PLAVA LAGUNA d.d., POREČ

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2011

Independent auditor's report

To the Shareholders and the Management Board of Plava laguna d.d.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Plava laguna d.d. and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flow for the year then ended, and 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 30 to these financial statements that describes the Group's contingencies with respect to ownership of land not evaluated in the transformation and privatisation process. Problems with respect to land ownership disputes are common for the majority of tourism companies in the Republic of Croatia. Their resolution is expected in the future upon completion of the process of obtaining concessions and establishing ownership rights in accordance with and pursuant to the provisions of the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, which entered into force on 1 August 2010. Our opinion was not qualified in this respect.

PricewaterhouseCoopers d.o.o.
Zagreb, 20 April 2012

PLAVA LAGUNA d.d., POREČ

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	2011	2010
Sales	5	516,493	476,186
Other income	6	1,960	3,770
Cost of materials and services	7	(150,740)	(138,252)
Staff costs	8	(131,682)	(131,534)
Depreciation and amortisation	15, 16	(108,887)	(110,541)
Other operating expenses	9	(41,237)	(30,415)
Other gains – net	10	857	1,404
Operating profit		**86,764**	**70,618**
Finance income	11	8,574	6,296
Finance costs	11	(2,199)	(2,430)
Finance income – net	11	6,375	3,866
Share of profit of non-consolidated subsidiary	18	130	145
Profit before tax		**93,269**	**74,629**
Income tax expense	12	(18,218)	(14,466)
Profit for the year		**75,051**	**60,163**
Other comprehensive income:			
Changes in value of available-for-sale financial assets	26	(1,432)	(62)
Total comprehensive income for the year		**73,619**	**60,101**
Profit attributable to:			
Owners of the parent		74,145	59,653
Non-controlling interests		906	510
Profit for the year		**75,051**	**60,163**
Basic and diluted earnings per share attributable to the equity holders of the Company during the year (expressed in HRK per share):	13		
- ordinary shares		115.35	92.78
- preference shares		116.35	93.78

These financial statements set out on pages 3 to 54 were approved by the Group's Management Board on ___________ 2012.

President of the Management Board

Neven Staver

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	31 December 2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	15	1,362,389	1,414,700
Intangible assets	16	684	872
Investments in non-consolidated subsidiary	18	772	642
Available-for-sale financial assets	19	9,974	11,765
		1,373,819	1,427,979
Current assets			
Inventories	22	3,783	3,717
Trade and other receivables	23	12,358	12,938
Deposits and loans receivable	21	126,746	83,184
Financial assets at fair value through profit or loss	20	142	172
Cash and cash equivalents	24	57,651	33,381
		200,680	133,392
Total assets		**1,574,499**	**1,561,371**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	25	1,088,372	1,088,372
Share premium	25	5,149	5,149
Treasury shares	25	(17,046)	(17,046)
Reserves	26	132,158	131,714
Retained earnings	26	211,207	197,459
		1,419,840	1,405,648
Non-controlling interests		22,670	21,795
		1,442,510	1,427,443
LIABILITIES			
Non-current liabilities			
Borrowings	28	53,273	62,919
Provisions for other liabilities and expenses	29	1,500	1,500
		54,773	64,419
Current liabilities			
Trade and other payables	27	56,873	51,389
Borrowings	28	14,944	14,735
Provisions for other liabilities and expenses	29	275	255
Income tax payable	12	5,124	3,130
		77,216	69,509
Total liabilities		131,989	133,928
Total equity and liabilities		**1,574,499**	**1,561,371**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	Share capital	Share premium	Treasury shares	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the Company							
At 1 January 2010		1,088,372	5,149	(17,046)	129.492	209.559	1,415,526	21,316	1,436,842
Profit for the year			-	-	-	59,653	59,653	510	60,163
Other comprehensive loss		-	-	-	(62)	-	(62)	-	(62)
Total comprehensive income for 2010		**-**	**-**	**-**	**(62)**	**59,653**	**59,591**	**510**	**60,101**
Transfer to legal reserves	26	-	-	-	2,284	(2,284)	-	-	-
Dividend relating to 2009	13	-	-	-	-	(69,500)	(69,500)	-	(69,500)
Dividend on preference shares of Subsidiary to parent Company		-	-	-	-	31	31	(31)	-
Total contributions by and distributions to Company's owners, recognised directly in equity		**-**	**-**	**-**	**2,284**	**(71,753)**	**(69,469)**	**(31)**	**(69,500)**
At 31 December 2010		**1,088,372**	**5,149**	**(17,046)**	**131,714**	**197,459**	**1,405,648**	**21,795**	**1,427,443**
Profit for the year		**-**	**-**	**-**	-	74,145	74,145	906	75,051
Other comprehensive loss		**-**	**-**	**-**	(1,432)	-	(1,432)	-	(1,432)
Total comprehensive income for 2011		**-**	**-**	**-**	**(1,432)**	**74,145**	**72,713**	**906**	**73,619**
Transfer to retain earnings		**-**	**-**	**-**	(815)	815	-	**-**	**-**
Transfer to legal reserves	26	**-**	**-**	**-**	2,691	(2,691)	-	**-**	**-**
Dividend relating to 2010	13	**-**	**-**	**-**	-	(58,552)	(58,552)	**-**	(58,552)
Dividend on preference shares of Subsidiary to parent Company		-	-	-	-	31	31	(31)	-
Total contributions by and distributions to Company's owners, recognised directly in equity		**-**	**-**	**-**	**1,876**	**(60,397)**	**(58,521)**	**-**	**(58,552)**
At 31 December 2011		**1,088,372**	**5,149**	**(17,046)**	**132,158**	**211,207**	**1,419,840**	**22,670**	**1,442,510**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	**Note**	**2011**	**2010**
Cash flows generated from operating activities			
Cash generated from operations	31	210,891	176,825
Income tax paid		(16,224)	(14,967)
Interest paid		(1,784)	(1,974)
Net cash generated from operating activities		**192,883**	**159,884**
Cash flows from investing activities			
Purchases of property, plant and equipment	15	(66,046)	(69,803)
Purchases of intangible assets	16	(142)	(94)
Deposits and loans granted		(438,146)	(405,768)
Proceeds from sale of property, plant and equipment	31	334	121
Loans and deposits repayments received		398,215	364,354
Interest received		6,180	4,591
Dividends received	6	387	378
Net cash used in investing activities		**(99.218)**	**(106,221)**
Cash flows from financing activities			
Repayment of borrowings		(10,764)	(10,486)
Dividends paid to Company's shareholders	13	(58,600)	(69,469)
Dividends paid to non-controlling interests		(31)	(31)
Net cash used in financing activities		**(69,395)**	**(79,986)**
Net increase/(decrease) in cash and cash equivalents		**24,270**	**(26,323)**
Cash and cash equivalents at beginning of the year		33,381	59,704
Cash and cash equivalents at end of the year	24	**57,651**	**33,381**

NOTE 1 – GENERAL INFORMATION

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

- Laguna Invest, services, with an ownership interest of 100%,
- Hoteli Croatia, a joint stock company registered for hospitality and tourism, with an ownership interest of 92.28% and
- Excelsa Hoteli, a limited liability company for trade, hospitality and services, with an ownership interest of 52.55%.

