PLAVA LAGUNA d.d., POREČ

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2012

Independent Auditor's Report

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

We have audited the accompanying financial statements of Plava laguna d.d. (the "Company"), which comprise the balance sheet as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Commercial Court in Zagreb, Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: F. Mattelaer, President, I. Bijelic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, giro account no.: 2484008-1105514875.

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.

PricewaterhouseCoopers d.o.o.
Zagreb, 23 April 2013

Our report has been prepared in Croatian and in English languages. In all matters of interpretation of information, views or opinions, the Croatian language version of our report takes precedence over the English language version.

PLAVA LAGUNA d.d., POREČ

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts expressed in thousands of HRK)	**Note**	**2012**	**2011**
Sale of services	5	452,563	439,562
Other income	6	12,751	1,885
Cost of materials and services	7	(130,053)	(127,781)
Staff costs	8	(111,903)	(110,785)
Depreciation and amortisation	15,16	(94,980)	(97,696)
Other operating expenses	9	(30,075)	(35,143)
Other gains – net	10	1,469	705
Operating profit		**99,772**	**70,747**
Finance income	11	6,865	9,852
Finance costs	11	(74)	-
Finance income – net	11	6,791	9,852
Profit before income tax		**106,563**	**80,599**
Income tax expense	12	(289)	(17,013)
Profit for the year		**106,274**	**63,586**
Other comprehensive income:			
Changes in value of available-for-sale financial assets	25	(2,747)	(1,432)
Total comprehensive income for the year		**103,527**	**62,154**
Basic and diluted earnings per share (in HRK) for:			
- ordinary shares	13	165.41	98.90
- preference shares		166.41	99.90

The financial statements set out on pages 3 to 48 were approved by the Company's Management Board on 23 April 2013.

President of the Management Board:

Neven Staver

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

BALANCE SHEET

AS AT 31 DECEMBER 2012

(all amounts expressed in thousands of HRK)	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	15	1,098,996	1,008,632
Intangible assets	16	295	304
Investments in subsidiaries and associate	17	190,808	190,808
Available-for-sale financial assets	19	6,839	9,974
		1,296,938	1,209,718
Current assets			
Inventories	21	2,582	2,344
Trade and other receivables	22	4,957	8,696
Income tax receivable	12	15,642	-
Loans and deposit receivable	20	119,645	116,203
Cash and cash equivalents	23	6,666	57,224
		149,492	184,467
Total assets		**1,446,430**	**1,394,185**
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	67,403	123,490
Retained earnings	25	241,021	139,960
Total equity		1,384,899	1,339,925
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities and expenses	27	2,000	1,500
		2,000	1,500
Current liabilities			
Trade and other payables	26	59,531	47,261
Income tax payable	12	-	5,499
		59,531	52,760
Total liabilities		61,531	54,260
Total equity and liabilities		**1,446,430**	**1,394,185**

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 2012

(all amounts expressed in thousands of HRK)	**Note**	**Share capital**	**Capital reserves**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**
At 1 January 2011		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 in equity		-	-	-	**2,691**	**(61,243)**	**(58,552)**
At 31 December 2011		**1,088,372**	**5,149**	**(17,046)**	**123,490**	**139,960**	**1,339,925**
Profit for the year		-	-	-	-	106,274	106,274
Other comprehensive losses		-	-	-	(2,747)	-	(2,747)
Total comprehensive income for 2012		**-**	**-**	**-**	**(2,747)**	**106,274**	**103,527**
Transfer to legal reserves	25	-	-	-	1,529	(1,529)	-
Dividend relating to 2011	13	-	-	-	(54,869)	(3,684)	(58,553)
Total contributions by and distributions to owners of the Company, recognised in equity		-	-	-	**(53,340)**	**(5,213)**	**(58,553)**
At 31 December 2012		**1,088,372**	**5,149**	**(17,046)**	**67,403**	**241,021**	**1,384,899**

