# PLAVA LAGUNA d.d., POREČ

# INDEPENDENT AUDITOR'S REPORT AND CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

**Independent auditor's report**

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

***Report on the condensed interim consolidated financial statements***

We have audited the accompanying condensed interim consolidated financial statements of Plava laguna d.d. (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 30 June 2012 and the consolidated statements of comprehensive income, changes in equity and cash flow for the six months 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 condensed interim consolidated financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

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

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

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### *Opinion*

In our opinion, the condensed interim consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2012 and its financial performance and its cash flows for the six months then ended in accordance with International Accounting Standard 34 – Interim Financial Reporting.

### *Emphasis of matter*

We draw attention to Note 11 to these condensed interim consolidated 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.

### *Other*

Comparative information in the statement of comprehensive income and the cash flow statement for the six months ended 30 June 2011 were not audited by us.

PricewaterhouseCoopers d.o.o.
Zagreb, 27 August 2012

**PLAVA LAGUNA d.d., POREČ**

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE PERIOD ENDED 30 JUNE 2012**

| *(all amounts expressed in thousands of HRK)* | **Note** | **30 June 2012** | **30 June 2011** *(unaudited)* |
|---|---|---|---|
| Sale of services | 6 | 151,617 | 147,761 |
| Other income | | 1,502 | 863 |
| Purchase cost of materials and services | | (56,392) | (54,064) |
| Staff costs | | (52,043) | (48,434) |
| Depreciation and amortisation | | (59,069) | (33,949) |
| Other operating expenses | | (14,915) | (11,682) |
| | | (29,300) | 495 |
| **Operating (loss)/profit** | | | |
| Finance income | | 3,637 | 3,010 |
| Finance costs | | (1,634) | (1,986) |
| Finance income – net | | 2,003 | 1,024 |
| Share in (loss)/profit of associate | | (562) | 160 |
| **(Loss)/profit before tax** | | **(27,859)** | **1,679** |
| Income tax expense | | - | |
| **(Loss)/profit for the year** | | **(27,859)** | **1,679** |
| **Other comprehensive income:** | | | |
| Changes in value of available-for-sale financial assets | | 237 | - |
| **Total comprehensive (loss)/income for the year** | | **(27,622)** | **1,679** |
| **Attributable to:** | | | |
| **Equity holders of the Company** | | (26,720) | 1,372 |
| Minority interest | | (1,139) | 307 |
| **(Loss)/profit for the year** | | **(27,859)** | **1,679** |
| **Basic and diluted (loss)/earnings per share *(in HRK)* attributable to the equity holders of the Company during the year:** | 7 | (41.63) | 2.14 |
| - ordinary and preference shares | | | |

The condensed interim consolidated financial statements set out on pages 3 to 18 were approved by the Group's Management Board on 27 August 2012.

President of the Management Board

Neven Staver

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

## INTERIM CONSOLIDATED BALANCE SHEET

## AS AT 30 JUNE 2012

| *(all amounts expressed in thousands of HRK)* | Note | 30 June 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 1,439,911 | 1,362,389 |
| Intangible assets | | 932 | 684 |
| Investments in associate | | 210 | 772 |
| Available-for-sale financial assets | | 10,272 | 9,974 |
| | | 1,451,325 | 1,373,819 |
| **Current assets** | | | |
| Inventories | | 6,179 | 3,783 |
| Trade and other receivables | | 116,491 | 12,358 |
| Loans receivables and deposits | | 168,417 | 126,746 |
| Financial assets at fair value through profit or loss | | 142 | 142 |
| Income tax receivable | | 6,930 | - |
| Cash and cash equivalents | | 12,461 | 57,651 |
| | | 310,620 | 200,680 |
| **Total assets** | | **1,761,945** | **1,574,499** |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | | 1,088,372 | 1,088,372 |
| Capital reserves | | 5,149 | 5,149 |
| Treasury shares | | (17,046) | (17,046) |
| Reserves | | 132,395 | 132,158 |
| Retained earnings | | 184,487 | 211,207 |
| | | 1,393,357 | 1,419,840 |
| Minority interests | | 21,531 | 22,670 |
| | | 1,414,888 | 1,442,510 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | 47,703 | 53,273 |
| Provisions for other liabilities and expenses | 11 | 1,500 | 1,500 |
| | | 49,203 | 54,773 |
| **Current liabilities** | | | |
| Trade and other payables | | 279,982 | 56,873 |
| Borrowings | | 14,915 | 14,944 |
| Provisions for other liabilities and expenses | 11 | 2,957 | 275 |
| Income tax payable | | - | 5,124 |
| | | 297,854 | 77,216 |
| **Total liabilities** | | 347,057 | 131,989 |
| **Total equity and liabilities** | | **1,761,945** | **1,574,499** |