The parent Company and its subsidiary Laguna Invest d.o.o., Poreč are registered at the Commercial Court in Pazin and the subsidiary Hoteli Croatia d.d., Cavtat at the Commercial Court in Split.

The Plava laguna Group, Poreč is controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is Luksburg Foundation, registered in Vaduz Liechtenstein. The equity structure as at 31 December 2011 and 2010 is presented in Note 25.

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

As at 31 December 2011 and 2010, the shares of the Parent Company and its subsidiary Hoteli Croatia d.d. Cavtat were listed on the regular joint stock company listing on the Zagreb Stock Exchange.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures

a) During the year, the Group adopted the following new and amended IFRSs and guidelines of the International Financial Reporting Interpretations Committee (IFRIC). If the application of standards or guidelines impacted the Group's financial statements or result, the impact is stated.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010).
The amendment allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The adoption of the amendment did not have any impact on the financial position and performance of the Group, as the Group does not have such instruments.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 July 2010)

The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The adoption of the interpretation did not have any impact on the financial statements as the Group does not negotiate such terms with its creditors.

Amendment to IFRS 1 First time adoption – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for financial years beginning on or after 1 July 2010)

The amendment clarifies that first time adopters do not need to provide comparative disclosures as introduced by the IFRS 7 amendment issued in March 2009. The adoption of the amendment did not affect the financial position of the Group.

Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011)

The amendments simplify the definition of a related party and modify certain related-party disclosure requirements for government-related entities. The implementation of these amendments did not have any impact on the financial position and performance of the Group and the related parties' disclosures.

Amendment to IFRIC 14 The Limit On A Defined Benefit Assets, Minimum Funding Requirements And Their Interaction (effective for financial years beginning on or after 1 January 2011)

Removes unintended consequences arising from the treatment of pre-payments where there is a minimum funding requirement. Results in pre-payments of contributions in certain circumstances being recognised as an asset rather than an expense. The Group is not subject of minimum funding requirements; therefore the amendment of the interpretation did not have any effect on the financial position and performance of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

b) Improvements to International Financial Reporting Standards (issued in May 2010)

The International Accounting Standards Board (IASB) issued a set of amendments to IFRSs. Adopted amendments derived from improvements to IFRSs to the following standards had no impact on the Group's accounting policies, financial position or result:

IFRS 1 First Time Adoption (effective for annual periods beginning on or after 1 January 2011)

(a) *Accounting policy changes in the year of adoption* - Clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with *IAS 34, Interim financial reporting*, it should explain those changes and update the reconciliations between previous accounting standards and IFRS.
(b) *Revaluation basis as deemed cost* - Allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition but before the first IFRS financial statements are issued. When such remeasurement occurs after the date of transition to IFRSs but during the period covered by its first IFRS financial statements, any subsequent adjustment to that event-driven fair value is recognised in equity.
(c) *Use of deemed cost for operations subject to rate regulation* - Entities subject to rate regulation are allowed to use carrying amounts of property, plant and equipment or intangible assets according to previous accounting standards as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under IAS 36 at the date of transition.

IFRS 3 Business combinations (effective for annual periods beginning on or after 1 July 2010)

(a) *Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS.* - Clarifies that the amendments to *IFRS 7, Financial instruments: Disclosures, IAS 32, Financial instruments: Presentation,* and *IAS 39, Financial instruments: Recognition and measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).
(b) *Measurement of non-controlling interests* - The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS.
(c) *Un-replaced and voluntarily replaced share-based payment awards* - The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

IFRS 7 Financial Instruments - Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

IAS 1 Presentation of financial statements - Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 Consolidated and separate financial statements - Clarifies that the consequential amendments from IAS 27 made to *IAS 21, The effect of changes in foreign exchange rates, IAS 28, Investments in associates,* and *IAS 31, Interests in joint ventures*, apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when IAS 27 is applied earlier.

IAS 34 Interim financial reporting - Provide guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around: the circumstances likely to affect fair values of financial instruments and their classification; transfers of financial instruments between different levels of the fair value hierarchy; changes in classification of financial assets; and changes in contingent liabilities and assets.

IFRIC 13 Customer loyalty programmes - The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes.

c) Standards and interpretations that have been issued but are not yet effective

Below is a list of standards/interpretations that have been issued and are effective for periods after 1 January 2011:

Amendments to IFRS 7 Financial Instruments: Disclosures on Derecognition (effective for annual periods beginning on or after 1 July 2011)
This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment only affects the presentation and therefore has no impact on the Group's financial position or result. The Group plans to adopt the new standard as of the effective date.

Amendments to IFRS 1 First Time Adoption: Fixed Dates and Hyperinflation (effective for annual periods beginning on or after 1 July 2011)
These amendments include two changes to *IFRS 1 First-time adoption of IFRS*. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. Amendments will have no impact on the Group's financial position or result as the Group is not a first-time adopter.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

IAS 12 Income Taxes – Deferred Taxes (effective for annual periods beginning on or after 1 January 2012)

IAS 12 Income taxes, currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in *IAS 40 Investment property*. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, *SIC 21 Income taxes - recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. It is not expected to have any impact on the Group's financial statements, as the Group currently does not hold investment assets recognised under the revaluation model that are not depreciated.

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

Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013)
These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendment might have an impact on the Group's financial position or result.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015)
IFRS 9 is the first standard issued as part of a wider project to replace *IAS 39 Financial Instruments: Recognition and Measurement*.
IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. It is not expected to have any impact on the Group's financial statements. The Group plans to adopt the new standard as of the effective date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)
The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements. The Group expects that IFRS 10 will have no impact on the financial statements. The Group plans to adopt the new standard as of the effective date.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group expects that IFRS 11 will have no impact on the financial statements. The Group plans to adopt the new standard as of the effective date.

IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013)
IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is currently assessing the impact of IFRS 12 on the financial statements. The Group plans to adopt the new standard as of the effective date.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)
IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is currently assessing the impact of IFRS 13 on the financial statements. The Group plans to adopt the new standard as of the effective date.

IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)
IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The Group is currently assessing the impact of IAS 27 on the financial statements. The Group plans to adopt the new standard as of the effective date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013)
IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 10. The Group expects that IAS 28 will have no impact on the financial statements. The Group plans to adopt the new standard as of the effective date.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013)
The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of *IAS 2, Inventories*, to the extent that they are realised in the form of inventory produced. To the extent the benefits represent improved access to or, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met. This amendment is not applicable to the Group's operations.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).
The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is assessing the impact of this amendment.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013)
The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

2.2 Consolidation

a) Subsidiaries

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

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

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

2.3 Segment reporting

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

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

	Estimated useful life
Buildings	10 - 50 years
Plant and equipment	3 - 20 years
Other assets	3 - 10 years

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

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

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

2.6 Intangible assets

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

2.7 Impairment of non-financial assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

2.8.1 Classification

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

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

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

(b) Loans, deposits and receivables

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

(c) Available-for-sale financial assets

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

2.8.2 Measurement and recognition

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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

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

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

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

(b) Assets classified as available for sale

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

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

2.10 Derivative financial instruments

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

2.11 Leases

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

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

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

2.12 Inventories

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade receivables, deposits and loans

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

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary and preference shares are classified as equity. Preference shares are not redeemable and are not convertible into ordinary shares. Preference shares bear a dividend of HRK 1 per share in addition to ordinary dividends. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received. net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.16 Borrowings

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade payables

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

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

2.18 Current and deferred income tax

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

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

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

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

2.19 Employee benefits

(a) Pension obligations and post-employment benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits (continued)

(b) Termination benefits

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

(c) Short-term employee benefits

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

2.20 Provisions

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

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

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

2.21 Revenue recognition

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Revenue recognition (continued)

(a) Sales of services

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

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

(b) Rental services

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

(c) Interest income

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

(d) Dividend income

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

2.22 Dividend distribution

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

2.23 Earnings per share

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

2.24 Value added tax

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

The majority of the Group's foreign sales revenue, cash deposits (Notes 21 and 24) and long-term debt (Note 28) is denominated in EUROs. Therefore, movements in exchange rates between the EURO and Croatian kuna may have an impact on the results of future operations and future cash flows. The Group uses derivative instruments on an occasional basis only.

At 31 December 2011, if the EURO had weakened/strengthened by 2% (2010: 1.2%) against the HRK, with all other variables held constant, the net profit for the reporting period would have been HRK 2,046 thousand (2010: HRK 1,755 thousand) lower/higher, mainly as a result of foreign exchange (losses)/gains on translation of EURO-denominated trade and deposit and loan receivables, trade payables, borrowings and foreign cash funds.

(ii) Cash flow and fair value interest rate risk

As the Group has interest-bearing assets (Notes 21 and 24), the Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings (Note 28). Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The majority of borrowings are at fixed rate and the risk is not material. The Group does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

At 31 December 2011, if interest rates on currency-denominated deposits had been 0.48% (2010: 1.61%) higher/lower, with all other variables held constant, the net profit for the year would have been HRK 663 thousand (2010: HRK 1,485 thousand) higher/lower, mainly as a result of higher/lower interest income on variable rate deposits.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Equity securities risk

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

As at 31 December 2011 and 2010, if equity prices on the stated stock exchange had been lower/higher by 4.59% for 2011 and 4 % for 2010 (which was the average index movement at the ZSE), with all other variables held constant and under the assumption all the Group's equity instruments moved according to the historical correlation with the index, reserves within equity and other comprehensive income would have been HRK 362 thousand (2010: HRK 395 thousand) lower/higher as a result of (losses)/gains on equity securities classified as available-for-sale, while the net profit would have been HRK 5 thousand (2010: HRK 5 thousand) lower/higher as a result of (losses)/gains on equity securities classified as at fair value through profit or loss.

b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Receivables are mainly secured by advances received and mortgages over property. Provisions for impairment of trade and other receivables have been made on the basis of credit risk assessment. Management monitors the collectibility of receivables through weekly reports on individual balances of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. Credit risk related to loan receivables is reduced to a minimum. The Group has policies that limit the amount of credit exposure to any financial institution. Cash transactions are carried out through high quality Croatian banks. The Group has only short-term highly liquid instruments with maturity periods of three months or less. For further disclosure on credit risk see Notes 17b and 23.

(c) Liquidity risk

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

	Less than 3 months	3 months-1 year	1-2 years	2-5 years	Over 5 years
At 31 December 2011					
Trade and other payables	21.669	5,874	-	-	-
Borrowings	19.856	-	12,142	31,665	14,180
Total liabilities (contracted maturities)	**39.194**	**5,874**	**12,142**	**31,665**	**14,180**
At 31 December 2010					
Trade and other payables	21.768	335	-		-
Borrowings	17.496	-	12,485	32,882	23,966
Total liabilities (contracted maturities)	**37.398**	**335**	**12,485**	**32,882**	**23,966**

3.2 Capital management

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

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

3.3 Fair value estimation

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

Fair value hierarchy

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

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

The following table presents assets measured at fair value:

	Level 1	Level 2	Level 3	Total
At 31 December 2011				
Available-for-sale financial assets				
-equity securities	9,854	-	-	9,854
Financial assets at fair value through profit or loss				
-equity securities	142	-	-	142
Total assets	**9,996**	**-**	**-**	**9,996**
At 31 December 2010				
Available-for-sale financial assets				
-equity securities	11,645	-	-	11,645
Financial assets at fair value through profit or loss				
-equity securities	172	-	-	172
Total assets	**11,817**	**-**	**-**	**11,817**

Available for sale investment securities carried at cost include a small interest in an unlisted Croatian company. The stated company represents a strategic investment whose fair value cannot be measured reliably. There is no similar company and there was no distribution of profits to members. The fair value estimation cannot be performed.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

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

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

Based on historical information, and in line with the technical department, the useful life of buildings was assessed by Management to be 10-50 years. The useful lives of equipment and other assets have also been assessed as disclosed in Note 2.5.

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

If the depreciation rates on property, plant and equipment had been 5% higher/lower, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 5,444 thousand (2010: HRK 5,527 thousand) lower/higher.

In accordance with the accounting policy in note 2.7, the Group tests whether property, plant and equipment (PPE) have suffered any impairment through expected cash flow based on an updated business plan. The recoverable amount test includes a forecast Euro exchange rate of 7.681028 HRK/EUR for 2012. If the EURO had weakened/strengthened by 2% against the HRK over the forecast period, value in use_would have been, on average HRK 46,906 thousand lower/higher. No need for impairment was identified.

The value in use was calculated using cash flow plans (5 years plus residual value and an average growth rate of 6%) using the discount rate for hotels of 10.5%. On the basis of tests performed no further impairment was identified and any reasonable change in estimates will not lead to further impairment of PPE.

(b) Land ownership

The Law on Tourism and Other Construction Land, not evaluated in the transformation and privatisation process (hereinafter: the Law), which entered into force on 1 August 2010, mandates companies to submit the relevant requirements under this Law within six months from the date of its entry into force (up to 1 February 2011). On 28 January 2011, regulations were issued elaborating in more detail the manner of complying with the stated law. On 31 January 2011 the Group submitted the relevant requirements to the governing authorities in respect of the property on which the above-mentioned law can be applied. During 2011, in the procedures initiated, and in line with requirements of the governing authorities, the Group delivered various statements, documentation, made propositions for dividing the land, etc. As at 31 December 2011, none of the procedures according to the Law on Tourism and Other Construction Land was finalised. For detailed information, see Note 30.