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts expressed in thousands of HRK)	**Note**	**2012**	**2011**
Profit before tax		**106,563**	**80,599**
Adjustments for:			
Depreciation and amortisation	15, 16	94,980	97,696
Impairment of property, plant and equipment	9	-	7,775
Proceeds from sale of property, plant and equipment	10	(143)	(30)
Provision for impairment of loans and receivables	9	666	626
Dividend income	6	(11,243)	(790)
Other gains – net	10	(1,326)	(675)
Provisions for legal disputes	9	500	-
Interest income	11	(6,381)	(5,873)
Other adjustments		388	359
Changes in working capital:			
Trade and other receivables		3,077	395
Inventories		(238)	132
Trade and other payables		9,974	6,893
Cash flow from operating activities		**196,817**	**187,107**
Income tax paid		(21,430)	(13,357)
Net cash from operating activities		**175,387**	**173,750**
Cash flow from investing activities			
Purchase of intangible assets	16	(110)	(142)
Purchase of property, plant and equipment	15	(186,040)	(61,789)
Proceeds from sale of property, plant and equipment		958	192
Deposits placed		(2,116)	(36,129)
Deposits received		11,243	1,194
Interest received		6,377	5,871
Net cash used in investing activities		**(169,688)**	**(90,803)**
Cash flow from financing activities			
Dividends paid		(56,257)	(58,631)
Net cash used in financing activities		**(56,257)**	**(58,631)**
Net (decrease)/increase in cash and cash equivalents		**(50,558)**	**24,316**
Cash and cash equivalents at beginning of the year		57,224	32,908
Cash and cash equivalents at end of the year		6,666	57,224

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 2012 and 2011 is presented in Note 24.

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

As at 31 December 2012 and 2011, 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.

In order to achieve a more relevant and reliable presentation of the cash flow statement taking into account the Company’s activities and the Management’s needs, in 2012 the Company prepared the cash flow statement for the first time using the indirect method. Because of this change, the statement of cash flows for the year ended 31 December 2011 was prepared using the indirect method, which resulted in certain changes in the presentation. Cash and cash equivalents and the total increase in cash and cash equivalents remained unchanged.

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 2012 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)

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Company.

(b) Standards and interpretations issued but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements.

None of these is expected to have an impact on the financial statements of the Company, except the following set out below:

Amendment to IAS 1 Financial Statement Presentation Regarding Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012). The amendments do not address which items are presented in OCI. The amendment affects presentation only and therefore is not expected to have an impact on the Company's financial position or performance.

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. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It sets out the accounting requirements for the preparation of consolidated financial statements. The Company is currently assessing the impact that IFRS10 will have on the financial statements. The Company plans to adopt this new standard on its effective date.

IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013). The Company is currently assessing the impact of IFRS 12 on financial statements. The Company plans to adopt this new standard on its effective date.

IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013). The Company plans to adopt this new standard on its effective date.

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 Company is considering the implications of the amendment and the impact on the Company.

Amendment to IFRSs 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013). The Company is considering the implications of the amendments and the impact on 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)

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 Company is considering the implications of the amendment and the impact on the Company.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015). The Company does not expect IFRS 9 to have an impact on the financial statements. The Company plans to adopt this new standard on its effective date.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The Company is currently assessing the impact of the amendments on its financial statements.

Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013)

These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to:

IFRS 1, 'First time adoption'
IAS 1, 'Financial statement presentation'
IAS 16, 'Property plant and equipment'
IAS 32, 'Financial instruments; Presentation'
IAS 34, 'Interim financial reporting'
The Company is considering the implications of the improvements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

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 marinas 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 statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity.

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the 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. Revenue from individual guests who pay by credit cards – commission is recognised as a decrease in income.

(b) Rental services

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

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the 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 the 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 2012, if the EURO had weakened/strengthened by 1% (2011: 2%) against the HRK, with all other variables held constant, the net profit for the reporting period would have been HRK 999 thousand (2011: HRK 2,817 thousand), lower/higher, mainly as a result of foreign exchange losses/gains on translation of EURO-denominated trade receivables, deposits and foreign cash funds.

