ARENATURIST d.d.

EXECUTIVE DIRECTORS' REPORT AND ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2009

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Company Profile

History and incorporation

Arenaturist d.d. from Pula (Company) is one of the biggest leading hotel companies in Croatia that manages its business in the south of the Istrian peninsula, and it has been present in the tourist market for 35 years.

Arenaturist d.d. (the Company) is a joint stock company for tourism and catering industry established in the Republic of Croatia and headquartered in Pula, Smareglina ulica 3.

The Company was founded as a result of the transformation of the socially-owned enterprise Arenaturist – Poduzeće za ugostiteljstvo i turizam, po.

According to the ownership structure as of 31 December 2009, W 2005/ Dvadeset Osam d.o.o. holds 74.15% of the shares. The Croatian Privatization Fund owns 1.94% of the Company’s shares, treasury shares amount to 0.01% and other 4,393 shareholders own the remaining 23.90% of the Company’s shares.

Primary business activity and accommodation capacities

Primary business activity of the Company is providing tourist and catering services. In addition to vacation tourism in summer months, moderate climate and numerous sports grounds such as tennis courts and football pitches, mini-golf courts, athletic and bicycle paths, open air and indoor swimming pools, saunas and similar facilities enable year round sports activities. Congress tourism is a significant segment of Arenaturist's tourist offer owing to excellent traffic connections (vicinity of airport) and hotels with belonging infrastructure.

Arenaturist tourist facilities are situated in prestigious locations in Pula, Medulin, Premantura and Banjole, beautiful tourist centres of exceptional natural and cultural-historical value. With its accommodation units in hotels, apartments, detached villas, tourist settlements, camps and belonging catering and other facilities and its personnel, the Company is able to offer quality tourist product.

The accommodation capacities of the Company consist of seven hotels with 1,458 rooms, two apartment settlements with 616 units and five camps with 3,927 units, which represent total accommodation potential of over 16,000 guests per day. In the overall accommodation offer of the Company, camps have the largest share of 66%, while the remaining 34% is shared by hotels and tourist settlements.

Company Profile (continued)

Structure of Company's Management

The Management Board consists of eleven members. Members of the Management Board are elected and appointed for a one-year period and they can be re-elected or reappointed.

The following persons were members of the Management Board by 24 September 2009:

Boris Ivesha	President
Kamaldeep Manaktala	Deputy President
Patrick Tribolet	Deputy President
Chen Moravsky	Member
Erik Honing	Member
Damir Lučić	Member and employees representative
Marielle Stijger	Member
Gerardus Nicolaas Meijssen	Member
Šime Vidulin	Member
Marcus Hubertus Gertrudis Vennekens	Member
Predrag Stojčević	Member

At the ordinary Company General Assembly held on 24 September 2009, ten members were re-elected, and Works Council appointed its representative.

Members of the Management Board :

Boris Ivesha	President
Heather Mulahasani	Deputy President
Patrick Tribolet	Deputy President
Chen Moravsky	Member
Erik Honing	Member
Stanko Zenzerović	Member and employees representative
Marielle Stijger	Member
Gerardus Nicolaas Meijssen	Member
Šime Vidulin	Member
Marcus Hubertus Gertrudis Vennekens	Member
Abraham Thomas	Member

The Company is represented by the Executive Directors.

The following Executive Directors were reappointed on 18 September 2009:

Igor Štoković	Chief Executive Officer
Milena Perković	Executive Director
Reuel Slonim	Executive Director
Kurt Kuen	Executive Director

Executive Directors' Report

The year 2009 will be remembered as the year of challenges occurring due to difficult work conditions. World economic crisis has affected our business results, too. Considering recession in economies of countries where most of pour guest come from, we have realized worse results in comparison to the previous year.

To improve the quality of its offer, Arenaturist invested HRK 19 million in 2009.

Results of Company's Business Operations

In the year 2009, Arenaturist realized 1.2 million overnights, which represents a 1% fall in relation to the previous year. The number of overnights fell by 7% in hotels, while tourist settlements realized 2%, and camps realized 1% more overnights in relation to the previous year. Due to large-scale marketing activities undertaken with the objective of reducing the effect of crisis, hotels realized lower average prices compared to prices of the previous year, which eventually resulted in the fall of overall operating revenue.

Operating revenue amounted to HRK 191.9 million, which represents a 3% drop in relation to the same period of the previous year. Operating expenses amounted to HRK 192.2 million, which represents a 2% increase in relation to the same period of the previous year. Expenses of material and services increased in relation to the previous year due to higher maintenance costs and expenses of marketing and advertising activities. Expenses of employees increased in relation to the previous year due to a larger number of employees and increase of salaries in conformity with the Work Agreement. In the observed period, the Company continued its collaboration with the company Park Plaza Hotels in the area of management, development, standardization of services and strategic marketing.

Net financial income and spending have a positive effect on the overall results of the period. Net financial spending amounts to HRK 12.0 million and it has been considerably reduced in relation to the previous year due to lower interest rates and positive differences in foreign exchange rates on loans.

Property and liabilities

Total value of assets as of 31.12.2009 amounted to HRK 968.8 million and reserves amounted to HRK 712.5 million and they marked a fall in relation to the previous year due to realized loss for the period.