NOTE 5 – SEGMENT INFORMATION

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

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

The segment information provided to the Group's Management for the year ended 31 December 2011 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	411,361	90,052	40,726	542,139
Inter-segment revenue	(463)		(25,183)	(25,646)
Revenue from external customers	410,898	90,052	40,726	516,493
Restated EBITDA	**141,953**	**47,547**	**13,000**	**202,500**
Depreciation and amortisation (Note 15 and 16)	84,455	13,550	10,882	108,887
Income tax expense	-	-	-	18,218
Share in profit in non-consolidated subsidiary	-	-	-	**130**
Total assets	**1,102,861**	**172,198**	**82,118**	**1,357,177**
Investment in non-consolidated subsidiary	-	-	-	**772**
Total liabilities	**87,798**	**1,027**	**1,358**	**90,183**

The segment information for the year ended 31 December 2010 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	379,049	82,097	41,174	502,320
Inter-segment revenue	(533)	-	(25,601)	(26,134)
Revenue from external customers	378,516	82,097	15,573	476,186
Restated EBITDA	**120,061**	**44,366**	**14,693**	**179,120**
Depreciation and amortisation (Note 15 and 16)	85,840	13,230	11,471	110,541
Income tax expense	-	-	-	14,466
Share in profit in non-consolidated subsidiary	-	-	-	**145**
Total assets	**1,143,058**	**183,838**	**90,034**	**1,416,930**
Investment in non-consolidated subsidiary	-	-	-	**642**
Total liabilities	**96,230**	**2,023**	**829**	**99,082**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2011	2010
	(in thousands of HRK)	
Restated EBITDA by segments	189,500	164,427
EBITDA by other segments	13,000	14,693
Total segments	**202,500**	**179,120**
Depreciation and amortisation	(108,887)	(110,541)
Other income	-	1
Share in profit in non-consolidated subsidiary	130	145
Interest income	78	81
Dividend income	387	378
Other expenses	(2)	(19)
Impairment of non-current tangible assets	(7,831)	
Net foreign exchange gains – other	715	1,602
Impairment of loan receivables	(166)	-
Change in fair value of financial assets	(30)	(4)
Finance income – net	6,375	3866
Profit before tax	**93,269**	**74,629**

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

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

	2011		2010	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	1,275,059	88,825	1,326,896	98,253
Other segment assets/liabilities	82,118	1,358	90,034	829
Unallocated:	217,322	41,806	144,441	34,846
Available-for-sale financial assets	9,974	-	11,765	-
Loans and deposits	116,203	-	79,565	-
Cash and cash equivalents	57,224	-	32,908	-
Share in non-consolidated subsidiary	772		642	
Other receivables	33,149	-	19,561	-
Provisions	-	1,500	-	1,500
Income tax payable	-	5,124	-	3,130
Other liabilities	-	35,182	-	30,216
Total	**1,574,499**	**131,989**	**1,561,371**	**133,928**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2011	2010
	(in thousands of HRK)	
Sale of services:		
Domestic sales	90,496	86,353
Foreign sales	425,997	389,833
	516,493	**476,186**

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

Foreign sales	2011	%	2010	%
Germany	90,012	21.13	80,211	20.57
Russia	82,560	19.38	76,865	19.72
Austria	43,369	10.18	39,646	10.17
Italy	35,154	8.25	36,859	9.45
Slovenia	28,049	6.58	25,353	6.50
Netherlands	24,936	5.85	24,702	6.34
Czech Republic	20,164	4.73	18,034	4.63
Other	101,753	23.90	88,163	22.62
	425,997	**100.00**	**389,833**	**100.00**

NOTE 6 – OTHER INCOME

	2011	2010
	(in thousands of HRK)	
Insurance claims recovered	1,197	1,798
Interest income	78	81
Dividend income	387	378
Other income	298	1,513
	1,960	**3,770**

NOTE 7 – COST OF MATERIALS AND SERVICES

	2011	2010
	(in thousands of HRK)	
Raw materials and supplies		
Cost of raw materials and supplies	51,702	49,770
Energy consumed and water cost	37,210	33,170
Costs of small inventories	3,527	2,527
	92,439	85,467
External services		
Maintenance	18,396	17,842
Laundry and cleaning services	8,881	7,775
Entertainment and animation	6,317	5,612
Telecommunication and other transport services	2,249	2,317
Advertising and promotion	6,200	5,750
Municipal services	4,154	3,890
Rental costs	1,425	1,291
Other services – related companies (Note 32)	6,407	5,448
Other services	4,271	2,860
	58,301	52,785
	150,740	**138,252**

NOTE 8 – STAFF COSTS

	2011	2010
	(in thousands of HRK)	
Salaries	71,516	69,541
Pension contributions	20,509	20,557
Health insurance contributions	15,932	16,038
Other contributions and taxes on salaries	14,288	16,116
Termination benefits	114	543
Other staff costs /i/	9,323	8,739
	131,682	**131,534**
Number of employees as at 31 December	**958**	**1,001**

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

NOTE 9 – OTHER OPERATING EXPENSES

	2011	2010
	(in thousands of HRK)	
Municipal and similar charges and contributions	19,813	15,721
Professional services	3,742	5,318
Provision for impairment of current assets	831	731
Collection of receivables previously written-off	(278)	(787)
Bank charges	1,489	1,524
Insurance premiums	2,934	3,054
Travel and entertainment	1,015	1,247
Impairment charge for property, plant and equipment	7,831	95
Other	3,860	3,512
	41,237	**30,415**

NOTE 10 – OTHER GAINS – NET

	2011	2010
	(in thousands of HRK)	
Net gains/(losses) on sale of property, plant and equipment	172	(194)
Net foreign exchange gains – other	715	1,602
Changes in far value of financial assets – net	(30)	(4)
	857	**1,404**

NOTE 11 – FINANCE INCOME AND COSTS

	2011	2010
	(in thousands of HRK)	
Finance income		
Interest income from cash deposits	5,850	4,154
Other finance income	254	350
Net foreign exchange gains	2,470	1,792
	8,574	6,296
Finance costs		
Interest expense	(2,199)	(2,430)
	(2,199)	(2,430)
Finance income – net	**6,375**	**3,866**

NOTE 12 – INCOME TAX

The tax on the Group’s profit before tax differs from the theoretical amount that would arise using the tax rate of 20% (2010: 20%) as follows:

	2011	2010
	(in thousands of HRK)	
Profit before taxation	93,269	74,629
Tax calculated at 20%	18,654	14,926
Effect of income not subject to tax	(697)	(1,209)
Effect of expenses not deductible for tax purposes	1,766	749
Tax benefits for areas under special state care (subsidiary Hoteli Croatia) /i/	(1,505)	-
Income tax charge	18,218	14,466
Income tax prepayment	(13,094)	(11,336)
Income tax payable	5,124	3,130
Effective tax rate	19.48%	19.38%

/i/ The right to tax benefit is exercised by the Subsidiary according to the Law on Areas under Special State Care and the Rulebook on the manner of using income tax benefits for taxpayers who perform their operations in areas of special state care.

