PLAVA LAGUNA d.d., POREČ

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2011

Independent auditor's report

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

Report on the financial statements

We have audited the accompanying financial statements of Plava laguna d.d. (the 'Company'), which comprise the balance sheet as at 31 December 2011 and the 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Plava laguna d.d. as at 31 December 2011 and of 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 28 to these financial statements that describes the Company's contingencies with respect to ownership of land not evaluated in the transformation and privatisation process. Problems with respect to land ownership disputes are common for the majority of tourism companies in the Republic of Croatia. Their resolution is expected in the future upon completion of the process of obtaining concessions and establishing ownership rights in accordance with and pursuant to the provisions of the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, which entered into force on 1 August 2010. Our opinion was not qualified in this respect.

PricewaterhouseCoopers d.o.o.
Zagreb, 23 April 2012

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	2011	2010
Sale of services	5	439,562	407,023
Other income	6	1,885	3,297
Cost of materials and services	7	(127,781)	(117,796)
Staff costs	8	(110,785)	(111,126)
Depreciation and amortisation	15,16	(97,696)	(98,921)
Other operating expenses	9	(35,143)	(24,467)
Other gains – net	10	705	1,258
Operating profit		**70,747**	**59,268**
Finance income	11	9,852	7,240
Finance costs	11	-	-
Finance income – net	11	9,852	7,240
Profit before income tax		**80,599**	**66,508**
Income tax expense	12	(17,013)	(12,686)
Profit for the year		**63,586**	**53,822**
Other comprehensive income:			
Changes in value of available-for-sale financial assets	25	(1,432)	(62)
Total comprehensive income for the year		**62,154**	**53,760**
Basic and diluted earnings per share (in HRK) for:			
- ordinary shares	13	98.90	83.69
- preference shares		99.90	84.69

The financial statements set out on pages 3 to 50 were approved by the Company's Management Board on ___________ 2012.

President of the Management Board:

Neven Staver

PLAVA LAGUNA d.d., POREČ

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	1,008,632	1,052,314
Intangible assets	16	304	324
Investments in subsidiaries and associate	17	190,808	190,808
Available-for-sale financial assets	19	9,974	11,765
		1,209,718	1,255,211
Current assets			
Inventories	21	2,344	2,476
Trade and other receivables	22	8,696	9,953
Loans and deposit receivable	20	116,203	79,565
Cash and cash equivalents	23	57,224	32,908
		184,467	124,902
Total assets		**1,394,185**	**1,380,113**
EQUITY			
Share capital	24	1,088,372	1,088,372
Capital reserves	24	5,149	5,149
Treasury shares	24	(17,046)	(17,046)
Reserves	25	123,490	123.046
Retained earnings	25	139,960	136.802
Total equity		1,339,925	1,336,323
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities and expenses	27	1,500	1,500
		1,500	1,500
Current liabilities			
Trade and other payables	26	47,261	40,447
Income tax payable	12	5,499	1,843
		52,760	42,290
Total liabilities		54,260	43,790
Total equity and liabilities		**1,394,185**	**1,380,113**

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

PLAVA LAGUNA d.d., POREČ

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	Share capital	Capital reserves	Treasury shares	Reserves	Retained earnings	Total
At 1 January 2010		1,088,372	5,149	(17,046)	120.824	154.764	1,352,063
Profit for the year		-	-	-	-	53,822	53,822
Other comprehensive losses		-	-	-	(62)	-	(62)
Total comprehensive income for 2010		**-**	**-**	**-**	**(62)**	**53,822**	**53,760**
Transfer to legal reserves	25	-	-	-	2,284	(2,284)	-
Dividend relating to 2009	13	-	-	-	-	(69,500)	(69,500)
Total contributions by and distributions to owners of the Company, recognised directly in equity		1,088,372	5,149	(17,046)	2,284	(71,784)	(69,500)
At 31 December 2010		**1,088,372**	**5,149**	**(17,046)**	**123.046**	**136.802**	**1,336,323**
Profit for the year		-	-	-		63,586	63,586
Other comprehensive losses		-	-	-	(1,432)	-	(1,432)
Total comprehensive income for 2011		**-**	**-**	**-**	**(1,432)**	**63,586**	**62,154**
Transfer to retain earnings		-	-	-	**(815)**	**815**	
Transfer to legal reserves	25	-	-	-	**2,691**	**(2,691)**	
Dividend relating to 2010	13	-	-	-		**(58,552)**	**(58,552)**
Total contributions by and distributions to owners of the Company, recognised directly in equity the Company's owners		-	-	-	**2,691**	**(61,243)**	**(58,552)**
At 31 December 2011		**1,088,372**	**5,149**	**(17,046)**	**123,490**	**139,960**	**1,339,925**