Total Company liabilities amounted to HRK 256.3 million and they increased by HRK 5.0 million in relation to the previous year. Liabilities on loans were reduced by HRK 13.5 million, while liabilities to suppliers and other liabilities increased by HRK18.9 million due to included management fee to the company Park Plaza Hotels and liability for interest rate to related companies.

Risk exposure and risk management

The Company's activities expose it to a variety of financial risks, including the currency risk, the interest rate risk, the credit risk and the liquidity risk. The Company monitors all these risks and makes efforts at reducing their potential effect on the financial exposure of the Company. The Company does not use derivative financial instruments for active protection against exposure to the financial risk.

Code of Corporate Governance

In is business operations, the Company applied the Code of Corporate Governance of the Zagreb Stock Exchange d.d.

Human resources

In the tourist business, human resources are one of the most important factors in reaching a high level of catering.

As of 31 December 2009, Arenaturist had 351 permanent employees, and in the peak of the season (August) additional 330 seasonal employees were employed. With 25 long term seasonal employees, the Company concluded Temporary Service Contracts for permanent seasonal jobs. By the same token, numerous educational seminars were organized in all areas of catering and accommodation operations.

Expectations for the year 2010

In 2010, we expect business conditions to be equally complex as was the case this year, due to the well-known fact that the tourist market recovers slowly after the stabilization of the overall economy.

Arenaturist will use more intense marketing activities and offer new services in the increasingly demanding tourist market to enlarge its market and create a basis for future development.

The 2010 budget plans a 2% increase of overnights in relation to the year 2009 with increase of average prices of overnight, which should result in higher revenues and better financial results in relation to 2009 in addition to increase of guests’ non-room-and-board consumption and further rationalization of expenses.

We have planned moderate investments using our own assets and we are currently preparing documentation for more substantial investments in the following years.

The Company will continue employing new employees and investing into the education of its employees.

Chief Executive Officer and authorized person of the Executive Director Milena Perković
Dr.sc. Igor Štoković

Chief Executive Officer and authorized person of the Chief Executive Officer Dr. Sc. Igor Štoković

Milena Perković

Executive Director and authorized person of the Executive Director Kurt Kuen

Reuel Israel Gavriel Slonim

Executive Director and authorized person of the Executive Director Reuel Israel Gavriel Slonim

Kurt Kuen

Responsibilities of the Executive Directors and the Management Board for the preparation and approval of annual financial reports

The Executive Directors are required to prepare financial statements for each financial year giving a true and fair view of the financial position of the Company and of the results of its operations and cash flow for the relative period in conformity with applicable accounting standards, and are also responsible for keeping proper accounting records necessary for the preparation of such financial statements at any time. Company's Executive Directors have general responsibility to take steps aimed at safeguarding the Company assets and preventing and detecting frauds and other irregularities.

Company's Executive Directors are responsible for selecting suitable accounting policies to be applied consistently, to make judgments and estimates that are reasonable and prudent, and to prepare financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue its business.

Company's Executive Directors are responsible for the presentation to the Management Board of its annual report on the business situation of the Company in addition to the annual financial statements. Following the approval, reports shall be presented at the General Assembly of Shareholders. The financial statements set out on pages 10 to 62 were approved by the Executive Directors on 28 April 2010 for issue to the Management Board, which is confirmed by below signatures.

Chief Executive Officer and authorized person of the Executive Director Milena Perković
Dr.sc. Igor Štoković

Chief Executive Officer and authorized person of the Chief Executive Officer Dr. Sc. Igor Štoković

Milena Perković

Executive Director and authorized person of the Executive Director Kurt Kuen

Reuel Israel Gavriel Slonim

Executive Director and authorized person of the Executive Director Reuel Israel Gavriel Slonim

Kurt Kuen

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Independent auditor's report

To the Shareholders and the Board of Directors of Arenaturist d.d., Pula

We have audited the accompanying financial statements of Arenaturist d.d., Pula (the 'Company') which comprise the statement of financial position (balance sheet) as at 31 December 2009 and the statements of comprehensive income, changes in equity and cash flows the year then ended, and a summary of significant accounting policies and other explanatory notes.

Executive Directors' Responsibility for the Financial Statements

Executive Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion we draw attention to Note 28 – Contingencies, which describes the procedures relating to the registration of ownership title over the Company's properties. These financial statements have been prepared under the assumption of full registration of ownership title of the properties, which in the privatisation process were transferred to the Company as a non-monetary contribution to the share capital of the Company, although this presumption is yet to be confirmed by completion of the registration process.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 28 April 2010

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

(all amounts in thousands of HRK)	Note	2009	2008
Sales	5	191,366	197,156
Other income	6	561	1,006
Cost of materials and services	7	(64,892)	(61,655)
Staff costs	8	(65,780)	(63,777)
Depreciation and amortisation	14,15	(35,036)	(35,653)
Other operating expenses	9	(26,623)	(26,343)
Other gains/(losses) – net	10	160	(1,771)
Operating (loss)/profit		**(244)**	**8,963**
Finance income		350	61
Finance costs		(12,341)	(15,796)
Finance costs – net	11	(11,991)	(15,735)
Loss before tax		**(12,235)**	**(6,772)**
Income tax	12	2,311	1,189
Loss for the year		**(9,924)**	**(5,583)**
Other comprehensive income:			
Fair value gains(losses) on available-for-sale financial assets	20	30	(293)
Total comprehensive loss for the year		**(9,894)**	**(5,876)**
Loss per share (in HRK) – basic and diluted	13	**(4.55)**	**(2.56)**