Temporary differences giving rise to deferred taxation are immaterial and accordingly, no provision for deferred taxation is considered necessary.

In accordance with local regulations, the Tax Authority may at any time inspect the Group companies’ books and records within 3 years subsequent to the year in which the tax liability is reported, and may impose additional tax assessments and penalties.

To date, the Tax Authority carried out a full scope tax audit of the Company's income tax and VAT returns for 2003, 2004, 2005 and 2008. Currently there is no outstanding tax liability.

NOTE 13 – EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares (ordinary and preference) in issue during the year excluding ordinary and preference shares purchased by the Company and held as treasury shares (Note 25).

	2011		
	(in thousands of HRK)		
	Preference shares	Ordinary shares	Total
Dividends declared and paid in the year	9,666	48,886	58,552
Undistributed earnings before unpaid cumulative preference share dividend for the current year	2,551	13,042	15,593
Profit for the year attributable to equity holders of the Company	**12,217**	**61,928**	**74,145**
Weighted average number of shares excluding own shares	105,000	536,848	
Distributed earnings	92.06	91.06	
Undistributed earnings	24.29	24.29	
Basic earnings per share (*in HRK*)	**116.35**	**115.35**	

	2010		
	(in thousands of HRK)		
	Preference shares	Ordinary shares	Total
Dividends declared and paid in the year	11,457	58,043	69,500
Undistributed earnings before unpaid cumulative preference share dividend for the current year	(1,611)	(8,236)	(9,847)
Profit for the year attributable to equity holders of the Company	**9,846**	**49,807**	**59,653**
Weighted average number of shares excluding own shares	105,000	536,848	
Distributed earnings	109.12	108.12	
Undistributed earnings	(15.34)	(15.34)	
Basic earnings per share (*in HRK*)	**93.78**	**92.78**	

Diluted

Diluted earnings per share for 2011 and 2010 are equal to basic earnings per share, since the Group did not have any convertible instruments and share options outstanding during both years.

NOTE 14 – DIVIDEND PER SHARE

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

At 31 December 2011, unpaid dividends of the entities of the Group amounting to HRK 964 thousand (2010: HRK 1,042 thousand) are disclosed as dividends payable included in "trade and other payables" (Note 27).

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
Cost	2,385,449	330,186	30,321	2,947	2,748,903
Accumulated depreciation	(1,006,278)	(267,809)	(20,169)	-	(1,294,256)
Net book amount	**1,379,171**	**62,377**	**10,152**	**2,947**	**1,454,647**
Year ended 31 December 2010					
Opening net book amount	1,379,171	62,377	10,152	2,947	1,454,647
Additions	63,043	9,567	481	(2,536)	70,555
Disposals and impairments	(236)	(174)	-	-	(410)
Depreciation (Note 31)	(90,470)	(17,031)	(2,591)	-	(110,092)
Closing net book amount	1,351,508	54,739	8,042	411	1,414,700
At 31 December 2010					
Cost	2,448,148	334,274	30,606	411	2,812,108
Accumulated depreciation and impairments	(1,096,640)	(279,535)	(22,564)	-	(1,399,042)
Net book amount	**1,351,508**	**54,739**	**8,042**	**411**	**1,414,700**
Year ended 31 December 2011					
Opening net book amount	1,351,508	54,739	8,042	411	1,414,700
Additions	48,240	7667	264	8,068	64,239
Disposals and impairments	(7,775)	(218)	-	-	(7,993)
Depreciation (Note 31)	(91,029)	(15,146)	(2,382)	-	(108,557)
Closing net book amount	1,300,944	47,042	5,924	8,479	1,362,389
At 31 December 2011					
Cost	2,469,692	326,820	30,870	8,479	2,835,861
Accumulated depreciation and impairments	(1,168,748)	(279,778)	(24,946)	-	(1,473,472)
Net book amount	**1,300,944**	**47,042**	**5,924**	**8,479**	**1,362,389**

Additions under ‘Land and buildings’ relate to various construction works in hotels and campsites that were completed in 2011 and 2010 respectively.

As at 31 December 2011, the net carrying value of buildings pledged by the Group as collateral for loan repayment (Note 28) amounted to HRK 329,176 thousand (2010: HRK 334,806 thousand).

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

The Group assessed the recoverable amount of hotel Parentium after the phase of partial demolition, and before the reconstruction for the purpose of obtaining the four star rating. On this basis, it was determined that the carrying amount of the building exceeds its recoverable amount by HRK 7,775 thousand, so the impairment in this amount was recorded.

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

	2011	2010
	(in thousands of HRK)	
Cost	108,735	108,240
Accumulated depreciation at 1 January	(63,129)	(58,583)
Depreciation charge for the year	(4,500)	(4,546)
Net book amount	**41,106**	**45,111**

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

During 2011, the Group realised rental income in the amount of HRK 21,821 thousand (2010: HRK 22,011 thousand). During the year, there were no direct operating expenses arising from the use of these assets except for the depreciation charge.

Operating lease commitments – where the Group is the lessor. The future minimum lease payments receivable from operating leases are as follows:

	2011	2010
	(in thousands of HRK)	
Up to 1 year	18,012	19,562
From 2 to 5 years	71,390	75,400
Over 5 years	171	454
	89,573	**95,416**

In 2011 and 2010, there were no contingent rents recognised in the statement of comprehensive income. The lease terms are between 1 and 5 years. All lease agreements are renewable and the existing lessees have a priority right with respect to the extension of the lease agreement at market prices. There is no purchase option.

NOTE 16 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software**
At 1 January 2010	
Cost	13,330
Accumulated amortisation	(12,103)
Net book amount	**1,227**
Year ended 31 December 2010	
Opening net book amount	1,227
Additions	94
Amortisation (Note 31)	(449)
Closing net book amount	872
At 31 December 2010	
Cost	13,423
Accumulated amortisation	(12,551)
Net book amount	**872**
Year ended 31 December 2011	
Opening net book amount	872
Additions	142
Amortisation (Note 31)	(330)
Closing net book amount	**684**
At 31 December 2011	
Cost	13,564
Accumulated amortisation	(12,880)
Net book amount	**684**

NOTE 17a – FINANCIAL INSTRUMENTS BY CATEGORY

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

	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets	**Total**
31 December 2011				
Assets at balance sheet date				
Available-for-sale financial assets	-	-	9,974	9,974
Trade and other receivables	7,937	-	-	7,937
Deposit and loan receivable	126,746	-	-	126,746
Financial assets at fair value through profit or loss	-	142	-	142
Cash and cash equivalents	57,651	-	-	57,651
Total	**192,334**	**142**	**9974**	**202,450**

	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets	**Total**
31 December 2010				
Assets at balance sheet date				
Available-for-sale financial assets	-	-	11,765	11,765
Trade and other receivables	8,768	-	-	8,768
Deposit and loan receivable	83,184			83,184
Financial assets at fair value through profit or loss	-	172	-	172
Cash and cash equivalents	33,381	-	-	33,381
Total	**125,333**	**172**	**11,765**	**137,270**

The above balances of loans and receivables represent the maximum exposure to credit risk at the reporting date. The carrying values of loans and receivables approximate their fair value due to their short-term maturities.