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	**2011**	**2010**
Cash flow from operating activities:		
Cash receipts from customers	506.595	468.266
Net outflow from VAT	(21.984)	(21.665)
Cash paid to suppliers and employees and for taxes and contributions	(297.989)	(292.057)
Cash generated from operations	186.622	154.544
Income tax paid	(13.357)	(14.457)
Interest and bank commission paid	(729)	(638)
Net cash from operating activities	**172.536**	**139.449**
Cash flow from investing activities		
Purchase of property, plant and equipment and intangible assets	(63.603)	(61.900)
Loans granted to subsidiary	(9.800)	(17.300)
Deposits placed	(430.851)	(402.149)
Deposits received	397.911	364.141
Loans repayments received	232	101
Proceeds from sale of property, plant and equipment	216	200
Loans repayments received from subsidiary	9.869	17.263
Dividend received – others	387	367
Dividend received – subsidiary	805	-
Interest received	5.245	4.116
Net cash used in investing activities	**(89.589)**	**(95.161)**
Cash flow from financing activities		
Dividends paid	(58,631)	(68,915)
Net cash used in financing activities	**(58,631)**	**(68,915)**
Net increase/(decrease) in cash and cash equivalents	24,316	(24,627)
Cash and cash equivalents at beginning of the year	32,908	57,535
Cash and cash equivalents at end of the year (Note 23)	**57,224**	**32,908**

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

NOTE 1 – GENERAL INFORMATION

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

Plava laguna d.d., Poreč is controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is Luksburg Foundation, registered in Vaduz Liechtenstein. The equity ownership structure as at 31 December 2011 and 2010 is presented in Note 24.

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

As at 31 December 2011 and 2010, the Company’s shares were listed on the regular joint stock company listing on the Zagreb Stock Exchange.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (“the Group”). In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. The consolidated financial statements may be obtained at Plava laguna d.d., Rade Končara 12, Poreč.

Users of these separate financial statements should read them together with the consolidated financial statements of the Plava laguna d.d. Group as at and for the year ended 31 December 2011 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

a) During the year, the Company 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 Company'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 Company, as the Company 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 Company 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 Company.

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 Company 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 Company 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 Company.

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 Company'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 Company's financial position or result. The Company 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 Company's financial position or result as the Company 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 Company's financial statements, as the Company 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 Company'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 Company'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 Company's financial statements. The Company 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 Company is currently assessing the impact of IFRS 10 on its financial statements. The Company 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 Company expects that IFRS 11 might have an impact on its financial statements and is currently assessing its impact. The Company 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 Company is currently assessing the impact of IFRS 12 on the financial statements. The Company 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 Company is currently assessing the impact of IFRS 13 on the financial statements. The Company 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 Company is currently assessing the impact of IAS 27 on the financial statements. The Company 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 Company is currently assessing the impact of IAS 28 on the financial statements. The Company 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 Company'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 Company 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 Investments in subsidiaries

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

2.3 Investments in associates

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.5 Segment reporting

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

2.6 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of replacement of larger items of property, plant and equipment is capitalised, and the carrying amount of replaced parts are derecognized.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment (continued)

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

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

2.7 Intangible assets

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

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life 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 (10 hotels, 2 tourist resorts, 2 apartment resorts, 4 campsites, 2 marines as cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

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

(a) Loans and receivables

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

(b) Available-for-sale financial assets

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

2.9.2 Measurement and recognition

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

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

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

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

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

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of financial assets (continued)

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

(b) Assets classified as available for sale
The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for 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.

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

2.11 Derivative financial instruments

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

2.12 Leases

Leases 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 Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the 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 non-current liabilities. The interest element of the finance costs is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade, deposit and loan receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, 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.

2.16 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.

2.17 Borrowings

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Trade payables

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

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

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the , 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.20 Employee benefits

(a) Pension obligations and post-employment benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits (continued)

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(c) Short-term employee benefits

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

2.21 Provisions

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than 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.

2.22 Revenue recognition

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue recognition (continued)

(a) Sales of services

Revenue from hotel and tourism services is generally 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 – commission is recognised as a decrease in income.

(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 lessers.