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

PLAVA LAGUNA d.d., POREČ

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE PERIOD ENDED 30 JUNE 2012

| *(all amounts expressed in thousands of HRK)* | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Capital reserves** | **Treasury shares** | **Reserves** | **Retained earnings** | **Total** | **Minority interests** | **Total equity** |
| At 1 January 2011 | 1,088,372 | 5,149 | (17,046) | 131,714 | 197,459 | 1,405,648 | 21,795 | 1,427,443 |
| Profit for the year | - | - | - | - | 74,145 | 74,145 | 906 | 75,051 |
| Other comprehensive loss | - | - | - | (1,432) | - | (1,432) | - | (1,432) |
| **Total comprehensive income for 2011** | **-** | **-** | **-** | **(1,432)** | **74,145** | **72,713** | **906** | **73,619** |
| Transfer to retained earnings | - | - | - | (815) | 815 | - | - | - |
| Transfer to legal reserves | - | - | - | 2,691 | (2,691) | - | - | - |
| Dividend relating to 2010 | - | - | - | - | (58,552) | (58,552) | - | (58,552) |
| Dividend on preference shares of Subsidiary to parent Company | - | - | - | - | 31 | 31 | (31) | - |
| **Total contribution from and distribution of profit to the Company's owners, recognised directly in equity** | **-** | **-** | **-** | **1,876** | **(60,397)** | **(58,521)** | **-** | **(58,552)** |
| **At 31 December 2011** | **1,088,372** | **5,149** | **(17,046)** | **132,158** | **211,207** | **1,419,840** | **22,670** | **1,442,510** |
| Loss for the period | - | - | - | - | (26,720) | (26,720) | (1,139) | (27,859) |
| Other comprehensive income | - | - | - | 237 | - | 237 | | 237 |
| **Total comprehensive income for 2011.** | **-** | **-** | **-** | **237** | **(26,720))** | **(26,483)** | **(1,139)** | **(27,622)** |
| **At 30 June 2012** | **1,088,372** | **5,149** | **(17,046)** | **132,395** | **184,487** | **1,393,357** | **21,531** | **1,414,888** |

**PLAVA LAGUNA d.d., POREČ**

**INTERIM CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE PERIOD ENDED 30 JUNE 2012**

| *(all amounts expressed in thousands of HRK)* | **Note** | **30 June 2012** | **30 June 2011** *(unaudited)* |
|---|---|---|---|
| (Loss)/profit before tax | | (27,859) | 1,679 |
| Adjustments for: | | | |
| Depreciation and amortisation | | 59,069 | 33,949 |
| Impairment of property, plant and equipment | | 68 | - |
| Gains on sale of property, plant and equipment | | (139) | (172) |
| Provision for impairment of trade receivables – net | | (103) | (167) |
| Interest income | | (66) | (49) |
| Dividend income | | (382) | (382) |
| Finance income – net | | (2,003) | (1,024) |
| Provisions for legal disputes | | 2,682 | - |
| Other non-cash items | | 562 | (136) |
| Changes in working capital: | | | |
| Trade and other receivables | | (103,578) | (69,198) |
| Inventories | | (2,396) | (2,579) |
| Trade and other payables | | 168,941 | 127,674 |
| **Cash generated from operations** | | **94,796** | **89,595** |
| Interest paid | | (760) | (952) |
| Income tax paid | | (12,054) | (8,843) |
| **Net cash from operating activities** | | **81,982** | **79,800** |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | | (82,677) | (39,046) |
| Purchase of intangible assets | | (424) | (22) |
| Gains on sale of property, plant and equipment | | 260 | 192 |
| Placement of deposits and loans | | (42,098) | (65,551) |
| Dividend received | | 382 | 382 |
| Interest received | | 2,810 | 1,752 |
| **Net cash used in investing activities** | | **(121,747)** | **(102,293)** |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | (5,425) | (5,329) |
| **Net cash used in financing activities** | | **(5,425)** | **(5,329)** |
| **Net decrease in cash and cash equivalents** | | **(45,190)** | **(27,822)** |
| Cash and cash equivalents at beginning of the period | | 57,651 | 33,381 |
| Cash and cash equivalents at end of the period | | 12,461 | 5,559 |

