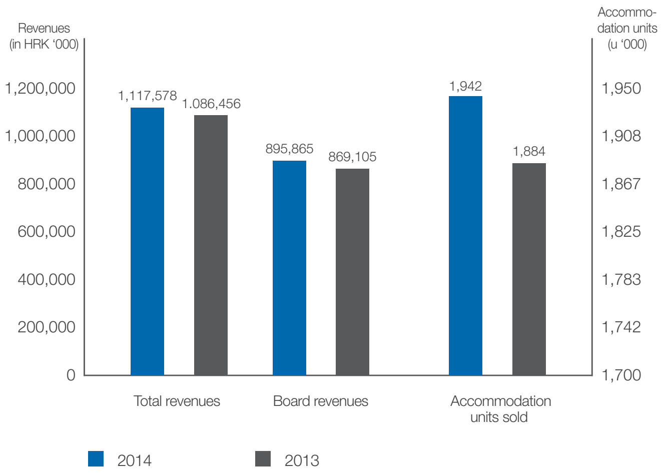
(in HRK)	2014	2013	2014/2013
Total revenues	1,117,577,525	1,086,455,654	2.9%
Sales revenues	1,077,699,851	1,048,005,735	2.8%
Board revenues[2]	895,865,129	869,104,661	3.1%
Operating expenses[3]	767,902,023	762,662,342	0.7%
EBITDA[4]	283,914,457	278,657,772	1.9%
Extraordinary operations result and one-off items[5]	33,452,873	9,766,807	242.5%
Adjusted EBITDA[6]	317,367,330	288,424,579	10.0%
EBIT[7]	79,534,343	50,424,045	57.7%
Adjusted EBIT[8]	112,987,216	60,190,852	87.7%
EBT[9]	59,051,981	39,875,772	48.1%
Net profit[10]	51,394,211	106,015,605	-51.5%
EBITDA margin	25.9%	26.3%	-40 bp
Adjusted EBITDA margin	28.9%	27.2%	170 bp
Net debt[11]	687,591,961	600,206,940	14.6%
Net debt / EBITDA	2.42	2.15	12.4%
Net debt / Adjusted EBITDA	2.17	2.08	4.1%
Cash and cash equivalents	195,201,504	223,105,134	-12.5%
Capital investments	381,662,188	226,738,183	68.3%
ROE[12]	2.7%	6.1%	-340 bp
Adjusted ROCE[13]	4.4%	2.6%	180 bp
Market capitalization[14]	2,486,010,888	1,343,155,606	85.1%
EV[15]	3,173,602,849	1,943,362,546	63.3%
EPS[16]	0.47	1.03	-54.4%
DPS[17]	0.50	0	

1 EBIT, EBITDA and their adjusted values and respective margins are recorded on the basis of operating income.
2 Board revenues refers to accommodation and board's food and beverage revenues according to the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry).
3 Operating expenses include material costs, staff costs, other expenditures and other operating expenses reduced by extraordinary expenses and one-off items.
4 EBITDA refers to earnings before interest, taxes, depreciation and amortization.
5 The adjustment includes extraordinary income and expenses in accordance with the USALI standard classification and one-off termination benefit costs and administrative expenses related to the process of merger and business reorganisation.
6 Adjusted by the result of extraordinary operations and one-off items.
7 EBIT refers to earnings before interest and taxes.
8 Adjusted by the result of extraordinary operations and one-off items.
9 EBT refers to earnings before taxes.
10 The merger with Dubrovnik-Babin Kuk d.d. resulted in a one off tax benefit of HRK 66mn, thus increasing net profit for 2013 accordingly.
11 Net debt: non-current and current liabilities to banks and other financial institutions – cash and cash equivalents – long-term and short-term investments in securities – loans given, deposits, etc.
12 ROE refers to return on equity; calculated as: profit for the period / (capital and reserves).
13 Adjusted ROCE refers to return on capital employed; calculated as: adjusted EBIT / (capital and reserves at the end of the period + non-current and current liabilities to banks and other financial institutions - cash and cash equivalents - long-term and short-term investments in securities - loans given, deposits, etc.).
14 The number of shares as at 31 December 2014 net of treasury shares (includes 432,942 treasury shares of the subsidiary company Bastion upravljanje d.o.o.): 125,113,784
15 EV refers to enterprise value.
16 EPS refers to earnings per share.
Weighted average number of shares as at 31 December 2014: 108,769,757
Weighted average number of shares as at 31 December 2013: 103,352,183
17 DPS refers to dividends per share.

Key financial indicators for Valamar Riviera Group

	2014	2013	2014/2013 %
Number of accommodation units (capacity)	16,056	15,342	4.7%
Accommodation units sold	1,941,534	1,884,387	3.0%
Overnights	4,284,979	4,179,127	2.5%
Full occupancy days	121	123	-1.6%
Annual occupancy rate (%)	33%	34%	-2.9%
ADR[18] (in HRK)	461	461	0.0%
RevPAR[19] (in HRK)	55,796	56,649	-1.5%

Revenues and accommodation units sold

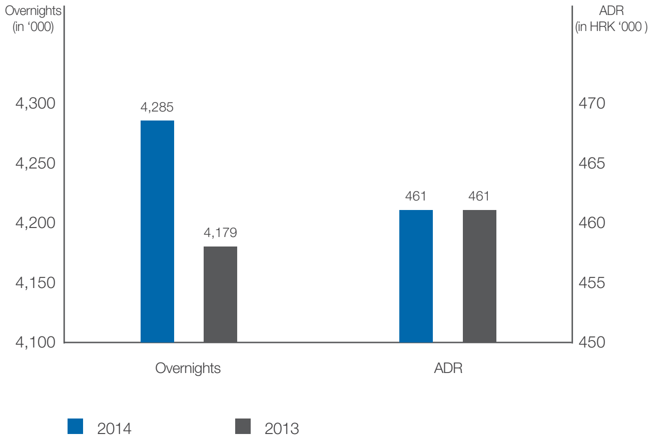


Despite unfavourable external factors (increase in the VAT rate for hospitality and accommodation services and adverse weather conditions during the season in Istria), in the reporting period, the Valamar Riviera Group recorded good operating results due to higher board revenues and increased operating efficiency. The board revenue (accommodation and board's food and beverage revenues) amounts to HRK 896 million with a 3.1% growth compared to the previous year, which is primarily a result of the increase in turnover, i.e. the number of accommodation units sold by 3%. By increasing the lower price range accommodation capacities, the consolidation of Puntižela d.o.o. (campsite Brioni 2* with 615 accommodation units and the Brioni hostel with 40 accomodation units) also contributed to the positive cumulative result in 2014.

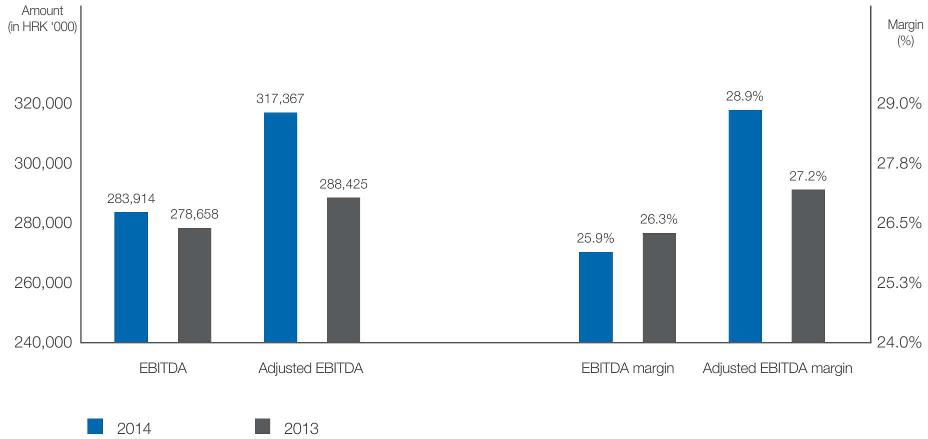
[18] Average daily rate is recorded on the basis of board revenues (accommodation and board's food and beverage revenues).

[19] Revenue per accommodation unit is recorded on the basis of board revenues (accommodation and board's food and beverage revenues). In this report shown as cumulative annual RevPAR.

Overnights and ADR



Results and operating margins



The negative impact of external factors on the revenues of the Group, out of which the effect of the increase in the VAT tax rate for hospitality and accommodation services effective as of 1 January 2014 (the tax rate increased from 10% to 13%) is estimated at approximately HRK 26 million, was largely compensated by stronger marketing and sale activities and great market response to the renovated Valamar Zagreb 4*, Valamar Argosy 4* and Valamar Dubrovnik President 5* hotels, whereby the average daily rate was retained at the level of the previous year (HRK 461).

2014 was marked by rationalisation and reorganisation of the Group's operations, as the basis for creating further added value for shareholders. After the effects of extraordinary income (the most significant items are unsettled receivables written off in the amount of HRK 1.26 million, insurance fees in the amount of HRK 2.64 million and income from reversal of non-current provisions in the amount of HRK 3.47 million) and expenses (the most significant items are the net present value of disposed assets in the amount of HRK 7.28 million and compensations under legal claims and out-of-court settlements in the amount of HRK 10.13 million), one-off termination benefits costs and administrative expenses related to the merger and reorganisation process (in the amount of HRK 20.23 million) are excluded, the increase in business performance in 2014 is evident. Adjusted EBITDA amounts to HRK 317.4 million, which is an 10% increase compared to the previous year, while the adjusted EBITDA margin is 28.9% compared to 27.2% in 2013.

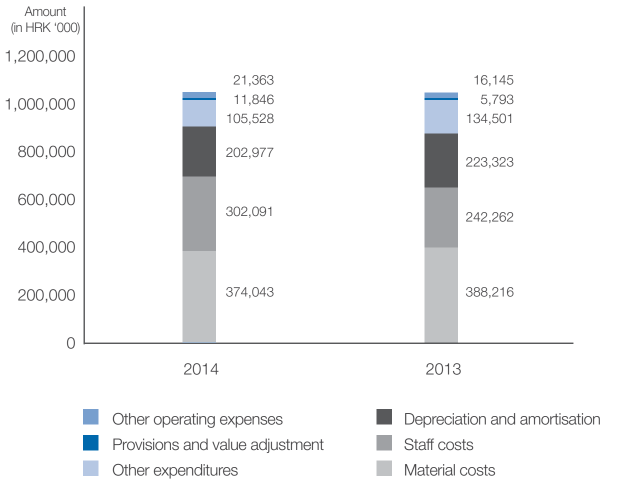
Total consolidated revenues recorded a further increase of 2.9% amounting to HRK 1,117 million, compared to HRK 1,086 million in 2013. Board revenues (accommodation and board's food and beverage revenues) from the international market increased by 6.7% compared to the same period of 2013. The highest growth from international market was recorded by the destination Dubrovnik through newly agreed group series from the markets of Korea and Japan, and Great Britain in the individual segment. The facilities in Poreč recorded the highest growth from the Netherlands and Sweden through the acquisition of new allotment partners.

Board revenues from the domestic market are lower by HRK 28 million (52.5%) compared to the same period of 2013. The decrease in the domestic market revenues comes from the decrease in business group segments in the pre-season due to the renovation of hotels Valamar Argosy and Valamar Dubrovnik President in Dubrovnik, which should be considered a one-off effect.

Total operating expenses of Valamar Riviera Group[20]

(in HRK)	2014	2013	2014/2013 %
Operating expenses[21]	767,902,023	762,662,342	0.7%
Total operating expenses	1,017,848,271	1,010,240,315	0.8%
Material costs	374,042,936	388,215,630	-3.7%
Staff costs	302,091,412	242,262,072	24.7%
Depreciation and amortisation	202,977,083	223,323,036	-9.1%
Other expenditures	105,527,945	134,501,289	-21.5%
Provisions and value adjustments	11,845,597	5,792,927	104.5%
Other operating expenses	21,363,298	16,145,361	32.3%

Total operating expenses



In 2014, operating expenses of the Group recorded a modest increase of 0.7%. Total staff costs amount to HRK 302 million with a share of 30% in total operating expenses (24% in 2013), i.e. they are higher by 24.7%. This increase should be primarily viewed as a result of a wider scope of consolidation in 2014 compared to 2013 and increased salary contributions (healthcare) from 13% to 15%.

Material costs in 2014 were reduced by 3.7% to HRK 374 million following the consolidation of Valamar hoteli i ljetovališta d.o.o. The 22% decrease in other expenditures is also a result of the wider consolidation scope. At the beginning of 2014, the depreciation rate on buildings was reduced from 5% to 4% and on camping plots from 7% to 5%, resulting in reduced depreciation costs in the amount of HRK 37 million. Increased capital expenditure in previous periods and the change in approach to maintenance have significantly contributed to durability of buildings and camping pitches, that is, to their longer use which reflected on the useful lives and depreciation amounts.

Financial costs amount to HRK 40.7 million and record a growth of 12% with a share of 3.8% in total expenses (3.5% in 2013). In 2014, the Group used funds from the granted lines of credit for funding 2013/14 and 2014/15 investment cycles in the total amount of HRK 255 million, which impacted the increase in interest expenses compared to 2013.

The share of other revenues of the Group (other operating income and financial income) in the total revenues is 3.6% (3.6% in 2013), and they amount to HRK 40 million, which makes them 3.7% higher. Financial income of the Group in 2014 amounts to HRK 20.2 million and recorded a drop of 22%. The decrease in the Group's financial income in the total amount of HRK 5.6 million is primarily a result of lower foreign exchange gains (in the amount of HRK 7.7 million), while at the same time, interest income on term deposits and other interest income were higher by HRK 1.8 million.

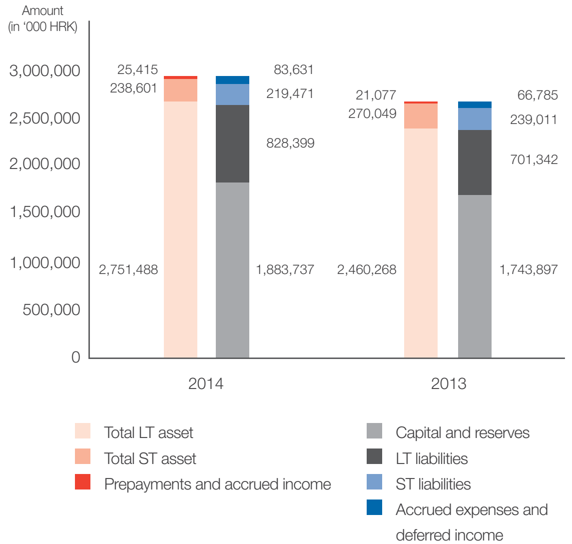
Positive consolidation effects have contributed to the increase in EBT of the Group to the amount of HRK 59 million in the observed period, which represents an increase of 48% in relation to 2013, with the EBT margin of 5.4% (3.8% in 2013).

Net profit of the Group is by 51.5% lower and amounts to HRK 51.4 million. The reason for the decrease lies primarily in one-off recorded high deferred tax asset during 2013, in the total amount of HRK 66 million on the basis of temporary tax differences and tax losses carried forward.

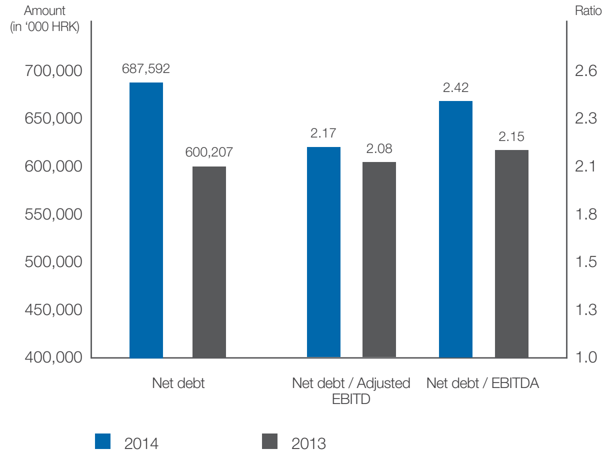
20 Operating expenses are classified accordiong to the Annual Business Financial Statement (GFI POD-RDG).

21 Operating expenses include material costs, staff costs, other expenditures and other operating expenses reduced by extraordinary expenses and one-off items.

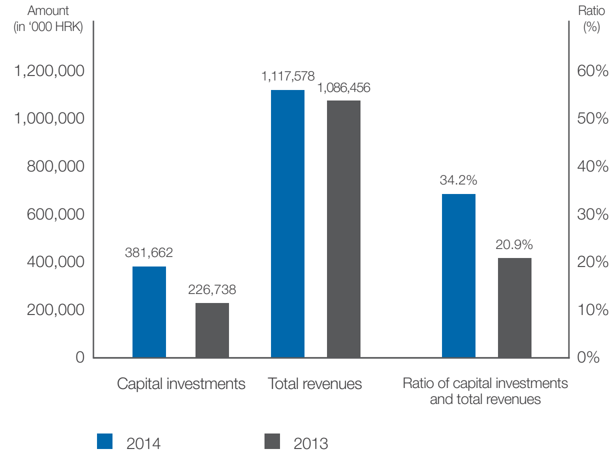
Assets and liabilities



Leverage ratios



Revenues and capital investments



The total value of the Group's assets increased by 11.8% primarily due to a wider scope of consolidation and the intensive investment cycle. The total share capital and reserves were increased from HRK 1,744 million as at 31 December 2013 to HRK 1,884 million as at 31 December 2014. Total non-current liabilities increased by 18.1% and at the end of 2014 they amounted to HRK 829 million, primarily due to the use of lines of credit for funding the 2013/14 and 2014/15 investment cycles. Total current liabilities amount to HRK 219.5 million and are lower by 8.2% compared to 2013, due to a lower current portion of long-term borrowings at the end of 2014.[22]

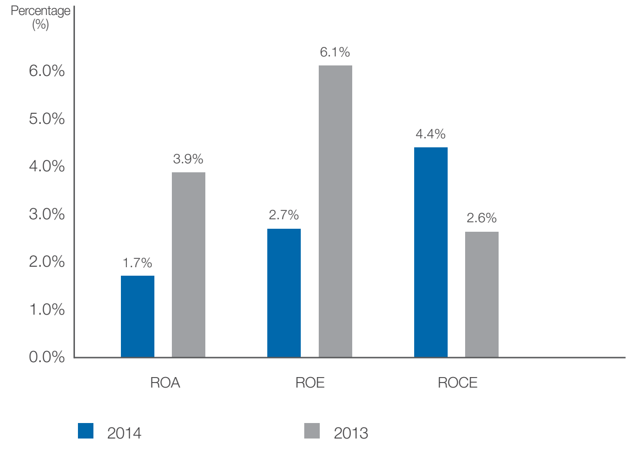
As at 31 December 2014, cash and cash equivalents amounted to HRK 195.2 million. The reason for the decrease in cash and cash equivalents in comparison with the end of 2013 is primarily the dividend distribution during 2014 in the amount of HRK 63 million. The Group's cash flow indicates an exceptionally strong cash potential from operating activities, which, together with external debt, provides for a secure continuation of future investing activities.

[22] Classification accordiong to the Annual Business Financial Statement (GFI POD-RDG).

Profitability indicators of Valamar Riviera Group[23]

	2014	2013	2014/2013
EBITDA margin	25.9%	26.3%	-40 bp
Adjusted EBITDA margin	28.9%	27.2%	170 bp
EBIT margin	7.2%	4.8%	240 bp
Adjusted EBIT margin	10.3%	5.7%	460 bp
EBT margin	5.4%	3.8%	160 bp
Net profit margin	4.7%	10.0%	-530 bp
ROA	1.7%	3.9%	-220 bp
ROE	2.7%	6.1%	-340 bp
Adjusted ROCE	4.4%	2.6%	180 bp

Profitability indicator ratios



Valuation of Valamar Riviera Group

	2014	2013	2014/2013 %
Closing share price per 31 December 2014	19.87	13.00	52.8%
Market capitalization	2,486,010,888	1,343,155,606	85.1%
EV	3,173,602,849	1,943,362,546	63.3%
EPS	0.47	1.03	-54.4%
DPS	0.5	n/a	
EV / Sales revenues	2.9x	1.9x	52.6%
EV / EBITDA	11.2x	7.0x	60.3%
EV / Adjusted EBITDA	10.0x	6.7x	48.4%
EV / EBIT	39.9x	38.5x	3.5%
EV / Adjusted EBIT	28.1x	32.3x	-13.0%

23 The margins are stated on the basis of operating income.

Key operating indicators of Valamar Riviera Group per products[24]

PRODUCT	Hotels and apartments 4* and 5*			Hotels and apartments 2* and 3* and hostels			Campsites		
	2014	2013	2014/2013 %	2014	2013	2014/2013 %	2014	2013	2014/2013 %
Number of accommodation units (capacity)	2,734	2,091	30.8%	4,384	4,820	-9.0%	8,938	8,431	6.0%
Accommodation units sold	454,362	370,193	22.7%	609,599	680,709	-10.4%	877,573	833,485	5.3%
Overnights	914,841	742,315	23.2%	1,357,631	1,548,685	-12.3%	2,012,507	1,888,127	6.6%
Full occupancy days[25]	166	177	-6.1%	139	141	-1.5%	98	99	-0.7%
Annual occupancy rate (%)[26]	46%	49%	-6.1%	38%	39%	-1.5%	27%	27%	-0.7%
ADR (in HRK)	879	857	2.6%	509	557	-8.6%	212	208	2.3%
Board revenue (in HRK)	399,424,923	317,221,169	25.9%	310,115,411	378,851,489	-18.1%	186,324,795	173,032,002	7.7%
RevPAR (in HRK)	146,095	151,708	-3.7%	70,738	78,600	-10.0%	20,846	20,523	1.6%
Adjusted GOP[27] (in HRK)	165,400,136	137,818,191	20.0%	126,385,144	152,561,969	-17.2%	122,124,874	118,055,969	3.4%
Adjusted EBITDA[28] (in HRK)	101,945,839	87,916,357	16.0%	74,943,038	93,360,802	-19.7%	80,436,423	80,767,393	-0.4%

In the segment of 4* and 5* hotels and apartments, the increase in physical indicators (overnights by 23.2% and accommodation units sold by 22.7%) resulted in an increase in annual board revenue, which in 2014 amounts to HRK 399.5 million and is by 25.9% higher than the previous years. The recorded increase primarily arises from recent investments in Valamar Zagreb 4*, Valamar Argosy 4* and Valamar Dubrovnik President 5* hotels, as well as from significant investments in this accommodation segment during the previous years. It is expected that these investments will make positive contributions in the following periods as well.

Repositioning of the Valamar Zagreb and Valamar Argosy hotels from the 3* segment to the 4* segment resulted in a decrease in indicators in the 2* and 3* hotels and apartments segment, and in 2014 the annual board revenue amounts to HRK 310 million, and the average daily rate is HRK 509. The decrease in revenues and average daily rates in a portion of non-renovated lower-category facilities points to the necessity of further investments in improving their quality.