(c) Interest income

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

(d) Dividend income

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

2.23 Dividend distribution

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

2.24 Earnings per share

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

2.25 Value added tax

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The majority of foreign sales revenue and deposits are denominated in EUROs. Therefore, movements in exchange rates between the EURO and Croatian kuna may have an impact on the results of future operations and future cash flow. The Company uses derivative instruments on an occasional basis.

At 31 December 2011, if the EURO had weakened/strengthened by 2% and 1.2% for 2010 against the HRK, with all other variables held constant, the net profit for the reporting period would have been HRK 3,068 thousand (2010: HRK 1,082 thousand), (lower)/higher, mainly as a result of foreign exchange (losses)/gains on translation of EURO-denominated trade receivables and payables, deposits and foreign cash funds.

(ii) Cash flow and fair value interest rate risk

The Company has interest-bearing assets (Note 20 and 23) and the Company's income and operating cash flows are dependent on changes in market interest rates.

As at 31 December 2011 and 2010, the Company has no borrowings. The Company does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure. The Company is not exposed to significant fair value interest rate risk as it has no significant interest-bearing financial instruments carried at fair value.

At 31 December 2011, if interest rates on currency-denominated deposits had been 0.48% and 1.61% for 2010 higher/lower with all other variables held constant, the net profit for the year would have been HRK 663 thousand (2010: HRK 1,421 thousand) higher/(lower), mainly as a result of higher/(lower) interest income on variable rate deposits.

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NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Equity securities risk

The Company owns equity securities and is exposed to price risk of listed equity securities, which are classified as available-for-sale financial assets. The Company is not exposed to commodity price risk (e.g. oil or gold) due to the nature of its operations.

The Company invests in securities listed on the Zagreb Stock Exchange (ZSE).

As at 31 December 2011 and 2010, if the indices of ZSE had been lower/higher by 4.59 % for 2011 and 4% for 2010 (which was the average ZSE index movement), with all other variables held constant and on the assumption all the Company's equity instruments moved according to the historical correlation with the index,, reserves within equity and other comprehensive income would have been HRK 362 thousand (2010: HRK 395 thousand) (lower)/higher, as a result of fair value (losses)/gains on available-for-sale financial assets.

(b) Credit risk

The Company has no significant concentrations of credit risk. Credit risk arises from cash, time deposits and trade receivables. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Company's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Receivables are mainly secured by advances received and mortgages over property. The provisions for impairment of trade, loan and other receivables have been made based on credit risk assessment. Management monitors the collectibility of receivables through weekly reports on individual balances of receivables. Impairment of trade receivables is performed when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. The Company has policies that limit the amount of credit exposure to any financial institution. Cash transactions are carried out through high quality Croatian banks. The Company has only short-term highly liquid instruments with maturity periods of three months or less. See Note 18b and 22 for further disclosure on credit risk.

(c) Liquidity risk

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

The table below analyses financial liabilities of the Company 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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 3 months	3 months- 1 year	1-2 years	2-5 years	Over 5 years
As at 31 December 2011					
Trade payables	15,456	5,874	-	-	-
Total liabilities (contracted maturities)	**13,065**	**5,874**			
As at 31 December 2010					
Trade payables	14.052	335	-	-	-
Total liabilities (contracted maturities)	**12,186**	**335**	**-**		**-**

3.2 Capital management

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

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

3.3 Fair value estimation

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

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

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

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 Company for similar financial instruments.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (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 Company's market assumptions. These two types of inputs have created the following fair value hierarchy:
• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	Level 1	Level 2	Level 3	Total
At 31 December 2011				
Available-for-sale financial assets				
-equity securities	9,854	-	-	9,854
Total assets	**9,854**	**-**	-	**9,854**
At 31 December 2010				
Available-for-sale financial assets				
-equity securities	11,645	-	-	11,645
Total assets	**11,645**	**-**	**-**	**11,645**

Available for sale investment securities are carried at cost and 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

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

Based on historical information, and in line with the technical department, the useful life of buildings was assessed by Management to be 10-25 years. The useful lives of equipment and other assets have also been assessed as disclosed in Note 2.6.

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 4,884 thousand (2010: HRK 4,946 thousand) lower/higher.

In accordance with the accounting policy in note 2.8, the Company tests whether property, plant and equipment (PPE) has suffered any impairment through expected cash flows 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 be, on average, HRK 46,906 thousand lower/higher.

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 Tourist and Other Construction Land, 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 Company 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 Company 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 28.