## NOTE 1 – GENERAL INFORMATION

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

- Laguna Invest, services, with an ownership interest of 100%,,
- a joint stock company registered for hospitality and tourism, with an ownership interest of 92.28%

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

The Plava laguna Group, Poreč is controlled by Sutivan Investments Anstalt registered in Liechtenstein. The ultimate controlling company is Luksburg Foundation, registered in Vaduz Liechtenstein. The equity structure as at 30 June 2012 is the same as presented in the financial statements as at 31 December 2011.

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

As at 30 June 2012 and 31 December 2011, the shares of the Parent Company and its subsidiary Hoteli Croatia d.d. Cavtat were listed on the regular joint stock company listing on the Zagreb Stock Exchange.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The Group's condensed interim consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting*. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards.

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

### 2.2 Accounting policies

The accounting adopted for the preparation of these condensed interim consolidated financial statements are consistent with those adopted for the consolidated financial statements for the year ended 31 December 2011.

## NOTE 3 – FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

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

*(a) Market risk*

(i) Foreign exchange risk

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

The majority of the Group's foreign sales revenue, cash deposits (Notes 11 and 13) and long-term debt (Note 16) is denominated in EUROs. Therefore, movements in exchange rates between the EURO and Croatian kuna may have an impact on the results of future operations and future cash flows. The Group uses derivative instruments on an occasional basis only.

At 30 June 2012 and 31 December 2011, if the EURO had weakened/strengthened by 2% against the HRK, with all other variables held constant, the loss for the reporting period would have been HRK 3,078 thousand higher/lower (31 December 2011: the net profit for the reporting period would have been HRK 2,046 thousand lower/higher), mainly as a result of foreign exchange (losses)/gains on translation of EURO-denominated trade receivables, deposits and foreign cash funds, borrowings, trade payables and other liabilities.

(ii) Cash flow and fair value interest rate risk

As the Group has interest-bearing assets (cash and cash equivalents and deposits and loans given), the Group's income and operating cash flows are dependent on changes in market interest rates.

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

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

The Group's interest rate risk arises from borrowings. Borrowings are granted at variable rates (mainly the discount rate and 3-month EURIBOR) and expose the Group to cash flow interest rate risk. There were no significant changes in the exposure to interest rate risk mainly as a result of unchanged interest rates on borrowings.

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

At 30 June 2012 and 31 December, if interest rates on currency-denominated deposits had been 0.48% higher/lower, with all other variables held constant, the loss for the reporting period would have been HRK 653 thousand lower/higher (2011: the net profit for the reporting period would have been HRK 663 thousand higher/lower), mainly as a result of higher/(lower) interest income on variable rate deposits.

(iii) Equity securities risk

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

As at 30 June 2012 and 31 December 2011, if the indices of ZSE had been lower/higher by 4.59 % (which was the average ZSE index movement), with all other variables held constant and on the assumption all the Group's equity instruments moved according to the historical correlation with the index, reserves within equity and other comprehensive income for the six months ended 30 June 2012 would have been HRK 373 thousand (31 December 2011: HRK 362 thousand) (lower)/higher as a result of (losses)/gains on available-for-sale financial assets.

*(b) Credit risk*

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

| | **30 June 2012** | **31 December 2011** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Trade and other receivables | 91,025 | 7,937 |
| Deposits and loans given | 168,417 | 126,746 |
| Cash and cash equivalents and deposits given | 12,461 | 57,651 |
| | **271,903** | **192,334** |

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

*(c) Liquidity risk*

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

Compared to the year-end, there was no significant change in the contractual undiscounted cash flows of financial liabilities.

### 3.2 Capital management

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

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

### 3.3 Fair value estimation

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

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

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

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

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 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 Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **30 June 2012** | | | | |
| Available-for-sale financial assets | | | | |
| - equity securities | 10,152 | - | - | 10,152 |
| Financial assets at fair value through profit or loss | | | | |
| - equity securities | 142 | - | - | 142 |
| **Total assets** | **10,294** | **-** | **-** | **10,294** |
| **At 31 December 2011** | | | | |
| Available-for-sale financial assets | | | | |
| - equity securities | 9,854 | - | - | 9,854 |
| Financial assets at fair value through profit or loss | | | | |
| - equity securities | 142 | - | - | 142 |
| **Total assets** | **9,996** | **-** | **-** | **9,996** |

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 Group 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.

## NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

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

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

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 loss for the six-month period in 2012 would have been HRK 2,953 thousand higher/lower, and the net book value of property, plant and equipment would have been lower/higher by the same amount (2011: the net profit for the six-month period and the net book value of property, plant and equipment would have been HRK 2,422 thousand lower/higher).
In accordance with the accounting policy, the Company tests whether property, plant and equipment 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, the value in use would be, on average, HRK 50,025 thousand lower/higher. No need for impairment was identified. The value in use was calculated using cash flow plans (5 years plus residual value and an average growth rate of 6%) using the discount rate for hotels of 10.5%. Based on the performed tests, further impairment of assets was not established, and any reasonable changes in the assessment will not lead to impairment of assets.

*(b) Land ownership*

The Law on Tourism and Other Construction Land, not evaluated in the transformation and privatisation process (hereinafter: the Law), which entered into force on 1 August 2010, mandates companies to submit the relevant requirements under this Law within six months from the date of its entry into force (up to 1 February 2011). On 28 January 2011, regulations were issued elaborating in more detail the manner of complying with the stated law. On 31 January 2011, the Group submitted the relevant requirements to the governing authorities in respect of the property on which the above-mentioned law can be applied. During 2011, in the procedures initiated, and in line with requirements of the governing authorities, the Group delivered various statements, documentation, made propositions for dividing the land, etc. Until 31 December 2011, none of the procedures according to the Law on Tourism and Other Construction Land was finalised. For detailed information – see Note 11.

## NOTE 5 – SEASONAL NATURE OF OPERATING ACTIVITIES

Due to the seasonal nature of the hotel business, higher sales revenues are expected in the period after 30 June 2012 to 30 September 2012. During the year ended 31 December 2011, 29% of sales revenues were generated in the first six months and 71% in the second six months.

## NOTE 6 – SEGMENT INFORMATION

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

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

The segment information provided to the Group's Management for the period ended 30 June 2012 is as follows:

| *(in thousands of HRK)* | **Hotels & apartments** | **Campsites** | **Other business segments** | **Total** |
|---|---|---|---|---|
| Total sales | 120,084 | 24,826 | 16,735 | 161,645 |
| Inter-segment revenue | (151) | - | (9,877) | (10,028) |
| Revenue from external customers | 119,933 | 24,826 | 6,858 | 151,617 |
| **Restated EBITDA** | **16,501** | **10,321** | **4,907** | **31,729** |
| Depreciation and amortisation | 47,672 | 6,375 | 5,022 | 59,069 |
| Share in loss of associate | - | - | - | (562) |
| Income tax expense | - | - | - | - |
| **Total assets** | **1,267,852** | **172,139** | **78,729** | **1,518,720** |
| **Investment in associate** | **-** | **-** | **-** | **210** |
| **Total liabilities** | **291,735** | **4,328** | **2,238** | **298,301** |

The segment information for the period ended is as follows:

| *(in thousands of HRK)* | **Hotels & apartments** | **Campsites** | **Other business segments** | **Total** |
|---|---|---|---|---|
| **30 June 2011** *(unaudited)* | | | | |
| Total sales | 116,954 | 24,052 | 17,295 | 158,301 |
| Inter-segment revenue | (138) | - | (10,402) | (10,540) |
| Revenue from external customers | 116,816 | 24,052 | 6,893 | 147,761 |
| **Restated EBITDA** | **18,029** | **10,469** | **5,416** | **33,914** |
| Depreciation and amortisation | 26,507 | 3,509 | 3,933 | 33,949 |
| Share in profit of associate | - | - | - | 160 |
| Income tax expense | - | - | - | - |
| **31 December 2011** | | | | |
| **Total assets** | **1,102,861** | **172,198** | **82,118** | **1,357,177** |
| **Investment in non-consolidated subsidiary** | **-** | **-** | **-** | **772** |
| **Total liabilities** | **87,798** | **1,027** | **1,358** | **90,183** |