Despite a rainy season with direct negative effect on campsite operations, positive movements in almost all camping indicators are observable and the board revenue in 2014 amounts to HRK 186 million, with a 7.7% growth, resulting from the increase in overnights (6.6%) and accommodation units sold (5.3%), as well as average daily rates. Although the consolidation of Puntižela d.o.o. resulted in an increase in (lower price range) accommodation capacities, campsites recorded a 2.3% increase in the average daily rate amounting to HRK 212. The 10% increase in the number of campsite mobile homes represents a potential for further future growth in this sub segment.

24 According to the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry), without elimination of transactions with related parties within the Group.
25 Calculated on the basis of sold units.
26 Calculated on the basis of sold units.
27 Adjusted by the result of extraordinary operations and one-off items.
28 Adjusted by the result of extraordinary operations and one-off items.

Key operating indicators of Valamar Riviera Group per destinations[29]

DESTINATION	ISTRIAN WEST COAST[30] 2014	2013	2014/2013 %	RABAC 2014	2013	2014/2013 %	KRK 2014	2013	2014/2013 %	DUBROVNIK 2014	2013	2014/2013 %
Number of accommodation units (capacity)	10,390	9,705	7.1%	1,913	1,913	0%	1,800	1,886	-4.6%	1,953	1,838	6.3%
Accommodation units sold	1,180,632	1,121,114	5.3%	243,337	259,161	-6.1%	218,966	212,708	2.9%	298,599	291,404	2.5%
Overnights	2,669,360	2,563,554	4.1%	551,898	589,859	-6.4%	492,801	475,657	3.6%	570,920	550,057	3.8%
Full occupancy days	114	116	-1.6%	127	135	-6.1%	122	113	7.9%	153	159	-3.6%
Annual occupancy rate (%)	31%	32%	-1.6%	35%	37%	-6.1%	33%	31%	7.9%	42%	43%	-3.6%
ADR (in HRK)	397	410	-3.1%	539	547	-1.4%	296	293	1.0%	773	706	9.5%
Board revenue (in HRK)	469,017,283	459,389,837	2.1%	131,226,344	141,695,110	-7.4%	64,713,323	62,261,978	3.9%	230,908,178	205,757,735	12.2%
RevPAR (in HRK)	45,141	47,335	-4.6%	68,597	74,070	-7.4%	35,952	33,013	8.9%	118,233	111,947	5.6%
Adjusted GOP (in HRK)	229,151,137	230,774,390	-0.7%	52,439,258	55,895,952	-6.2%	37,690,905	35,791,602	5.3%	94,628,854	85,974,184	10.1%
Adjusted EBITDA (in HRK)	142,118,883	147,509,451	-3.7%	30,866,037	34,449,145	-10.4%	25,255,114	25,159,085	0.4%	59,085,267	54,926,871	7.6%

Considered by destinations where the Group operates, the west coast of Istria realised 4.1% more overnights (effect of the Puntižela d.o.o. consolidation), Rabac 6.4% less, Krk 3.6% more and Dubrovnik realised 3.8% overnights more compared to the same period of 2013. Total overnights on the Group level increased by 2.5%.[31] Despite the strong influence of adverse weather conditions on the Istrian campsites operations, destination Poreč managed to retain board revenue on last year's level. The annual board revenue on the west coast of Istria increased by 2.1%, accommodation units sold by 5.3% with the decrease in the average daily rate per unit of 3% (to HRK 397, mainly due to including the lower price range capacity in Puntižela).

In 2014, Rabac recorded a decrease in overnights of 6.4%, accommodation units sold of 6.1% and the annual board revenue of HRK 131 million, with the decrease of 7.4%. Lower category facilities (2* apartments and non-renovated 3* hotels) were less promoted by partners, while facilities in which we recently invested in Rabac (Valamar Sanfior and Casa Sanfior) recorded stable sales results in 2014.

Intensified marketing activities and enhanced pricing policy in invested properties on the Island of Krk (camping Krk and camping Stara Baška) contributed to the increase in overnights of 3.6% and board revenues of 3.9% (to nearly HRK 65 million). Both campings were well accepted on the market and recorded an increase in board revenues of 24.6% and 15.3%, respectively.

Destination Dubrovnik realised the highest increase in board revenue of 12.2%, which in 2014 amounts to HRK 231 million. The growth in Dubrovnik was the strongest in individual and group segments, especially in 2014 renovated facilities Valamar Dubrovnik President and Valamar Argosy. The positive growth of destination Dubrovnik was enhanced by strengthening of the markets of Great Britain, Japan, Korea and China, the destination development in cooperation with the film industry and introduced charter flights from Scandinavian and French markets. The average daily rate per accommodation unit of HRK 773 and its increase of nearly 10% are a result, in addition to positive effects of investments, of optimisation of sales channels, which supported the trends of successful operations in a very competitive environment.

29 According to the classification under the USALI standard, without elimination of transactions with related parties within the Group.

30 In 2013 includes destination Poreč, while in 2014 destinations Poreč and Puntižela.

31 The comparative figures for 2013 do not include overnights realized in Puntižela d.o.o.

Results of the Company[32]

The data in the current year's financial statements are not fully comparable to the data from the previous year due to the described merger processes. The data for the previous year include the data for the merged company Dubrovnik-Babin kuk d.d. only for the period from 1 November 2013 to 31 December 2013, while in 2014 they are included for the entire year. Moreover, the results and net assets of the merged companies Valamar grupa d.d., Valamar Adria holding d.d. and Linteum d.o.o., are included from the date of their mergers in 2014 and, therefore, all significant changes in the financial statements of the Company should be observed as a result of these transactions in the current and comparative periods.

In the period from 1 January 2014 to 31 December 2014, the Company recorded total revenues in the amount of HRK 1,099 million, i.e. HRK 257 million or 31% more compared to the same period of 2013.

The share of the Company's sales revenue (HRK 1,065 million) in total revenues amounts to 97% (96% in 2013), where foreign sales revenue comprises 89% (85% in 2013) of total revenues and domestic sales account for 8% (11% in 2013) of the total revenues. Foreign sales revenue increased by 36% compared to the same period of 2013, while the domestic sales decreased by 2.5%. When comparing with the previous year's sales revenue, one should take into account the increased VAT rate for hospitality and accommodation services effective as of 1 January 2014 (the tax rate increased from 10% to 13%), the effect of which on the Company's sales revenue is estimated at approximately HRK 26 million.

The share of other revenues of the Company (other operating income and financial income) in the total revenues is 3.1% (4.3% in 2013), and they amount to HRK 34.4 million and are lower by 4%. Material costs amount to HRK 391 million with a share of 38% in operating expenses (36% in 2013), which makes them 39% higher compared to the same period of 2013.

Staff costs amount to HRK 259 million with a share of 25% in operating expenses (23% in 2013), and they are by 43% higher. Staff costs in 2013 include the data for the merged company Dubrovnik-Babin kuk d.d. only for the period after the merger, while in 2014 they are included for the entire year, as well as the data for the companies merged in 2014 for the period after their respective mergers.

Financial costs amount to HRK 33.3 million, which is a growth of 58% with a share of 3.1% in total expenses (2.6% in 2013).

In the period under consideration, the Company realised EBT in the amount of HRK 27.27 million, and net profit of HRK 23.63 million. The Company's EBT margin is 2.52% (4.30% in 2013). Operating results are impacted by one-off termination benefits costs and administrative expenses related to merger transactions and business reorganisation (in the amount of HRK 15.1 million) as well as changes in depreciation due to reduced rates on buildings from 5% to 4% and camping plots from 7% to 5% (in the amount of HRK 33.3 million).

As at 31 December 2014, the Company's total assets amount to HRK 3,195 million and are by HRK 235 million higher compared to the previous period.

[32] Classification accordiong to the Annual Business Financial Statement (GFI POD-RDG).

The risks of the Company and the Group

Business activities of the Company and the Group are exposed to various types of financial risks, common for the operation of tourism companies in the Republic of Croatia; these primarily include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Company and the Group operate internationally and are exposed to foreign exchange risk; therefore movements in exchange rates primarily of the euro, the Swiss franc and the Croatian kuna may have an impact on operating results and cash flows, mainly on operating income and borrowings. The interest rate risk of the Company and the Group mainly arises from long-term borrowings. Borrowings granted at variable rates expose the Company and the Group to cash flow interest rate risk. The Company and the Group occasionally hedge interest rate and foreign currency cash flows by derivative instruments available on the market with the aim to reduce and limit the exposure to the above mentioned risks.

For the purpose of managing price risk, the Company and the Group continually implement activities of analysing prices and general market movements.

The Company and the Group manage credit risk, i.e. the risk of loss arising from defaults in payment of liabilities to the Company and the Group, in a way that they do business with creditworthy entities and take appropriate measures to ensure collection of receivables.

With respect to liquidity risk, the Company and the Group maintain a sufficient level of liquidity by monitoring cash and matching it with anticipated cash flows, as well as by ensuring the availability of funds by keeping an adequate amount of contracted credit lines.

Corporate Governance

The Company Valamar Riviera d.d., as well as the Group, has been continuously developing and acting in line with the best corporate governance practice. It is committed to transparent and efficient operations and strong relations with the community where it operates as supported by its business strategy, policies, key bylaws and business practices. With the aim of further strengthening and establishing high standards of corporate governance, the Company has adopted a Corporate Governance Code in 2008. Management fully abides by the provisions of the adopted Code. By listing the shares on the Official market of the Zagreb Stock Exchange, the Company is to apply the Corporate Governance Code of the Zagreb Stock Exchange and fulfil all the obligations arising from it.

The major direct shareholders in accordance with the data from the Central Depository and Clearing Company are listed in the table under “Other information”.

There is a time limit related to the use of voting rights at the general assembly pursuant to the provisions of the Companies Act – shareholders are required to register their participation within the period stipulated by law.

There is no case in which the financial right stemming from securities would be separate from holding the securities.

In the Company, there are no securities with special rights of control nor are there any voting right limitations.

The rules on the appointment and recall of members of the Management Board and members of the Supervisory Board are established by the Articles of Association, in accordance with the provisions of the Companies Act.

The Company can acquire treasury shares pursuant to the decision of the General Assembly of 17 November 2014, and before that decision pursuant to the decision of the General Assembly of 8 July 2010.

The rules on amending the Company’s Articles of Association have been established by the Companies Act and there are no additional limitations in the Company’s Articles of Association.

The authorisations of the Management Board members are also fully in accordance with the provisions of the Companies Act.

The corporate bodies of the Company are as follows:

The Management Board: Mr. Franz Lanschützer, President of the Management Board, and members: Mr. Nikola Koncul, Mr. Tihomir Nikolaš, Mr. Marko Čižmek, Ms. Ivana Budin Arhanić constituted the Management Board of the Company on 31 December 2014. Mr. Lanschützer (as the President of the Management Board) and Ms. Budin Arhanić were appointed to the Management Board on 01 October 2014, up to which day Mr. Černjul (who retired on 01 January 2015) presided the Management Board.

The Supervisory Board: Mr. Gustav Wurmböck (President of the Supervisory Board), Mr. Mladen Markoč (vice-president; member from 01 October 2014), Mr. Georg Eltz, Ms. Gudrun Kuffner (member from 01 October 2014), Mr. Hans Dominik Turnovszky (member from 01 October 2014), Mr. Vicko Ferić (member from 01 October 2014) and Ms. Mariza Jugovac constituted the Supervisory Board on 31 December 2014.

The Audit Committee: Mr. Georg Eltz, Mr. Vicko Ferić, Mr. Gustav Wurmböck, Mr. Mladen Markoč and Mr. Dubravko Kušeta who performs duties envisaged by the Audit Act.

The Compensation and Reward Committee: Mr. Gustav Wurmböck, Mr. Mladen Markoč and Mr. Hans Dominik Turnovszky.

The Investment Committee: Mr. Gustav Wurmböck, Mr. Georg Eltz, Mr. Hans Dominik Turnovszky, Mr. Vicko Ferić and Ms. Gudrun Kuffner.

The Management and the Supervisory Boards primarily act through meetings and by making correspondent decisions, in accordance with effective regulations and Company’s bylaws.

Valamar Lacroma Dubrovnik 4*, Dubrovnik

Related-party transactions

Pursuant to the Hotel Management Contract, as of 2004 the Company entrusted the management of hospitality properties to the leading hospitality management company in Croatia, Valamar hoteli i ljetovališta d.o.o. which provided management services to the entire tourism portfolio of the Group including all hotels, apartments, campsites and other operational facilities, as well as laundry and central support functions such as procurement, technical maintenance, marketing, sales, human resources, IT and others. The merger of Valamar hoteli i ljetovališta d.o.o. to the Company (described in the Significant Events after the End of the Business Year) integrated management services into Valamar Riviera and is expected to contribute to operational and organizational efficiency.

The transactions with related parties within the Group take place according to regular commercial terms and conditions and based on market prices. In the period under consideration, revenues resulting from related-party transactions were recorded in the amount of HRK 2.83 million (2013: HRK 9.86 million) for the Company and HRK 29 thousand (2013: HRK 2.59 million) for the Group. Expenses were recorded in the amount of HRK 132.63 million (2013: HRK 84.38 million) for the Company and HRK 2.11 million (2013: HRK 101.54 million) for the Group.

Balances of related-party receivables and liabilities as at 31 December 2014 amounted to: HRK 192.58 million receivables for the Company (at the end of 2013: HRK 216.5 million), and HRK 4 thousand for the Group (at the end of 2013: HRK 354 thousand); and HRK 5.11 million liabilities for the Company (at the end of 2013: HRK 3.25 million), and HRK 191 thousand for the Group (at the end of 2013: HRK 3.12 million).

The merger of the subsidiary Valamar hoteli i ljetovališta d.o.o. (described in the Significant Events after the End of the Business Year) will result in a significant further decrease in amounts from transactions with related parties in 2015 for the Company.

In accordance with the provision of Article 497 of the Companies Act, on 10 March 2015 the Management Board has prepared a separate report on the Company's related-party transactions and in accordance with Paragraph 3 of Article 497 it states that the Company, in line with circumstances management was aware of at the time a legal activity or an action related to the company was performed, received an appropriate consideration, without any damage to the Company.

Upon completion of the audit of the Management Board's Report on Related Parties, the company's auditor, KPMG Croatia d.o.o. has issued the statement pursuant to Article 498 of the Companies Law and has confirmed the following: (1) the statements in the Report are correct; (2) in the business transactions mentioned in the Report and based on the circumstances that were known when those transactions were undertaken, the value of the Company's consideration was not inappropriately high, or any difference in value was compensated; (3) in relation to the measures outlined in the Report, there were no circumstances which could lead one to make a materially different decision than the one that was made by the Management.

Branch Offices of the Company

At 2 September 2011, the establishment of branch offices was entered in the court register of the Commercial Court in Pazin as follows: the Branch office for tourism RABAC, with registered address in Rabac, Slobode 80 and Branch office for tourism ZLATNI OTOK, with registered address in Krk, Vršanska 8. At 4 November 2013, the foundation of the Branch office for tourism DUBROVNIK-BABIN KUK, with registered address in Dubrovnik, Dr. Ante Starčevića 45 was registered, and at 1 October 2014, the Branch office for Business and Management Consulting ZAGREB with registered address in Zagreb, Miramarska cesta 24.

The branch offices Rabac, Zlatni otok and Dubrovnik-Babin kuk, as economic drivers of their local communities, continue to operate in their destinations supporting their development by further investments, tourism development and participation in social and business activities.

Sustainable development

Regardless of the fact that the hospitality and tourism industry in general is not considered an activity that may significantly endanger the environment, the Company has been continuously working on improving the environmental protection and sustainable development with the aim of creating recognisable ecologically oriented tourist destinations. The Company in its facilities applies the following systems: the environmental management system according to the ISO 14001:2004 standard, the quality management system according to the ISO 9001 standard and HACCP system according to the Codex Alimentarius standard.

In numerous facilities of the Company, the waste heat of the cooling systems is used for heating hot water for consumption. The systems for controling of electricity and water consumption, as well as the systems of managing energy control management systems have been installed.

On numerous beaches of the campsites and hotels, the Company manages Blue Flags, a recognisable ecological symbol of clean environment. Through responsible management of nature and environment, we meet the customers' expectations and contribute to the protection of natural resources.

For its "Green Lanterna" project, the Company won the first Croatian award for the green business development "Greenovation 2013", awarded for the best overall programme of efficient use of resources in tourism facilities by the Association for Energy Zagreb and the company Energo Media Servis d.o.o.

Hotels Valamar Sanfior from Rabac and Valamar Koralj from Krk were awarded the certificate of the Association of Employers in Hotel Industry of Croatia and the "Sustainable Hotel" plate, confirming their environmentally oriented practices in environmental protection, sustainability management, energy efficiency, personnel education, savings in water and energy consumption, controlled CO_2 emission etc.

Camping Krk, Krk

Social responsibility, Culture and Sports

In addition to the quality of relations with its employees, the environment, wider social and economic context, Valamar Riviera d.d. confirms its status of a socially responsible company with good relations toward the local and wider community. Valamar Riviera d.d. each year donates to and assists many educational institutions, humanitarian and other associations as well as many sports clubs.

In 2014, the Company provided more than a thousand overnights in its facilities for children without proper parental care, of low family income, with health difficulties and special needs through the donation programme "A Thousand Days at the Adriatic Sea", awarded to a total of 12 associations and schools across Croatia.

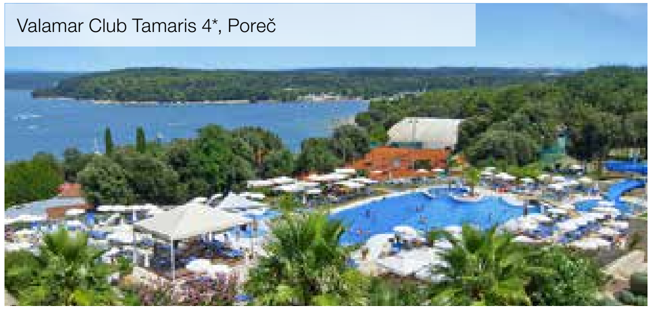
Our orientation to the highest ecological standards during investments in business properties is related also to supporting impactful environmental protection initiatives in the wider local community through the "We love the Adriatic Sea" donation programme. With donations granted in 2014 we directed funds into specific projects aimed at the protection of the Adriatic coast and the sea, contributing to sustainable development, raising awareness on the importance of preservation of the maritime environment, promotion of the cooperation between local communities and professionals, with measurable results and a long-term positive impact on environmental protection.

Initiatives in the field of culture are especially prominent, and one of the most significant is the organisation of the 31st Riviera painting colony, which continues the tradition started some thirty years ago. We should also mention the new "Artist on Vacation" project, launched in 2013 and continued this year, which takes place in the premises of Valamar Club Tamaris hotel in Poreč, and is organised by the Institute for Research of the Avant-garde and the Marinko Sudac Collection, under the auspices of the Ministry of Culture of the Republic of Croatia. In the second year of cooperation with Valamar, the project again organised a large exhibition of international Avant-garde artists in the Museum of the Contemporary Art in Zagreb.

Of the large, already traditional sports events that Valamar Riviera also supports, it is emphasized the Istrian Riviera tennis tournament, as well as the international cycling race Istra Valamar Terra Magica.

The Company Valamar Riviera d.d. has been active in supporting numerous oenological, gastronomic and similar fairs so that for years now we have been supporting the Vinistra and Promohotel fairs, held every year in Poreč.

With this type of actions Valamar Riviera d.d. has established itself as a partner to the communities where it successfully operates and with its example it also encourages other businesses and partners to similarly promote their social responsibility and support education, sports, culture, environmental protection and other initiatives promoting values without which the achieved business results would not be sustainable.


Valamar Club Tamaris 4*, Poreč

Investments

During 2014, HRK 382 million of investments in the Group's properties were capitalized, out of which the most significant investments are those in Valamar Dubrovnik President and Valamar Argosy hotels in Dubrovnik and Valamar Zagreb hotel in Poreč. HRK 38 million were invested in the renovation of the Valamar Argosy 4* hotel (308 rooms), with special emphasis on the new outdoor swimming pool with terraces and landscaping, reconstruction of the indoor swimming pool, new wellness and spa facilities, redesign of shared spaces and refurbishment of accommodation units. It is necessary to emphasize the investment of HRK 150 million in Valamar Dubrovnik President, which, in addition to refurbishment of the existing 180 rooms in 2014, was extended by 111 new accommodation units (rooms and apartments), a new outdoor swimming pool, extended congress hall and parking lot, fully redesigned reception desk, lobby, indoor swimming pool, wellness centre, restaurant and bars, beaches and accompanying facilities and as the first Valamar Riviera's 5* hotel contributes to further affirmation of Dubrovnik as the top tourist destination. HRK 54 million were invested in the renovation of Valamar Zagreb 4* hotel (230 rooms) which, in addition to redecorated exterior, offers more spacious modernly decorated rooms, a new concept of children entertainment in Maro clubs and playrooms, a new playground, fully renovated hotel outdoor swimming pool and a larger terrace with the favourite show cooking restaurant. For the 2014 season, the investment in the first hostel, Hostel Papalinna (128 beds) in Poreč was finalised.

For the 2015 season, Valamar Riviera invests approximately HRK 330 million[33] in properties, products and services in its hospitality property portfolio.

The most important project worth HRK 250 million is the luxury family Valamar Isabella Island Resort 4* on the island of Sveti Nikola, planned for soft opening in May 2015. Other projects planned for 2015 include significant investments in hotels, apartment resorts and campsites in Istria and Krk in the amount of approximately HRK 80 million. As for the campsites, one of the largest investments in 2015 in the amount of HRK 25 million relates to investment in Lanterna campsite in Poreč, and significant improvement in offer and services is also planned for Marina campsite in Rabac and campsites Ježevac and Krk in Krk. Investments in campsites mainly relate to infrastructure and landscaping in campsites and purchasing new mobile homes.

In the future we plan to continue with the existing investment policy, focusing on the improved competitiveness of our tourism products in strategic markets and generally further improvement in quality of our facilities and services. The doubled share of accommodation capacities in the 4* and 5* segment during the last three years (with a share of 25% in the Group's total capacities) is a strong pillar of future business development. As long as touristic land is unresolved in practice and concessions are not granted as envisioned by the Touristic Land Law, the company's ability to invest in certain parts of the portfolio, especially in campsites, is reduced and large investment projects might be delayed.

Construction site Valamar Isabella Island Resort 4*, Poreč

[33] A portion already recorded during 2014.