ARENATURIST D.D., PULA

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

AS AT 31 DECEMBER 2009

(all amounts in thousands of HRK)	**Note**	**2009**	**2008**
ASSETS			
Non-current assets			
Property, plant and equipment	14	938,095	955,575
Intangible assets	15	2,541	3,079
Investment in subsidiaries	16	40	40
Trade and other receivables	21	381	342
Financial assets available for sale	20	165	135
Deferred tax assets	17	4,678	2,367
		945,900	**961,538**
Current assets			
Inventories	18	558	694
Trade and other receivables	21	11,569	9,856
Income tax receivable	12	221	-
Cash and cash equivalents	22	10,585	1,633
		22,933	**12,183**
		968,833	**973,721**
EQUITY			
Equity			
Share capital	23	43,650	43,650
Treasury shares	23	(4)	(4)
Reserves	24	643,305	643,275
Retained earnings	24	25,574	35,498
		712,525	**722,419**
LIABILITIES			
Non-current liabilities			
Borrowings	25	162,801	157,994
Trade and other payables	27	3,116	1,555
Provisions	26	10,242	10,399
		176,159	**169,948**
Current liabilities			
Borrowings	25	38,517	56,860
Trade and other payables	27	38,573	21,256
Provisions	26	3,059	2,792
Income tax payable	12	-	246
		80,149	**81,354**
Total liabilities		**256,308**	**251,302**
Total equity and liabilities		**968,833**	**973,721**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

(all amounts in thousands of HRK)	Note	Share capital	Treasury shares	Reserves	Retained earnings	Total
At 1 January 2008		**654,750**	**(51)**	**32,336**	**41,260**	**728,295**
Total comprehensive loss for 2008		**-**	**-**	**(293)**	**(5,583)**	**(5,876)**
Decrease in share capital	23	(611,100)	47	611,053	-	-
Transfer to legal reserves	24	-	-	179	(179)	-
At 31 December 2008		**43,650**	**(4)**	**643,275**	**35,498**	**722,419**
Total comprehensive loss for 2009		**-**	**-**	**30**	**(9,924)**	**(9,894)**
At 31 December 2009		**43,650**	**(4)**	**643,305**	**25,574**	**712,525**

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

(all amounts in thousands of HRK)	Note	2009	2008
Cash flows from operating activities			
Cash generated from operations	29	53,333	49,146
Income tax paid	12	(467)	(34)
Interest paid		(8,378)	(14,931)
Net cash from operating activities		44,488	34,181
Cash flows from investing activities			
Purchase of property, plant and equipment		(17,834)	(17,740)
Purchase of intangible assets	15	(637)	(696)
Proceeds from sale of property, plant and equipment	29	118	7
Proceeds from sale of available-for-sale financial assets		-	5
Deposits granted		(3,997)	(167)
Formation of subsidiaries	16	-	(40)
Interest received	11	92	61
Net cash used in investing activities		**(22,258)**	**(18,570)**
Cash flows from financing activities			
Proceeds from borrowings		79,324	2,557
Repayments of borrowings		(92,602)	(21,358)
Net cash used in financing activities		**(13,278)**	**(18,801)**
Net increase/(decrease) in cash and cash equivalents		**8,952**	**(3,190)**
Cash and cash equivalents, beginning of year		1,633	4,823
Cash and cash equivalents, end of year	22	**10,585**	**1,633**

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

NOTE 1 – GENERAL INFORMATION

ARENATURIST is a joint-stock company (the "Company") with a registered office in Pula in the Republic of Croatia. The Company's activities are tourism, catering and trade activities.

In accordance with the law of the Republic of Croatia and with the approval of the Croatian Privatisation Fund, the Company was transformed from a state-owned into a joint-stock company in 1994 and registered at the Commercial Court in Rijeka.

During 2007, upon the acquisition of the controlling block of shares of Arenaturist d.d. Pula, W2005/Dvadeset Osam d.o.o. Zagreb, became the majority owner. The ownership structure as at 31 December 2009 and 2008 is disclosed in Note 23.

The registered office of Arenaturist d.d. is in Pula, Smareglina 3, Croatia.

As at 31 December 2009, the Company's shares were listed on the regular listing on the Zagreb Stock Exchange.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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) under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of 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 financial statements, are disclosed in Note 4.

The financial statements have been prepared under the assumption that the Company will continue to operate as a going concern. In the balance sheet as at 31 December 2009, current liabilities exceed current assets by HRK 57,216 thousand (2008: HRK 69,171 thousand). The Company realised a loss in of HRK 9,924 thousand (2008: HRK 5,583 thousand), but has a history of profitable operations in the past and ready access to financial resources. The Company generated a positive cash from operating activities of HRK 45 million in 2009 (2008: HRK 34 million), while the cash flow form operating activities for 2010 is projected at HRK 46 million. The Company has the financial support of the Parent Company through long-term borrowings at fixed interest rates and the Company has no difficulties in obtaining new bank loans.

(a) Standards early adopted by the Company

No standards were early adopted by the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Company:

Standard/interpretation	Content	Applicable for financial years beginning on/after
IFRS 7	Improving disclosures about financial instruments	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements	1 January 2009
IAS 19 (Amendment)	Employee benefits	1 January 2009
IAS 23	Borrowing costs	1 January 2009
IAS 36	Impairment of assets	1 January 2009
IAS 38	Intangible assets	1 January 2009
IAS 39 (Amendment)	Financial instruments: Recognition and measurement	1 January 2009

- **Amendments to IFRS 7, Financial instruments: Disclosures**
  The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or earnings per share of the Company.