## NOTE 6 – SEGMENT INFORMATION (continued)

**Reconciliation of restated EBITDA with (loss)/profit before tax is as follows:**

| | 30 June 2012 | 30 June 2011 *(unaudited)* |
|---|---|---|
| | *(in thousands of HRK)* | |
| Restated EBITDA by segments | 26,822 | 28,498 |
| Restated EBITDA by other segments | 4,907 | 5,416 |
| **Total segments** | **31,729** | **33,914** |
| Depreciation and amortisation | (59,069) | (33,949) |
| Other (expenses)/income – net | (1,960) | 530 |
| Finance income – net | 1,441 | 1,184 |
| **(Loss)/profit before tax** | **(27,859)** | **1,679** |

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

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| *(in thousands of HRK)* | Assets | Liabilities | Assets | Liabilities |
| **Segment assets/liabilities** | **1,518,720** | **298,301** | **1,357,177** | **90,183** |
| **Unallocated:** | **243,225** | **48,756** | **217,322** | **41,806** |
| Available-for-sale financial assets | 10,272 | - | 9,974 | - |
| Loans and deposits given | 166,162 | - | 116,203 | - |
| Cash and cash equivalents | 11,466 | - | 57,224 | - |
| Share in associate | 210 | - | 772 | |
| Other assets | 48,185 | - | 33,149 | - |
| Provisions | - | 1,500 | - | 1,500 |
| Income tax receivable/payable | 6,930 | - | - | 5,124 |
| Other liabilities | - | 47,256 | - | 35,182 |
| **Total** | **1,761,945** | **347,057** | **1,574,499** | **131,989** |

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

| | 30 June 2012 | 30 June 2011 *(unaudited)* |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Sale of services:** | | |
| Domestic sales | 24,153 | 23,676 |
| Foreign sales | 127,464 | 124,085 |
| | **151,617** | **147,761** |

## NOTE 7 – (LOSS)/EARNINGS PER SHARE

### Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated as follows:

| | 30 June 2012 | | |
|---|---|---|---|
| | *(in thousands of HRK)* | | |
| | Preference shares | Ordinary shares | Total |
| **Loss for the period attributable to equity holders of the Company** | **(4,371)** | **(22349)** | **(26,720)** |
| Weighted average number of shares in issue excluding own shares | 105,000 | 536,848 | |
| **Basic loss per share (*in HRK)*** | **(41.63)** | **(41.63)** | |

| | 30 June 2011 *(unaudited)* | | |
|---|---|---|---|
| | *(in thousands of HRK)* | | |
| | Preference shares | Ordinary shares | Total |
| **Profit for the period attributable to equity holders of the Company** | **224** | **1,148** | **1,372** |
| Weighted average number of shares in issue excluding own shares | 105,000 | 536,848 | |
| **Basic earnings per share (*in HRK)*** | **2.14** | **2.14** | |

### Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the six months ended 30 June 2012 and 2011 are equal to basic (loss)/earnings per share, since the Company did not have any convertible instruments nor share options outstanding during both periods.

## NOTE 8 – DIVIDEND PER SHARE

The Management and Supervisory Board of the Company have proposed a dividend of HRK 91.06 per ordinary share and HRK 92.06 per preference share. Dividends will be accounted for after being approved by the Annual General Assembly of Shareholders on 30 August 2012.

## NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

During the six-month period in 2012, additions in the amount of HRK 136,601 thousand mainly relate to the refurbishment of Hotel Parentium, which was finalised at the beginning of August 2012.

As at 30 June 2012, the net carrying value of buildings pledged by the Group as collateral for loan repayment amounted to HRK 322,804 thousand (31 December 2011: HRK 329,176 thousand).

## NOTE 10 – INVESTMENTS IN ASSOCIATE

On 16 April 2012, a merger contract was concluded, under which the company Jadranski luksuzni hoteli d.o.o., Dubrovnik with a registered capital of HRK 257.5 thousand, merged with the company Excelsa hoteli d.o.o. as the acquiring company. On the date of registration in the court register, the acquiring company changed its name to Jadranski luksuzni hoteli d.o.o. za trgovinu, ugostiteljstvo i usluge.

The registered capital of the company after the merger amounts to HRK 2,297.5 thousand, and the business share of the Group is 46.66%. The total number of votes at the General Assembly of the company Jadranski luksuzni hoteli d.o.o. is 11,000 votes, of which the Group has 3,140 votes (28.55%).

The Group's share in the registered capital of the company is partially paid, with the remaining liability amounting to HRK 580 thousand. This company provides the Group with accounting, marketing and IT services.