	2011	**2010**
Liabilities at balance sheet date – at amortised cost	*(in thousands of HRK)*	
Trade and other payables	27.543	22.103
Borrowings	68.217	77.654
	95.760	**99.757**

NOTE 17b – CREDIT QUALITY OF FINANCIAL ASSETS

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

	2011	2010
	(in thousands of HRK)	
Trade and other receivables		
Existing customers – payments within maturity period	90	41
Existing customers – with some defaults in the past	28	94
	118	**135**

	2011	2010
	(in thousands of HRK)	
Deposits and loans		
Financial institutions – without credit rating*	126,707	82,931
Existing customers – payments within maturity period	39	253
	126,746	**83,184**

Cash at bank	2011	2010
	(in thousands of HRK)	
* Without credit rating	57,645	33,379
	57,645	**33,379**

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

* Without rating relates to high quality Croatian banks which are subsidiaries of foreign banks with strong external credit ratings.

NOTE 18 – INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARY

	2011	2010
	(in thousands of HRK)	
At beginning of year	642	497
Share of result	130	145
At end of year	**772**	**642**

The unlisted non-consolidated subsidiary is the following:

(in thousands of HRK)

2011

Name	Assets	Liabilities	Revenue /i/	Profit	% share in ownership
Excelsa Hoteli d.o.o. Cavtat	2,446	1,144	6,319	247	52.55

2010

Name	Assets	Liabilities	Revenue /i/	Profit	% share in ownership
Excelsa Hoteli d.o.o. Cavtat	1,990	935	5,920	275	52.55

/i/ Revenue from internal relations with the Group amounts to HRK 3.362 thousand (2010:HRK 2,300 thousand).

Based on the Articles of Association from 16 January 2009, the parent Company Plava Laguna d,d, together with related companies Hoteli Croatia d.d., Cavtat, Excelsa Nekretnine d.d., Atlas Hotel Odisej d.o.o. and Grand Villa Argentina d.d. established the company Excelsa Hoteli d.o.o. for trade, hospitality and services. The registered capital of the established company amounts to HRK 2,040 thousand.

The total number of votes in the Company's General Assembly is 6,000 votes, of which the Group holds 3,140 votes (52.33%).

The Group's share in the entity's founders' capital was partially paid, leaving an outstanding liability of HRK 580 thousand (Note 27). This entity provides accounting, marketing and IT services to the Group (Note 7).

Excelsa Hoteli d.o.o., Cavtat was not consolidated in these financial statements because its net assets, revenue and profit are immaterial in relation to the Group's net assets, revenue and profit.

NOTE 19 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Ownership	2011	2010
		(in thousands of HRK)	
Istarska kreditna banka Umag d.d., Umag	3.63%	9,024	10,847
Investments in companies	/i/	950	918
		9,974	**11,765**

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

	2011	2010
	(in thousands of HRK)	
At beginning of year	11,765	11,843
Revaluation losses (Note 26)	(1,791)	(78)
At end of year	**9,974**	**11,765**

Available-for-sale investments are as follows:

	2011	2010
	(in thousands of HRK)	
Equity securities - listed	9,854	11,645
Equity securities - unlisted	120	120
At end of year	**9,974**	**11,765**

The fair values of unlisted available-for-sale financial assets are recorded at cost. All available-for-sale financial assets are denominated in HRK.

NOTE 20 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
	(in thousands of HRK)	
Listed shares	142	172
	142	**172**

Total investments represent less than 5% of the share capital of banks. All amounts are designated at fair value through profit and loss on initial recognition.

NOTE 21 – DEPOSITS AND LOANS RECEIVABLE

	2011	2010
	(in thousands of HRK)	
Loans receivable	303	351
Provision for impairment of loan receivables	(264)	(98)
Net loans receivable	39	253
Deposits	126,707	82,931
Current portion	**126,746**	**83,184**

The deposits are placed at an interest rate of 2.9% to 4.8% (2010: 0.5% to 4%). The loans are secured by a mortgage over property and bear interest from 7.25% to 8.5% (2010: 6.5% to 8.5%). The carrying amounts of loans and deposits approximate their fair value.

The carrying amounts of deposits and loans receivable are denominated in the following currencies:

	2011	2010
	(in thousands of HRK)	
HRK	39	162
EUR	126,707	83,022
	126,746	**83,184**

NOTE 22 – INVENTORIES

	2011	2010
	(in thousands of HRK)	
Raw materials and supplies	3,621	3,506
Small inventory, tires and spare parts	162	211
	3,783	**3,717**

NOTE 23 – TRADE AND OTHER RECEIVABLES

	2011	2010
	(in thousands of HRK)	
Domestic trade receivables	2,696	1,397
Trade receivables-related parties (Note 32)	102	600
Foreign trade receivables	1,979	2,145
Due from brokers – agencies	3,946	4,602
Provision for impairment of trade receivables	(1,012)	(1,086)
Trade receivables – net	7,711	7,658
Interest receivable	6	4
Accrued income not yet invoiced	220	1,106
Total financial assets	7,937	8,768
Due from state institutions	2,658	2,537
VAT receivable	2,859	2,082
Advances to suppliers	268	269
Other receivables	799	1,445
Provision for impairment of other receivables	(2,163)	(2,163)
	12,358	**12,938**

Movements in provisions for impairment of trade and other receivables.

	2011	2010
	(in thousands of HRK)	
At 1 January	3,249	3,581
Additions	434	567
Collection	(278)	(124)
Write off	(230)	(775)
At 31 December	**3,175**	**3,249**

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

NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

Provisions for impairment of trade and other receivables were made based on credit risk assessment. The carrying value of all trade and other receivables has been reduced to their recoverable amount.

	2011	2010
	(in thousands of HRK)	
Trade receivables – Gross:		
Neither past due nor impaired	118	135
Past due, but not impaired	7,593	7,523
Past due and impaired	1,012	1,086
	8,723	**8,744**

As of 31 December 2011, trade receivables in the amount of HRK 7,593 thousand (2010: HRK 7,523 thousand) were past due but not impaired. The maturities of these receivables are as follows:

	2011	2010
	(in thousands of HRK)	
Up to one month	2,072	92
One to two months	194	402
Two to three months	655	1,098
Over three months to 1 year	4,672	5,931
	7,593	**7,523**

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

	2011	2010
	(in thousands of HRK)	
EUR	5,431	6,537
HRK	2,506	2,231
	7,937	**8,768**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. Receivables are mainly secured by advances received and a mortgage over property. The carrying amounts of trade and other receivables approximate their fair value.

NOTE 24 – CASH AND CASH EQUIVALENTS

	2011	2010
	(in thousands of HRK)	
Giro and current accounts	1,254	812
Foreign currency accounts	903	481
Cash in hand	6	2
Time deposits	55,488	32,086
	57,651	**33,381**

The deposits were timed with an option to be discontinued. The Company can call them partially or in full at any time, with 3 days notice. The interest rate is set at 2.90% to 4.8% (2010: 0.5% to 4%). The interest rate for cash on giro and current accounts is set at 0.20% (2010: 0.20%).