(ii) Cash flow and fair value interest rate risk

The Company has interest-bearing assets (Notes 20 and 23). The Company's revenues and operating cash flows are dependent on changes in market interest rates since bank deposits are contracted at variable interest rates.

As at 31 December 2012 and 2011, 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 2012, if interest rates on currency-denominated deposits had been 1% higher/lower (2011: 0.48%), with all other variables held constant, the net profit for the year would have been HRK 954 thousand (2011: HRK 446 thousand) higher/lower, mainly as a result of higher/lower interest income on variable rate deposits.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Equity securities risk

The 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 2012 and 2011, if the indices of ZSE had been lower/higher by 16.63% for 2012 and 4.59% for 2011 (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 1,117 thousand (2011: HRK 452 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 to 12 months. 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
At 31 December 2012					
Trade payables	18,233	9,904	-	-	-
Total liabilities (contracted maturities)	**18,233**	**9,904**	**-**	**-**	**-**
At 31 December 2011					
Trade payables	15,456	5,874	-	-	-
Total liabilities (contracted maturities)	**15,456**	**5,874**	**-**	**-**	**-**

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.

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).

At 31 December 2012, assets measured at fair value in the amount of HRK 6,719 thousand (2011: HRK 9,854 thousand) were included in level 1.

Available-for-sale investment securities in the amount of HRK 120 thousand (2011: HRK 120 thousand) are not listed and recorded at cost. 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 useful lives of property, plant and equipment had been 10% longer, 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 6,899 thousand higher (2011: HRK 7,093 thousand higher).

If the useful lives of property, plant and equipment had been 10% shorter, 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 8,.432 thousand lower (2011: HRK 8,670 thousand higher).

(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 and 2012, 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 2012, the concession approval process has not been legally 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 2012 is as follows:

(in thousands of HRK)	**Hotels & apartments**	**Campsites**	**Other business segments**	**Total**
Total sales	342,594	95,407	40,234	478,235
Inter-segment revenue	(481)		(25,191)	(25,672)
Revenue from external customers	342,113	95,407	15,043	452,563
Restated EBITDA	**118,758**	**53,092**	**10,258**	**182,108**
Depreciation and amortisation (Note 15 and 16)	72,358	12,710	9,912	94,980
Income tax expense				289
Total assets	**841,169**	**164,316**	**74,036**	**1,079,521**
Total liabilities	**13,147**	**1,514**	**1,230**	**15,891**

The segment results for the year ended 31 December 2011 are 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**	**986,827**
Total liabilities	**9,562**	**1,027**	**1,358**	**11,947**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2012	2011
	(in thousands of HRK)	
Restated EBITDA by segments	171,850	161,843
Restated EBITDA by other segments	10,258	13,000
Total segments	**182,108**	**174,843**
Depreciation and amortisation	(94,980)	(97,696)
Dividend income – subsidiary	10,861	403
Interest income	78	78
Dividend income	382	387
Other expenses	(3)	(2)
Impairment of property, plant and equipment	-	(7,775)
Net foreign exchange gains – other	1,326	675
Impairment of loan receivable	-	(166)
Finance income – net	6,791	9,852
Profit before tax	**106,563**	**80,599**

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:

	2012		2011	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	1,005,485	14,661	904,709	10,589
Other segment assets/liabilities	74,036	1,230	82,118	1,358
Unallocated:	366,909	45,640	407,358	42,313
Investments in subsidiaries and associate	190,808	-	190,808	-
Available-for-sale financial assets	6,839	-	9,974	-
Loans and deposits	119,645	-	116,203	-
Cash and cash equivalents	6,666	-	57,224	-
Other assets	42,951		33,149	-
Provisions	-	2,000	-	1,500
Income tax payable	-	-	-	5,499
Other liabilities		43,640	-	35,314
Total	**1,446,430**	**61,531**	**1,394,185**	**54,260**

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.