NOTE 5 – SEGMENT INFORMATION

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

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

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

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	334,430	90,052	40,726	465,208
Inter-segment revenue	(463)		(25,183)	(25,646)
Revenue from external customers	333,967	90,052	15,543	439,562
Restated EBITDA	**114,296**	**47,547**	**13,000**	**174,843**
Depreciation and amortisation (Note 15 and 16)	73,264	13,550	10,882	97,696
Income tax expense				17,013
Total assets	**732,511**	**172,198**	**82,118**	**989,827**
Total liabilities	**9,562**	**1,027**	**1,358**	**11,947**

The segment results for the year ended 31 December 2010 are as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	309,886	82,097	41,174	433,157
Inter-segment revenue	(533)	-	(25,601)	(26,134)
Revenue from external customers	309,353	82,097	15,573	407,023
Restated EBITDA	**96,839**	**44,366**	**14,693**	**155,898**
Depreciation and amortisation (Note 15 and 16)	74,220	13,230	11,471	98,921
Income tax expense	**-**	**-**	**-**	12,686
Total assets	**771,231**	**183,838**	**90,034**	**1,045,103**
Total liabilities	**7,247**	**2,023**	**829**	**10,099**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2011	2010
	(in thousands of HRK)	
Restated EBITDA by segments	161,843	141,205
Restated EBITDA by other segments	13,000	14,693
Total segments	**174,843**	**155,898**
Depreciation and amortisation	(97,696)	(98,921)
Other income	-	1
Dividend income – subsidiary	403	403
Interest income	78	81
Dividend income	387	367
Other expenses	(2)	(13)
Impairment of property, plant and equipment	(7,775)	-
Net foreign exchange gains – other	675	1,452
Impairment of loan receivable	(166)	-
Finance income – net	9,852	7,240
Profit before tax	**80,599**	**66,508**

The Company 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 Company's assets and liabilities is as follows:

	2011		2010	
(in thousands of HRK)	Assets	Liabilities	Assets	Liabilities
Segment assets/liabilities	904,709	10,589	955,069	9,270
Other segment assets/liabilities	82,118	1,358	90,034	829
Unallocated:	407,358	42,413	335,010	33,691
Investments in subsidiaries and associate	190,808	-	190,808	-
Available-for-sale financial assets	9,974	-	11,765	-
Loans and deposits	116,203	-	79,565	-
Cash and cash equivalents	57,224	-	32,908	-
Other assets	33,149	-	19,964	-
Provisions	-	1,500	-	1,500
Income tax payable	-	5,499	-	1,843
Other liabilities	-	35,314	-	30,348
Total	**1,394,185**	**54,260**	**1,380,113**	**43,790**

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2011	2010
	(in thousands of HRK)	
Sale of services:		
Domestic sales	65,442	62,440
Foreign sales	374,120	344,583
	439,562	**407,023**

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

Foreign sales	**2011**	**%**	**2010**	**%**
Germany	86,889	23.22	77,034	22.36
Russia	76,900	20.55	70,825	20.55
Austria	42,669	11.41	39,157	11.36
Italy	34,599	9.25	36,225	10.51
Slovenia	27,613	7.38	25,005	7.26
Netherlands	24,640	6.59	24,494	7.11
Czech Republic	19,925	5.33	17,803	5.17
Other	60,885	16.27	54,040	15.68
	374,120	**100.00**	**344,583**	**100.00**

NOTE 6 – OTHER INCOME

	2011	2010
	(in thousands of HRK)	
Dividend income from subsidiary (Note 29)	403	403
Insurance claims recovered	1,017	1,560
Interest income	78	81
Dividend income	387	367
Other	-	886
	1,885	**3,297**

NOTE 7 –COST OF MATERIALS AND SERVICES

	2011	2010
	(in thousands of HRK)	
Raw materials and supplies		
Raw materials and supplies used	44,280	42,889
Energy and water used	33,311	29,667
Small inventories	2,969	1,920
	80,560	74,476
External services		
Maintenance	16,843	16,917
Laundry and cleaning services	8,126	7,080
Entertainment and animation	5,798	5,318
Transportation and telecommunication	1,803	1,789
Advertising and promotion	5,190	4,740
Municipal services	3,919	3,684
Rental costs	1,321	1,253
Other services	4,221	2,539
	47,221	43,320
	127,781	**117,796**

NOTE 8 – STAFF COSTS

	2011	2010
	(in thousands of HRK)	
Salaries	60,184	58,946
Pension contributions	17,280	17,369
Health insurance contributions	13,135	13,216
Other contributions and taxes on salaries	12,596	14,221
Other staff costs /i/	7,512	7,361
Termination benefits and provisions for termination benefits	78	13
	110,785	**111,126**
Number of employees as at 31 December	792	835