Significant events

At 21 August 2014, the General Assembly of the Company was held where the annual financial statements for 2013 were presented; decisions were made on the use of profit, relieving of duty the Management Board and the Supervisory Board, appointing KPMG Croatia d.o.o. as the auditor in 2014, approval of the Agreement on the merger of Valamar Adria holding d.d. and Valamar grupa d.d. to Riviera Adria d.d., increase in the registered capital in order to execute the mergers, increase in the registered capital from the Company's reserves, amending the Articles of Association of Riviera Adria d.d. (with this amendment the Company's name was also changed to Valamar Riviera d.d.), the election of the Supervisory Board members and setting their compensations. The number of the Supervisory Board members was increased from five to seven and four new members of the Supervisory Board were elected for a term starting from the date of entering the Decision on the amendments to the Articles of Association into the court register until the expiration of the term of other members. The Supervisory Board consists of: Mr. Gustav Wurmböck, President, Mr. Mladen Markoč, vice-president, and members: Mr. Georg Eltz, Ms. Gudrun Kuffner, Mr. Hans Dominik Turnovszky, Mr. Vicko Ferić and Ms. Mariza Jugovac.

At 30 September 2014, the Commercial Court in Rijeka, Permanent Office Pazin recorded the merger of the companies Valamar Adria holding d.d. and Valamar grupa d.d. to the company Riviera Adria d.d. At the same time, the following entries were made: the change of the name of the company Riviera Adria d.d. to Valamar Riviera d.d., the increase in registered capital for the purpose of mergers and increase in registered capital from the Company's reserves to the total amount of the registered capital of HRK 1,672,021,210.00 divided into 126,027,542 ordinary shares without par value, as well as the amendments to the Company's Articles of Association.

Following the decision of the Supervisory Board of Valamar Riviera d.d., as of 30 September 2014, the Company's Management Board consisted of: Mr. Franz Lanschützer (President of the Management Board), Mr. Edi Černjul (vice-president of the Management Board until the end of 2014), Mr. Nikola Koncul (vice-president of the Management Board until the end of April 2015), Mr. Tihomir Nikolaš, Mr. Marko Čižmek and Ms. Ivana Budin Arhanić.

As of 1 January 2015, the Management Board of the Company consists of: Mr. Franz Lanschützer, President of the Management Board, and members: Mr. Nikola Koncul, Mr. Tihomir Nikolaš, Mr. Marko Čižmek and Ms. Ivana Budin Arhanić.

Following the decision of the Supervisory Board, Mr. Željko Kukurin was appointed to the position of the President of the Management Board as of 9 June 2015.

At 17 November 2014, the General Assembly of the Company was held resulting in the decisions on listing the Company's shares on the Official market of the Zagreb Stock Exchange, the authority to acquire treasury shares and dividend distribution.

At 3 December 2014, pursuant to the decision of the General Assembly, the dividend was distributed to shareholders in the amount of HRK 0.50 per share through the Central Depository and Clearing Company.

Camping Marina, Labin

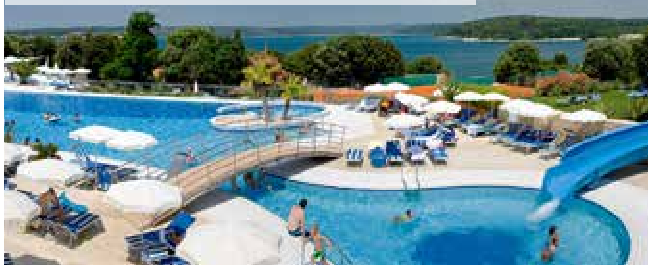
At 12 December 2014, the Croatian Financial Services Supervisory Agency approved the Listing Prospectus for 126,027,542 ordinary shares on the regulated market of the Zagreb Stock Exchange (ZSE), while the Zagreb Stock Exchange with its Decision of 15 December 2014 approved the listing of all 126,027,542 shares of the Company, bearing the ticker RIVP-R-A, ISIN: HRRIVPRA0000, on the Official market of the ZSE.

According to the relevant decisions of the ZSE, on 16 December 2014 the trading with the Company's shares in MTP – Fortis ended, and as of 17 December 2014 the trading of shares on the Official market started.

At 15 December 2014, the Commercial Court in Rijeka, Permanent Office Pazin registered the merger of the company Linteum savjetovanje d.o.o., Zagreb to the company Valamar Riviera d.d.

At 18 December 2014, Valamar Riviera d.d. and Valamar hoteli i ljetovališta d.o.o., Zagreb, concluded a Merger Agreement by which the company Valamar hoteli i ljetovališta d.o.o. as the merged company is merged with the merging company Valamar Riviera d.d.

Valamar Club Tamaris 4*, Poreč



Significant Events after the End of the Business Year

As at 19 January 2015, the Zagreb Stock Exchange announced that the Company's shares met the conditions for an accelerated entry into the following indices: CROBEX, CROBEXtr, CROBEX10, CROBEXplus and CROBEXturist, and that they will be included as of 27 January 2015.

The appreciation of the exchange rate of the Swiss franc in January 2015 will have a negative impact on the Company's debt and valuation of borrowings (at the end of 2014 the Company had borrowings of CHF 27.3 million which mature gradually until 2019).

At the end of January 2015, Mr. Tihomir Nikolaš announced his departure from the position of a Management Board member as of 8 June 2015. In April 2015, Ms. Ivana Budin Arhanić announced her departure from the position of a Management Board member as of 8 June 2015 and she will continue as the vice-president for business development, performance management and corporate affairs. Mr. Franz Lanschützer announced his departure from the position of the President of the Management Board as of 8 June 2015, and to the General Assembly was proposed his appointment in the Company's Supervisory Board.

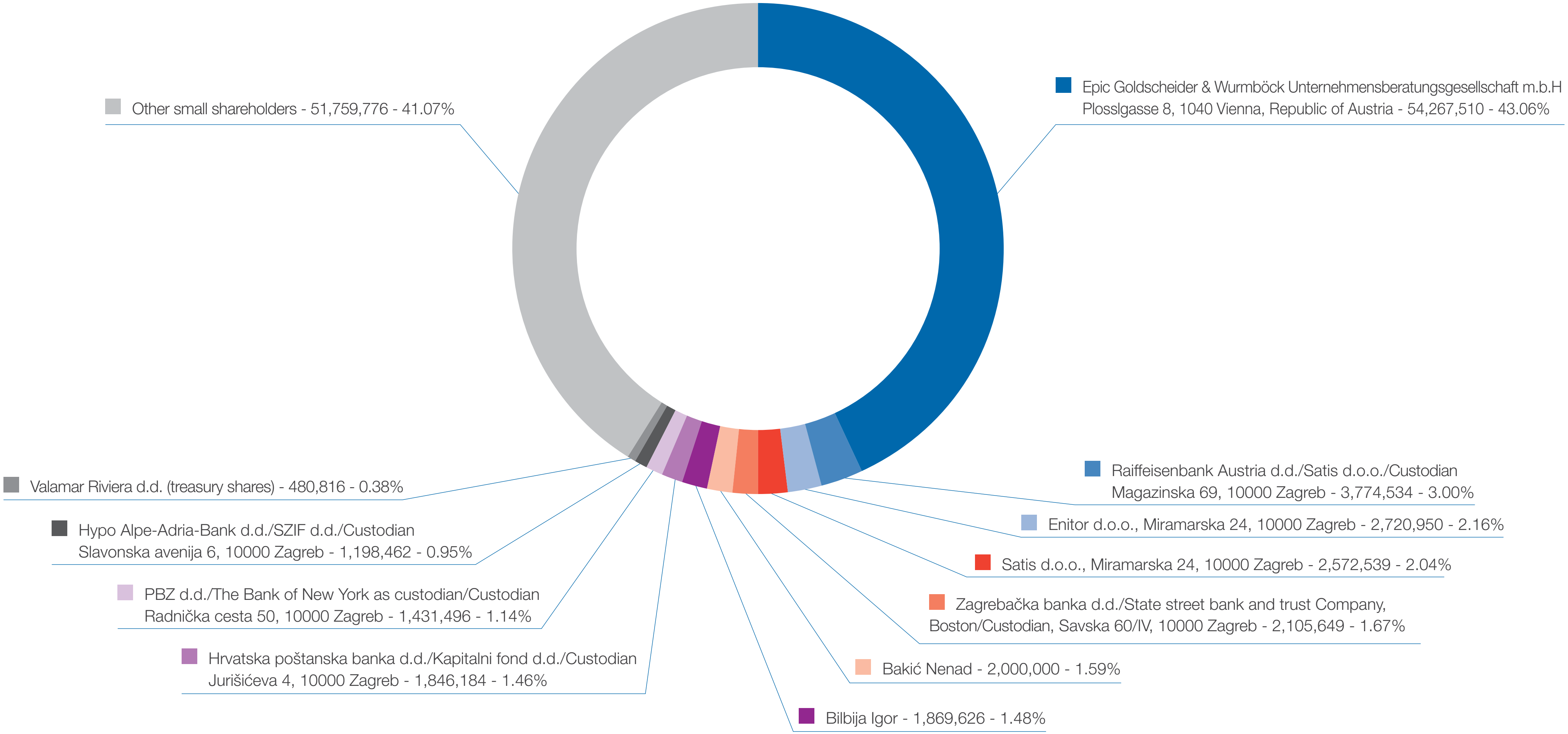
At 27 February 2015, the Commercial Court in Rijeka, Permanent Office Pazin registered the merger of the company Valamar hoteli i ljetovališta d.o.o., Zagreb to the company Valamar Riviera d.d.

On 13 April 2015 the Management Board of the Company made the decision on convoking the General Assembly of the Company, which will be held on 8 June 2015 at 12 o' clock in the Tourist Village Valamar Isabella Island Resort, conference hall Momenti, in Poreč, Island of Sv. Nikola.


Casa Valamar Sanfior 4*, Rabac

Other information

Overview of major shareholders as at 31 December 2014:



In the period from 1 January 2014 to 16 December 2014, the highest recorded RIVP-R-A share price at the MTP-Fortis trade platform was HRK 24.67, while the lowest was HRK 12.99.

In the period from 17 December 2014 to 31 December 2014, the highest Company's share price realised on the regulated market was HRK 20.50, while the lowest was HRK 19.42.

In the period from 30 October 2014 to 31 December 2014, the Company acquired 438,421 treasury shares at the total purchase cost of HRK 8,543,990.73, which makes 0.3478% of the registered capital. At 31 December 2014, the Company holds 480,816 treasury shares, or 0.3815% of the registered capital.

As at 31 December 2014, the Company had 1611 employees (958 permanent and 653 seasonal workforce). The Company systematically and continually invests in the development of its human resources.

In the course of 2014, the Company's Management Board performed the actions envisaged by law and the Articles of Association with respect to the management and representation of the Company and planned a business policy that was implemented with prudent care.

The Company's management will continue to undertake all the necessary measures in order to ensure sustainability and business growth under the current circumstances.

The annual audited, separate and consolidated financial statements for 2014 were adopted by the Management Board on 25 March 2015.

Company's Management thanks all shareholders, business partners and guests for the support and trust, and especially all employees for their contribution.

Management Board of the Company

Valamar Dubrovnik President Hotel 5*, Dubrovnik

Management Board's decision on the proposal of profit distribution and Management Board's decision on establishing the Annual Financial Statements

VALAMAR RIVIERA d.d.
MANAGEMENT BOARD

Number: 130-32/14.
Poreč, 25.03.2015

Pursuant to provisions from articles 250.a, 250.b, 300.a and 300.b of the Law on companies, articles 403 and 404 of the Law on capital market and article 15., 16. and 18. of the Accounting law, Valamar Riviera (Poreč, Stancija Kaligari 1, hereinafter: Valamar Riviera or Company) Management board on its meeting held on March 25, 2015 made the following

DECISION

I
The Valamar Riviera annual Statement of Finances has been established, all listed in text "YEAR 2014 – ANNUAL STATEMENT" enclosed to this Decision.

II
The audit and consolidated Statement of Finances for year 2014 has been established, all listed in the text that is an integral part of the Annual Statements stated in paragraph I of this Decision.

III
It is established that the Auditor KPMG Croatia d.o.o. from Zagreb made audit Annual Reports for 2014, all listed in the text that is the integral part of Report stated under paragraph I of this Decision.

IV
Management board report about condition of Company has been established for the period from 01.01.2014. till 31.12.2014. all in the text enclosed to the Report from paragraph I of this decision.

V
Decision proposal has been established to distribute the realized profits in the amount of HRK 23,627,648.23 as follows:

- The amount of HRK 1,181,382.41 in Company's legal reserves
- The amount of HRK 22,446,256.82 in Company's retained profits

VI
Pursuant to the provision of Article 300. b of the Law on Companies:
1. the Annual Statements stated under paragraphs II and IV of this Decision shall be submitted to the Supervisory Board for examination and it is proposed to the Supervisory Board to approve those Annual Statement,
2. the audited Annual Report stated in paragraph III is delivered to the Supervisory Board to take the stand and
3. it is proposed that the Supervisory Board of the Company approve the proposal stated in the Decision on the allocation of profits pursuant to paragraph V of this Decision and to pass it as such to the General Meeting to be adopted.

VII
Zagreb stock exchange will be informed about this decision according to provision from the article 123 Rules of Zagreb stock exchange till the start of trading next day at the latest.

Upon making decisions of Supervisory board in the sense of paragraph VI, this Decision with decision proposal about using profits from paragraph V and Reports established in this Decision will be published according to provision from article 403 and article 440 paragraph 4 of the Law on capital market till April 30, 2015.

VIII
This Decision together with decision proposal about using the profits from paragraph V, Reports established in this Decision and Supervisory board decision from paragraph VI of this decision upon passing, will be delivered in the proscribed deadline to Financial agency due to publishing according to the provision from article 20 of Accounting law.

Franz Lanschützer
President of Management Board

Supervisory Board's resolution on approving the Annual Financial Statements

VALAMAR RIVIERA d.d.
SUPERVISORY BOARD
No: 266-1/15.
In Poreč, 13th of April 2015

Based on Article 300.d, and according to Article 300.c of Companies Act and MB Decision no. 130-32/15 from March 25, 2015 the Supervisory Board of VALAMAR RIVIERA d.d. from Poreč at its session held on April 13, 2015 passed the following

RESOLUTION

I
The Yearly financial statements for 2014 of VALAMAR RIVIERA d.d. from Poreč – consolidated and non-consolidated which consists of: Profit and loss statement, Balance sheet, Notes to the financial statements, Cash flow statement, Statement of changes in shareholder's equity and Audit report made by the Auditor KPMG Croatia d.o.o. from Zagreb are approved.

II
By giving approval as said in paragraph I of this Decision, the Management Board and Supervisory Board determined the Yearly financial statements for 2014 of VALAMAR RIVIERA d.d. from Poreč.

Gustav Wurmböck
Supervisory Board President

Supervisory Board's resolution proposal on payment of dividend

VALAMAR RIVIERA d.d.
SUPERVISORY BOARD
Number: 266-4/15.
In Poreč, 13th of April 2015.

Supervisory Board of the Company VALAMAR RIVIERA d.d. at its session held on 13th of April 2015 passed the following

RESOLUTION

I
The consent is being given to proposed Decision on payment of dividend, all according to Management Board decision number: 130-34/15 from March 25th, 2015, all attached to this decision, as follows

DECISION
on payment of dividend

I
To shareholders of the Company will be paid dividend in amount of 0,55 kn (fiftyfive lipa) per each share.

II
Dividend will be paid from other reserves from profit gained in business years 2007, 2008 in the amount of 22,491,434.38 kn and remaining part from retained profit years 2013.

III
Right to receive payment of dividend has each Company shareholder, owner of the shares registered on their accounts of dematerialized securities in the computer system of the Central Depository and Clearing Agency on June 12th 2015. The day from when the trade will be performed without right for dividend payment is June 11th 2015.

IV
Dividend will be paid on July 7th 2015

V
This decision is on force from the day it is adopted.

II
The proposal is given to the General Assembly to adopt the compliant proposal made by the Supervisory Board and the Management Board established in paragraph I of this decision.

Gustav Wurmböck
Supervisory Board President

Supervisory Board's report on the performed supervision of Company's business management in 2014

VALAMAR RIVIERA d.d.
SUPERVISORY BOARD
Number: 266-2/15.
In Poreč, April 13, 2015

Based on article 263., paragraph 3. and article 300.c paragraph 3. of Companies Act the Supervisory Board of VALAMAR RIVIERA d.d. from Poreč at its session held on April 13, 2015 passed the following

REPORT

To the General Assembly of VALAMAR RIVIERA d.d. from Poreč on the supervision on managing the Company's business in 2014

I

In 2014, to which this report refers to, Supervisory board initially consisted of: Georg Eltz, president, Gustav Wurmböck, deputy president, Franz Lanschützer, member, Mariza Jugovac, member and Marijan Palić, member. Due to extraordinary termination of mandate (death) of one of members, resignation of one member and change of article 25 of the Company's Statute, which consequently increased number of members in Supervisory board from five to seven, General assembly on August 21, 2014 elected four new members of Supervisory board. Therefore, starting from September 30, 2014 when changes of Statute and members were entered in court registry, Supervisory board consisted of: Gustav Wurmböck, president, Mladen Markoč, deputy president, and members: Georg Eltz, Mariza Jugovac, Gudrun Kuffner, Hans Dominik Turnovszky i Vicko Ferić.

II

During 2014 the Supervisory Board regularly received written reports on the business, as well as other reports and Management Board proposals and decisions which the Supervisory Board have examined and decided according to regulations and Company's Statue. During 2014 the Supervisory Board held (29) sessions out of which (23) via correspondence, all according to Company's Statue at which it discussed many issues related to the Company business and supervised managing Company's business.

III

In accordance with their obligations during 2014 the Supervisory Board maintained the supervisory role through sessions and received acts and information by the Management Board and

established

that VALAMAR RIVIERA d.d. from Poreč operates in accordance with the law, Company's Statue and other acts and Company's decisions.

IV

The Supervisory Board specially examined the reports and decision proposals submitted by the Management Board, namely:

- Yearly financial statements of VALAMAR RIVIERA d.d. from Poreč for 2014 – consolidated and non-consolidated which consists of: Profit and loss statement, Balance sheet, Notes to the financial statements, Cash flow statement, Statement of changes in shareholder's equity and Audit report made by the Auditor KPMG Croatia d.o.o. from Zagreb,
- Yearly Management Board report on the Company status,
- MB proposal on profit allocation and payment of dividend,
- Report on relations with affiliated companies for 2014 with Auditor report.

At its session and in the presence of Auditor of the Company KPMG Croatia d.o.o. from Zagreb, the Supervisory Board examined the submitted Yearly financial statements for 2014 and established that they are formed in accordance with the Company's business books and that they show correct business status of the Company and that there are no objections to it.

The Supervisory Board doesn't have any objections to the opinion of Audit committee, regarding Auditor's report on the preformed audit. Also, Supervisory board doesn't have and objections to the Yearly Management Board report on the Company status.

The Supervisory Board in the presence of Auditor from the audit company KPMG Croatia d.o.o. from Zagreb examined the Report of Management Board on relations with affiliated companies with the Auditor report and does not have any objections.

V

Besides the examination of the above specified, according to the Company's Statue, the Supervisory Board supervised managing the Company's business by considering decision proposals of the Management Board for whose adoption an approval by the Supervisory Board is needed. In that part, the Supervisory Board gave a special attention on the conditions for concluding legal affairs, concessions, managing the real estates, particularly lease of business premises, both from aspects of fair revenue for Company and from the aspect of appropriate services that should be provided by the Company. Also, Supervisory Board dedicated specially approved each Company's debenture and regularly monitored Company's financial and cash flow.

Besides above, Supervisory board regularly reviewed monthly business results paying attention to each business facility and to this Company as a whole, all regarding previously adopted business plans. In this field special attention was devoted to business plan for 2015.

Furthermore, Supervisory Board during 2014 paid particular attention to reviewing, directing and approving of planned investments in all stages of their preparation and realization, especially from the point of real needs to raise the overall level of quality and standards of Company's facilities, real opportunities of sales of such services on the emitting markets and their financial feasibility and profitability. Supervisory Board with special attention monitored Management Board in processes of share purchases and potential acquisitions of strategic importance for Valamar Riviera.

Supervisory Board also paid special attention to supervision of managing hotels and other touristic facilities what is entrusted to management company Valamar hotels and resorts d.o.o. – specialized in professional property management and hospitality services.

One of the most important activities to which Supervisory Board paid particular attention in 2014 were all procedures and documents prescribed for preparation and implementation of merger of companies VALAMAR GRUPA d.d., VALAMAR ADRIA HOLDING d.d. and LINTEUM SAVJETOVANJE d.o.o. to this Company as a take-over Company, and procedures and documents related to share capital increase due to merger implementation and increase of basic capital. In this part Supervisory Board examined and gave all necessary agreements, approvals, proposals and/or reports regarding merger agreement, merger audit or all other decisions directed to the General Assembly for adoption. The merger process which were finalized upon entry to the court register on September 30, 2014 and company LINTEUM SAVJETOVANJE d.o.o. on December 15, 2014.

Beside mentioned, the Supervisory Board especially paid attention on approval of Prospectus of listing all regular shares to the regular market of Zagreb stock exchange to the segment of Official market and to the monitoring of all procedures related to listing procedure. Procedure was successfully finalized and Company's shares are being traded with on Official market from December 17, 2014.

Finally, due to previously mentioned merger, Supervisory board decided to increase number of MB members from four to six and as of October 1, 2014 appointed Mr. Franz Lanschützer as president and Mrs. Ivana Budin Arhanić as member of MB. Supervisory board received resignations of members of MB: Mr. Edi Černjul from December 31, 2014, Mr. Nikola Koncul, from April 30, 2014 and Mr. Tihomir Nikolaš, from June 8, 2015. Supervisory board appointed Mr. Željko Kukurin as the new MB president starting from July 1, 2015.

VI

Based on all mentioned, and according to total knowledge from the supervision of managing Company's business and received information during the course of work of Supervisory board in the period from January 1 till December 31, 2014 and conducted examinations from item V of this Report, on its session held on April 13, 2015 Supervisory board passed

A)

its agreement to

gave his approval to

1. Yearly financial statements of VALAMAR RIVIERA d.d. from Poreč for 2014,
2. Report on the performed audit made by the Auditor KPMG Croatia d.o.o. from Zagreb,
3. Yearly Management Board Report on the Company status,
4. Decision proposal on the usage of the profit realized in 2014. and by doing so, according to Article 300.d of the Law on Companies, Yearly financial statements of VALAMAR RIVIERA d.d. from Poreč for 2014 are considered established both by the Management Board and by the Supervisory Board.

B)

Does not have objections
on the Management Board statement according to provisions of article 497. paragraph 3. of Companies Act in Report on relations with related companies for 2014.

and

agrees with

Auditor's report KPMG Croatia d.o.o. on Report of MB on relations with related companies for 2014.

Gustav Wurmböck
Supervisory Board President

Responsibility for the Annual Financial Statements

In Poreč, 25.03.2015

In accordance with provisions of Law on Capital Market, Marko Čižmek, Management board member responsible for finance, controlling and IT business and Ljubica Grbac director of Department of Finance and Accounting, person responsible for finance and accounting, together as persons responsible for the preparation of annual reports of company VALAMAR RIVIERA d.d. from Poreč, Stancija Kaligari 1, OIB 36201212847 (hereinafter: Company), hereby make the following

STATEMENT

According to our best knowledge

- The set of audited, consolidated and unconsolidated financial statements for 2014 prepared in accordance with applicable standards of financial reporting gives a true and fair view of the assets and obligations, profit and loss, financial position and Company's business as well as the companies included in the consolidation

- Report of the Company's Management board for the period from 1st of January to 31st of December 2014 contains the true presentation of development, results and position of the Company and companies included in the consolidation, with description of significant risks and uncertainties which the Company and companies included in the consolidation are exposed to.