- **IFRS 8, Operating segments**
  IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Company's accounting period beginning on 1 January 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Company's external segment reporting will be based on the internal reporting to the Company's Management Board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Company but has an impact on segment disclosure and on the measurement bases within segments. The segment results have been changed accordingly. Comparative figures for 2008 have been restated.

- **IAS 1 (revised), Presentation of financial statements**
  A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- **IAS 19 (Amendment), Employee benefits**
  The amendment is part of the IASB's annual improvements project published in May 2008.

  - The amendment clarifies the effects of defined benefit plan amendments on expected gains arising from future salary increases or past service.
  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
  - The distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
  - IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

- **IAS 23, Borrowing costs**
  A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for qualifying assets (assets that require a substantial period of time to get ready for their intended use or sale). The application of the IAS 23 amendment does not have a material impact on the results (earnings per share) or statement of financial position of the Company.

- **IAS 36 (Amendment), Impairment of assets**
  The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The amendment does not have a significant impact on the financial statements.

- **IAS 38 (Amendment), Intangible assets**
  The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The amendment does not have a significant impact on the financial statements.

- **IAS 38 (Amendment), Intangible assets**
  The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment does have any impact on the Company's operations as all intangible assets are amortised using the straight line method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- **IAS 39 (Amendment), Financial instruments: Recognition and measurement**
  The amendment is part of the IASB's annual improvements project published in May 2008. This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
  - The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8, 'Operating segments' which requires disclosure for segments to be based on information used by Management. The amendment does not have a significant impact on the financial statements.

The following interpretations became effective in 2009, but were not relevant for the Company's operations:

- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 January 2009).
- IFRS 1 (Amendment), First time adoption of IFRS and IAS 27 Consolidated and separate financial statements (effective from 1 January 2009).
- IFRS 2 (Amendment), Share-based payment. The amendment is not relevant since the Company does not have share-based payments.
- IAS 16 (Amendment), Property, plant and equipment (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).
- IAS 27 (Amendment), Consolidated and separate financial statements (effective from 1 January 2009).
- IAS 28 (Amendment), Investments in associates (and consequential amendments to IAS 32, Financial Instruments: Presentation and IFRS 7, Financial instruments: Disclosures) (effective from 1 January 2009).
- IAS 29 (Amendment), Financial reporting in hyperinflationary economies (effective from 1 January 2009).
- IAS 31 (Amendment), Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).
- IAS 40 (Amendment), Investment property (and consequential amendments to IAS 16) (effective from 1 January 2009).
- IAS 41 (Amendment), Agriculture (effective from 1 January 2009).
- IAS 20 (Amendment), Accounting for government grants and disclosure of government assistance (effective from 1 January 2009).
- IFRIC 13, Customer loyalty programme (effective from 1 July 2009)
- IFRIC 15, Agreements for construction of real estates (effective from 1 January 2009).
- IFRIC 16, Hedges of a net investment in a foreign operation (effective from 1 October 2008).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) Standards and amendments issued but not yet effective

The following standards and amendments have been issued and are mandatory for the Company's accounting periods beginning on or after 1 July 2010 or later periods and are relevant to the Company:

Standard/interpretation	Content	Applicable for financial years beginning on/after
IAS 39	Financial instruments: Recognition and measurement – eligible hedged items	1 July 2010
IFRS 3	Business combinations	1 January 2010
IFRS 5	Non-current assets held for sale and discontinued operations	1 January 2010
IFRS 9	Financial instruments part 1: Classification and measurement	1 January 2013
IFRIC 17	Distribution of non-cash assets to owners	1 January 2010
IFRIC 18	Transfers of assets from customers	1 January 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

- **IAS 39, Financial instruments: Recognition and measurement – Eligible hedged items**
  The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Company's financial statements.

- **IFRS 3 (Revised), Business combinations**
  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- **IFRS 5 (Amendment), Non-current assets held for sale and discontinued operations (and consequential amendment to IFRS 1, First-time adoption)**
  The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Company will apply IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- **Improvements to IFRS**
  Improvements to IFRS' were issued in May 2008 (endorsed by the EU on 23 January 2009) and April 2009 (not yet endorsed). They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

- **IFRS 9, 'Financial instruments part 1: Classification and measurement'**
  IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - While the adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

IFRIC 17, Distribution of non-cash assets to owners The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in the statement of comprehensive income when the entity settles the dividend payable. The Company is currently assessing the impact of the interpretation on its financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IFRIC 18, Transfers of assets from customers The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the
entity settles the dividend payable. The Company is currently assessing the impact of the interpretation on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in the statement of comprehensive income based on the fair value of the equity instruments compared to the carrying amount of the debt. The Company is currently assessing the impact of the interpretation on its financial statements.

2.2 Investments in subsidiaries

Subsidiaries are those entities in which Arenaturist d.d., directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. The Company carries subsidiaries, disclosed in Note 16, according to the cost method. There are no consolidated financial statements prepared due to the fact that the subsidiaries are not material. The Company does not control any other enterprises.