/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, taxes and contributions	17,573	13,335
Professional services	3,135	4,636
Insurance premiums	2,359	2,460
Travel and entertainment	768	704
Bank charges	935	979
Impairment of property, plant and equipment (Note 14)	7,775	-
Provisions for impairment of trade and other receivables (Note 22)	460	567
Impairment of loan receivable (Note 20)	166	-
Collection of receivables previously written-off	(278)	(787)
Other	2,250	2,573
	35,143	**24,467**

NOTE 10 – OTHER GAINS – NET

	2011	2010
	(in thousands of HRK)	
Net gains/(losses) on sale of property, plant and equipment	30	(194)
Net foreign exchange gains – other	675	1,452
	705	**1,258**

NOTE 11 – FINANCE INCOME AND COSTS

	2011	2010
	(in thousands of HRK)	
Finance income		
Interest income on cash deposits and loans	5,700	4,065
Interest income on cash deposits and loans – related parties (Note 29)	173	395
Other finance income	254	350
Net foreign exchange gains from financing activities	3,725	2,430
	9,852	7,240
		-
Finance income – net	**9,852**	**7,240**

NOTE 12 – INCOME TAX

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

	2011	2010
	(in thousands of HRK)	
Profit before tax	80,599	66,508
Tax calculated at 20%	16,120	13,302
Effect of income not subject to tax	(692)	(1,256)
Effect of expenses not deductible for tax purposes	1,585	640
Income tax charge	17,013	12,686
Income tax prepayment	(11,514)	(10,843)
Income tax payable	5,499	1,843
Effective tax rate	21.11%	19.07%

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 Company's 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. The Company’s management is not aware of any circumstances which may give rise to a potential material liability in this respect.

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

NOTE 13 – EARNINGS PER SHARE

Basic

Basic earnings per share is calculated as follows:

	2011 *(in thousands of HRK)*		
	Preference shares	Ordinary shares	Total
Dividends declared and paid in the year	9,666	48,886	58,552
Distributed earnings before unpaid cumulative preference share dividend for the current year	824	4,210	5,034
Profit for the year	**10,490**	**53,096**	**63,586**
Weighted average number of shares in issue excluding own shares	105,000	536,848	
Distributed earnings	92.06	91.06	
Undistributed earnings	7.84	7.84	
Basic earnings per share (*in HRK*)	**99.90**	**98.90**	

	2010 *(in thousands of HRK)*		
	Preference shares	Ordinary shares	Total
Dividends declared and paid in the year	11,457	58,043	69,500
Distributed earnings before unpaid cumulative preference share dividend for the current year	(2,565)	(13,113)	(15,678)
Profit for the year	**8,892**	**44,930**	**53,822**
Weighted average number of shares in issue excluding own shares	105,000	536,848	
Distributed earnings	109.12	108.12	
Undistributed earnings	(24.43)	(24.43)	
Basic earnings per share (*in HRK*)	**84.69**	**83.69**	

Diluted

Diluted earnings per share for 2011 and 2010 are equal to basic earnings per share, since the Company did not have any convertible instruments nor 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.

Unpaid dividends in respect of 2005 through 2010 of HRK 883 thousand (2010: HRK 962 thousand) are disclosed as dividends payable in “trade and other payables” (Note 26).

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Plant and Equipment	Other assets	Assets under construction	Total
At 1 January 2010					
Cost	1,999,601	271,653	29,254	1,834	2,302,342
Accumulated depreciation	(962,362)	(231,235)	(19,973)	-	(1,213,570)
Net book amount	**1,037,239**	**40,418**	**9,281**	**1,834**	**1,088,772**
Year ended 31 December 2010					
Opening net book amount	1,037,239	40,418	9,281	1,834	1,088,772
Additions	57,230	5,707	1,352	(1,727)	62,562
Disposals	(236)	(79)	-	-	(315)
Depreciation	(83,671)	(12,443)	(2,591)	-	(98,705)
Closing net book amount	1,010,562	33,603	8,042	107	1,052,314
At 31 December 2010					
Cost	2,056,486	272,825	30,606	107	2,360,024
Accumulated depreciation	(1,045,924)	(239,222)	(22,564)	-	(1,307,710)
Net book amount	**1,010,562**	**33,603**	**8,042**	**107**	**1,052,314**
Year ended 31 December 2011					
Opening net book amount	1,010,562	33,603	8,042	107	1,052,314
Additions	47,148	6,309	264	8,068	61,789
Disposals and impairment	(7,775)	(162)			(7,937)
Depreciation	(84,162)	(10,990)	(2,382)		(97,534)
Closing net book amount	**965,773**	**28,760**	**5,924**	**8,175**	**1,008,632**
At 31 December 2011					
Cost	2,076,938	265,100	30,870	8,175	2,381,083
Accumulated depreciation and impairment	(1,111,165)	(236,340)	(24,946)	-	(1,372,451)
Net book amount	**965,773**	**28,760**	**5,924**	**8,175**	**1,008,632**

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

As at 31 December 2011 and 2010, there are no pledged assets.