VALAMAR RIVIERA d.d.
POREČ (5)

Marko Čižmek
Management Board member

Ljubica Grbac
director of Department of Finance
and Accounting

Valamar Riviera d.d., Poreč
(formerly Riviera Adria d.d., Poreč)

Independent auditors' report and financial statements 31 December 2014

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Independent Auditors' Report to the shareholders of Valamar Riviera d.d., Poreč

We have audited the accompanying separate financial statements of Valamar Riviera d.d. ("the Company") and the accompanying consolidated financial statements of Valamar Riviera d.d. and its subsidiaries ("the Group"). The financial statements comprise the statements of financial position as at 31 December 2014, 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 by 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.

Auditors' 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 our 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, we consider 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 give a true and fair view of the financial position of the Company and of the Group as at 31 December 2014, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb,
Croatia

25 March 2015

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

(all amounts are expressed in thousands of HRK)	Note	Group 2014	Group 2013 (See Note 1)	Company 2014	Company 2013 (See Note 1)
Revenue	5	1,077,699	1,048,178	1,065,151	806,471
Other income	6	20,954	14,252	18,978	11,933
Cost of materials and services	7	(355,633)	(432,873)	(463,141)	(337,156)
Staff costs	8	(350,152)	(273,979)	(303,414)	(207,126)
Depreciation and amortisation	14, 15, 16	(202,977)	(223,323)	(186,426)	(171,976)
Other operating expenses	9	(108,422)	(79,342)	(84,663)	(69,163)
Other gains – net	10	4,561	8,029	4,571	6,868
Operating profit		**86,030**	**60,942**	**51,056**	**39,851**
Finance income		9,950	7,274	5,881	12,166
Finance costs		(36,928)	(28,340)	(29,670)	(16,901)
Finance costs – net	**11**	**(26,978)**	**(21,066)**	**(23,789)**	**(4,735)**
Profit before tax		**59,052**	**39,876**	**27,267**	**35,116**
Income tax (expense)/benefit	12	(7,658)	66,140	(3,639)	23,533
Profit for the year		**51,394**	**106,016**	**23,628**	**58,649**
Other comprehensive income					
Items that may be reclassified to profit or loss					
Change in value available-for-sale financial assets	20	4,090	(229)	(720)	(229)
Tax on other comprehensive income		(818)	46	144	46
Total comprehensive income for the year		**54,666**	**105,833**	**23,052**	**58,466**
Profit attributable to:					
Owners of the parent		51,381	106,016	-	-
Non-controlling interests		13	-	-	-
		51,394	**106,016**	**-**	**-**
Total comprehensive income attributable to:					
Owners of the parent		54,653	105,833	-	-
Non-controlling interests		13	-	-	-
		54,666	**105,833**	**-**	**-**
Earnings per share (in HRK) attributable to equity holders of the Group during the year:					
- basic and diluted	13	0.47	1.03	-	-

These financial statements were approved by the Management Board of the Company on 25 March 2015.

President of the Management Board:
Franz Lanschützer

Member of the Management Board:
Marko Čižmek

VALAMAR RIVIERA d.d.
POREČ (5)

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2014

(all amounts are expressed in thousands of HRK)	Note	Group 31 December 2014	Group 31 December 2013 (See Note 1)	Company 31 December 2014	Company 31 December 2013 (See Note 1)
ASSETS					
Non-current assets					
Property, plant and equipment	14	2,585,889	2,381,364	2,262,187	2,070,127
Investment property	15	22,932	-	19,508	-
Intangible assets	16	15,086	8,402	8,157	8,616
Investment in subsidiaries	17	-	-	400,478	347,233
Interest in joint venture	18	1,340	1,329	1,490	1,490
Deferred tax assets	26	83,416	66,516	40,656	23,890
Available-for-sale financial assets	20	42,092	1,854	39,032	1,854
Loans and deposits	21	733	802	733	802
Trade and other receivables	23	-	-	162,454	-
		2,751,488	2,460,267	2,934,695	2,454,012
Current assets					
Inventories	22	7,279	7,170	7,124	7,170
Trade and other receivables	23	58,240	48,388	83,695	263,091
Income tax receivable		974	10,034	974	10,034
Loans and deposits	21	1,231	1,323	982	1,804
Financial assets at fair value through profit or loss	24	1,091	1,106	1,091	1,106
Cash and cash equivalents	27	195,201	223,105	166,189	222,756
		264,016	291,126	260,055	505,961
Total assets		**3,015,504**	**2,751,393**	**3,194,750**	**2,959,973**
EQUITY AND LIABILITIES					
Share capital	28	1,672,021	1,117,663	1,672,021	1,117,663
Treasury shares	28	(13,303)	(33,847)	(8,836)	(33,847)
Capital reserves	29	(18,595)	466,741	(8,394)	466,741
Reserve for reinvested profit	29	29,413	-	29,750	-
Legal reserves	29	60,724	-	60,724	-
Other reserves	29	79,029	167,682	254,711	343,581
Retained earnings	29	74,356	25,658	79,345	58,649
		1,883,645	1,743,897	2,079,321	1,952,787
Non-controlling interest		91	-	-	-
Total equity		**1,883,736**	**1,743,897**	**2,079,321**	**1,952,787**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

For the year ended 31 December 2014

(all amounts are expressed in thousands of HRK)	Note	Group 31 December 2014	Group 31 December 2013 (See Note 1)	Company 31 December 2014	Company 31 December 2013 (See Note 1)
LIABILITIES					
Non-current liabilities					
Borrowings	30	822,163	697,171	813,686	697,171
Derivative financial instruments	25	2,390	2,495	2,390	2,495
Deferred tax liabilities	26	2,298	20	2,298	20
Provisions	32	26,807	29,120	26,807	29,120
		853,658	728,806	845,181	728,806
Current liabilities					
Trade and other payables	31	154,045	138,693	150,991	138,383
Borrowings	30	103,814	129,967	102,569	129,967
Derivative financial instruments	25	1,548	3,073	1,548	3,073
Provisions	32	18,703	6,957	15,140	6,957
		278,110	278,690	270,248	278,380
Total liabilities		**1,131,768**	**1,007,496**	**1,115,429**	**1,007,186**
Total equity and liabilities		**3,015,504**	**2,751,393**	**3,194,750**	**2,959,973**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2014

Group

(in thousands of HRK)	Note	Share capital	Treasury shares	Capital reserves	Reinvested profit reserve	Legal reserves	Fair value reserves	Other reserves	Retained earnings/ (Accumulated losses)	Total	Non-controlling interest	Total equity
Balance at 1 January 2013	28	**1,065,463**	**(32,490)**	**466,291**	**52,200**	**-**	**-**	**140,919**	**(19,458)**	**1,672,925**	**16,855**	**1,689,780**
Profit for the year		-	-	-	-	-	-	-	106,016	106,016	-	**106,016**
Other comprehensive loss	29	-	-	-	-	-	-	(183)	-	(183)	-	**(183)**
Total comprehensive income/(loss)		**-**	**-**	**-**	**-**	**-**	**-**	**(183)**	**106,016**	**105,833**	**-**	**105,833**
Transfer of retained earnings to reserves	29	-	-	-	-	-	-	471	(471)	-	-	**-**
Transfer of reserves to retained earnings	29	-	-	-	-	-	-	26,475	(26,475)	-	-	**-**
Increase of share capital from reinvested profit	29	52,200	-	-	(52,200)	-	-	-	-	-	-	**-**
Acquisition of non-controlling interest		-	199	(1,183)	-	-	-	-	603	(381)	(16,855)	**(17,236)**
Subsidiary intragroup transfer		-	-	-	-	-	-	-	(34,557)	(34,557)	-	**(34,557)**
Treasury shares released	28, 29	-	791	242	-	-	-	-	-	1,033	-	**1,033**
Treasury shares purchase	28, 29	-	(764)	(192)	-	-	-	-	-	(956)	-	**(956)**
Effect of increase of share capital	28, 29	-	(1,583)	1,583	-	-	-	-	-	-	-	**-**
Total contributions by and distributions to owners of the company, recognised directly in equity		**52,200**	**(1,357)**	**450**	**(52,200)**	**-**	**-**	**26,946**	**(60,900)**	**(34,861)**	**(16,855)**	**(51,716)**
Balance at 31 December 2013		**1,117,663**	**(33,847)**	**466,741**	**-**	**-**	**-**	**167,682**	**25,658**	**1,743,897**	**-**	**1,743,897**
Profit for the year		-	-	-	-	-	-	-	51,381	51,381	13	**51,394**
Other comprehensive loss	29	-	-	-	-	-	3,272	-	-	3,272	-	**3,272**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**3,272**	**-**	**51,381**	**54,653**	**13**	**54,666**
Reissue of shares	28,29	554,358	46,582	(350,000)	-	-	-	-	-	250,940	-	**250,940**
Effect of merger	37	-	-	(146,805)	-	-	26,517	31,977	(3,209)	(91,520)	-	**(91,520)**
Intragroup transfer of subsidiaries	17	-	(4,467)	-	-	-	(455)	-	3,458	(1,464)	78	**(1,386)**
Transfer to legal reserves	29	-	-	-	-	2,932	-	-	(2,932)	-	-	**-**
Transfer	29	-	-	-	-	-	79	(79)	-	-	-	**-**
Transfer	29	-	-	-	-	57,792	-	(57,792)	-	-	-	**-**
Transfer	29	-	(11,469)	11,469	-	-	-	-	-	-	-	**-**
Treasury shares purchase	28,29	-	(10,102)	-	-	-	-	-	-	(10,102)	-	**(10,102)**
Dividends paid	29	-	-	-	-	-	-	(62,759)	-	(62,759)	-	**(62,759)**
Total contributions by and distributions to owners of the company, recognised directly in equity		**554,358**	**20,544**	**(485,336)**	**-**	**60,724**	**26,141**	**(88,653)**	**(2,683)**	**85,095**	**78**	**85,173**
Balance at 31 December 2014		**1,672,021**	**(13,303)**	**(18,595)**	**-**	**60,724**	**29,413**	**79,029**	**74,356**	**1,883,645**	**91**	**1,883,736**

Accompanying notes form an integral parts of these financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2014

Company

(in thousands of HRK)	Note	Share capital	Treasury shares	Capital reserves	Reinvested profit reserve	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2013	28	**1,065,463**	**(32,291)**	**465,108**	**52,200**	**57,792**	**-**	**109,602**	**471**	**1,718,345**
Profit for the year		-	-	-	-	-	-	-	58,649	58,649
Other comprehensive loss	29	-	-	-	-	-	-	(183)	-	(183)
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**(183)**	**58,649**	**58,466**
Transfer to share capital	29	52,200	-	-	(52,200)	-	-	-	-	-
Transfer to reserves	29	-	-	-	-	-	-	471	(471)	-
Treasury shares released	28, 29	-	791	242	-	-	-	-	-	1,033
Treasury shares purchase	28, 29	-	(764)	(192)	-	-	-	-	-	(956)
Merger effect of subsidiary	37	-	-	-	-	-	-	175,899	-	175,899
Effect of increase of share capital	28, 29	-	(1,583)	1,583	-	-	-	-	-	-
Total contributions by and distributions to owners of the company, recognised directly in equity		**52,200**	**(1,556)**	**1,633**	**(52,200)**	**-**	**-**	**176,370**	**(471)**	**175,976**
Balance at 31 December 2013		**1,117,663**	**(33,847)**	**466,741**	**-**	**57,792**	**-**	**285,789**	**58,649**	**1,952,787**
Profit for the year		-	-	-	-	-	-	-	23,628	23,628
Other comprehensive loss	29	-	-	-	-	-	(576)	-	-	(576)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**(576)**	**-**	**23,628**	**23,052**
Reissue of shares	28,29	554,358	46,582	(350,000)	-	-	-	-	-	250,940
Effect of merger	37	-	-	(136,604)	-	-	30,247	31,977	-	(74,380)
Transfer to legal reserves	29	-	-	-	-	2,932	-	-	(2,932)	-
Transfer	29	-	-	-	-	-	79	(79)	-	-
Transfer	29	-	(11,469)	11,469	-	-	-	-	-	-
Treasury shares purchase	28,29	-	(10,102)	-	-	-	-	-	-	(10,102)
Dividends paid	29	-	-	-	-	-	-	(62,976)	-	(62,976)
Total contributions by and distributions to owners of the company, recognised directly in equity		**554,358**	**25,011**	**(475,135)**	**-**	**2,932**	**30,326**	**(31,078)**	**(2,932)**	**103,482**
Balance at 31 December 2014		**1,672,021**	**(8,836)**	**(8,394)**	**-**	**60,724**	**29,750**	**254,711**	**79,345**	**2,079,321**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED AND UNCONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

(all amounts are expressed in thousands of HRK)	Note	Group 2014	Group 2013 (See Note 1)	Company 2014	Company 2013 (See Note 1)
Cash flow generated from operating activities					
Cash from operations	35	261,155	304,425	274,298	232,375
Income tax paid/(received)		1,917	(10,053)	9,299	(10,034)
Interest paid		(29,458)	(23,830)	(23,032)	(14,275)
Net cash generated from operating activities		**233,614**	**270,542**	**260,565**	**208,066**
Cash flow from investing activities					
Cash from merger of subsidiary	37	1,391	-	1,391	5,050
Cash from merger of parent companies	37	5,308	-	5,308	-
Purchase of property, plant and equipment		(376,781)	(181,266)	(376,622)	(147,937)
Purchase of intangible assets		(1,657)	(7,449)	(1,657)	(7,434)
Proceeds from disposal of property, plant and equipment		157	226	145	198
Acquisition of non-controlling interest		-	(55,519)	-	(56,355)
Subsidiaries intragroup transfer	17	52,966	-	-	-
Proceeds from disposal of financial assets held for sale		196	-	196	-
Loans granted		(43)	(1,217)	(43)	(33,956)
Loan repayments received		45,320	45	46,050	53,120
Interest received		12,359	8,958	8,293	13,851
Net cash used in investing activities		**(260,784)**	**(236,222)**	**(316,939)**	**(173,463)**
Cash flow from financing activities					
Dividend payment	29	(62,759)	-	(62,976)	-
Purchase of treasury shares	29	(10,102)	(956)	(10,102)	(956)
Proceeds from borrowings		415,549	212,850	415,549	212,850
Repayments of borrowings		(343,422)	(218,316)	(342,664)	(215,075)
Net cash used in financing activities		**(734)**	**(6,422)**	**(193)**	**(3,181)**
Net increase in cash and cash equivalents		**(27,904)**	**27,898**	**(56,567)**	**31,422**
Cash and cash equivalents at beginning of year		223,105	195,207	222,756	191,334
Cash and cash equivalents at end of year	27	**195,201**	**223,105**	**166,189**	**222,756**

Accompanying notes form an integral parts of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

NOTE 1 – GENERAL INFORMATION

Valamar Riviera d.d., Poreč ("the Company") is registered in accordance with Croatian laws and regulations. In 2014 the Company changed its name from Riviera Adria d.d. to Valamar Riviera d.d. The Company is registered with the Commercial Court in Rijeka – seated in Pazin. Principle activity of the Company is the provision of accommodation in hotels, resorts and camps, food preparation and catering services as well as the preparation and serving of beverages. The registered office of Valamar Riviera d.d. is in Poreč, Stancija Kaligari 1.

Valamar Riviera Group consists of Valamar Riviera d.d., Poreč for tourism services (the Company) and its subsidiaries as follows (the Group):

- Dubrovnik Babin kuk d.d. Dubrovnik (merged into parent company on 31 October 2013)
- Elafiti Babin kuk d.o.o., Dubrovnik, 100% ownership
- Palme turizam d.o.o., Dubrovnik , 100% ownership
- Magične stijene d.o.o., Dubrovnik, 100% ownership
- Bugenvilia d.o.o., Dubrovnik, 100% ownership
- Pogača Babin kuk d.o.o., Dubrovnik, 33% ownership, joint venture
- Valamar hoteli i ljetovališta d.o.o., 100% ownership (subsidiary from 1 October 2014)
- Puntižela d.o.o., 99,39% ownership (subsidiary from 1 October 2014)
- Bastion upravljanje d.o.o., 100% ownership (subsidiary from 1 October 2014)
- Linteum savjetovanje d.o.o., 100% ownership (subsidiary from 1 October 2014 until 14 December 2014)
- Citatis savjetovanje d.o.o., 100% ownership (subsidiary from 1 October 2014)
- Valamar Hotels & Resorts GmbH, 100% ownership (subsidiary from 1 October 2014)

Method of presentation of Statement of financial position and Statement of comprehensive income of Valamar Riviera Group companies in consolidated and separate financial statements is presented below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 1 – GENERAL INFORMATION (continued)

Table 1.

Company	Note	Group: Statement of financial position 31.12.2014	Group: Statement of financial position 31.12.2013	Group: Statement of comprehensive income 2014	Group: Statement of comprehensive income 2013	Company: Statement of financial position 31.12.2014	Company: Statement of financial position 31.12.2013	Company: Statement of comprehensive income 2014	Company: Statement of comprehensive income 2013
Valamar grupa d.d.	a	✔	-	1.1-31.12	-	✔	-	1.10-31.12	-
Valamar Adria holding d.d.	a	✔	-	1.1-31.12	-	✔	-	1.10-31.12	-
Dubrovnik-Babin kuk d.d.	b	✔	✔	1.1-31.12	1.1-31.12	✔	✔	1.1-31.12	1.11-31.12
Linteum savjetovanje d.o.o.	c	✔	-	1.1-31.12	-	✔	-	15.12-31.12	-
Epima d.o.o.	d	✔	-	1.1-31.12	-	✔	-	1.10-31.12	-
Valamar turistički projekti d.o.o.	e	✔	-	1.1-31.12	-	-	-	-	-
Valamar poslovni razvoj d.o.o.	f	✔	-	1.10-31.12	-	-	-	-	-
Bugenvilia d.o.o.	g	✔	✔	1.1-31.12	13.6-31.12	-	-	-	-
Palme turizam d.o.o.	h	✔	✔	1.1-31.12	1.1-31.12	-	-	-	-
Elafiti Babin kuk d.o.o.	h	✔	✔	1.1-31.12	1.1-31.12	-	-	-	-
Magične stijene d.o.o.	h	✔	✔	1.1-31.12	1.1-31.12	-	-	-	-
Puntižela d.o.o.	i	✔	-	1.1-31.12	-	-	-	-	-
Bastion upravljanje d.o.o.	i	✔	-	1.1-31.12	-	-	-	-	-
Valamar hoteli i ljetovališta d.o.o	i	✔	-	1.1-31.12	-	-	-	-	-
Citatis savjetovanje d.o.o.	i	✔	-	1.1-31.12	-	-	-	-	-
Valamar hotels & resorts GmbH	i	✔	-	1.1-31.12	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 1 – GENERAL INFORMATION (continued)

a) On 30 September 2014, a merger Agreement was concluded, whereby companies Valamar grupa d.d., Zagreb and Valamar Adria holding d.d. were merged into Valamar Riviera d.d., Poreč. The merger was registered in the Court Registry of the Commercial Court in Rijeka, seated in Pazin, as at 30 September 2014, with legal effect as of 1 October 2014. By this registration, the merged companies Valamar grupa d.d. and Valamar Adria holding d.d. ceased to exist, and the company Valamar Riviera d.d., took over all assets, all rights and all liabilities of the merged company.

b) On 31 October 2013, a merger Agreement was concluded, whereby the company Dubrovnik-Babin kuk d.d. was merged into Valamar Riviera d.d., Poreč. The merger was registered in the Court Registry of the Commercial Court in Rijeka, seated in Pazin, as at 31 October 2013, with legal effect as of 1 November 2013. By this registration, the merged company Dubrovnik-Babin kuk d.d. ceased to exist, and the company Valamar Riviera d.d., took over all assets, all rights and all liabilities of the merged company.

c) On 15 September 2014, a merger Agreement was concluded, whereby the company Linteum savjetovanje d.o.o., Zagreb was merged into Valamar Riviera d.d., Poreč. The merger was registered in the Court Registry of the Commercial Court in Rijeka, seated in Pazin, as at 15 December 2014, with legal effect as of 16 December 2014. By this registration, the merged company Linteum savjetovanje d.o.o., Zagreb ceased to exist, and company Valamar Riviera d.d., took over all assets, all rights and all liabilities of the merged company.

d) On 14 July 2014 the company Epima d.o.o. was merged into Valamar grupa d.d.

e) On 29 April 2014 the company Valamar turistički projekti d.o.o. was merged into Valamar hoteli i ljetovališta d.o.o.

f) On 30 September 2014 the company Valamar hoteli i ljetovališta d.o.o. has acquired 100% of shares in Valamar poslovni razvoj d.o.o. On 29 November 2014 the company Valamar poslovni razvoj d.o.o. was merged into Valamar hoteli i ljetovališta d.o.o.

g) On 12 June 2013 the Company has acquired 100% of shares in Bugenvilia d.o.o. The acquired subsidiary generates revenue from rent of property to the Company.

h) Subsidiaries Elafiti Babin kuk d.o.o., Palme turizam d.o.o. generate revenue from rent of property to the Company while Magične stijene d.o.o. does not have business activity. Pogača Babin kuk d.o.o. performs bakery services.

i) Valamar hoteli i ljetovališta d.o.o. generates revenue from managing hotel and tourist facilities, Puntižela d.o.o. generates revenue from performing hospitality activities (camp and hostel accomodation), while Bastion upravljanje d.o.o. generates revenue from investments and rental of property. Bastion upravljanje d.o.o. is 100% owner of Citatis savjetovanje d.o.o. and Valamar hoteli i ljetovališta d.o.o. is 100% owner of Valamar Hotels & Resorts GmbH.

Transactions of mentioned mergers were recorded according to accounting method of merger of companies under common control. Corresponding information for the Group and the Company has not been changed from that reported in prior year statutory reporting. Results for the year of the merged companies are accounted for in the Statement of Comprehensive Income of the company Valamar Riviera d.d. from 1 October 2014 and 15 December 2014, as detailed in Table 1 above. Statement of comprehensive income of the Group for the current year includes the results of the merged companies for the whole year, and the corresponding statement of comprehensive income of the Group for the current year does not include the comparative results of the merged companies. Merger effects for Valamar grupa d.d., Zagreb, Valamar Adria holding d.d., Zagreb i Linteum savjetovanje d.o.o., Zagreb are disclosed in Note 37.

As at 15 December 2014, Zagreb Stock Exchange (ZSE) granted listing of all Company´s shares on the Official ZSE market with 17 December 2014 as the first day of trading. Previously, the shares were listed on a Multilateral trading facility (MTP).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The preparation of financial statements in accordance with International Financial Reporting Standards as adopted by European Union (IFRS) requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the notes.