	2012	2011
	(in thousands of HRK)	
Sale of services:		
Domestic sales	68,227	65,442
Foreign sales	384,336	374,120
	452,563	**439,562**

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

Foreign sales	**2012**	**%**	**2011**	**%**
Germany	93,576	24.34	86,889	23.22
Russia	84,523	21.99	76,900	20.55
Austria	45,067	11.73	42,669	11.41
Italy	27,818	7.24	34,599	9.25
Slovenia	27,524	7.16	27,613	7.38
Netherlands	26,913	7.00	24,640	6.59
Czech Republic	19,284	5.02	19,925	5.33
Other	59,631	15.52	60,885	16.27
	384,336	**100.00**	**374,120**	**100.00**

NOTE 6 – OTHER INCOME

	2012	2011
	(in thousands of HRK)	
Dividend income from subsidiary (Note 29)	10,861	403
Insurance claims recovered	970	1,017
Interest income	78	78
Dividend income	382	387
Other	460	-
	12,751	**1,885**

NOTE 7 – COST OF MATERIALS AND SERVICES

	2012	2011
	(in thousands of HRK)	
Raw materials and supplies		
Raw materials and supplies used	44,798	44,280
Energy and water used	31,904	33,311
Small inventories	5,344	2,969
	82,046	80,560
External services		
Maintenance	16,956	16,843
Laundry and cleaning services	8,091	8,126
Entertainment and animation	5,695	5,798
Transportation and telecommunication	2,023	1,803
Advertising and promotion	4,847	5,190
Municipal services	4,128	3,919
Rental costs	1,291	1,321
Other services	4,976	4,221
	48,007	47,221
	130,053	**127,781**

NOTE 8 – STAFF COSTS

	2012	2011
	(in thousands of HRK)	
Salaries	60,814	60,184
Pension contributions	17,512	17,280
Health insurance contributions	11,880	13,135
Other contributions and taxes on salaries	13,382	12,596
Other staff costs /i/	8,169	7,512
Termination benefits and provisions for termination benefits	146	78
	111,903	**110,785**
Number of employees as at 31 December	857	792

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

NOTE 9 – OTHER OPERATING EXPENSES

	2012	2011
	(in thousands of HRK)	
Municipal and similar charges, taxes and contributions	17,515	17,573
Professional services	3,561	3,135
Insurance premiums	2,266	2,359
Travel and entertainment	599	768
Bank charges	955	935
Impairment of property, plant and equipment (Note 15)	-	7,775
Provisions for legal disputes – net (Note 27)	500	-
Provisions for impairment of trade and other receivables (Note 22)	666	460
Impairment of loan receivable	-	166
Collection of receivables previously written-off	(105)	(278)
Other	4,118	2,250
	30,075	**35,143**

NOTE 10 – OTHER GAINS – NET

	2012	2011
	(in thousands of HRK)	
Net gains on sale of property, plant and equipment	143	30
Net foreign exchange gains – other	1,326	675
	1,469	**705**

NOTE 11 – FINANCE INCOME AND COSTS

	2012	2011
	(in thousands of HRK)	
Finance income		
Interest income on cash deposits and loans	6,310	5,700
Interest income on cash deposits and loans – related parties (Note 29)	71	173
Other finance income	484	254
Net foreign exchange gains from financing activities	-	3,725
	6,865	9,852
Finance costs		
Net foreign exchange losses from financing activities	(74)	-
	(74)	-
Finance income – net	**6,791**	**9,852**

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% (2011: 20%) as follows:

	2012	2011
	(in thousands of HRK)	
Profit before tax	**106,563**	**80,599**
Tax calculated at 20%	21,313	16,120
Effect of income not subject to tax	(3,707)	(692)
Effect of reinvested profit	(18,575)	-
Effect of expenses not deductible for tax purposes	1,258	1,585
Income tax charge	**289**	**17,013**
Income tax prepayment	(15,931)	(11,514)
Income tax payable	-	5,499
Income tax receivable	15,642	-
Effective tax rate	0.27%	21.11%

In accordance with article 6 paragraph 1 item 6 of the Income Tax Act, Management decided to reinvest the profit for the period and increase its share capital in the amount of HRK 93 million in 2013 in accordance with special provisions.