2.3 Foreign currencies

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Croatian kuna (HRK), which is the Company's functional and 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 income statement within 'finance costs – net'. All other foreign exchange losses and gains are recorded in the statement of comprehensive income within 'other gains/(losses) – net'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Segment reporting

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

2.5 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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 the replaced part is derecognised.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	25-60 years
Machinery and equipment	4 - 8 years
Other	10 years

Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant. The residual value of an asset is the estimated amount that the 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 2.7). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income within 'other gains/(losses) – net'.

2.6 Intangible assets

Intangible assets comprise technical documentation (surveying projects) and computer software licences and are stated at cost less accumulated amortisation and impairment losses. These costs are amortised over their estimated useful lives (4 to 10 years).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 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 and other receivables and cash and cash equivalents in the balance sheet (Notes 2.11 and 2.12).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified as loans and receivables. 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.

2.8.2 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. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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 equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

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 investments in securities'.

Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement 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.

2.9 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.

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 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 profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

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

2.10 Inventories

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

2.11 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as noncurrent assets.

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

2.12 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.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 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.

2.15 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 regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 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.

(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 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, accumulated compensated absences based on unused vacation days at the balance sheet date, as well as labour hours realised from the reorganisation of working hours not utilised up to the balance sheet date.

2.17 Trade payables

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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 not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

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

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in hotels and apartments, campsites and restaurants. Revenue is shown net of commission to agencies and 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.

(a) Sales of services

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

Revenue from fixed-price contracts for services is generally recognised in the period the services are provided, on a straight-line basis over the terms of contracts with tourist agencies and tour operators.

(b) 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Leases

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.

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Assets leased out under operating leases are included in 'property, plant and equipment' in the balance sheet. Assets are depreciated on the straight-line basis equal to other property and equipment. Lease income is recognised over the period of the lease.

2.21 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.

2.22 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and presented 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.

2.23 Comparatives

Certain balances for 2008 have been reclassified to conform with changes in presentation in the current year:

- Changes in granted loans have been excluded from 'trade and other receivables' in cash flows from operating activities and are presented separately within investing activities in the amount of HRK 167 thousand. According to that reclassifications, Net cash from operating activities for 2008 changed from HRK 48,979 thousand to HRK 49,146 thousand and Net cash used in investing activities for 2008 changed from HRK 18,403 thousand to HRK 18,570 thousand.

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 (EUR) and Swiss franc (CHF). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The majority of the Company's foreign sales revenue and long-term debt (Note 25) is denominated in EUROs and Swiss francs. Therefore, movements in exchange rates between the EURO, Swiss franc (CHF) and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow.

At 31 December 2009, if the EURO had weakened/strengthened by 0.5% and 1% for 2008 against the HRK, with all other variables held constant, the loss for the reporting period would have been HRK 465 thousand (2008: HRK 1,420 thousand) lower/(higher), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated borrowings, trade and other receivables and foreign cash funds.

At 31 December 2009, if the CHF had weakened/strengthened by 2.5% and 6% for 2008 against the HRK, with all other variables held constant, the loss for the reporting period would have been HRK 144 thousand (2008: HRK 732 thousand) lower/(higher), mainly as a result of foreign exchange gains/(losses) on translation of CHF-denominated borrowings.

The Company has no objectives or policies with respect to foreign exchange risk management.

(ii) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from long-term borrowings (Note 25). Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. 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.

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

At 31 December 2009, if interest rates on currency-denominated borrowings had been higher/lower by 0.3% and 1% for 2008, with all other variables held constant, the loss for the year would have been HRK 324 thousand (2008: HRK 1,625 thousand) higher/(lower), mainly as a result of higher/lower interest expense on variable-rate borrowings.

The Company has no objectives or policies with respect to interest rate risk management.

(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 invests in securities listed on the Zagreb Stock Exchange (ZSE). The Company is not exposed to commodity price risk.

As at 31 December 2009 and 2008, if the indices of the ZSE had been higher/lower by 40% for 2009 and 25% for 2008 (which was the average index movement), with all other variables held constant, revaluation reserves within equity and other comprehensive income would have been HRK 66 thousand (2008: HRK 10 thousand) higher/lower, as a result of gains/losses 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). The Company's credit risk is limited since the Company has no loan receivables, i.e. provisions for impairment of trade and other receivables have been made based on credit risk assessment. Management monitors the collectibility of receivables through weekly reports on individual balances of receivables. Impairment of trade receivables is performed when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. The Company has policies that limit the amount of credit exposure to any financial institution. Cash transactions are carried out through high quality Croatian banks. The Company has only short-term highly liquid instruments with maturity periods of three months or less. See Note 19b and 21 for further disclosure on credit risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash (Note 22), the availability of funding through an adequate amount of committed credit facilities (Note 25) and the ability to meet all obligations. The Company aims to maintain flexibility in funding by keeping committed credit lines available. Management daily monitors available cash resources based on reports on the balance of cash and liabilities.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

The table below analyses financial liabilities of the Company according to contracted maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Up to 1 year	1-2 years	2-5 years	Over 5 years	Carrying value
As at 31 December 2009					
Trade payables	11,107	-	-	3,116	14,223
Due to Park Plaza Hotels	17,249	-	-	-	17,249
Borrowings	48,118	84,112	57,664	37,996	227,890
As at 31 December 2008					
Trade payables	9,419	-	-	2,047	11,466
Due to Park Plaza Hotels	5,711	-	-	-	5,711
Borrowings	67,373	43,117	85,222	54,857	214,854

3.2 Capital risk 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 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. The Company has no objectives or policies with respect to managing capital. Equity as presented in these financial statements is considered as the Company's capital.