Financial statements represent unconsolidated and consolidated financial position and results of the Company and the Group, respectively.

2.1.1 Changes in accounting policy and disclosures

A number of new standards, amendments to standards and interpretations are effective but not mandatory for annual periods beginning on or after 1 January 2014, and have not been applied in preparing these financial statements. The application of new standards is not expected to have a significant influence on the financial statements of the Group and the Company and their early adoption is not planned.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

In the consolidated financial statements inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

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

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

(c) Joint ventures

The Group's interests in joint ventures are accounted for under the equity method. Under this method, an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets of the jointly controlled entity. The profit or loss of the venturer includes the venturer's share of the profit or loss of the jointly controlled entity. In the Company's separate financial statements interest in joint venture is measured at cost less impairment.

2.2.1 Subsidiaries in separate financial statements

The Company discloses its subsidiaries at cost less impairment (note Investment in subsidiaries).

2.3 Merger of entities and transactions with companies under common control

Merger of entities from parties under common control are accounted for using book values (carryover basis accounting). Under this method, the assets and liabilities of the entities under common control are transferred at the predecessor entities carrying amounts. Related goodwill inherent in the predecessor entity's original acquisitions are also recorded in these financial statements. Any difference between the carrying amount of net assets, and the consideration paid is accounted for in these financial statements as an adjustment to equity.

2.4 Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances in foreign currency

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

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

2.6 Property, plant and equipment

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

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

Land, arts 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 over their estimated useful lives, as follows:

	2014	2013
Buildings	10-25 years	10-20 years
Plant and equipment	4-10 years	4-10 years
Furniture, tools and horticulture	3-10 years	3-10 years

During the year 2014 the Group conducted a review of estimated useful life of buildings which resulted in the expected useful lives of buildings being reassessed from 20 to 25 years as explained in Note 14.

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

2.7 Intangible assets

(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiary is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2.8 Impairment of non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of non-financial assets (continued)

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.

2.9 Non-current assets classified as held for sale

Non-current assets are classified in the statement of financial position as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying and fair value, less costs to sell. The assets should be available for immediate sale in their present condition and their sale should be very likely. Gains and losses on sale of non-current assets held for sale are included in the statement of comprehensive income within 'other gains/(losses) – net'.

2.10 Investment property

Investment property, principally comprising business premises, is held for long-term rental yields or appreciation and is not occupied by the Group. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment, where required. Investments in progress are not depreciated. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (using depreciation rate of 4%).

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.11 Financial assets

2.11.1 Classification

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

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

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

(b) 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.

(c) Available-for-sale financial assets

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

(d) Repurchase agreements

The Company enters into sales of investments under agreements to repurchase substantially identical investments at a certain date in the future at a fixed price. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference in the effective interest rate between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest expense.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11.2 Measurement and recognition

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other (losses)/gains- net' in the period in which they arise. Gain and losses arising from changes in the fair value of interest rate swap are presented in the statement of comprehensive income within financial costs/income. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of 'other income' when the Group's right to receive payment is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity (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 as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.11.3 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

(b) Assets classified as available for sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of comprehensive income – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized 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 recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income and recognized within 'other (losses)/gains-net'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Derivative financial instruments

Derivative financial instruments include foreign currency forward contracts in foreign currencies and interest rate swaps. Derivative financial instruments are recognized in the statement of financial position at fair value. The fair value is determined according to the market value, if appropriate. All derivatives are recorded in the statement of financial position as assets when their fair value is positive, and as liabilities when their fair value is negative. These derivatives do not classify as hedge accounting and are recognized as derivatives held for trading.

2.13 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of fair value of the leased property or the present value of minimum lease payments. In accordance with Law on tourist land, the Group pays an annual concession fee for tourist land area which is presented as the cost of the current period.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other current and non-current liabilities depending on maturity.

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.

Leases in which a significant portion of risks and rewards of ownership are not retained by the Group 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. Assets under lease are disclosed in the Statement of financial position in the line "Property, plant and equipment". Assets are depreciated on the straight line basis as for similar assets. Revenue from lease is recognized according to period of the lease.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 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 impairment.

2.16 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.

2.17 Share capital

Ordinary shares are classified as equity. Where the Group 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 Group's equity holders until the shares are issued or purchased. 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 Group's equity holders.

2.18 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Borrowings (continued)

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

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 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 in equity. In that case tax is also recognised in equity.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

2.21 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

Termination benefits are recognised when the Group terminates employment contracts of employees before their normal retirement date in accordance with pension and labour regulations. The Group recognises termination benefits when it has made an individual decision on the termination of an employment agreement due to business or personal reasons, whereby the liability to pay termination benefits are objectively determined, in accordance with regulations and by-laws.

(c) Short-term employee benefits

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

2.22 Provisions

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Revenue recognition

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

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

(a) Sales of services

Revenue from hotel and tourist services is recognised in the period the services are provided.

b) Rental of services

Revenue for rental services is generally recognised in the period the services are provided, using a straight-line basis over the terms of contracts with lesser and presented in Statement of comprehensive income within 'Revenue'.

(c) Interest income

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

(d) Dividend income

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

2.24 Earnings per share

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

2.25 Value added tax

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to the variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group does not have a formalised risk management program, however overall risk management in respect of these risks is carried out by the Group management. However, the Group periodically hedges interest rate and foreign exchange risks through instruments available in the market for the purpose of mitigating these risks. Internal objectives and risk management policies refer to the protection of foreign exchange inflows during seasonal activity by contracting forward sales transactions of EUR into HRK at a fixed rates EUR/HRK which hedges part of its cash flow against currency risk and to the partial interest hedge of loan principal from fluctuations in market interest rates by agreeing interest rate swaps by fixing the upper limit of the interest cost.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro (EUR) and Swiss franc (CHF). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The Group regularly performs projected analysis of exchange rates change effects of EUR and CHF. These exchange rate changes are simulated on credit liabilities in foreign currencies as well as on deposits denominated in the currency.

The majority of sales revenue to foreign customers and long-term debt is denominated in EUROs and Swiss francs. Therefore, movements in exchange rates between the EURO, Swiss franc and Croatian kuna may have an impact on the results of future operations and future cash flow. The Group uses derivative instruments in accordance with operating estimates and expected market movements.

At 31 December 2014, if the EURO had weakened/strengt-hened by 1% against the HRK, with all other variables held constant, the net profit for the year would have been HRK 4,570

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

thousand (2013: HRK 3,050 thousand) higher/(lower) mainly as a result of foreign exchange gains/(losses) on translation of EURO denominated trade receivables, borrowings, foreign cash funds and bonds of Republic of Croatia.

At 31 December 2014, if the CHF had weakened/strengthened by 15% against the HRK, with all other variables held constant, the net profit for the year would have been HRK 20,569 thousand (2013: HRK 25,342 thousand) higher/(lower) mainly as a result of foreign exchange gains/(losses) on translation of CHF-denominated borrowings and foreign cash funds.

(ii) Interest rate risk

The Group has interest-bearing assets, and therefore the Group's income and operating cash flows are influenced by changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group periodically uses derivative instruments to actively hedge cash flow and fair value interest rate risk exposure through arranging interest rate swap transactions which fix the upper limit of the interest cost.
At 31 December 2014, if interest rates on currency-denominated borrowings had been higher/lower by 1%, with all other variables held constant, the profit for the year would have been HRK 1,832 thousand (2013: HRK 2,838 thousand) lower/higher, mainly as a result of higher/lower interest expense on variable-rate borrowings.

At 31 December 2014, if interest rates on currency-denominated deposits had been 1% higher/lower, with all other variables held constant, the profit for the year would have been HRK 478 thousand (2013: HRK 207 thousand) higher/(lower), mainly as a result of higher/lower interest income on variable rate deposits.

(iii) Price risk

The Group owns equity securities and is exposed to price risk of listed equity securities, which are classified as financial assets available for sale and at fair value through profit or loss. The Group invests in securities listed on the Zagreb Stock Exchange (ZSE).

As at 31 December 2014, if the indices of the ZSE had been higher/lower by 3.33% for 2014 (which was the average index movement), with all other variables held constant, reserves within equity and other comprehensive income would have been HRK 1,295 thousand higher/lower as a result of gains/losses on equity securities available for sale.

(b) Credit risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash, time deposits and trade receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Group's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). The Group holds advances, bills of exchange, promissory notes and periodically mortgage security for collection. Type of insurance depends on the customer segment: mortgage securities are taken for long-term leases while other security instruments (advances, bills of exchange and promissory notes) are held for customers in the segment of sales and marketing, laundries and leases, depending on the assessment of the creditworthiness of the client, historical relationship and similar.

Provisions for impairment of trade, loan and other receivables have been made on the basis of credit risk assessment. Management monitors the collectability of receivables through weekly reports on individual balances of receivables. Impairment of trade receivables is performed when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of trade and other receivables has been written down to their recoverable amount. The Group has policies that limit the amount of credit exposure to any financial institution. The Group has only short-term highly liquid instruments with maturity periods of three months or less.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash (the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations). The Group aims to maintain flexibility in funding by keeping committed credit lines available. Management daily monitors available cash resources based on reports on the balance of cash and liabilities. Both monthly cash flow forecast for the following period and long-term cash flow forecast are prepared based on the established budget.

Excess funds that are held by the business units above the amount needed for working capital management are transferred to the Group's treasury. Group Treasury invests surplus of funds in deposits that bear interest, time deposits, money market deposits and marketable securities, thereby choosing instruments with appropriate maturities or sufficient liquidity in accordance with the above objectives.

The table below analyses expected contractual cash flows for financial liabilities of the Group and the Company according to contracted maturities. The amounts stated below include interest, if applicable, and represent undiscounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

	Group				
	Less than 3 months	3 months-1 year	1-2 years	2-5 years	Over 5 years
At 31 December 2014					
Trade and other payables	80,319	19,019	-	-	-
Borrowings	22,612	102,445	222,095	292,527	439,332
Derivative financial instruments	403	1,145	1,103	1,287	-
Total liabilities (contractual maturities)	**103,334**	**122,609**	**223,198**	**293,814**	**439,332**
At 31 December 2013					
Trade and other payables	79,677	14,901	-	-	-
Borrowings	24,486	122,963	260,637	265,715	266,179
Derivative financial instruments	698	2,375	1,105	1,325	65
Total liabilities (contractual maturities)	**104,861**	**140,239**	**261,742**	**267,040**	**266,244**

	Company				
	Less than 3 months	3 months-1 year	1-2 years	2-5 years	Over 5 years
At 31 December 2014					
Trade and other payables	84,174	19,019	-	-	-
Borrowings	22,195	101,216	218,778	287,952	437,576
Derivative financial instruments	403	1,145	1,103	1,287	-
Total liabilities (contractual maturities)	**106,772**	**121,380**	**219,881**	**289,239**	**437,576**
At 31 December 2013					
Trade and other payables	79,810	14,902	-	-	-
Borrowings	24,486	122,963	260,637	265,715	266,179
Derivative financial instruments	698	2,375	1,105	1,325	65
Total liabilities (contractual maturities)	**104,994**	**140,240**	**261,742**	**267,040**	**266,244**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

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

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

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

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

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents assets measured at fair value as at:

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2014				
Available-for-sale financial assets: - equity securities	42,092	-	-	42,092
Financial assets at fair value through profit or loss: - trading securities	1,091	-	-	1,091
Total assets measured at fair value	**43,183**	**-**	**-**	**43,183**
Derivative financial instruments	-	3,938	-	3,938
Total liabilities measured at fair value	**-**	**3,938**	**-**	**3,938**
At 31 December 2013				
Available-for-sale financial assets - equity securities	1,854	-	-	1,854
Financial assets at fair value through profit or loss - trading securities	1,106	-	-	1,106
Total assets measured at fair value	**2,960**	**-**	**-**	**2,960**
Derivative financial instruments	-	5,568	-	5,568
Total liabilities measured at fair value	**-**	**5,568**	**-**	**5,568**

	Company			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2014				
Available-for-sale financial assets: - equity securities	39,032	-	-	39,032
Financial assets at fair value through profit or loss: - trading securities	1,091	-	-	1,091
Total assets measured at fair value	**40,123**	**-**	**-**	**40,123**
Derivative financial instruments	-	3,938	-	3,938
Total liabilities measured at fair value	**-**	**3,938**	**-**	**3,938**
At 31 December 2013				
Available-for-sale financial assets - equity securities	1,854	-	-	1,854
Financial assets at fair value through profit or loss - trading securities	1,106	-	-	1,106
Total assets measured at fair value	**2,960**	**-**	**-**	**2,960**
Derivative financial instruments	-	5,568	-	5,568
Total liabilities measured at fair value	**-**	**5,568**	**-**	**5,568**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. These and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Estimated useful lives

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

Based on historical information, and in line with the technical department, the useful life of buildings components was assessed by Management to be 10-25 years. The useful lives of equipment and other assets have also been assessed.

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

(b) Land ownership

Due to the transition from public to private ownership, e.g. in the transformation and privatisation process and the fact that the properties of the Company that were used in the transformation process were evaluated in the share capital of the Company, and part was not evaluated, there are certain ambiguities and proceedings regarding the ownership of part of the land within the majority of tourist companies. In a clear and undisputed ownership the Company has approximately 1,65 million m2 of land and land which is the object of determining the status of co-ownership or ownership in accordance with the regulations of the Law on Tourist and Other Construction Land not evaluated in the transformation and privatisation process, that came into force on 1 August 2010 (hereinafter the Law) is approximately 3,06 million m2. On 31 January 2011 the Company submitted requests according to the Law in appropriate legal deadline and prescribed content.

Concessions are required: a) for approximately 2.1 million m2 of land in the camps to determine the co-ownership shares of the Republic of Croatia and for which, according to relevant wages regulations, advance concession fee of approximately 4.3 mil. per year; and b) for approximately 960 thousand m2 of land in tourist resorts and hotels that should determine ground plan of hotels, apartments and other estimated buildings and land owned by the Company and other land owned by the local government and for which, according to relevant regulations, is paid advance concession fee of approximately 1.3 mil. per year.

A more detailed description of proceedings and unsolved situations for properties of the Company are disclosed in the Note 34.

(c) Recognition of deferred tax assets

Deferred tax assets represents the amount of income tax recoverable through future deductions from taxable profits and is expressed in the statement of financial position. Deferred tax assets are recognized to the extent of tax benefit that is likely to be achieved. While determining future taxable profits and the amount of tax benefits that are likely to be generated in the future, Management of the Company makes judgments and applies estimations based on taxable profits from previous years and expectations of future income that are believed to be reasonable under the existing circumstances.

NOTE 5 – SEGMENT INFORMATION

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

The Group records operating revenues and expenses by types of services rendered in three basic segments: hotels and apartments, camping and other business segments. Revenue was divided between segments according to the organisational principle where all of the income generated from camping profit centres was reported in the camping segment, while all of the income generated from hotel and apartment profit centres was reported in that segment. Other business segments include revenue from sports activities, laundry services, other rentals of properties and revenue generated from the central services and central kitchens.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 5 – SEGMENT INFORMATION (continued)

The segment information related to reportable segments for the year ended 31 December 2014 is as follows:

Group (in thousands of HRK)	**Hotels and apartments**	**Camping**	**Other business segments**	**Total**
Total sales	813,520	230,696	65,290	1,109,506
Inter-segment revenue	(3,326)	(110)	(28,371)	(31,807)
Revenue from external customers	**810,194**	**230,586**	**36,919**	**1,077,699**
Depreciation and amortisation	155,478	28,556	18,943	202,977
Net finance income/(expense) net	(25,310)	(2,892)	1,224	(26,978)
Write off of fixed assets	7,624	91	6	7,721
Profit/(loss) of segment	277,965	133,752	(59,243)	352,474
Total assets	**1,941,309**	**346,757**	**364,066**	**2,652,132**
Total liabilities	**1,038,127**	**9,974**	**20,292**	**1,068,393**

Hotels and apartments and camping (operating assets) are located in the Republic of Croatia.

The segment information related to reportable segments for the year ended 31 December 2013 is as follows:

Group (in thousands of HRK)	**Hotels and apartments**	**Camping**	**Other business segments**	**Total**
Total sales	801,637	215,454	60,807	1,077,898
Inter-segment revenue	(3,047)	(115)	(26,558)	(29,720)
Revenue from external customers	**798,590**	**215,339**	**34,249**	**1,048,178**
Depreciation and amortisation	173,975	30,113	19,235	223,323
Net finance income/(expense) net	(26,784)	(4,030)	9,748	(21,066)
Write off of fixed assets	10,748	1,884	660	13,292
Profit/(loss) of segment	276,354	126,732	(9,880)	393,206
Total assets	**1,764,159**	**296,657**	**346,899**	**2,407,715**
Total liabilities	**926,414**	**8,070**	**13,408**	**947,892**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of the profit per segment with profit before tax is as follows:

(in thousand HRK)	Group 2014	Group 2013
Revenue		
Revenue from segments	1,109,506	1,077,898
Other revenue	-	-
Inter-segment revenue	(31,807)	(29,720)
Total revenue	**1,077,699**	**1,048,178**
Profit		
Profit from segments	352,474	393,206
Other expenses	(249,911)	(339,981)
Elimination of inter-segment profits	(43,511)	(13,349)
Total profit before tax	**59,052**	**39,876**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 5 – SEGMENT INFORMATION (continued)

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

	Group			
	2014		2013	
(in thousands of HRK)	Assets	Liabilities	Assets	Liabilities
Segment assets/liabilities	2,652,132	1,068,393	2,407,715	947,892
Hotels and apartments segment	1,941,309	1,038,127	1,764,159	926,414
Camping segment	346,757	9,974	296,657	8,070
Other segment	364,066	20,292	346,899	13,408
Unallocated:	363,372	63,375	343,678	59,604
Investments in joint ventures	1,340	-	1,329	-
Other financial assets	43,183	-	2,960	-
Loans and deposits	1,964	-	2,125	-
Cash and cash equivalents	195,201	-	223,105	-
Income tax receivable	974	-	10,034	-
Other receivables	37,294	-	37,609	-
Deferred tax assets/liabilities	83,416	2,298	66,516	20
Other liabilities	-	30,332	-	24,896
Derivative financial liabilities	-	3,938	-	5,568
Provisions	-	26,807	-	29,120
Total	**3,015,504**	**1,131,768**	**2,751,393**	**1,007,496**

The Group's hotel and hospitality services are provided in Croatia to domestic and foreign customers. The Group's sales revenues are classified according to the customers' origin.

	Group	
(in thousands of HRK)	2014	2013
Revenue from sales to domestic customers	90.799	115.402
Revenue from sales to foreign customers	986.900	932.776
	1.077.699	**1.048.178**

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

	Group			
Sales to foreign customers	2014	%	2013	%
EU members	852,155	86.35	805,217	86.32
Other	134,745	13.65	127,559	13.68
	986,900	**100.00**	**932,776**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 6 – OTHER INCOME

	Group		Company	
(In thousand HRK)	**2014**	**2013**	**2014**	**2013**
Income from insurance and legal claims	2,647	3,414	2,647	3,237
Income from cassa sconto	1,643	1,778	1,643	1,742
Income from donations and other	1,518	802	1,499	802
Dividend income	886	269	152	106
Income from interest in joint venture	69	58	-	-
Reimbursed costs	3,223	2,279	2,995	1,439
Income from provision release	4,071	1,251	4,071	1,251
Income from own consumption	2,087	459	2,087	260
Other income	4,810	3,942	3,884	3,096
	20,954	**14,252**	**18,978**	**11,933**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 7 – COST OF MATERIALS AND SERVICES

	Group		Company	
(In thousand HRK)	**2014**	**2013**	**2014**	**2013**
Raw materials and supplies				
Raw materials and supplies used /i/	102,502	102,314	101,531	77,417
Energy and water used	60,757	59,028	59,865	46,269
Miscellaneous inventories	18,497	13,663	18,319	11,282
	181,756	**175,005**	**179,715**	**134,968**
External services				
Management services	-	72,122	71,960	55,065
Maintenance	55,842	67,845	53,763	47,562
Reservation centre services	-	8,673	10,657	7,408
Utilities	31,482	30,389	29,689	25,518
Telecommunication and transport	7,723	5,742	6,876	4,871
Recreation services	8,123	8,035	7,741	6,452
Marketing, promotion and fairs	17,332	25,302	26,052	19,635
Rent /ii/	17,778	12,927	42,759	15,507
Commission fees (agencies and credit cards)	32,194	24,632	32,121	18,571
Other services	3,403	2,201	1,808	1,599
	173,877	**257,868**	**283,426**	**202,188**
	355,633	**432,873**	**463,141**	**337,156**

/i/ Cost of materials and services is comprised of raw materials and supplies used of HRK 11,558 thousand, food and beverage costs of HRK 64,465 thousand and other materials and supplies used of HRK 615 thousand (2013: cost of raw materials and supplies used of HRK 16,766 thousand, food and beverage costs of HRK 82,660 thousand and other costs of HRK 968 thousand).

/ii/ Rental costs of HRK 42,759 thousand, mainly relate to the lease contract for the hotel Lacroma of HRK 28,600 thousand from subsidiary Elafiti Babin kuk d.o.o.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 8 – STAFF COSTS

(In thousand HRK)	Group 2014	Group 2013	Company 2014	Company 2013
Net salaries	176,440	146,422	154,956	110,318
Pension contributions	49,575	41,652	43,902	32,227
Health insurance contributions	41,701	31,824	37,105	24,360
Other (contributions and taxes)	32,105	22,235	23,119	13,761
Termination benefits /i/	10,961	429	8,691	88
Other staff costs /ii/	39,370	31,417	35,641	26,372
	350,152	**273,979**	**303,414**	**207,126**
Number of employees at 31 December	**1,733**	**1,791**	**1,611**	**1,791**

/i/ During 2014 year the Group has undergone restructuring process, which resulted in employee's redundancy program. In 2014 year, the Company has recognised provision for termination benefits of HRK 8,46 million and the Group of HRK 10,26 million.

/ii/ Other staff costs comprise fees and transportation costs, jubilee awards, as well as remunerations for temporary services and similar.

NOTE 9 – OTHER OPERATING EXPENSES

(In thousand HRK)	Group 2014	Group 2013	Company 2014	Company 2013
Municipal and similar charges and contributions	37,982	35,107	37,488	30,197
Collection of receivables previously written-off	(1,062)	(72)	(1,269)	(67)
Professional services	31,925	10,681	11,596	8,815
Bank charges	2,765	1,915	1,979	1,504
Travel and entertainment	5,037	3,652	3,823	3,051
Insurance premiums	4,262	4,194	3,672	3,719
Write off of property, plant and equipment /i/	7,721	13,292	7,721	13,023
Provisions	2,375	473	1,758	195
Impairment of current assets	1,413	4,920	1,196	4,885
Other /ii/	16,004	5,180	16,699	3,841
	108,422	**79,342**	**84,663**	**69,163**

/i/ Write off of property, plant and equipment relates to demolition of parts of buildings as a part of new investments. Demolition of buildings amounts to HRK 7,209 thousand, and HRK 512 thousand relates to other write offs.