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. At the balance sheet date, there is no outstanding tax liability.

NOTE 13 – EARNINGS PER SHARE

Basic

Basic earnings per share is calculated as follows:

	2012		
	(in thousands of HRK)		
	Preference shares	Ordinary shares	Total
Dividends declared and paid in the year	9,666	48,887	58,553
Undistributed earnings before unpaid cumulative preference share dividend for the current year	7,807	39,914	47,721
Profit for the year	**17,473**	**88,801**	**106,274**
Weighted average number of shares in issue excluding own shares	105,000	536,848	
Distributed earnings	92,06	91,06	
Undistributed earnings	74,35	74,35	
Basic earnings per share (*in HRK)*	**166.41**	**165.41**	

	2011		
	(in thousands of HRK)		
	Preference shares	Ordinary shares	Total
Dividends declared and paid in the year	9,666	48,886	58,552
Undistributed earnings before unpaid cumulative preference share dividend for the current year	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**	

Diluted

Diluted earnings per share for 2012 and 2011 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 2012 of HRK 3,179 thousand (2011: HRK 883 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 2011					
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**
Year ended 31 December 2012					
Opening net book amount	965,773	28,760	5,924	8,175	1,008,632
Additions	158,413	30,557	2,527	(5,457)	186,040
Disposals	(726)	(89)	-	-	(815)
Depreciation	(81,826)	(10,881)	(2,154)	-	(94,861)
Closing net book amount	**1,041,634**	**48,347**	**6,297**	**2,718**	**1,098,996**
At 31 December 2012					
Cost	2,234,518	284,308	33,397	2,718	2,554,941
Accumulated depreciation and impairment	(1,192,884)	(235,961)	(27,100)	-	(1,455,945)
Net book amount	**1,041,634**	**48,347**	**6,297**	**2,718**	**1,098,996**

Additions under ‘Land and buildings’ s relate to various construction works in hotels and campsites which were completed in 2012 and 2011, respectively.

As at 31 December 2012 and 2011, there are no pledged assets.

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

In 2011, 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 (Note 9).

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

	2012	**2011**
	(in thousands of HRK)	
Cost	107,614	107,397
Accumulated depreciation at 1 January	(67,300)	(62,826)
Depreciation charge for the year	(3,893)	(4,473)
Net book amount	**36,421**	**40,098**

Operating leases relate to leases of land, business premises and hospitality facilities. During 2012 the Company realised rental income in the amount of HRK 20,780 thousand (2011: HRK 21,155 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:

	2012	**2011**
	(in thousands of HRK)	
Up to 1 year	18,055	17,306
From 2 to 5 years	72,220	69,224
	90,275	**86,530**

In 2012 and 2011, 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 2011	
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**
Year ended 31 December 2012	
Opening net book amount	304
Additions	110
Amortisation	(119)
Closing net book amount	**295**
At 31 December 2012	
Cost	5,632
Accumulated amortisation	(5,337)
Net book amount	**295**

NOTE 17 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

a) Subsidiaries

	2012	2011
	(in thousands of HRK)	
At beginning and end of year	190,788	190,788
	190,788	**190,788**

The principal subsidiaries are:

	Country	Ownership %	
		2012	**2011**
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 2012 or 2011.

b) Associate

	2012	2011
	(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%.

On 16 April 2012, a contract was concluded on the merger, under which the company Jadranski luksuzni hoteli d.o.o. 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 business share of the Company Plava laguna d.d. after the status change is 0.87%, while the share in voting rights changed to 18.18%.

NOTE 18a – 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 2012			
Assets at balance sheet date			
Available-for-sale financial assets	-	6,839	6,839
Trade and other receivables	1,468	-	1,468
Loans and deposit receivable	119,645	-	119,645
Cash and cash equivalents and deposits given	6,666	-	6,666
Total	**127,779**	**6,839**	**134,618**

	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**

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.