3.3 Fair value estimation

Fair value represents the amount at which an asset could be exchanged or a liability settled between knowledgeable and willing parties acting in their best interest.

The fair value of available-for-sale investments is estimated based on their market value at the balance sheet date.

The Company's main financial instruments not measured at fair value include trade receivables, other receivables, trade payables, borrowings and other liabilities. The carrying amount of current financial instruments approximates their fair values due to the short-term nature of these financial instruments. The fair value of non-current borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

Fair value hierarchy

Effective 1 January 2009, the Company adopted the amendment to IFRS 7 Financial instruments, which requires the fair value measurement to be presented in the statement of financial position by level of 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).

	Level 1	Level 2	Level 3	Total
At 31 December 2009				
Financial assets at fair value through profit or loss				
-equity securities	125	-	-	125
Total assets	**125**	**-**	**-**	**125**

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/ shareholders.

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-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 tourism 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.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

According to the technical department, the useful life of buildings of 25 to 60 years was assessed to be appropriate for undisturbed operations. The useful lives of equipment and other assets have also been reassessed as disclosed in Note 2.5.

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

If the depreciation rates on property, plant and equipment had been 5% higher/lower, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment would have been HRK 1,752 thousand (2008: HRK 1,782 thousand) lower/higher.

In accordance with the accounting policy stated in Note 2.7, the Company tests whether property, plant and equipment has suffered any impairment through expected cash flow based on an updated business plan. The recoverable amount test includes a forecast Euro exchange rate of 7.3427 HRK/EUR for 2010. If the EURO had weakened/strengthened by 0.5% against the HRK over the forecast period, value in use would be, on average, HRK 5,201 thousand lower/higher. No need for impairment was identified.

(b) Land ownership

Problems with respect to land ownership disputes are common for the majority of the tourism companies in the Republic of Croatia. Their resolution is expected after the finalisation and enactment of the Law on Tourism Land (see Note 28).

(c) Financial crisis impact

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Such circumstances could affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The customers of the Company may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding debts. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in their impairment assessments.

Management is unable to reliably estimate the effects on the Company's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Company’s business in the current circumstances.

NOTE 5 – SEGMENT INFORMATION

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Company's Management Board (the chief operating decision-makers), which are responsible for allocating resources to the reportable segments and assessing its performance. All operating segments used by the Company meet the definition of a reportable segment under IFRS 8.

The Company records its operating revenue and costs by the type of services rendered in several operating segments: hospitality and tourism, operating segments of accompanying activities, and administrative and management services. In hospitality and tourism, the following is monitored: operating profit of overnights, food and beverages , administration , technical department. The segment 'accompanying activities' comprises services of the lease of business premises, central laundry facilities, maintenance of greenery and environment, technical maintenance of buildings, fixed and movable equipment and other similar services. The administrative segment comprises administrative and operating services, staff, legal, technical and development, financial and accounting services and services of the operating management of operating segments.

The segment information provided to the Company's Management Board for the year ended 31 December 2009 is as follows:

(in thousands of HRK)	**Hospitality and tourism**	**Accompanying activities**	**Administrative services**	**Total**
Total sales	180,123	21,061	1,595	202,779
Inter-segment revenue	826	10,528	59	11,413
Revenue from external customers	179,297	10,533	1,536	191,366
Operating GOP	**67,308**	**2,732**	**(19,387)**	**50,653**
Depreciation and amortisation (Note 14 and 15)	28,075	3,850	3,111	35,036
Total assets	848,301	99,120	5,945	**953,366**
Total liabilities	150,422	5,846	2,924	**159,192**

The segment results for the year ended 31 December 2008 are as follows:

(in thousands of HRK)	**Hospitality and tourism**	**Accompanying activities**	**Administrative services**	**Total**
Total sales	186,277	20,508	1,655	208,440
Inter-segment revenue	857	10,391	36	11,284
Revenue from external customers	185,420	10,117	1,619	197,156
Operating GOP	**78,844**	**2,952**	**(23,199)**	**58,597**
Depreciation and amortisation (Note 14 and 15)	27,978	3,970	3,705	35,653
Total assets	843,663	104,382	-	**948,045**

Total liabilities	141,707	4,020	1,683	**147,410**

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of GOP with loss before tax is as follows:

	2009	2008
	(in thousands of HRK)	
Restated GOP – hospitality and tourism	67,308	78,844
Restated GOP – accompanying activities	2,732	2,952
Restated GOP – administrative services	(19,387)	(23,199)
Restated GOP	**50,653**	**58,597**
Fixed costs	(15,861)	(13,980)
Interest	(12,341)	(14,888)
Depreciation of property, plant and equipment	(35,036)	(35,653)
Finance income/(expense) – net	350	(848)
Loss before tax	**(12,235)**	**(6,772)**

The Company reports to Management using the USALI method. The operating performance indicator based on this method is the restated GOP (Gross operating profit).