/ii/ Other expenses include settlements of disputes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 10 – OTHER GAINS/(LOSSES) – NET

	Group		Company	
(In thousand HRK)	**2014**	**2013**	**2014**	**2013**
Net gains on sale of property, plant and equipment	58	2	46	68
Net foreign exchange gains/(losses)	2,702	6,223	2,702	5,851
Changes in fair value of forwards and interest rate swaps	(1,371)	(810)	(1,346)	(388)
Gains on disposal of financial assets available for sale	3	-	-	-
Realised net gain from forwards and interest rate swaps	3,169	2,614	3,169	1,337
	4,561	**8,029**	**4,571**	**6,868**

NOTE 11 – FINANCE INCOME/(EXPENSE) – NET

	Group		Company	
(In thousand HRK)	**2014**	**2013**	**2014**	**2013**
Interest income	9,950	7,274	5,881	12,166
	9,950	**7,274**	**5,881**	**12,166**
Interest expense	(29,583)	(23,967)	(23,085)	(13,255)
Net foreign exchange losses on financing activities	(7,345)	(4,373)	(6,585)	(3,646)
	(36,928)	**(28,340)**	**(29,670)**	**(16,901)**
Financial expense - net	**(26,978)**	**(21,066)**	**(23,789)**	**(4,735)**

During 2014 year the Group and the Company capitalized borrowing costs of HRK 585 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 12 – INCOME TAX

Income tax expense/(benefit) comprise:

	Group		Company	
(In thousand HRK)	2014	2013	2014	2013
Current tax	7,382	19	-	-
Deferred tax	276	(66,159)	3,639	(23,533)
Tax expense/(benefit)	**7,658**	**(66,140)**	**3,639**	**(23,533)**

Reconciliation of the effective tax rate:

	Group		Company	
(In thousand HRK)	2014	2013	2014	2013
Profit before tax	59,052	39,876	27,267	35,116
Income tax (20%)	11,810	7,975	5,453	7,023
Tax exempt income	(856)	(564)	(366)	(411)
Non-deductible expenses	1,237	753	725	637
Tax losses utilised not previously recognised	-	(8,267)	-	(7,372)
Expired tax losses not utilised	2,652	-	2,652	-
Recognition of deferred tax assets previously not recognized	(7,185)	(66,037)	(4,825)	(23,410)
Tax expense/(benefit)	**7,658**	**(66,140)**	**3,639**	**(23,533)**
Effective tax rate	12.97%	-	13.35%	-

The above recognition of previously unrecognized deferred tax assets arose due to the mergers and restructuring undertaken within the Group which resulted in the ability to now utilize these assets.

Croatian tax legislation does not allow tax losses to be transferred among group companies. In accordance with the regulations of the Republic of Croatia, the Tax Authority may at any time inspect the Group Company's books and records within three years following the year in which the tax liability was reported, and may impose additional tax assessments and penalties.

Tax Administration has issued a ruling concerning the tax audit for the year 2010 for the company Rabac d.d. which was merged with the company Valamar Riviera d.d. on 1 September 2011. According to this ruling, there is an increase in the tax liabilities of HRK 4,428 thousand. The Company has appealed the aforementioned decision. The appeal was accepted. In the repeated proceedings Tax Authority issued a ruling which stated that the tax liability should be reduced to the amount of HRK 1,201 thousand. The Company has appealed the aforementioned decision.

Management of the Company believes that the outcome of this matter will not have a material effect on the financial position and performance of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 13 – EARNINGS PER SHARE

Basic

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

Diluted

Diluted earnings per share is equal to basic, since the Group/Company did not have any convertible instruments and share options outstanding during both years.

	Group	
	2014	**2013**
Profit/(loss) attributable to equity holders (in thousands of HRK)	51,381	106,016
Weighted average number of shares	108,769,757	103,352,183
Basic/diluted earnings per share (in HRK)	**0.47**	**1.03**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

Group (In thousand HRK)	**Land**	**Buildings**	**Plant and equipment**	**Furniture, tools and horticulture**	**Assets under construction**	**Total**
At 1 January 2013						
Cost	563,331	3,550,506	410,242	192,476	62,347	4,778,902
Accumulated depreciation and impairment	-	(1,954,779)	(284,162)	(145,647)	-	(2,384,588)
Carrying amount	**563,331**	**1,595,727**	**126,080**	**46,829**	**62,347**	**2,394,314**
Year ended 31 December 2013						
Opening carrying amount	563,331	1,595,727	126,080	46,829	62,347	2,394,314
Subsidiary intragroup transfer	3,477	233	-	-	113	3,823
Additions	598	120,898	34,157	21,927	41,709	219,289
Disposals and write offs	-	(12,127)	(220)	(212)	(962)	(13,521)
Depreciation	-	(177,126)	(31,759)	(13,656)	-	(222,541)
Carrying amount at year end	**567,406**	**1,527,605**	**128,258**	**54,888**	**103,207**	**2,381,364**
At 31 December 2013						
Cost	567,406	3,627,256	433,649	209,436	103,207	4,940,954
Accumulated depreciation and impairment	-	(2,099,651)	(305,391)	(154,548)	-	(2,559,590)
Carrying amount	**567,406**	**1,527,605**	**128,258**	**54,888**	**103,207**	**2,381,364**
Year ended 31 December 2014						
Opening carrying amount	567,406	1,527,605	128,258	54,888	103,207	2,381,364
Merger of parent company /i/	650	2,722	143	840	-	4,355
Subsidiaries intragroup transfer /i/	15,864	7,498	1,836	1,691	638	27,527
Additions	1,094	250,851	71,009	32,088	24,963	380,005
Disposals and write offs	(23)	(6,879)	(420)	(203)	(295)	(7,820)
Depreciation	-	(148,835)	(34,993)	(15,714)	-	(199,542)
Carrying amount at year end	**584,991**	**1,632,962**	**165,833**	**73,590**	**128,513**	**2,585,889**
Year ended 31 December 2014						
Cost	584,991	3,874,492	491,029	238,572	128,513	5,317,597
Accumulated depreciation and impairment	-	(2,241,530)	(325,196)	(164,982)	-	(2,731,708)
Carrying amount at year end	**584,991**	**1,632,962**	**165,833**	**73,590**	**128,513**	**2,585,889**

/i/ The effect of merger and the subsidiaries intragroup transfer is presented as of 1 January 2014 due to the presentation of the Statement of comprehensive income which includes the results of the merged and transferred companies for the whole current year. Notes 17 and 37 present the effect of the mergers.

As at 31 December 2014, the carrying amount of land and buildings pledged as collateral for borrowings amounted to HRK 1,085,810 thousand (2013: HRK 1,166,263 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company (In thousand HRK)	**Land**	**Buildings**	**Plant and equipment**	**Furniture, tools and horticulture**	**Assets under con-struction**	**Total**
At 1 January 2013						
Cost	280,045	2,695,612	278,214	137,371	29,836	3,421,078
Accumulated depreciation and impairment	-	(1,573,923)	(197,894)	(105,667)	-	(1,877,484)
Carrying amount	**280,045**	**1,121,689**	**80,320**	**31,704**	**29,836**	**1,543,594**
Year ended 31 December 2013						
Opening carrying amount	280,045	1,121,689	80,320	31,704	29,836	1,543,594
Subsidiary intragroup transfer	235,964	194,691	41,999	14,399	38,946	525,999
Additions	598	101,685	28,491	19,009	35,200	184,983
Disposals and write offs	-	(12,032)	(120)	(113)	(888)	(13,153)
Depreciation	-	(138,753)	(22,432)	(10,111)	-	(171,296)
Carrying amount	**516,607**	**1,267,280**	**128,258**	**54,888**	**103,094**	**2,070,127**
At 31 December 2013						
Cost	516,607	3,293,039	433,649	209,436	103,094	4,555,825
Accumulated depreciation and impairment	-	(2,025,759)	(305,391)	(154,548)	-	(2,485,698)
Carrying amount	**516,607**	**1,267,280**	**128,258**	**54,888**	**103,094**	**2,070,127**
Year ended 31 December 2014						
Opening carrying amount	516,607	1,267,280	128,258	54,888	103,094	2,070,127
Merger of parent company (Note 37)	650	2,594	18	820	-	4,082
Additions	1,094	250,690	71,011	32,088	24,963	379,846
Disposals and write offs	(23)	(6,879)	(420)	(203)	(295)	(7,820)
Depreciation	-	(134,499)	(33,896)	(15,653)	-	(184,048)
Carrying amount	**518,328**	**1,379,186**	**164,971**	**71,940**	**127,762**	**2,262,187**
At 31 December 2014						
Cost	518,328	3,522,509	486,345	235,098	127,762	4,890,042
Accumulated depreciation and impairment	-	(2,143,323)	(321,374)	(163,158)	-	(2,627,855)
Carrying amount	**518,328**	**1,379,186**	**164,971**	**71,940**	**127,762**	**2,262,187**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Assets under construction of the Group in amount of HRK 128,513 thousand mainly relate to the investment in reconstruction and extension of all buildings on the island of St. Nikola, the hotel Pical and the hotel President beach of HRK 86.7 million, investment in camping of HRK 5.9 million, the reconstruction, extension and adaptation of commercial buildings of HRK 10.5 million, advances paid to suppliers for investments of HRK 20.2 million.

During 2014, the Group reviewed the useful life of the buildings. Based on findings and given an extensive capital expenditure program was completed, the Group changed the useful life of buildings from 20 to 25 years. The effect of the change of the useful life of the buildings is the decrease of depreciation in the statement of comprehensive income in the amount of HRK 33,307 thousand for the Company, and HRK 36,961 thousand for the Group. The effect of the change on the depreciation expense in future periods is presented in the table below:

Group: (In thousand HRK)	**2015**	**2016**	**2017**	**2018**	**2019**
Decrease of depreciation	34,930	33,152	29,221	27,806	22,843

Company: (u tisućama kuna)	**2015**	**2016**	**2017**	**2018**	**2019**
Decrease of depreciation	31,277	29,498	25,567	24,153	19,189

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

(In thousand HRK)	**2014**	**2013**
Cost	106,846	108,775
Accumulated depreciation as at 1 January	(81,804)	(78,180)
Depreciation charge for the year	(4,133)	(5,271)
Carrying amount	**20,909**	**25,324**

The operating lease relates to the lease of hospitality facilities and shops to third parties. During 2014, the Group realised rental income of HRK 34,769 thousand (2013: HRK 30,608 thousand). In 2014 and 2013, there were no contingent rents recognised as income in the statement of comprehensive income. All lease agreements are renewable, usually for period of 1-3 years and there is no purchase option.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 15 – INVESTMENT PROPERTY

(In thousand HRK)	Group	Company
At 31 December 2013		
Cost	-	-
Accumulated depreciation and impairment	-	-
Carrying amount	**-**	**-**
Year ended 31 December 2014		
Opening carrying amount	-	-
Merger of parent company /i/	20,555	19,770
Subsidiaries intragroup transfer /i/	3,568	-
Depreciation	(1,191)	(262)
Carrying amount	**22,932**	**19,508**
At 31 December 2014		
Cost	33,755	30,145
Accumulated depreciation and impairment	(10,823)	(10,637)
Carrying amount	**22,932**	**19,508**

/i/ The Group's effect of the parent companies merger and subsidiaries intragroup transfer is presented as of 1 January 2014 due to the presentation of the Statement of comprehensive income which includes the results of the merged and transferred companies for the whole current year. Notes 17 and 37 present the effect of the mergers.

As at 31 December 2014, the fair value of investment property (office space) approximates carrying value. As at 31 December 2014, properties pledged as collateral for loans amounted to HRK 19,508 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 16 – INTANGIBLE ASSETS

Group (in thousands of HRK)	Goodwill /ii/	Software	Total
At 1 January 2013			
Cost	-	16,787	16,787
Accumulated amortisation	-	(15,052)	(15,052)
Carrying amount	**-**	**1,735**	**1,735**
Year ended 31 December 2013			
Opening carrying amount	-	1,735	1,735
Additions	-	7,449	7,449
Amortisation	-	(782)	(782)
Closing carrying amount	**-**	**8,402**	**8,402**
At 31 December 2013			
Cost	-	24,237	24,237
Accumulated amortisation	-	(15,835)	(15,835)
Carrying amount	**-**	**8,402**	**8,402**
Year ended 31 December 2014			
Opening carrying amount	-	8,402	8,402
Subsidiaries intragroup transfer /i/	6,568	703	7,271
Additions	-	1,657	1,657
Amortisation	-	(2,244)	(2,244)
Closing carrying amount	**6,568**	**8,518**	**15,086**
At 31 December 2014			
Cost	6,568	24,633	31,201
Accumulated amortisation	-	(16,115)	(16,115)
Carrying amount	**6,568**	**8,518**	**15,086**

/i/ The effect of the subsidiaries intragroup transfer is presented as of 1 January 2014 due to the presentation of the Statement of comprehensive income which includes the results of the transferred companies for the whole current year. Note 17 presents the effect of this transfer.

/ii/ Impairment tests for goodwill
Goodwill is allocated to cash-generating unit (CGUs) for transferred subsidiary Puntižela d.o.o., Pula. The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on 5-year financial projections approved by Management. The discount rates of 10.5% used are pre-tax and reflect specific risks relating to the relevant segment (hotels).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 16 – INTANGIBLE ASSETS (continued)

Company (in thousands of HRK)	**Software**
At 1 January 2013	
Cost	12,719
Accumulated amortisation	(11,272)
Carrying amount	**1,447**
Year ended 31 December 2013	
Opening carrying amount	1,447
Merger of subsidiary	415
Additions	7,434
Amortisation	(680)
Closing carrying amount	**8,616**
At 31 December 2013	
Cost	24,733
Accumulated amortisation	(16,117)
Carrying amount	**8,616**
Year ended 31 December 2014	
Opening carrying amount	8,616
Additions	1,657
Amortisation	(2,116)
Closing carrying amount	**8,157**
At 31 December 2014	
Cost	23,350
Accumulated amortisation	(15,193)
Carrying amount	**8,157**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 17 – INVESTMENT IN SUBSIDIARIES

	Company	
(in thousands of HRK)	2014	2013
At beginning of the year	347,233	314,772
Purchase of additional shares	-	17,813
Merger of subsidiary	(98,870)	(332,585)
Subsidiary intragroup transfer	-	38,542
New subsidiaries from merger	152,115	308,691
At end of the year	**400,478**	**347,233**

(in thousands of HRK)	Ownership	2014	2013
Elafiti Babin kuk d.o.o., Dubrovnik	100.00%	115,448	115,448
Palme turizam d.o.o., Dubrovnik	100.00%	182,036	182,036
Magične stijene d.o.o., Dubrovnik	100.00%	11,207	11,207
Bugenvilia d.o.o., Dubrovnik	100.00%	38,542	38,542
Puntižela d.o.o., Pula /i/	99.39%	35,881	-
Bastion upravljanje d.o.o., Zagreb /i/	100.00%	11,734	-
Valamar hoteli i ljetovališta d.o.o., Zagreb /i/	100.00%	5,630	-
		400,478	**347,233**

/i/ Companies Puntižela d.o.o., Bastion upravljanje d.o.o. (100% owner of Citatis savjetovanje d.o.o.), Valamar hoteli i ljetovališta d.o.o. (100% owner of Valamar Hotels & Resorts GmbH) were recognised upon merger of companies Valamar Adria holding d.d. i Valamar grupa d.d. as presented below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 17 – INVESTMENT IN SUBSIDIARIES (continued)

Assets and liabilities arising from the intragroup transfer of subsidiaries to Valamar Riviera d.d. during merger from Valamar grupa d.d. and Valamar Adria holding d.d. in 2014 are as follows:

As at 31 December 2014	Puntižela d.o.o.	Valamar hoteli i ljetovališta d.o.o.	Bastion upravljanje d.o.o.	Citatis sav-jetovanje d.o.o.	Valamar Hotels & Resorts GmbH	Total
Intangible assets	109	367	-	-	-	476
Property, plant and equipment	24.030	1.715	-	-	9	25.754
Investment property	-	-	3.425	-	-	3.425
Financial assets	-	188	7.548	-	-	7.736
Deferred tax asset	-	-	2.526	-	-	2.526
Trade and other receivables	1.027	7.250	105	-	85	8.467
Cash and cash equivalents	2.515	48.668	626	5	1.152	52.966
Borrowings	(9.722)	-	-	-	-	(9.722)
Trade and other payables	(1.084)	(10.521)	(36)	(53)	(676)	(12.370)
Net assets as at 31 December 2014	**16.875**	**47.667**	**14.194**	**(48)**	**570**	**79.258**
(Profit)/loss for 2014 year /i/	(2.156)	(24.209)	(2.793)	26	(113)	(29.245)
(Profit)/loss of merged companies for 2014 year	-	(17)	-	-	-	(17)
Less: investment book value	(35.881)	(5.630)	(11.734)	(20)	(189)	(53.454)
Subsidiary intragroup transfer effect on retained earnings	**(21.162)**	**17.811**	**(333)**	**(42)**	**268**	**(3.458)**
Less: treasury shares of Valamar Riviera d.d.	-	-	4.467	-	-	4.467
Fair value reserve of financial assets at 1 January 2014	-	-	455	-	-	455
Minority interest	(78)	-	-	-	-	(78)
Net effect of subsidiary transfer on Group equity	**(21.240)**	**17.811**	**4.589**	**(42)**	**268**	**1.386**

/i/ The Statement of comprehensive income includes the results of the transferred companies for the whole current year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 18 – INTEREST IN JOINT VENTURE

According to the agreement, the Group controls 33.33% of Pogača Babin kuk d.o.o. During 2014 there were no changes with respect to the interests in the joint venture. At the Company's incorporation the Group invested 49.67% of share capital or HRK 1,490 but represents 1/3 (2013: 49.67% or HRK 1,490 thousand of share capital and business share of 1/3).

	Group	
(in thousands of HRK)	**2014**	**2013**
At beginning of year on equity basis	1,329	1,271
Dividends paid	(58)	-
Share in net profit	69	58
At end of year on equity basis	**1,340**	**1,329**

	Company	
(in thousands of HRK)	**2014**	**2013**
At beginning of year at cost	1,490	-
Merger effect	-	1,490
At end of year at cost	**1,490**	**1,490**

Adjustment of share in joint venture with share in net assets of Pogača Babin kuk d.o.o.

	Group	
(in thousands of HRK)	**2014**	**2013**
At beginning of year	3,986	3,813
Net profit for the period	207	173
At end of year	**4,193**	**3,986**
Share in net assets from joint venture (33.33%)	1,398	1,329
Dividends paid	(58)	-
Carrying amount	**1,340**	**1,329**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 18 – INTEREST IN JOINT VENTURE (continued)

(in thousands of HRK)	Pogača Babin kuk d.o.o. (100%) 2014	2013
Assets:		
Non-current assets	898	1,117
Current assets	3,176	3,106
	4,074	**4,223**
Liabilities:		
Long-term liabilities	-	33
Short-term liabilities	819	1,018
	819	**1,051**
Net assets	**3,255**	**3,172**
Income	9,198	9,631
Expenses	(8,938)	(9,414)
Profit before tax	**260**	**217**
Profit after tax	**207**	**173**
Share in profit of joint venture (33.33%)	**69**	**58**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY

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

Group (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2014				
Assets at the reporting date				
Trade and other receivables	24,250	-	-	24,250
Loans and deposits	1,964	-	-	1,964
Available-for-sale financial assets	-	42,092	-	42,092
Financial assets at fair value through profit or loss	-	-	1,091	1,091
Cash and cash equivalents	195,201	-	-	195,201
Total	**221,415**	**42,092**	**1,091**	**264,598**

Group (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2013				
Assets at the reporting date				
Trade and other receivables	15,135	-	-	15,135
Loans and deposits	2,125	-	-	2,125
Available-for-sale financial assets	-	1,854	-	1,854
Financial assets at fair value through profit or loss	-	-	1,106	1,106
Cash and cash equivalents	223,105	-	-	223,105
Total	**240,365**	**1,854**	**1,106**	**243,325**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2014				
Assets at the reporting date				
Trade and other receivables	214,127	-	-	214,127
Loans and deposits	1,715	-	-	1,715
Available-for-sale financial assets	-	39,032	-	39,032
Financial assets at fair value through profit or loss	-	-	1,091	1,091
Cash and cash equivalents	166,189	-	-	166,189
Total	**382,031**	**39,032**	**1,091**	**422,154**

Company (in thousands of HRK)	**Cash, loans and receivables**	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
31 December 2013				
Assets at the reporting date				
Trade and other receivables	230,792	-	-	230,792
Loans and deposits	2,606	-	-	2,606
Available-for-sale financial assets	-	1,854	-	1,854
Financial assets at fair value through profit or loss	-	-	1,106	1,106
Cash and cash equivalents	222,756	-	-	222,756
Total	**456,154**	**1,854**	**1,106**	**459,114**

The above-mentioned amounts of financial assets represent the Group's maximum exposure to credit risk at the reporting date. The carrying values approximate their fair value due to their short-term maturity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Group		Company	
(in thousands of HRK)	2014	2013	2014	2013
Liabilities at reporting date				
Financial liabilities – at amortised cost:				
Trade and other payables	99,338	94,578	103,193	94,712
Borrowings	925,977	827,138	916,255	827,138
	1,025,315	**921,716**	**1,019,448**	**921,850**
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	3,938	5,568	3,938	5,568
	1,029,253	**927,284**	**1,023,386**	**927,418**

NOTE 19b – CREDIT QUALITY OF FINANCIAL ASSETS

	Group		Company	
(in thousands of HRK)	2014	2013	2014	2013
Loans and deposits				
Loans and deposits	1,057	1,119	1,057	1,119
	1,057	**1,119**	**1,057**	**1,119**

The credit quality of other financial assets is presented in the following notes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Listed equity securities /i/	41,952	1,714	38,892	1,714
Other	140	140	140	140
	42,092	**1,854**	**39,032**	**1,854**

/i/ Investments in securities represent less than 1% ownership interests.

	Group		Company	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
At beginning of year	1,854	1,920	1,854	1,891
Merger effect /ii/	36,345	163	38,094	192
Change in fair value recognised in other comprehensive income	4,090	(229)	(720)	(229)
Disposal	(197)	-	(196)	-
At end of year	**42,092**	**1,854**	**39,032**	**1,854**

/ii/ The Group's effect of the merger is presented as of 1 January 2014 due to the presentation of Statement of comprehensive income which includes the results of the merged companies for the whole current year. Note 37 presents the merger effect.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 21 – LOANS AND DEPOSITS

	Group		Company	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Loans	372	421	890	902
Deposits	1,592	1,704	825	1,704
Total	**1,964**	**2,125**	**1,715**	**2,606**
Less: non-current portion	(733)	(802)	(733)	(802)
Current portion	**1,231**	**1,323**	**982**	**1,804**

Loans include an amount of HRK 372 thousand (2013: HRK 421 thousand) due from employees for housing loans at an interest rate of 1% payable by year 2025. The loans are not secured with any collateral. Net deposits are interest-free and given as a collateral for operating leases of vehicles for a 5-year term.