	2012	**2011**
Liabilities at balance sheet date – at amortised cost	*(in thousands of HRK)*	
Trade and other payables	28,137	21,330
	28,137	**21,330**

NOTE 18b – CREDIT QUALITY OF FINANCIAL ASSETS

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

	2012	2011
	(in thousands of HRK)	
Trade and other receivables		
Existing customers – payments within maturity period	208	90
Existing customers – with some defaults in the past	40	28
	248	**118**

	2012	2011
	(in thousands of HRK)	
Loans and deposits		
Financial institutions	119,248	116,164
Existing customers – payments within maturity period	397	39
	119,645	**116,203**
Cash at bank	6,663	57,218

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

Financial institutions comprise domestic banks without a credit rating. However, their foreign parent banks have the following ratings: BBB+, AA+ and A (S&P).

NOTE 19 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Ownership	2012	2011
		(in thousands of HRK)	
Istarska kreditna banka Umag d.d., Umag	3.63 %	5,539	9,024
Investments in companies	/i/	1,300	950
		6,839	**9,974**

/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%.

	2012	2011
	(in thousands of HRK)	
At beginning of year	9,974	11,765
Revaluation losses (Note 25)	(3,135)	(1,791)
At end of year	**6,839**	**9,974**

Available-for-sale investments are as follows:

	2012	2011
	(in thousands of HRK)	
Equity securities		
- listed	6,719	9,854
Equity securities		
- unlisted	120	120
	6,839	**9,974**

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

NOTE 20 – LOANS AND DEPOSIT RECEIVABLE

	2012	2011
	(in thousands of HRK)	
Loans given	661	303
Provision for impairment of loan receivables	(264)	(264)
Loans – net	397	39
Deposits given	119,248	116,164
Current portion	**119,645**	**116,203**

Deposits bear an interest rate of 2.0%-4.0% (2011: 2.9%-4.8%). Loans are secured by a mortgage over property with an interest rate set at 7.25% -8.5% (2011: 7.25% -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:

	2012	2011
	(in thousands of HRK)	
HRK	397	39
EUR	119,248	116,164
	119,645	**116,203**

NOTE 21 – INVENTORIES

	2012	2011
	(in thousands of HRK)	
Raw materials and supplies	2,569	2,334
Small inventory on stock	7	7
Trade goods	6	3
	2,582	**2,344**

NOTE 22 – TRADE AND OTHER RECEIVABLES

	2012	2011
	(in thousands of HRK)	
Domestic trade receivables	1,551	1,669
Foreign trade receivables	932	478
Due from brokers – agencies	-	3,946
Provision for impairment of trade receivables	(1,562)	(1,012)
Trade receivables – net	921	5,081
Interest receivables	10	6
Accrued income not yet invoiced	537	220
Total financial assets	1,468	5,307
Due from state institutions	2,463	2,460
VAT receivable	2,860	2,512
Advances to suppliers	150	112
Other short-term receivables	179	468
Provision for impairment of other receivables	(2,163)	(2,163)
	4,957	**8,696**

Movements in provisions for impairment of trade and other receivables

	2012	2011
	(in thousands of HRK)	
At 1 January	3,175	3,249
Additions (Note 9)	666	460
Collection	(105)	(304)
Write-off	(11)	(230)
At 31 December	**3,725**	**3,175**

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)

	2012	2011
	(in thousands of HRK)	
Trade receivables – Gross:		
Neither past due nor impaired	248	118
Past due, but not impaired	673	4,964
Past due and impaired	1,562	1,012
	2,483	**6,093**

As of 31 December 2012, trade receivables in the amount of HRK 673 thousand (2011: HRK 4,964 thousand) were past due but not impaired. The maturities of these receivables are as follows:

	2012	2011
	(in thousands of HRK)	
Up to one month	98	2,072
One to two months	10	194
Two to three months	23	655
Over three months to one year	542	2,043
	673	**4,964**

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

	2012	2011
	(in thousands of HRK)	
EUR	601	4,302
HRK	867	1,005
	1,468	**5,307**

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

	2012	2011
	(in thousands of HRK)	
Giro-accounts and current accounts	1,664	1,096
Cash in hand	3	6
Foreign currency accounts	4,122	634
Time deposits	877	55,488
	6,666	**57,224**

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 2.0%-4.0% (2011: 3.20%-4.8%). The interest rate for cash on giro and other current accounts is set at 0.20% (2011: 0.20%).