Segment assets and liabilities are reconciled to the Company's assets and liabilities as follows:

	2009		2008	
(in thousands of HRK)	Assets	Liabilities	Assets	Liabilities
Segment assets/liabilities	953,366	159,192	948,045	147,410
Unallocated:	15,467	97,116	24,676	103,892
Part of property, plant and equipment	-	-	10,198	
Cash and cash equivalents	10,585	-	1,633	-
Inventories	-	-	694	-
Other receivables	-	-	9,609	-
Deferred tax assets	4,678	-	2,367	-
Other financial assets	204	-	175	-
Borrowings	-	97,116	-	103,646
Income tax payable	-	-	-	246
Total	**968,833**	**256,308**	**973,721**	**251,302**

All the Company's catering and sales services are provided to customers in the Republic of Croatia.

NOTE 5 – SEGMENT INFORMATION (continued)

The Company's sales revenues can be split according to the customers' origin:

	2009	2008
	(in thousands of HRK)	
Domestic sales	21,024	21,007
Foreign sales	170,342	176,149
	191,366	**197,156**

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

Foreign sales	**2009**	**%**	**2008**	**%**
Germany	39,185	23	35,435	20
Italy	27,032	16	27,300	15
Slovenia	23,843	14	23,562	13
Austria	18,606	11	17,725	10
Czech Republic	5,781	3	6,581	4
France	2,474	1	2,045	1
Other EU members	34,528	20	40,721	23
Other	18,893	11	22,779	13
Total	**170,342**	**100**	**187,109**	**100**

NOTE 6 – oTHER INCOME

	2009	2008
	(in thousands of HRK)	
Court claims recovered	-	569
Write-off of liabilities	363	134
Income from refunding	152	260
Other income	46	43
	561	**1,006**

NOTE 7 – COST OF MATERIALS AND SERVICES

	2009	2008
	(in thousands of HRK)	
Raw materials		
Raw materials and supplies	19,863	21,087
Energy and water	14,670	14,778
Small inventories	85	46
	34,618	**35,911**
External services		
Utility services	9,052	9,154
Marketing and promotion	8,987	6,404
Repairs and maintenance	6,064	5,150
Art and entertainment services	1,769	1,620
Telephone, postal and transportation services	949	845
Rentals	351	333
Other services	3,102	2,238
	30,274	**25,744**
	64,892	**61,655**

NOTE 8 – STAFF COSTS

	2009	2008
	(in thousands of HRK)	
Net salaries	33,890	32,935
Pension contributions	9,960	9,532
Health insurance contributions	7,800	7,536
Other contributions, tax and surtax	7,344	6,985
Termination benefits	1,617	390
Other staff costs /i/	5,169	6,399
	65,780	**63,777**
Number of employees	**488**	**453**

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

NOTE 9 – OTHER OPERATING EXPENSES

	2009	2008
	(in thousands of HRK)	
Professional services	3,626	6,470
Municipal and similar fees	6,338	6,256
Management services (Note 30)	8,614	5,710
Insurance premiums	1,785	1,793
Bank charges, payment transaction costs and membership fees	1,858	2,252
Provisions for legal proceedings	60	74
Entertainment costs	668	620
Impairment of property, plant and equipment	158	157
Provisions for impairment of receivables (Note 21)	1,270	528
Collection of receivables previously written-off	(210)	(16)
Interest expense	30	951
Other	2,426	1,548
	26,623	**26,343**

NOTE 10 – OTHER GAINS/(LOSSES) – NET

	2009	2008
	(in thousands of HRK)	
Net gains on sale of property, plant and equipment	5	2
Gain on sale of available-for-sale financial assets	-	4
Net foreign exchange (losses)/gains – other	155	(1,777)
	160	**(1,771)**

NOTE 11 –FINANCE COSTS AND income

	2009	2008
	(in thousands of HRK)	
Finance income		
Interest income on cash deposits with banks	92	61
Foreign exchange gains – net	258	-
	350	61
Finance costs		
Interest expense	(12,341)	(14,888)
Foreign exchange losses – net	-	(908)
	(12,341)	(15,796)
Finance costs – net	**(11,991)**	**(15,735)**

NOTE 12 – INCOME TAX

	2009	2008
	(in thousands of HRK)	
Current tax expense	-	(280)
Deferred tax – Origination and reversal of temporary differences (Note 17)	2,311	1,469
	2,311	**1,189**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 20% (2008: 20%) as follows:

	2009	2008
	(in thousands of HRK)	
Loss before tax	(12,235)	(6,772)
Income tax expense at 20%	(2,447)	(1,354)
Expenses not deductible for tax purposes	3,045	2,202
Income not subject to tax	(776)	(568)
Recognition of deferred tax assets (Note 17)	2,489	1,469
Net income tax credit	**2,311**	**1,189**
Income tax for the current year	**-**	**280**
Prepayment	(221)	(34)
Income tax (receivable)/payable	(221)	246
Effective tax rate	-	17.56%

In accordance with the regulations of the Republic of Croatia, the Tax authorities may at any time inspect the Company's books and records within 3 years following the year in which the tax liability was 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.

NOTE 13 – EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the loss for the year by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (Note 23).