All given loans and deposits are denominated in HRK.

The carrying amounts of short-term loans and deposits approximate their fair value. The fair value of non-current loans and deposits is HRK 647 thousand (2013: HRK 687 thousand).

The fair value is calculated based on the cash flows discounted with a rate of 5.75% (2013: 6.5%) (interest rate on bonds of the Republic of Croatia with maturity in year 2024).

NOTE 22 – INVENTORIES

	Group		Company	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Raw materials and supplies	6,336	6,296	6,336	6,296
Trade goods and packaging material	380	311	225	311
Apartments	563	563	563	563
	7,279	**7,170**	**7,124**	**7,170**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 23 – TRADE AND OTHER RECEIVABLES

	Group		Company	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Domestic receivables	17,982	16,960	15,544	16,858
Foreign receivables	13,251	5,162	13,237	5,162
Related parties receivables	4	354	191,941	216,021
Provision for impairment of trade receivables	(11,935)	(12,186)	(11,500)	(12,094)
Trade receivables – net	19,302	10,290	209,222	225,947
Accrued income	2,950	438	2,910	438
Interest receivables	1,998	4,407	1,995	4,407
Total financial assets	24,250	15,135	214,127	230,792
Less: non-current portion	-	-	(162,454)	-
Current portion	24,250	15,135	51,673	230,792
Prepaid expenses	8,689	9,714	8,066	8,761
VAT receivable	9,472	14,458	8,987	14,458
Advances to suppliers	13,461	7,352	12,624	7,352
Receivables from employees	346	265	324	265
Receivables from state institutions	198	233	78	231
Other receivables	1,824	1,231	1,943	1,232
Total trade and other receivables	**58,240**	**48,388**	**246,149**	**263,091**

Movements in provisions for impairment of trade and other receivables:

	Group		Company	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
At 1 January	12,186	7,707	12,094	5,157
Merger effect	-	-	-	2,195
Increase of impairment	1,631	4,955	1,196	4,875
Collected receivables	(1,404)	(67)	(1,404)	(67)
Receivables written-off	(478)	(409)	(386)	(66)
At 31 December	**11,935**	**12,186**	**11,500**	**12,094**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

	Group		Company	
(in thousands of HRK)	2014	2013	2014	2013
Trade receivables:				
Neither past due nor impaired	4,652	4,969	194,468	7,297
Past due, but not impaired	14,650	5,321	14,754	218,650
Past due and impaired	11,935	12,186	11,500	12,094
	31,237	**22,476**	**220,722**	**238,041**

Trade and other receivables are carried at amortised cost. As at 31 December 2013 receivables overdue but not impaired of the Company mainly relate to the reimbursed investment cost of hotel Valamar Lacroma Dubrovnik to subsidiary Elafiti Babin kuk d.o.o. During 2014 year, receivables of HRK 191,056 thousand from subsidiary Elafiti Babin kuk d.o.o. which will be settled in following years has been reclassified to non-current receivables. Receivables will be netted of against the rent from the Elafiti Babin kuk d.o.o.

As of 31 December 2014, the maturities of the trade receivables which are past due but not impaired are as follows:

	Group		Company	
(in thousands of HRK)	2014	2013	2014	2013
Up to one month	2,069	2,482	2,435	2,489
One to two months	3,363	1,607	3,173	2,077
Two to three months	3,055	850	2,988	1,932
Over three months up to 1 year	6,163	382	6,158	212,152
	14,650	**5,321**	**14,754**	**218,650**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

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

	Group		Company	
(in thousands of HRK)	2014	2013	2014	2013
EUR	13,582	9,060	13,569	9,052
HRK	10,668	6,075	200,558	221,740
	24,250	**15,135**	**214,127**	**230,792**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group holds advances, bills of exchange and promissory notes and periodically mortgage for collection security. The carrying amounts of trade and other receivables approximate their fair value since they are short term.

NOTE 24 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
(in thousands of HRK)	2014	2013	2014	2013
Bonds of the Republic of Croatia	1,091	1,106	1,091	1,106
	1,091	**1,106**	**1,091**	**1,106**

As at 31 December 2014, the interest rate on bonds was 4.25%. Financial assets are held for trading. Bonds of the Republic of Croatia are denominated in EUR. Bonds of the Republic of Croatia have been pledged under a repurchase agreement, with corresponding borrowing of HRK 1,034 thousand presented within loans and borrowings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS

Group	**2014**		**2013**	
(in thousands of HRK)	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
Fair value of interest rate swap	-	3,938	-	4,151
Market value of foreign currency forward contracts	-	-	-	1,417
Total	**-**	**3,938**	**-**	**5,568**
Less non-current portion:	-	(2,390)	-	(2,495)
Fair value of interest rate swap	-	1,548	-	1,656
Market value of foreign currency forward contracts	-	-	-	1,417
Current portion	**-**	**1,548**	**-**	**3,073**

Company	**2014**		**2013**	
(in thousands of HRK)	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
Fair value of interest rate swap	-	3,938	-	4,151
Market value of foreign currency forward contracts	-	-	-	1,417
Total	**-**	**3,938**	**-**	**5,568**
Less: non-current portion:	-	(2,390)	-	(2,495)
Fair value of interest rate swap	-	1,548	-	1,656
Market value of foreign currency forward contracts	-	-	-	1,417
Current portion	**-**	**1,548**	**-**	**3,073**

Interest rate swaps

As at 31 December 2014, the contracted value of outstanding interest rate swaps amounts to HRK 72,665 thousand (2013: HRK 94,237 thousand).

As at 31 December 2014, interest rates fixed by interest rate swap contracts for loans in EUR ranged from 2.16% to 2.64%, while key variable interest rates (EURIBOR) for EUR borrowings were at the level of 0.171%. For loans in CHF interest rates fixed by interest rate swap contracts ranged from 1.67% to 2.32%, while key variable interest rates (CHF LIBOR) for CHF borrowings were at the level of -0.007%. Fair value gains and losses on interest rate swaps are recognised directly in Statement of comprehensive income within finance costs until the repayment of borrowings with final maturities as at 31 December 2018 and 2019 retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 26 – DEFERRED TAX ASSET / LIABILITY

DEFERRED TAX ASSET

Group (in thousands of HRK)	Property, plant and equipment	Financial assets	Trade receivables and inventories	Provisions	Tax losses	Total
At 1 January 2013	-	340	-	-	17	357
Credited to the income	37,600	845	166	3,375	24,261	66,247
Debited to the income	-	(71)	-	-	(17)	(88)
At 31 December 2013	**37,600**	**1,114**	**166**	**3,375**	**24,261**	**66,516**
Increase of tax assets – merger effect	-	1,784	3,122	-	12,270	17,176
Credited to the income	-	5,067	1,304	713	4,085	11,169
Debited to the income	(88)	(626)	-	(205)	(10,526)	(11,445)
At 31 December 2014	**37,512**	**7,339**	**4,592**	**3,883**	**30,090**	**83,416**

DEFERRED TAX ASSET

Company (in thousands of HRK)	Financial assets	Trade receivables	Provisions	Tax losses	Total
At 1 January 2013	340	-	-	17	357
Credited to the income	845	166	3,375	19,235	23,621
Debited to the income	(71)	-	-	(17)	(88)
At 31 December 2013	**1,114**	**166**	**3,375**	**19,235**	**23,890**
Increase of tax assets – merger effect	1,789	3,122	-	15,495	20,406
Credited to the income	4,112	269	713	-	5,094
Debited to the income	(626)	-	(205)	(7,903)	(8,734)
At 31 December 2014	**6,389**	**3,557**	**3,883**	**26,827**	**40,656**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 26 – DEFERRED TAX ASSET / LIABILITY (continued)

Group

(in thousands of HRK)	**Financial assets available-for-sale**
At 1 January 2014	20
Merger effect /i/	1,460
Credited to the other comprehensive income	818
At 31 December 2014	**2,298**

/i/ The merger effect for the Group is presented as of 1 January 2014 due to the presentation of Statement of comprehensive income which includes the results of the merged companies for the whole current year. Note 37 presents the effect of the merger.

Company

(in thousands of HRK)	**Financial assets available-for-sale**
At 1 January 2014	20
Merger effect (Note 37)	2,422
Debited to the other comprehensive income	(144)
At 31 December 2014	**2,298**

Deferred tax liabilities relate to accumulated fair value gains/(losses) of available-for sale financial assets recorded in fair value reserves.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 27 – CASH AND CASH EQUIVALENTS

	Group		Company	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Giro-accounts and current accounts	34,218	2,003	6,151	1,654
Cash in hand	15	62	4	62
Foreign currency accounts	17,778	4,283	16,844	4,283
Time deposits up to one month	143,190	216,757	143,190	216,757
	195,201	**223,105**	**166,189**	**222,756**

The interest rate on cash and cash equivalents is up to 3.90% (2013: up to 5.30%).

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	Group		Company	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
HRK	33,082	2,066	6,155	1,717
EUR	159,193	220,417	157,108	220,417
CHF	2,152	568	2,152	568
Other	774	54	774	54
	195,201	**223,105**	**166,189**	**222,756**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 28 – SHARE CAPITAL

The authorised and registered share capital of the Company in 2014 amounts to HRK 1,672,021 thousand (2013: 1,117,663 thousand) and comprises 126,027,542 ordinary shares (2013: 106,546,340) with no prescribed nominal value. All shares are fully paid.

The ownership structure as at 31 December is as follows:

2014	Number of shares	%
Epic, Goldscheider und Wurmbock M.B.H., Wien	54,267,510	43.06
Raiffeisenbank Austria d.d./Satis d.o.o./Skrbnik, Zagreb	3,774,534	3.00
Enitor d.o.o., Zagreb	2,720,950	2.16
Satis d.o.o., Zagreb	2,572,539	2.04
Zagrebačka banka d.d./Skrbnik, Zagreb	2,105,649	1.67
Bakić Nenad	2,000,000	1.59
Bilbija Igor	1,869,626	1.48
Hrvatska poštanska banka d.d./Kapitalni fond d.d./Skrbnik, Zagreb	1,846,184	1.46
PBZ d.d./Skrbnik, Zagreb	1,431,496	1.14
Hypo Alpe-Adria-Bank d.d./Skrbnik, Zagreb	1,198,462	0.95
Treasury shares	480,816	0.38
Other shareholders - free float	51,759,776	41.07
Total	**126,027,542**	**100.00**

2013	Number of shares	%
Valamar Adria holding d.d. Grupa, Zagreb	78,410,062	73.60
Valamar grupa d.d.	13,125,548	12.31
Treasury shares	3,226,678	3.03
Other shareholders - free float	11,784,052	11.06
Total	**106,546,340**	**100.00**

Based on the decision of the Company's General Assembly held on 24 July 2013 registered capital was increased by conversion of reinvested profit from the year 2012 from HRK 1,065,463 thousand by HRK 52,200 thousand to HRK 1,117,663 thousand. The distribution of HRK 52,200 thousand in future periods may result in tax obligations given it is based on a tax incentive.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 28 – SHARE CAPITAL (continued)

Based on the decision of the Company's General Assembly held on 21 August 2014, as a result of the merger of Valamar Adria Holding d.d. and Valamar grupa d.d. into the Company, registered capital of the Company was increased from HRK 1,117,663 thousand by HRK 204,358 thousand to HRK 1,322,021 thousand by issue of 19,481,202 new ordinary shares. At the same Company's General Assembly, registered capital of the Company was increased by conversion of capital reserves from HRK 1,322,021 thousand by HRK 350,000 thousand to HRK 1,672,021 thousand.

The Company has acquired and released treasury shares during 2014. Based on the decision of the Company's General Assembly held on 8 July 2010 and 17 October 2014, the Company has acquired 548,552 treasury shares at cost of HRK 10,102 thousand. The Company effectively re-issued treasury shares of 3,294,444 totalling HRK 46,582 thousand, (representing the 143,505,673 shares totalling HRK 966,102 thousand held by Valamar Adria holding d.d. and Valamar grupa d.d. at merger and 146,800,087 shares totalling HRK 1,012,684 thousand re-issued during the merger process).

As at 31 December 2014, the Company owned 480,816 of their treasury shares (2013: 3,226,678) which represents 0.38% (2013: 3.02%) of the registered capital of the Company.

NOTE 29 – RESERVES AND RETAINED EARNINGS

a) Capital reserves

As at 31 December 2014 capital reserves of the Group are negative and amount to HRK 18,595 thousand as a result of the increase of share capital in the amount of HRK 350,000 thousand, effect of the merger of Valamar Adria Holding d.d. and Valamar grupa d.d. in the amount of HRK 126,246 thousand, decrease in the amount of 20,559 thousand as effect of subsidiary Linteum savjetovanje d.o.o. merger and increase in the amount of HRK 11,469 thousand due to reclassified presentation.

As at 31 December 2014 capital reserves of the Company are negative and amount to HRK 8,394 thousand as a result of the increase of share capital in the amount of HRK 350,000 thousand, effect of company merger of Valamar Adria Holding d.d. and Valamar grupa d.d. in the amount of HRK 116,045 thousand, decrease in the amount of 20,559 thousand as effect of subsidiary Linteum savjetovanje d.o.o. merger and increase due to reclassified presentation in the amount of HRK 11,469 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 29 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings

	Group	
(in thousands of HRK)	**2014**	**2013**
Legal reserves	60,724	-
Other reserves	79,029	167,682
Fair value reserves	29,413	-
Retained earnings	74,356	25,658
	243,522	**193,340**
Changes in reserves:		
Legal reserves		
At beginning of the year	-	-
Transfer from retained earnings	2,932	-
Transfer from other reserves (reclassification)	57,792	-
At end of the year	**60,724**	**-**
Other reserves		
At beginning of the year	167,682	140,919
Merger of subsidiary	31,977	-
Transfer to fair value reserves (reclassification)	(79)	-
Transfer to legal reserves (reclassification)	(57,792)	-
Change in fair value of financial assets available for sale	-	(183)
Dividends paid	(62,759)	-
Transfer from retained earnings	-	26,946
At end of the year	**79,029**	**167,682**
Reserve for reinvested profit		
At beginning of the year	-	52,200
Transfer from retained earnings	-	(52,200)
At end of the year	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 29 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings (continued)

	Group	
(in thousands of HRK)	**2014**	**2013**
Fair value reserves		
At beginning of the year	-	
Transfer from other reserves (reclassification)	79	-
Change in fair value of financial assets available for sale	3,272	-
Merger effect of parent companies and subsidiary	26,062	-
At end of the year	**29,413**	**-**
Retained earnings		
At beginning of the year	25,658	(19,458)
Result for the year	51,381	106,016
Effect of subsidiary merger (Note 37)	(3,209)	-
Subsidiaries intragroup transfer (Note 17)	3,458	(34,557)
Transfer to legal/other reserves	(2,932)	(26,946)
Acquisition of minority interest	-	603
At end of the year	**74,356**	**25,658**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 29 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings (continued)

	Company	
(in thousands of HRK)	**2014**	**2013**
Legal reserves	60,724	57,792
Other reserves	254,711	285,789
Fair value reserve	29,750	-
Retained earnings	79,345	58,649
	424,530	**402,230**
Changes in reserves:		
Legal reserves		
At beginning of the year	57,792	57,792
Transfer from retained earnings	2,932	-
At the end of the year	**60,724**	**57,792**
Other reserves		
At beginning of the year	285,789	109,602
Merger of subsidiary	31,977	175,899
Transfer to fair value reserves (reclassification)	(79)	-
Change in fair value of financial assets available for sale	-	(183)
Dividends paid	(62,976)	-
Transfer from retained earnings	-	471
At the end of the year	**254,711**	**285,789**
Reserve for reinvested profit		
At beginning of the year	-	52,200
Transfer from retained earnings/share capital increase	-	(52,200)
At the end of the year	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 29 – RESERVES AND RETAINED EARNINGS (continued)

b) Reserves and retained earnings (continued)

	Company	
(in thousands of HRK)	**2014**	**2013**
Fair value reserves		
At beginning of the year	-	
Transfer from other reserves (reclassification)	79	-
Change in fair value of financial assets available for sale	(576)	-
Merger effect of parent companies and subsidiary	30,247	-
At end of the year	**29,750**	**-**
Retained earnings		
At beginning of the year	58,649	471
Result for the year	23,628	58,649
Transfer to legal reserves	(2,932)	(471)
At the end of the year	**79,345**	**58,649**

Legal reserves

The legal reserve is required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. As at 31 December 2014, legal reserves of the Group and the Company amounted to HRK 60,724 thousand or 4.82% of the share capital (31 December 2013: 57,792 thousand or 5.42% of the share capital). This reserve is not distributable. In prior years the Group presented legal reserves within other reserves. During 2014, reclassification and separately presentation of legal reserves was made.

Other reserves

As at 31 December 2014 other reserves of the Group amounted to HRK 79,029 thousand. As at 31 December 2014 other reserves of the Company amounted to HRK 254,711 thousand. Other reserves of the Group and the Company include treasury shares reserve in the amount of HRK 24,344 thousand which are not distributable and remaining amount to the retained earnings which are distributable.

Based on the Decision of the General Assembly held on 17 November 2014 the Company has paid out a dividend of HRK 0.5 per share, which amounted to HRK 62,759 thousand.

Fair value reserves

As at 31 December 2014 fair value reserves of the Group amounted to HRK 29,413 thousand.

As at 31 December 2014 fair value reserves of the Company amounted to HRK 29,750 thousand. This reserves are not distributable.

In prior years the Group and the Company presented fair value reserves within other reserves. During 2014, reclassification and separately presentation of fair value reserves was made.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 30 – BORROWINGS

(in thousands of HRK)	Group 2014	Group 2013	Company 2014	Company 2013
Current				
Bank borrowings	103,565	129,732	102,320	129,732
Finance lease	249	235	249	235
	103,814	**129,967**	**102,569**	**129,967**
Non-current				
Bank borrowings	821,547	696,310	813,070	696,310
Finance lease	616	861	616	861
	822,163	**697,171**	**813,686**	**697,171**
Total borrowings	**925,977**	**827,138**	**916,255**	**827,138**

All banks have secured their borrowed funds with a pledge over hotel facilities with a net book value of HRK 1,085,810 thousand (2013: HRK 1,166,263 thousand).

The carrying amount of borrowings is denominated in EUR and CHF. Effective interest rates at reporting date were as follows:

Group	2014		2013	
Borrowings:	(in thousands of HRK)	%	(in thousands of HRK)	%
EUR	749,560	0.88%-4.0%	602,719	1.021%-4%
CHF	173,835	1.18%-1.5%	211,754	1.19%-1.5%
HRK	2,582	3.55%-4.0%	12,665	2.8%-4.3%
	925,977		**827,138**	

Company	2014		2013	
Borrowings:	(in thousands of HRK)	%	(in thousands of HRK)	%
EUR	739,838	0.88%-4.0%	602,719	1.021%-4%
CHF	173,835	1.18%-1.5%	211,754	1.19%-1.5%
HRK	2,582	3.55%-4.0%	12,665	2.8%-4.3%
	916,255		**827,138**	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 30 – BORROWINGS (continued)

Maturities of non-current borrowings are as follows:

	Group		Company	
(in thousands of HRK)	2014	2013	2014	2013
1-2 years	185,562	229,833	182,631	229,833
2-5 years	251,305	239,828	249,108	239,828
Over 5 years	385,296	227,510	381,947	227,510
	822,163	**697,171**	**813,686**	**697,171**

The carrying amounts and fair value of non-current borrowings are as follows:

	Borrowings			
	Carrying amounts		Fair value	
(in thousands of HRK)	2014	2013	2014	2013
Group	822,163	697,171	818,310	686,590
Company	813,686	697,171	809,833	686,590

The fair value is based on discounted cash flows discounted using a rate based on the weighted average interest rate on borrowings of 2.39 % (2013: 2.53%). The carrying amounts of current borrowings approximate their fair value due to short term maturity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 31 – TRADE AND OTHER PAYABLES

	Group		Company	
(in thousands of HRK)	2014	2013	2014	2013
Trade payables	76,975	74,543	75,973	74,543
Trade payables – related parties	191	3,121	5,119	3,255
Interest payable	1,717	1,592	1,646	1,592
Concession fees payable	20,455	15,322	20,455	15,322
Total financial liabilities	99,338	94,578	103,193	94,712
Liabilities to employees	28,607	23,688	26,422	23,688
Liabilities for taxes and contributions and similar charges	9,176	9,074	6,085	8,630
Advances received	12,627	7,490	12,574	7,490
Other current liabilities	4,297	3,863	2,717	3,863
	154,045	**138,693**	**150,991**	**138,383**

The carrying amount of financial liabilities are denominated in the following currencies:

	Group		Company	
(in thousands of HRK)	2014	2013	2014	2013
EUR	3,227	225	2,851	225
GBP	-	2	-	2
CHF	167	-	167	-
HRK	95,944	94,351	100,175	94,485
	99,338	**94,578**	**103,193**	**94,712**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 32 – PROVISIONS

Group (in thousands of HRK)	Termination benefits	Legal proceedings	Bonuses	Total
At 1 January 2014	-	**29,120**	**6,957**	**36,077**
Additional provisions	10,257	1,758	7,924	19,939
Used during year	-	(4,071)	(6,435)	(10,506)
At 31 December 2014	**10,257**	**26,807**	**8,446**	**45,510**
2014				
Current portion	10,257	-	8,446	**18,703**
Non-current portion	-	26,807	-	**26,807**

Company (in thousands of HRK)	Termination benefits	Legal proceedings	Bonuses	Total
At 1 January 2014	-	**29,120**	**6,957**	**36,077**
Additional provisions	8,468	1,758	6,150	16,376
Used during year	-	(4,071)	(6,435)	(10,506)
At 31 December 2014	**8,468**	**26,807**	**6,672**	**41,947**
2014				
Current portion	8,468	-	6,672	**15,140**
Non-current portion	-	26,807	-	**26,807**

Provisions for legal proceedings, conducted in previous years, primarily relate to land sold for construction purposes in Dubrovnik with a total surface area of 11,239 sq.m. , which was not included in the share capital of subsidiary Dubrovnik – Babin kuk d.d. during transformation and privatisation. A number of buyers were not able to register their ownership title over the stated land, and consequently initiated legal proceedings at the Municipal Court in Dubrovnik with the aim of terminating the purchase and sale contract. The Group's provisions are based on the estimate of market value of the aforementioned land.

In 2014, a provision was made regarding the dispute with the Republic of Croatia/Ministry of Tourism relating to the partial payment of the advance concession fee in accordance with Law on land for touristic and other construction purposes which was not evaluated during transformation and privatisation (hereinafter: ZOTZ) and for the part of the land in camps Lanterna and Vrsar, which are registered as properties of the Municipality Tar-Vabriga and Vrsar and for which the Company, before the enactment of ZOTZ, paid lease for several years in advance, based on a lease contract concluded with se Municipalities mentioned above.