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

	2011	2010
	(in thousands of HRK)	
HRK	1,260	1,212
EUR	56,150	32,156
Other	241	13
	57,651	**33,381**

NOTE 25 – SHAREHOLDERS' EQUITY

/i/ The equity structure as at 31 December 2011 and 2010 was as follows:

Shareholder	Total number of shares	Total nominal amount (HRK)	Interest in share capital %
Ownership of ordinary shares:			
Sutivan Investments Anstalt, Liechtenstein	438,899	790,018,200	80.34
Deutsche Bank Trust Company Americas	23,939	43,090,200	4.38
Treasury shares /i/	9,470	17,046,000	1.73
Other legal entities and natural persons	74,010	133,218,000	13.55
	546,318	983,372,400	100.00
Ownership of preference shares:			
Sutivan Investments Anstalt, Liechtenstein	105,000	105,000,000	100.00
Total		**1,088,372,400**	

The Company's share capital in the amount of HRK 1,088,372 thousand is distributed among 546,318 ordinary shares with a nominal value of HRK 1,800.00 per share and among 105,000 preference Series "B" shares with a nominal value of HRK 1,000.00 per share. All shares are fully paid. Preference shares carry a right to a fixed annual preferred dividend of HRK 1 per share, in addition to ordinary dividends, declared and paid on ordinary shares and are non-voting. Preference shares have priority right of settlement in the liquidation process of the Company.

/i/ Treasury shares comprise 9,470 own shares that were redeemed in the period from 1997 to 2002 at prices ranging from HRK 718.70 to HRK 1,516.50 per share through a commission house brokerage agencies. Gains and losses on purchase and sale of treasury shares are recorded within share premium and amount to HRK 5,149 thousand as at 31 December 2011 and 2010.

NOTE 26 – RESERVES AND RETAINED EARNINGS

	2011	2010
	(in thousands of HRK)	
Legal reserves	40,675	37,984
Other reserves	91,483	93,730
Retained earnings	211,207	197,459
	343,365	**329,173**
Changes in reserves:		
Legal reserves		
At beginning of the year	37,984	35,700
Transfer from retained earnings	2,691	2,284
At end of the year	**40,675**	**37,984**
Other reserves		
At beginning of the year	93,730	93,792
Transfer to retain earnings	(815)	-
Revaluation of financial assets available for sale – gross (Note 19)	(1,791)	(78)
Deferred tax assets	359	16
Transfer from other reserves to current profit	(1,432)	(62)
At end of the year	**91,483**	**93,730**
Retained earnings		
At beginning of the year	197,459	209,559
Net profit for the year	74,145	59,653
Transfer from other reserves	815	-
Distribution of dividends	(58,552)	(69,500)
Transfer to legal reserves	(2,691)	(2,284)
Dividend on preference shares of Subsidiary to parent Company	31	31
At end of the year	**211,207**	**197,459**

The legal reserve is required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve together with capital reserves reaches 5% of the Company's share capital. This reserve is not distributable. Based on the Decision of the General Assembly of the Parent Company on 26 August 2011 and 30 July 2010, retained earnings in the amount of HRK 2,691 thousand (2010: HRK 2,284 thousand) were transferred to legal reserves by the parent Company. As at 31 December 2011, legal reserves of the Parent Company amounted to HRK 32,007 thousand or 2.9% of the share capital (2010: HRK 29,316 thousand or 2.7%), while legal reserves together with capital reserves that are not distributable (HRK 20,882 thousand), that were formed by denomination of the share value in 2001 (from HRK 1,860 to HRK 1,800 per share), form a share of 4.86% in the Parent Company's registered capital.

As at 31 December 2011 and 2010, the Subsidiary's legal reserves amounted to HRK 8,668 thousand, while the total Group's legal reserves as at 31 December 2011 amounted to HRK 40,675 thousand (2010: HRK 37,984 thousand).

NOTE 26 – RESERVES AND RETAINED EARNINGS (continued)

As at 31 December 2011, other reserves amounted to HRK 91,483 thousand (2010: HRK 93,730 thousand) and comprise treasury shares reserves of HRK 11,897 thousand (2010: 11,897 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets in the amount of HRK 3,835 thousand (2010: HRK 5,268 thousand). These reserves are not distributable.

The remaining other reserves of HRK 75,751 thousand (2010: HRK 76,565 thousand) relate to the revaluation reserves formed in 1993 that are distributable, and previously mentioned capital reserves formed upon denominating the nominal value of the shares (DEM 500) into HRK (HRK 20,882 thousand).

NOTE 27 – TRADE AND OTHER PAYABLES

	2011	**2010**
	(in thousands of HRK)	
Trade payables	14,753	14,850
Trade payables-related parties (Note 32)	684	1,003
Dividends payable (Note 14)	964	1,042
Liability for unpaid capital – related parties (Note 32)	580	580
Interest payable	3,177	2,762
Accrued costs not yet invoiced	2.391	1.866
Liabilities for concession/i/	4.994	-
Total financial liabilities	27.543	22.103
Gross salaries payable	22.061	23.238
Other employee benefits	1.043	965
Advances received	2.858	2.756
Other current liabilities	3.368	2.327
	56.873	**51.389**

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

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

	2011	**2010**
	(in thousands of HRK)	
HRK	27.191	21.249
EUR	352	854
	27.543	**22.103**

NOTE 28 – BORROWINGS

	2011	2010
	(in thousands of HRK)	
Bank borrowings	61,962	70,212
Government agencies	2,193	3,380
Government of the Republic of Croatia	4,062	4,062
	68,217	**77,654**
Current portion	(14,944)	(14,735)
Non-current portion	**53,273**	**62,919**

All banks secured their borrowings by a pledge over certain property, plant and equipment (Note 15) in the amount of HRK 329,176 thousand (2010: HRK 334,806 thousand).

Borrowings from the Government of the Republic of Croatia relate to Government repayments against issued guarantees to banks in prior years. The borrowings matured in 2009 and the Subsidiary is currently not repaying the principal nor interest since a legal claim is in progress, and interest is calculated and accrued (Note 30).

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

	2011	2010
	(in thousands of HRK)	
6 months or less	21,944	25,291
1 – 5 years	46,273	52,363
	68,217	**77,654**

The borrowings with a fixed interest rate amount to HRK 46,273 thousand (2010: HRK 52,363 thousand).

The maturity of long-term borrowings is as follows:

	2011	2010
	(in thousands of HRK)	
Between 1 and 2 years	10,569	10,673
Between 2 and 5 years	28,888	29,252
Over 5 years	13,816	22,994
	53,273	**62,919**

The effective interest rates as at 31 December 2011 and 2010 were as follows:

	2011		2010	
	HRK	**EUR**	**HRK**	**EUR**
Banks	-	2%-3%	-	2 – 3%
Government agencies	7%	-	9%	-
Government of the Republic of Croatia	10%	-	12%	-

NOTE 28 – BORROWINGS (continued)

Bank borrowings are denominated in EUR, all other borrowings are denominated in HRK.