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

	2012	2011
	(in thousands of HRK)	
HRK	1,667	1,102
EUR	4,932	55,881
Other	67	241
	6,666	**57,224**

NOTE 24 – SHAREHOLDERS' EQUITY

The equity structure as at 31 December 2012 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/	9,120	16,416,000	1.67
Other legal entities and natural persons	74,360	133,848,000	13.61
	546,318	983,372,400	100.00
Ownership of preference shares:			
Sutivan Investments Anstalt, Liechtenstein	105,000	105,000,000	100.00
Total		**1,088,372,400**	

The equity structure as at 31 December 2011 was as follows:

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

NOTE 24 – SHAREHOLDERS' EQUITY (continued)

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 9,120 (2011: 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 2012 and 2011.

During 2012, 350 treasury shares were allocated to a separate account with the Central Depository and Clearing Company, pursuant to the Trustee Agreement to receive shares and cash payments, in order to implement the merger of Hotel Bonavia d.d. with the acquiring company Plava laguna d.d. as of 1 January 2013 (Note 30).

NOTE 25 – RESERVES AND RETAINED EARNINGS

	2012	2011
	(in thousands of HRK)	
Legal reserves	33,536	32,007
Other reserves	33,867	91,483
Retained earnings	241,021	139,960
	308,424	**263,450**
Changes in reserves:		
Legal reserves		
At beginning of the year	32,007	29,316
Transfer from retained earnings	1,529	2,691
At end of the year	**33,536**	**32,007**
Other reserves		
At beginning of the year	91,483	93,730
Transfer to retain earnings	-	(815)
Distribution of dividend	(54,869)	-
Revaluation of financial assets available for sale-gross (Note 19)	(3,135)	(1,791)
Deferred tax assets	388	359
Revaluation of available-for-sale financial assets – net	(2,747)	(1,432)
At end of the year	**33,867**	**91,483**
Retained earnings		
At beginning of the year	139,960	136,802
Net profit for the year	106,274	63,586
Dividend distribution	(3,684)	(58,552)
Transfer from other reserves	-	815
Transfer to legal reserves	(1,529)	(2,691)
At end of the year	**241,021**	**139,960**

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 30 August 2012 and 26 August 2011, retained earnings in the amount of HRK 1,529 thousand (2011: HRK 2,691 thousand) were transferred to legal reserves. As at 31 December 2012, legal reserves amounted to HRK 33,536 thousand or 3.08% of the share capital (2011: HRK 32,007 thousand or 2.9%), while the share of legal reserves together with capital reserves (HRK 20,882 thousand), which is also not distributable that were formed by denominating the share value in 2001 (from HRK 1,860 to HRK 1,800 per share), form a share of 5.0% (2011: 4.86%) in the Company's share capital.

NOTE 25 – RESERVES AND RETAINED EARNINGS (continued)

As at 31 December 2012, other reserves amounted to HRK 33,867 thousand (2011: HRK 91,483 thousand) and comprise treasury shares reserves of HRK 11,897 thousand (2011: HRK 11,897 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets in the amount of HRK 1,088 thousand (2011: HRK 3,835 thousand). These other reserves are not distributable.

The remaining other reserves in the amount of HRK 20,882 thousand (2011: HRK 76,564 thousand) relate to the above stated capital reserves formed by denominating the nominal value of shares in HRK. An amount of HRK 76,564 thousand as at 31 December 2011 relates to the revaluation reserves formed in 1993 (HRK 54,869 thousand) that are distributable and capital reserves formed by denominating the nominal value of shares in HRK (HRK 20,882 thousand).

Based on the decision of the General Assembly from 30 August 2012, revaluation reserves in the amount of HRK 54,869 thousand were distributed for dividends.