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

The Company 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 in Company's business books.

Property, plant and equipment include certain assets of the Company leased under operating leases with the following carrying amounts:

	2011	2010
	(in thousands of HRK)	
Cost	107,397	106,909
Accumulated depreciation at 1 January	(62,826)	(58,306)
Depreciation charge for the year	(4,473)	(4,520)
Net book amount	**40,098**	**44,083**

Operating leases relate to leases of land, business premises and hospitality facilities. During 2011, the Company realised rental income in the amount of HRK 21,155 thousand (2010: HRK 21,574 thousand). During the year, there were no direct operating expenses arising from the utilisation of these assets except for the depreciation charge.

Operating leases commitments - where the Company is the lesser. The future minimum lease payments receivable from operating leases are as follows:

	2011	2010
	(in thousands of HRK)	
Up to 1 year	17,306	18,175
From 2 to 5 years	69,224	72,700
	86,530	**90,875**

In 2011 and 2010, there were no contingent rents recognised as income in the statement of comprehensive income. All lease agreements are renewable and the existing lessees have a priority right with respect to the extension of the lease agreement. There is no purchase option.

NOTE 16 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software**
At 1 January 2010	
Cost	5,291
Accumulated amortisation	(4,841)
Net book amount	**450**
Year ended 31 December 2010	
Opening net book amount	450
Additions	90
Amortisation	(216)
Closing net book amount	324
At 31 December 2010	
Cost	5,381
Accumulated amortisation	(5,057)
Net book amount	**324**
Year ended 31 December 2011	
Opening net book amount	324
Additions	142
Amortisation	(162)
Closing net book amount	**304**
At 31 December 2011	
Cost	5,522
Accumulated amortisation	(5,218)
Net book amount	**304**

NOTE 17 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

a) Subsidiaries

	2011	2010
	(in thousands of HRK)	
At beginning and end of year	190,788	190,788
	190,788	**190,788**

The principal subsidiaries are:

	Country	Ownership %	
		2011	2010
Hoteli Croatia d.d., Cavtat	Croatia	92.28	92.28
Laguna invest d.o.o., Poreč /i/	Croatia	100.00	100.00

/i/ The subsidiary Laguna invest d.o.o., Poreč did not have any business activities in 2011 or 2010.

b) Associate

	2011	2010
	(in thousands of HRK)	
Founding capital	20	20
At end of year	**20**	**20**

On 16 January 2009, the Company established Excelsa Hoteli d.o.o., Cavtat with an ownership share of 0.98% and voting rights of 33.33%.

NOTE 18 a – FINANCIAL INSTRUMENTS BY CATEGORY

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

	Loans and receivables	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	5,307	-	5,307
Loans and deposit receivable	116,203	-	116,203
Cash and cash equivalents and deposits given	57,224	-	57,224
Total	**178,734**	**9,974**	**188,708**

	Loans and receivables	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	6,882	-	6,882
Loans and deposit receivable	79,565	-	79,565
Cash and cash equivalents and deposits given	32,908	-	32,908
Total	**119,355**	**11,765**	**131,120**

The above mentioned 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 nature.

	2011	**2010**
Liabilities at balance sheet date-at amortised cost	*(in thousands of HRK)*	
Trade and other payables	21,330	14.387
	21,330	14.387

NOTE 18 b – CREDIT QUALITY OF FINANCIAL ASSETS

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

	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	82
	118	**123**

	2011	2010
	(in thousands of HRK)	
Loans and deposits		
Financial institutions – without credit rating	116,164	79,312
Existing customers – payments within maturity period	39	253
	116,203	**79,565**

Cash at bank	2011	2010
	(in thousands of HRK)	
Without credit rating*	57,218	32,906
	57,218	**32,906**

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

* Other banks without rating are high quality Croatian banks which are subsidiaries of foreign banks with high external credit rating.