The carrying amounts of borrowings approximate their fair values as follows:

	Carrying amounts		Fair value	
	2011	**2010**	**2011**	**2010**
	(in thousands of HRK)		*(in thousands of HRK)*	
Banks	52,333	60,767	52,389	61,495
Government agencies	940	2,152	825	1,823
	53,273	**62,919**	**53,214**	**63,318**

The fair values of bank borrowings are based on discounted cash flows by using a rate based on the borrowing rate of 2.11 % (2010: 2.18 %), and Government agencies at 9% (2010: 9%). The carrying amounts of short-term bank borrowings approximate their fair values.

NOTE 29 – PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

In thousands of HRK	**Termination benefits /i/**	**Other contingencies**	**Total**
At 1 January 2011	255	1,500	1,755
Provision made	20	-	20
At 31 December 2011	**275**	**1,500**	**1,755**
Less: non-current portion	**-**	**(1,500)**	**(1,500)**
Current portion	**275**	**-**	**275**

/i/ In 2010, based on the Management decision, the Company terminated the employment of 2 employees due to business-related reasons. The amount of the termination benefits was HRK 255 thousand. Due to the employees' sick leave, the termination of employment and payment of the retirement benefit is delayed.

NOTE 30 – CONTINGENCIES AND COMMITMENTS

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

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

The stated problems with respect to land ownership are common in other tourism companies in the Republic of Croatia. On 1 August 2010, the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures by submitting requests for concessions and other prescribed requests. During 2011, in the procedures initiated, and in line with requirements and/or instructions of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land the Company proposed which land should be in its ownership and on which should be applied only right of use. Until 31 December 2011 the procedure of granting concessions was not finalised.

Legal contingencies. The Subsidiary initiated a legal action against the Republic of Croatia with respect to guarantees on borrowings (Note 28). The first-instance ruling was in favour of the Subsidiary. However, until the date of issuing these financial statements, the proceeding has not been finalised since the counterparty launched an appeal against this first-instance ruling.

Provisions for other contingencies. In the financial statements for the year ended 31 December 2011 and 2010 provisions for other contingencies have been made for which the Group anticipates damages in the amount of HRK 1,500 thousand (Note 29).

Capital commitments. Future commitments contracted for investments in tourist buildings, for which provisions were not made, as at 31 December 2011 amounted to HRK 154,930 thousand (2010: HRK 29,517 thousand).

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

	2011	2010
	(in thousands of HRK)	
Up to 1 year	301	299
From 2 to 5 years	324	548
	625	**847**

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

NOTE 31 – CASH GENERATED FROM OPERATIONS

Adjustment of profit with cash generated from operations:

	2011	2010
	(in thousands of HRK)	
Profit before tax	93,269	74,629
Adjustments for:		
Depreciation and amortisation (Note 15, 16)	108,887	110,541
Impairment of property, plant and equipment	7,831	95
(Gains)/losses on sale of property, plant and equipment (Note 10)	(172)	194
Provision for impairment of trade and other receivables and loans, net	553	(28)
Changes in fair value of financial assets (Note 10)	30	4
Interest income (Note 6)	(78)	(81)
Dividend income (Note 6)	(387)	(378)
Finance income – net (Note 11)	(6,375)	(3,866)
Increase in provisions (Note 29)	20	255
Other non-cash items	(130)	(129)
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade and other receivables	195	2,315
- inventories	(66)	(1,362)
- trade and other payables	7,314	(5,364)
Cash generated from operations	**210,891**	**176,825**

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

	2011	2010
	(in thousands of HRK)	
Net book value of disposed property, plant and equipment	162	315
Gains/(losses) on sale of property, plant and equipment (Note 10)	172	(194)
Proceeds from sale of property, plant and equipment	**334**	**121**

NOTE 32 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or is under common control or exercise significant influence over the other party in making financial or operational decisions, PLAVA LAGUNA d.d., Poreč is controlled by the company Sutivan Investment Anstalt registered in Liechtenstein, The ultimate parent and controlling company is Luksburg Foundation, registered in Vaduz, Liechtenstein.

In the ordinary course of business, a number of transactions was entered into with related parties owned by Sutivan Investments Anstalt (Atlas hotel Odisej d.o.o., Pomena, Grand Villa Argentina d.d., Dubrovnik, Excelsa nekretnine d.d., Dubrovnik and Excelsa Hoteli d.o.o., Cavtat) and the Plava laguna Group (Plava laguna d.d., Poreč, Laguna invest d.o.o., Poreč and Hoteli Croatia d.d., Cavtat). These transactions were carried out under commercial terms and conditions and at market rates.

Transactions with related companies owned by Sutivan Investment Anstalt are as follows:

		Note	2011	2010
			(in thousands of HRK)	
a)	**Sale of services and assets**			
	Atlas hotel Odisej d.o.o., Pomena		13	57
	Grand Villa Argentina d.d., Dubrovnik		16	27
	Excelsa Hoteli d.o.o, Cavtat		326	531
	Excelsa Nekretnine d.d., Dubrovnik		62	-
			417	**615**
b)	**Cost of materials and services**			
	Excelsa Hoteli d.o.o, Cavtat		3,362	2,300
	Excelsa usluge d.o.o., Cavtat		3,045	3,148
		7	**6,407**	**5,488**
c)	**Trade and other receivables:**			
	Excelsa Hoteli d.o.o, Cavtat		10	-
	Grand Villa Argentina d.d., Dubrovnik		2	-
	Excelsa Nekretnine d.d., Dubrovnik		-	125
	Atlas Hotel Odisej d.o.o., Pomena		90	475
		23	**102**	**600**

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

Transactions with related companies owned by Sutivan Investment Anstalt are as follows (continued):

	Note	2011	2010
		(in thousands of HRK)	
d) Trade and other payables:			
Excelsa Hoteli d.o.o, Cavtat		123	844
Excelsa Nekretnine d.d., Dubrovnik		37	1
Excelsa usluge d.o.o., Cavtat		302	97
Grand Villa Argentina d.d., Dubrovnik		214	55
Atlas Hotel Odisej d.o.o., Pomena		8	
Excelsa d.o.o., Dubrovnik		-	6
	27	**684**	**1,003**
e) Liability for unpaid capital	18,27	580	580
		580	**580**

Group Key Management and Supervisory Board compensation

	2011	2010
Net salaries	5,640	5,437
Pensions insurance contributions	1,610	1,563
Health insurance contributions	1,514	1,467
Other costs (contributions and taxes)	3,086	3,018
	11,850	**11,485**
Supervisory Board fees	2,192	1,982
	14,042	**13,467**

Key management comprises 19 persons (2010: 18 persons), and the Supervisory Board comprises 12 members (2010: 10 members).