NOTE 26 – TRADE AND OTHER PAYABLES

	2012	**2011**
	(in thousands of HRK)	
Trade payables	16,610	12,930
Due to related parties (Note 29)	179	132
Dividends payable (Note 14)	3,179	883
Accrued costs not yet invoiced	1,444	2,391
Concession payable /i/	6,725	4,994
Total financial liabilities	28,137	21,330
Net salaries payable	12,635	11,754
Taxes and contributions payable	9,194	8,801
Advances received	5,823	2,471
Other current liabilities	3,742	2,905
	59,531	**47,261**

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

NOTE 26 – TRADE AND OTHER PAYABLES (continued)

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

	2012	2011
	(in thousands of HRK)	
HRK	28,023	21,033
EUR	114	297
	28,137	**21,330**

NOTE 27 – PROVISIONS

	2012	2011
	(in thousands of HRK)	
At 1 January	1,500	1,500
Additional provisions (Note 9)	500	-
At 31 December	**2,000**	**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 and 2012, 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 31 December 2012 the procedure of granting concessions was not finalised.

NOTE 28 – CONTINGENCIES AND COMMITMENTS (continued)

Provisions for other contingent liabilities. In the financial statements for the years ended 31 December 2012 and 2011, the Company anticipates payment of other contingent liabilities in the amount of HRK 2,000 thousand (2011: 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 2012 amounted to HRK 3,455 thousand (2011: HRK 154,930 thousand).

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

	2012	**2011**
	(in thousands of HRK)	
Up to 1 year	384	301
From 2 to 5 years	272	324
	656	**625**

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 Investments 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 the Plava laguna Group (Plava laguna d.d., Poreč, Laguna invest d.o.o., Poreč and Hoteli Croatia d.d., Cavtat) and the associate Jadranski luksuzni hoteli d.o.o., Dubrovnik. These transactions were carried out under commercial terms and conditions and at market rates.

NOTE 29 – RELATED PARTY TRANSACTIONS (continued)

1) Transactions with related companies under common control:

	Note	2012	2011
		(in thousands of HRK)	
a) Other expenses			
Excelsa nekretnine d.d.		440	16
b) Trade and other payables			
Excelsa nekretnine d.d.		478	3

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

	Note	2012	2011
		(in thousands of HRK)	
a) Trade and other payables			
Laguna invest d.o.o., Poreč		132	132
Hoteli Croatia d.d., Cavtat		47	-
	26	179	132
b) Expenses from foreign exchange losses on currency clause			
Hoteli Croatia d.d., Cavtat		1	-
c) Income from foreign exchange gains on currency clause			
Hoteli Croatia d.d., Cavtat		-	69
d) Loans granted			
Increase		7,000	9,800
Decrease		(7,000)	(9,800)
At end of year	20	-	-
e) Dividend income	6	10,861	403
Hoteli Croatia d.d., Cavtat			
f) Interest income			
Hoteli Croatia d.d., Cavtat	11	71	173

NOTE 29 – RELATED PARTY TRANSACTIONS (continued)

3) Key Management and Supervisory Board compensation

	2012	2011
	(in thousands of HRK)	
Net salaries	5,286	5,019
Pension contributions	1,406	1,381
Health insurance contributions	1,305	1,340
Other costs (contributions and taxes)	2,952	2,732
	10,949	**10,472**
Supervisory Board compensation	1,995	1,846
	12,944	**12,318**

Key management comprises 14 members (2011: 14 members). The Supervisory Board consists of 7 members (2011: 7 members).

NOTE 30 – EVENTS AFTER THE REPORTING PERIOD

In line with the Merger Agreement concluded on 28 September 2012 between Hotel Bonavia d.d. Rijeka, as the merged company, and Plava laguna d.d. Poreč, as the acquiring company, and the decision of the General Assembly from 12 November 2012, at 31 December 2012 the Commercial Court in Rijeka (Pazin office) adopted the Decision based on which the stated merger was entered into the court register. The effects of the merger will be in force starting from 1 January 2013.