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, except for the investment in IRTA d.o.o. of 11.1%.

	2011	2010
	(in thousands of HRK)	
At beginning of year	11,765	11,843
Revaluation (losses)/gains (Note 25)	(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
	9,974	**11,765**

The fair values of unlisted securities are stated at cost. Available-for-sale financial assets are denominated in HRK.

NOTE 20 – LOANS AND DEPOSIT RECEIVABLE

	2011	2010
	(in thousands of HRK)	
Loans given	303	351
Provision for impairment of loan receivables	(264)	(98)
Loans – net	39	253
Deposits given	116,164	79,312
Current portion	**116,203**	**79,565**

Deposits bear an interest rate of 2.9%-4.8%. Loans are secured by a mortgage over property with an interest rate set at 7.25% -8.5% (2010: 6.5%-8.5%). The carrying amounts of loans and deposits approximate their fair value.

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

	2011	2010
	(in thousands of HRK)	
HRK	39	162
EUR	116,164	79,403
	116,203	**79,565**

NOTE 21 – INVENTORIES

	2011	2010
	(in thousands of HRK)	
Raw materials and supplies	2,334	2,404
Small inventory on stock	7	7
Packaging	-	63
Trade goods	3	3
	2,344	**2,476**

NOTE 22 – TRADE AND OTHER RECEIVABLES

	2011	2010
	(in thousands of HRK)	
Domestic trade receivables	1,669	1,187
Foreign trade receivables	478	665
Due from brokers – agencies	3,946	4,602
Provision for impairment of trade receivables	(1,012)	(1,086)
Trade receivables – net	5,081	5,368
Dividend receivables – related parties (Note 29)	-	404
Interest receivables	6	4
Accrued income not yet invoiced	220	1,106
Total financial assets	5,307	6,882
Due from state institutions	2,460	2,298
VAT receivable	2,512	1,793
Advances to suppliers	112	223
Other short-term receivables	468	920
Provision for impairment of other receivables	(2,163)	(2,163)
	8,696	**9,953**

Movements in provisions for impairment of trade and other receivables

	2011	2010
	(in thousands of HRK)	
At 1 January	3,249	3,581
Additions (Note 9)	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 22 – TRADE AND OTHER RECEIVABLES (continued)

	2011	2010
	(in thousands of HRK)	
Trade receivables – Gross:		
Neither past due nor impaired	118	123
Past due, but not impaired	4,964	5,245
Past due and impaired	1,012	1,086
	6,093	**6,454**

As of 31 December 2011, trade receivables in the amount of HRK 4,964 thousand (2010: HRK 5,245 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	93
One to two months	194	141
Two to three months	655	1,098
Over three months to one year	2,043	3,913
	4,964	**5,245**

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

	2011	2010
	(in thousands of HRK)	
EUR	4,302	5,057
HRK	1,005	1,825
	5,307	**6,882**

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 23 – CASH AND CASH EQUIVALENTS

	2011	2010
	(in thousands of HRK)	
Giro-accounts and current accounts	1,096	475
Cash in hand	6	2
Foreign currency accounts	634	345
Time deposits	55,488	32,086
	57,224	**32,908**

The deposits were timed with an option to be discontinued. The Company can call them partially or in full at any time, with at least 3 days notice. The interest rate is set at 3.20% to 4.8% (2010: 0.5% to 4%). The interest rate for cash on giro and other 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	1,102	875
EUR	55,881	32,027
Other	241	6
	57,224	**32,908**

NOTE 24 – 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 Investment 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 broker. Gains and losses on purchase and sale of treasury shares are recorded within capital reserves and amount to HRK 5,149 thousand as of 31 December 2011 and 2010.

NOTE 25 – RESERVES AND RETAINED EARNINGS

	2011	2010
	(in thousands of HRK)	
Legal reserves	32,007	29,316
Other reserves	91,483	93.730
Retained earnings	139,960	136.802
	263,450	**259,848**
Changes in reserves:		
Legal reserves		
At beginning of the year	29,316	27,032
Transfer from retained earnings	2,691	2,284
At end of the year	**32,007**	**29,316**
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 liability)/assets	359	16
Revaluation of available-for-sale financial assets – net	(1,432)	(62)
At end of the year	**91,483**	**93.730**
Retained earnings		
At beginning of the year	136,802	154.764
Net profit for the year	63,586	53,822
Dividend distribution	(58,552)	(69,500)
Transfer from other reserves	815	-
Transfer to legal reserves	(2,691)	(2,284)
At end of the year	**139,960**	**136.802**

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 the capital reserves reaches 5% of the Company's share capital. This reserve is not distributable. Based on the Decision of the General Assembly on 26 August 2011 and 30 September 2010, retained earnings in the amount of HRK 2,691 thousand (2010: HRK 2,284 thousand) were transferred to legal reserves. As at 31 December 2011, legal reserves amounted to HRK 32,007 thousand or 2.9% of share capital (2010: HRK 29,316 thousand or 2.7%), while the share of legal reserves together with capital reserves (HRK 20,882 thousand) which is also not distributable 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 Company's registered capital.