## NOTE 11 – 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 used by the Company and with respect to which the Company is registered as the owner. On 20 May 2003, the Company expressed an opinion on the State Audit Office's Report.

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

The stated problems with respect to land ownership are common in other 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 co-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, etc. Until 30 June 2012, the procedure of granting concessions was not finalised.

**Legal contingencies**. The Subsidiary initiated a legal action against the Republic of Croatia with respect to guarantees on borrowings. The first-instance ruling was in favour of the Subsidiary, while the second-instance ruling and the ruling of the Supreme Court of the Republic of Croatia, which was received in June 2012 were in favour of the plaintiff. The Subsidiary announced a complaint before the Constitutional Court of the Republic of Croatia for the purpose of challenging this decision. Based on the ruling of the Supreme Court it made provisions for penalty interest in the amount of HRK 2,682 thousand.

**Provisions for other contingent liabilities**. In the financial statements for the period ended 30 June 2012 and 31 December 2011, the Group anticipates payment of other contingent liabilities in the amount of HRK 1,500 thousand.

**Capital commitments.** Future commitments contracted for investments in tourist facilities, for which provisions were not made, as at 30 June 2012 amounted to HRK 44,210 thousand (2011: HRK 154,930 thousand).

## NOTE 12 – 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 Investments Anstalt (Atlas hotel Odisej d.o.o., Pomena, Grand Villa Argentina d.d., Dubrovnik, Excelsa nekretnine d.d., Dubrovnik and Jadranski luksuzni hoteli d.o.o., Dubrovnik) and the Plava laguna Group (Plava laguna d.d., Poreč, Laguna invest d.o.o., Poreč and Hoteli Croatia d.d., Cavtat). These transactions were carried out under commercial terms and conditions and at market rates.

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

| | | 30 June 2012 | 30 June 2011 *(unaudited)* |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| **a)** | **Sale of services and assets** | | |
| | Atlas hotel Odisej d.o.o., Pomena | 1 | 5 |
| | Grand Villa Argentina d.d., Dubrovnik | 2 | 15 |
| | Excelsa Hoteli d.o.o, Cavtat | - | 30 |
| | | **3** | **50** |
| **b)** | **Cost of materials and services** | | |
| | Excelsa Hoteli d.o.o, Cavtat /Jadranski luksuzni hoteli d.o.o. | 2,369 | 1,562 |
| | Excelsa usluge d.o.o., Cavtat | 1,279 | 896 |
| | Grand Villa Argentina d.d., Dubrovnik | 13 | 64 |
| | | **3,661** | **2,522** |

| | | 30 June 2012 | 31 December 2011 |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| **c)** | **Trade and other receivables:** | | |
| | Excelsa Hoteli d.o.o, Cavtat /Jadranski luksuzni hoteli d.o.o. | 1 | 10 |
| | Grand Villa Argentina d.d., Dubrovnik | 6 | 2 |
| | Excelsa Nekretnine d.d., Dubrovnik | 1 | - |
| | Atlas Hotel Odisej d.o.o., Pomena | 91 | 90 |
| | | **99** | **102** |

## NOTE 12– RELATED PARTY TRANSACTIONS (continued)

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

| | | 30 June 2012 | 31 December 2011 |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| **d)** | **Trade and other payables:** | | |
| | Excelsa Hoteli d.o.o, Cavtat / Jadranski luksuzni hoteli d.o.o., Dubrovnik | 1,425 | 123 |
| | Excelsa Nekretnine d.d., Dubrovnik | 37 | 37 |
| | Excelsa usluge d.o.o., Cavtat | 993 | 302 |
| | Grand Villa Argentina d.d., Dubrovnik | 201 | 214 |
| | Atlas Hotel Odisej d.o.o., Pomena | 8 | 8 |
| | | **2,664** | **684** |
| **e)** | **Liability for unpaid capital** | 580 | 580 |
| | | **580** | **580** |

### Group Key Management and Supervisory Board compensation

| | 30 June 2012 | 30 June 2011 *(unaudited)* |
|---|---|---|
| Gross salaries | 5,709 | 5,161 |
| Supervisory Board fees | 488 | 401 |
| | **6,197** | **5,562** |

Key management comprises 24 persons (2011: 22 persons), and the Supervisory Board comprises 12 members (2011: 10 members).