The second largest part of the provision is related to several disputes with the company Glavice d.o.o., Dubrovnik „in bankrupcy“ in the arbitration, aiming to disengage all mutual relations regarding the upgrade and reconstruction of the hotel Valamar Lacroma Dubrovnik. These provisions were made because the company Glavice d.o.o. has declared bankruptcy and in case of a positive outcome for the Company from these disputes, possibility of collection from the bankruptcy estate is uncertain.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 33 – CONSOLIDATED SUBSIDIARIES

	Country	Ownership at 31 December	
		2014	**2013**
Palme turizam d.o.o.	Croatia	100.00%	100.00%
Elafiti Babin kuk d.o.o.	Croatia	100.00%	100.00%
Magične stijene d.o.o.	Croatia	100.00%	100.00%
Bugenvilia d.o.o.	Croatia	100.00%	100.00%
Puntižela d.o.o. /i/	Croatia	99.39%	-
Bastion upravljanje d.o.o.	Croatia	100.00%	-
Valamar hoteli i ljetovališta d.o.o.	Croatia	100.00%	-
Citatis savjetovanje d.o.o.	Croatia	100.00%	-
Valamar hotels & resorts GmbH	Austria	100.00%	-

/i/ Minority interest in Group's profit of HRK 13 thousand and Group's assets of HRK 91 thousand relate to the minority interest of the company Puntižela d.o.o.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 34 – CONTINGENCIES AND COMMITMENTS

Legal proceedings

In the ordinary course of business, the Company is plaintiff and defendant in various legal actions. In the financial statements for the year ended 31 December 2014, provisions for certain legal proceedings have been made for which the Company anticipates outflows of HRK 26,807 thousand.

Transformation and privatisation audit and ownership over land

A transformation and privatisation audit was carried out for the Company during 2002 and 2003, with a separate audit for Riviera Poreč d.d. (formerly Riviera Holding d.d., Riviera Adria d.d., now Valamar Riviera d.d.) and for companies merged into Valamar Riviera d.d.: Rabac d.d., Zlatni Otok d.d. and Dubrovnik Babin kuk d.d. The reports claim that the transformation and privatisation process had not been performed completely in accordance with legal regulations, primarily in relation to properties that are not evaluated in the Company's equity but are owned by the Company, partly also recorded in the land records as well as properties that are reported in the Company's equity but have not yet been recorded in the land registry. The Company, as did its legal predecessors before the mergers carried out in 2011 and 2013, submitted timely objections to the transformation and privatisation audit reports to the State Audit Office, but up to the date of issue of these financial statements they have not received any response from the State Audit Office with respect to the objection of the Company and/or legal predecessors of the Company.

It is not expected that the outcome of these proceedings would have significant impact on financial position or results of the Company/Group.

The company is also managing a number of legal and/or administrative procedures with respect to land, as follows:

a) Land in the Lanterna, Solaris, and Istria campgrounds, and the Lanterna and Solaris tourist resorts in the Porec area – according to a claim of the Republic of Croatia from 2003 for land that is unpriced or excluded from appraisal in the total area of 2,357,779 m2. The process has not yet been finalized but it is expected to be resolved in accordance with provisions of the Act on tourist and other construction land not assessed in transformation and privatisation processes, as explained below. Given that the value of the land is not presented in the Company's records even though it is registered in the land registry (with mortgage of the Republic of Croatia/ Croatian Privatisation fund dispute), completion of the above-mentioned dispute should not affect the overall financial position or business results of the Company or Group.

   Land in the Ježevac, Krk (formerly Politin) and Škrila campgrounds, in the area of Krk - according to claims of the Republic of Croatia from the year 2000 and counterclaims of the Company (formerly of its predecessor Zlatni otok d.d.) in relation to land unpriced or excluded from the assessment in these campgrounds. The proceedings are not yet resolved but due to the application of the Law on tourist and other construction land provisions and that that land is already included in tourist land under concession, the additional costs and impact on the overall financial and business position of the Company or the Group is not expected.

b) Land in the area of Dubrovnik (formerly of predecessor Dubrovnik - Babin kuk d.d.); 1.) in relation to 27,393 m2 of land which is not registered in the Land Registry in the ownership of the Company but appraised in the transformation (partially due to subsequent coverage in maritime domain, partially because of registered public good and partially because of the entry of a third , including the Republic of Croatia) and stated in the business records of the Company in the amount of HRK 12,727 thousand; 2.) in relation to 12,884 m2 of land in accordance with a final Resolution of the CPF of 20 July 2009, according to which the above-mentioned land would be included in the valuation along with the recapitalization of the Company, which was not accepted at the General Meeting of the Company held on 17.02.2010; 3.) in relation to the land that was the subject of a request for renewal of the transformation process initiated in 1999. The procedures that the Company led against the Resolution of the CPF of 3.07.2002 in which the motion for renewal of the transformation process was rejected, as well as against the Resolution of the CPF of 20.07.2009, have ended and the Company with its proposals has been rejected. An assessment of further outcomes in relation to land in the area of Dubrovnik is presented below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 34 – CONTINGENCIES AND COMMITMENTS (continued)

Transformation and privatisation audit and ownership over land (continued)

Valamar Riviera d.d. as the universal legal successor of the merged companies Rabac d.d., Zlatni Otok d.d. and Dubrovnik Babin kuk d.d. took over all initiated proceedings and all described balances as previously stated in these notes. The outcome and the result of the legal and other proceedings stated under a) and b) cannot be reliably anticipated but a resolution is expected in accordance with the Act on tourist and other construction land not assessed in transformation and privatisation processes, and in relation to land in the area of Dubrovnik through settlement, and this resolution is not likely to have a significant impact on the overall financial position of the Company. On 1 August 2010, Act on tourist and other construction land not assessed in transformation and privatisation processes ("the ZOTZ") entered into force, in accordance with which and based on the provisions of which the ownership and co-ownership over land not assessed in the transformation and privatisation process should finally be determined, and in the spirit of the provisions of which all disputes which are ongoing in relation to unpriced tourist land, primarily land in the area of Poreč, Rabac and Krk will be resolved. Within the prescribed period, on 31 January 2011, the Company initiated procedures through submission of a request for concessions on tourist land in campgrounds and tourist land in tourist resorts, as well as requests for verification of plots/land ground plan surface area of assessed buildings (hotels, apartments and other assessed buildings) and other prescribed requests. The outcome of these procedures will be the determination of the ownership and/or co-ownership of the Company on the part of land not assessed in transformation and privatisation procedures. During 2013, the Company continued with active participation in these procedures, according to the requests and/or instructions of authorities. Until 31 December 2013, not one of the initiated procedures in accordance with provisions of the ZOTZ in relation to concessions had been finally resolved, and only two precautionary proceedings filed with regard to determining the shape and size of land (z.k. plots) which are in line with the ground plan surface area of the assessed buildings in the Ježevac and Krk (formerly Politin) campgrounds in which the Company's requests were rejected. During 2014, as in previous years from the date of concession on tourist land application, Ministry of Tourism has issued annual invoices to the Company. The Company has paid fees for tourist land according to the requirements of the relevant legislation (the Company paid 50% of annual cost in accordance to the concession).

The Company is in a dispute with the Republic of Croatia/ Ministry of Tourism relating to the partial payment of the advance concession fee in accordance with the Law on land for touristic and other construction purposes which was not evaluated during denationalisation and privatisation (hereinafter: ZOTZ) and for the part of the land in camps Lanterna and Vrsar, which is registered as properties of the Municipality Tar-Vabriga and Vrsar and for which the Company, before the enactment of ZOTZ, paid lease for several years in advance, based on a lease contract concluded with the Municipalities mentioned above.

In relation to the land in Dubrovnik, the Company is in the process of negotiation with the Agency for the Management of State Property and the State Attorney of the Republic of Croatia. No significant impact on the financial statements is expected.

Capital commitments

Future commitments with respect to investments in tourism facilities as at 31 December 2014 amounted to HRK 131,317 thousand (2013: HRK 279,007 thousand).

Contractual commitments

The Group has signed a contract in 2004 appointing Valamar hoteli i ljetovališta d.o.o. for management facility services. The contract comprise of basic monthly fee and monthly incentive. The contract was prolonged in 2012. As part of the Group restructuring, it was decided that Valamar hoteli i ljetovališta d.o.o. will be merged as of 27 February 2015.

Operating leases commitments - where the Group is the lessee.

Non-cancellable the future aggregate minimum lease payments receivable under operating leases are as follows:

	Group		Company	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Up to 1 year	257	346	238	346
From 2 to 5 years	94	306	23	306
Total	**351**	**652**	**261**	**652**

The lease terms for vehicle are between 1 and 5 years and the majority of lease agreements is renewable at market rate at the end of the lease period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 35 – CASH GENERATED FROM OPERATIONS

Adjustment of profit with cash generated from operations:

(in thousands of HRK)	Note	Group 2014	Group 2013 (See Note 1)	Company 2014	Company 2013 (See Note 1)
Profit before taxation		59,052	39,876	27,267	35,116
Adjustments for:					
Depreciation and amortization		202,977	223,323	186,426	171,976
Net gains on sale of property, plant and equipment and intangible assets		(58)	(2)	(46)	(68)
Write off of property, plant and equipment		7,721	13,292	7,721	13,023
Provision for impairment of trade and other receivables – net		(251)	4,478	(594)	4,742
Finance (income)/costs – net		26,978	21,066	23,789	4,735
Fair value losses/(gains) on financial assets		15	1,028	15	-
Fair value losses from financial instruments – net		(1,825)	(2,832)	(1,823)	(949)
Increase in provisions – net		5,870	(84)	5,870	(770)
Share of profit in joint venture - net		(11)	(58)	-	-
Effect of presentation of merged companies /i/	37	(17,140)	-	-	-
Effect of presentation of subsidiaries intragroup transfer /i/	17	(24,340)	-	-	-
Changes in:					
- Trade and other receivables		3,591	(1,909)	22,389	19,561
- Inventories		(109)	632	46	539
- Trade and other payables		(1,315)	5,615	3,238	(15,530)
Cash generated from operations		**261,155**	**304,425**	**274,298**	**232,375**

/i/ As explained in Note 1, the Group has presented its Statement of financial position, Statement of comprehensive income and Statement of cash flows from 1 January 2014 up to 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 36 – RELATED PARTY TRANSACTIONS

Related parties are those companies which have the power to exercise control over the other party or are under common control or which have a significant influence on the other party in making business or financial decisions. Until 30 September 2014 the parent Company was Valamar Adria Holding d.d. (previously: Dom Holding d.d.), Zagreb which owned 73.60% of the Company's shares. The ultimate parent of the Company was Valamar grupa d.d., Zagreb while the ultimate controlling company is Epic GmbH, Vienna.

Related parties in the Valamar Group are and were: Valamar grupa d.d., Zagreb, Valamar Adria holding d.d., Zagreb, Dubrovnik-Babin kuk d.d., Dubrovnik (merged 31 October 2013), Puntižela d.o.o., Pula, Valamar hoteli i ljetovališta d.o.o., Zagreb, Valamar turistički projekti d.o.o., Zagreb, Epima d.o.o., Zagreb (merged 14 July 2014), Epic GmbH, Wien, Bugenvilia d.o.o., Dubrovnik , Bastion upravljanje d.o.o., Zagreb., Valamar poslovni razvoj d.o.o., Zagreb (merged 28 November 2014), Scapus d.o.o., Zagreb, Satis d.o.o., Zagreb, Enitor d.o.o., Zagreb, Linteum savjetovanje d.o.o., Zagreb (merged 14 December 2014), Elafiti Babin kuk d.o.o., Magične stijene d.o.o., Palme turizam d.o.o., Valamar Hotels and Resorts GmbH, Frankfurt am Main and Citatis savjetovanje d.o.o., Zagreb.

Valamar Riviera d.d., Poreč is the parent company of the subsidiaries: Elafiti Babin kuk d.o.o., Dubrovnik, Palme turizam d.o.o., Dubrovnik, Magične stijene d.o.o., Dubrovnik as of 1 November 2013 upon merger of Dubrovnik Babin kuk d.d., Bugenvilia d.o.o., Dubrovnik as of 12 June 2013 when the Company Riviera Adria d.d. acquired 100% of share in Bugenvilia d.o.o., Dubrovnik.

Upon merger of Valamar Adria holding d.d., Zagreb and Valamar grupa d.d., Zagreb, the company Valamar Riviera d.d., Poreč has become parent company of the subsidiaries: Valamar hoteli i ljetovališta d.o.o., Zagreb, Bastion d.o.o., Zagreb, Citatis d.o.o., Zagreb, Puntižela d.o.o., Pula and Linteum d.o.o., Zagreb (merged 14 December 2014).

Related party transactions were as follows:

Group

(in thousands of HRK)	**2014**	**2013**
Sale of services		
Valamar grupa d.d., Zagreb	-	8
Valamar hoteli i ljetovališta d.o.o., Zagreb	-	2,480
Valamar turistički projekti d.o.o., Zagreb	-	9
Puntižela d.o.o., Pula	-	30
Epic GmbH, Vienna	27	4
Valamar poslovni razvoj d.o.o., Zagreb	-	43
Valamar Hotels & Resorts GmbH	-	1
Valamar Adria holding d.d., Zagreb	-	20
Satis d.o.o.	1	-
Scapus d.o.o.	1	-
	29	**2,595**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Group (continued)

(in thousands of HRK)	2014	2013
Purchase of services		
Valamar Adria holding d.d., Zagreb	-	1,350
Valamar hoteli i ljetovališta d.o.o., Zagreb	-	97,166
Valamar turistički projekti d.o.o., Zagreb	-	519
Valamar grupa d.d., Zagreb	-	38
Valamar poslovni razvoj d.o.o., Zagreb	-	2,462
Puntižela d.o.o., Pula	-	2
Epic GmbH, Wien	1,973	-
Satis d.o.o.	138	-
	2,111	**101,537**

(in thousands of HRK)	2014	2013
Receivables		
Valamar hoteli i ljetovališta d.o.o., Zagreb	-	347
Valamar Adria Holding d.d., Zagreb	-	1
Valamar Poslovni razvoj d.o.o., Zagreb	-	2
Puntižela d.o.o., Pula	-	2
Valamar turistički projekti d.o.o., Zagreb	-	1
Valamar grupa d.d., Zagreb	-	1
Epic GmbH, Wien	4	-
	4	**354**
Liabilities		
Valamar Adria holding d.d., Zagreb	-	835
Valamar hoteli i ljetovališta d.o.o., Zagreb	-	2,175
Valamar poslovni razvoj d.o.o., Zagreb	-	109
Epic GmbH, Wien	191	-
Puntižela d.o.o., Pula	-	2
	191	**3,121**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Company

(in thousands of HRK)	2014	2013
Sale of services		
Valamar grupa d.d., Zagreb	-	7
Valamar hoteli i ljetovališta d.o.o., Zagreb	2,567	2,066
Valamar turistički projekti d.o.o., Zagreb	-	9
Puntižela d.o.o., Pula	43	28
Valamar poslovni razvoj d.o.o., Zagreb	78	42
Dubrovnik-Babin kuk d.d.	-	1,785
Valamar Adria holding d.d., Zagreb	22	15
Valamar Hotels & resorts GmbH	-	1
Epic GmbH, Beč	27	1
Elafiti Babin kuk d.o.o.	71	861
Bugenvilia d.o.o., Dubrovnik	10	-
Palme turizam d.o.o.	10	-
Magične stijene d.o.o.	9	-
Scapus d.o.o.	1	-
Satis d.o.o.	1	-
	2,839	**4,815**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Company (continued)

(in thousands of HRK)	2014	2013
Purchase of services		
Valamar Adria holding d.d., Zagreb	678	1,236
Valamar hoteli i ljetovališta d.o.o., Zagreb	99,927	75,272
Valamar turistički projekti d.o.o., Zagreb	-	464
Valamar grupa d.d., Zagreb	160	18
Dubrovnik-Babin kuk d.d.	-	409
Valamar poslovni razvoj d.o.o., Zagreb	1,827	2,094
Bugenvilia d.o.o., Dubrovnik	80	13
Puntižela d.o.o., Pula	2	2
Elafiti Babin kuk d.o.o.	29,557	4,774
Palme turizam d.o.o.	201	100
Epic GmbH, Wien	83	-
Linteum savjetovanje d.o.o.	115	-
	132,630	**84,382**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Company (continued)

(in thousands of HRK)	2014	2013
Financial income		
Dubrovnik-Babin kuk d.d. (1/1-31/10/2013)	-	5,048
Trade and other receivables		
Valamar hoteli i ljetovališta d.o.o., Zagreb	868	347
Valamar Adria Holding d.d., Zagreb	-	1
Valamar Poslovni razvoj d.o.o., Zagreb	2	2
Puntižela d.o.o., Pula	-	2
Valamar grupa d.d., Zagreb	-	2
Valamar turistički projekti d.o.o.	-	1
Elafiti Babin kuk d.o.o.	191,056	215,618
Palme turizam d.o.o.	-	48
Magične stijene d.o.o.	11	-
Epic GmbH, Wien	4	-
	191,941	**216,021**
Trade and other payables		
Valamar Adria holding d.d., Zagreb	-	835
Valamar hoteli i ljetovališta d.o.o., Zagreb	3,995	2,175
Valamar poslovni razvoj d.o.o., Zagreb	-	109
Bugenvilia d.o.o., Dubrovnik	25	17
Puntižela d.o.o., Pula	-	2
Elafiti Babin kuk d.o.o.	916	-
Palme turizam d.o.o.	100	117
Epic GmbH, Wien	83	-
	5,119	**3,255**
Loans given		
Palme turizam d.o.o.	-	26
Magične stijene d.o.o.	17	5
Elafiti Babin kuk d.d.	622	450
	639	**481**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

	Group		Company	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Salaries	6,893	3,765	5,114	2,861
Pension contributions	1,068	582	665	488
Health insurance contribution	1,595	746	1,265	532
Other costs (contribution and taxes)	4,683	2,649	3,550	1,965
	14,239	**7,742**	**10,594**	**5,846**

Group Management consists of:
Management of the parent Company comprise Franz Lanschützer, Edi Černjul, Nikola Koncul, Marko Čižmek, Tihomir Nikolaš, Ivana Budin Arhanić.

Management of the subsidiary comprise:
Elafiti Babin kuk d.o.o.: Nikola Koncul, Mišo Matana
Palme turizam d.o.o.: Nikola Koncul, Mišo Matana
Magične stijene d.o.o.: Nikola Koncul, Mišo Matana
Bugenvilia d.o.o.: Edi Černjul, Nikola Koncul
Valamar hoteli i ljetovališta d.o.o.: Peter Fuchs, Sandra Enders
Bastion upravljanje d.o.o.: Sunčana Ivanković
Puntižela d.o.o.: Darko Grbac, Tihomir Nikolaš

Joint venture:
Pogača Babin kuk d.o.o.: Mario Perović

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 37 – MERGER OF ENTITIES UNDER COMMON CONTROL

As at 30 September 2014, a merger Agreement was concluded, whereby the company Valamar grupa d.d., Zagreb and Valamar Adria holding d.d. were merged into Valamar Riviera d.d., Poreč with legal effects as of 1 October 2014. Following the completion of a merger, share capital of the Group has been increased from HRK 1,117,663 thousand by the amount of HRK 204,358 thousand to total of HRK 1,322,021 thousand issuing 19,481,202 ordinary shares, without nominal value which are given together with 146,800,087 own shares to shareholders of merged companies in exchange for assets of merged companies.

As at 15 December 2014, a merger Agreement was concluded, whereby the company Linteum savjetovanje d.o.o., Zagreb was merged into Valamar Riviera d.d., Poreč. At the time of merger the Company had 100% share in merged company. Assets and liabilities of above mentioned company are merged at carrying book values.

Statement of comprehensive income of the Group includes the results of the merged companies for the whole current year, meaning that the comparative statement of comprehensive income of the Group does not include the comparative results of the merged companies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

NOTE 37 – MERGER OF ENTITIES UNDER COMMON CONTROL (continued)

Assets and liabilities at merger date are:

(in thousands of HRK)	Valamar Adria holding d.d. 1 October 2014	Valamar grupa d.d. 1 October 2014	Linteum savjetovanje d.o.o. 15 December 2014	Total
Assets				
Property, plant and equipment (Note 14)	3,865	217	-	**4,082**
Investment property (Note 15)	19,770	-	-	**19,770**
Investment in subsidiaries	665,589	452,631	-	**1,118,220**
deferred tax assets	16,041	4,365	-	**20,406**
Financial assets held for sale	10,718	-	27,376	**38,094**
Trade and other receivables	5,033	215	2,017	**7,265**
Income tax receivables	9	230	-	**239**
Loans and deposits	45,116	-	110,000	**155,116**
Cash and cash equivalents	2,334	2,974	1,391	**6,699**
Liabilities				
Borrowings	(9,647)	(110,000)	-	(119,647)
Derivative financial instruments	(193)	-	-	(193)
Deferred tax liability	(1,075)	-	(1,348)	(2,423)
Payables and other liabilities	(898)	(2,000)	(3,198)	(6,096)
Net assets acquired	**756,662**	**348,632**	**136,238**	**1,241,532**
Value of granted shares/ investments	**521,734**	**695,308**	**98,870**	**1,315,912**
Net effect on equity at merger - Company	**234,928**	**(346,676)**	**37,368**	**(74,380)**
Change in fair value reserve for period from 1 January 2014 to merger date included in OCI movement	(2,696)	-	(1,034)	(3,730)
Less: Gain/(loss) for period from 1 January 2014 to merger date	6,076	(16,277)	(3,209)	(13,410)
Net effect on equity at merger - Group	**238,308**	**(362,953)**	**33,125**	**(91,520)**

NOTE 38 – SUBSEQUENT EVENTS

On 27 February 2015 as part of the restructuring of the Group, the subsidiary Valamar hoteli i ljetovališta d.o.o. has been merged.

Independent auditors' report to the shareholders of Valamar Riviera d.d., Porec on the consistency of the annual report

The accompanying annual report for the year ended 31 December 2014, contains information derived from the audited financial statements of Valamar Riviera d.d. ("the Company") as of and for the year ended 31 December 2014. We expressed an unmodified audit opinion on those financial statements in our report dated 25 March 2015. Those financial statements do not reflect the effects of events that occurred subsequent to that date.

This annual report does not contain all the information and disclosures applied in the preparation of the audited financial statements of the Company. Accordingly, this annual report should be read together with the audited financial statements of the Company.

Management's Responsibility for the annual report

Management is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act of the Republic of Croatia.

Auditors' Responsibility

Our responsibility is to express an opinion on the consistency of the information in the annual report with the financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act of the Republic of Croatia.

Opinion

In our opinion, the information given in the accompanying annual report for the financial year for which the financial statements are prepared is consistent with those financial statements.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb,
Croatia

15 April 2015

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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