NOTE 25 – 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: HRK 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 5,267 thousand). These other reserves are not distributable.

The remaining other reserves in the amount of HRK 75,751 thousand (2010: HRK 76,565 thousand) relates to the revaluation reserves formed in 1993 (HRK 54,869 thousand) that are distributable, and other reserves formed upon denominating the nominal value of the shares (DEM 500) into HRK.

NOTE 26 – TRADE AND OTHER PAYABLES

	2011	2010
	(in thousands of HRK)	
Trade payables	12,930	11,427
Due to related parties (Note 29)	132	132
Dividends payable (Note 14)	883	962
Accrued costs not yet invoiced	2.391	1.866
Concession payable /i/	4,994	-
Total financial liabilities	21,330	14.387
Net salaries payable	11,754	12,354
Taxes and contributions payable	8,801	9,534
Advances received	2,471	2,365
Other current liabilities	2,709	3,673
	47,261	**40,447**

/i/ Concession payable is calculated on the base of submitted 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 elaborating in more detailed 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	21,033	13.625
EUR	297	762
	21.330	**14.387**

NOTE 27 – PROVISIONS

	2011	2010
	(in thousands of HRK)	
Provisions for other contingent liabilities	1,500	1,500
	1,500	**1,500**

NOTE 28 – 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 land, which is registered as socially-owned land with the right of use. 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 tourist companies in the Republic of Croatia. On 1 August 2010, the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures for submitting requests for concessions and other prescribed requests. During 2011, in the procedures initiated, and in line with requirements of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land or 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.

Provisions for other contingent liabilities. In the financial statements for the years ended 31 December 2011 and 2010, the Company anticipates payment of other contingent liabilities in the amount of HRK 1,500 thousand (Note 27).

Capital commitments. Future commitments contracted for investments in tourist facilities, 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 Company is the lessee (Note 7). The future aggregate lease payments from operating leases are as follows:

NOTE 28 – CONTINGENCIES AND COMMITMENTS(continued)

	2011	2010
	(in thousands of HRK)	
Up to 1 year	301	299
From 2 to 5 years	324	548
	626	**847**

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

NOTE 29 – 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 were entered into with related parties owned by Sutivan Investment 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.

1) Transactions with related companies under common control:

	Note	2011	2010
		(in thousands of HRK)	
a) Sale of services and assets			
Grand Villa Argentina d.d., Dubrovnik		**-**	**1**
b) Other expenses			
Excelsa nekretnine d.d.		**16**	**-**
c) Trade and other payables			
Excelsa nekretnine d.d.		**3**	**-**

NOTE 29 – RELATED PARTY TRANSACTIONS (continued)

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

	Note	2011	2010
		(in thousands of HRK)	
a) Trade and other payables			
Laguna invest d.o.o., Poreč	26	**132**	**132**
b) Trade and other receivables			
Hoteli Croatia d.d., Cavtat	22	**-**	**404**
c) Expenses from foreign exchange losses on currency clause			
Hoteli Croatia d.d., Cavtat		**-**	**37**
d) Income from foreign exchange gains on currency clause			
Hoteli Croatia d.d., Cavtat		**69**	**-**
e) Loans granted			
Increase		9,800	17,300
Decrease		(9,800)	(17,300)
At end of year	20	**-**	**-**
f) Dividend income	6	**403**	**403**
Hoteli Croatia d.d., Cavtat			
g) Interest income			
Hoteli Croatia d.d., Cavtat	11	**173**	**395**

3) Key Management and Supervisory Board compensation

	2011	2010
	(in thousands of HRK)	
Net salaries	5,019	4,703
Pension contributions	1,381	1,292
Health insurance contributions	1,340	1,261
Other costs (contributions and taxes)	2,732	2,599
	10,472	**9,855**
Supervisory Board compensation	1,846	1,663
	12,318	**11,518**

Key management comprises 14 members (2010: 13 members). The Supervisory Board consists of 7 members (2010: 5 members).