	2009	2008
Loss for the year *(in thousands of HRK)*	(9,924)	(5,583)
Weighted average number of shares (basic)	2,182,331	2,182,331
Earnings per share (basic) *(in HRK)*	**(4.55)**	**(2.56)**

Diluted

Diluted earnings per share for 2009 and 2008 is equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either 2009 or 2008.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Plant and equipment**	**Property and assets under construction**	**Total**
At 1 January 2008				
Cost	1,274,557	152,763	-	1,427,320
Accumulated depreciation	(361,669)	(95,414)	-	(457,083)
Net book amount	**912,888**	**57,349**	**-**	**970,237**
Year ended 31 December 2008				
Opening net book amount	912,888	57,349	-	970,237
Additions	7,408	3,424	9,032	19,864
Disposals and impairment	-	(162)	-	(162)
Depreciation (Note 29)	(23,122)	(11,242)	-	(34,364)
Closing net book amount	897,174	49,369	9,032	955,575
At 31 December 2008				
Cost	1,283,936	152,189	9,032	1,445,157
Accumulated depreciation and impairment	(386,762)	(102,820)	-	(489,582)
Net book amount	**897,174**	**49,369**	**9,032**	**955,575**
Year ended 31 December 2009				
Opening net book amount	897,174	49,369	9,032	955,575
Additions	7,796	5,496	3,360	16,652
Disposals and impairment	-	(271)	-	(271)
Depreciation (Note 29)	(23,090)	(10,771)	-	(33,861)
Closing net book amount	881,880	43,823	12 392	938,095
At 31 December 2009				
Cost	1,291,732	155,943	12,392	1,460,067
Accumulated depreciation and impairment	(409,852)	(112,120)	-	(521,972)
Net book amount	**881,880**	**43,823**	**12,392**	**938,095**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property with a carrying value of HRK 497,680 thousand (2008: HRK 506,292 thousand) has been pledged as collateral for the repayment of bank borrowings (Note 25).
Borrowing costs amounting to HRK 189 thousand have been capitalised during 2009 and included in the value of buildings. The borrowing costs comprise fees of financing construction work performed on the tourism properties. The capitalisation rate was 1%.

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

	2009	**2008**
	(in thousands of HRK)	
Cost	180,868	181,236
Accumulated depreciation as at 1 January	(90,871)	(88,376)
Depreciation for the year	(2,833)	(2,897)
Net book amount	**87,164**	**89,963**

The operating lease relates to the lease of shops and restaurants or premises and equipment. During 2009, the Company realised rental income in the amount of HRK 9,335 thousand (2008: HRK 8,615 thousand).

Operating lease commitments – where the Company is the lessor. The future aggregate minimum lease payments receivable from operating leases based on lease agreements concluded up to 31 December are as follows:

	2009	**2008**
	(in thousands of HRK)	
Up to 1 year	9,813	6,510
From 2 to 5 years	13,185	1,658
Over 5 years	55,118	66,798
	78,116	**74,966**

In 2009 and 2008, 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 15 – INTANGIBLE ASSETS

(in thousands of HRK)	**Technical documentation**	**Licences**	**Total**
At 1 January 2008			
Cost	8,167	5,988	14,155
Accumulated amortisation	(6,247)	(4,236)	(10,483)
Net book amount	**1,920**	**1,752**	**3,672**
Year ended 31 December 2008			
Opening net book amount	1,920	1,752	3,672
Additions	689	7	696
Amortisation for the year (Note 29)	(343)	(946)	(1,289)
Closing net book amount	2,266	813	3,079
As at 31 December 2008			
Cost	8,856	3,904	12,760
Accumulated amortisation	(6,590)	(3,091)	(9,681)
Net book amount	**2,266**	**813**	**3,079**
Year ended 31 December 2009			
Opening net book amount	2,266	813	3,079
Additions	370	267	637
Amortisation for the year (Note 29)	(372)	(803)	(1175)
Closing net book amount	2,264	277	2,541
As at 31 December 2009			
Cost	9,226	3,767	12,993
Accumulated amortisation	(6,962)	(3,490)	(10,452)
Net book amount	**2,264**	**277**	**2,541**

NOTE 16 – INVESTMENTS IN SUBSIDIARIES

	2009	2008
	(in thousands of HRK)	
At 1 January	40	-
Foundation of subsidiary	-	40
At 31 December	**40**	**40**

The principal subsidiaries are:

	Country	Ownership %	
		2009	2008
Mažurana d.o.o., Zagreb	Croatia	100.00	100.00
Ulika d.o.o., Zagreb	Croatia	100.00	100.00

The subsidiaries were founded as at 17 June 2008 and had no activities in 2008 and in 2009.

NOTE 17 – DEFERRED TAX ASSETS

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balance on a net basis. The offset amounts are as follows:

	2009	2008
	(in thousands of HRK)	
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	4,500	2,007
Deferred tax asset to be recovered within 12 months	178	360
	4,678	**2,367**
Deferred tax liabilities		
	-	**-**
Deferred tax assets (net)	**4,678**	**2,367**

NOTE 17 – DEFERRED TAX ASSETS (CONTINUED)

	Accruals for management services	Retirement benefit obligation	Tax loss carry forward	**Total**
At 1 January 2008	-	898	-	898
Credited to the income statement	1,327	695	-	2,022
Charged to the income statement	-	(553)	-	(553)
At 31 December 2008	**1,327**	**1,040**	-	**2,367**
Credited to the income statement	2,308	584	178	3,070
Charged to the income statement	(185)	(574)	-	(759)
At 31 December 2009	**3,450**	**1,050**	**178**	**4,678**

Temporary differences between accounting carrying amounts and tax base arose due to provisions not recognised for tax purposes for long-term employee benefits (termination benefits and jubilee awards), for contractual payables due to employees based on the hours arising from the rescheduling of working hours and on accruals for management services.

NOTE 18 – INVENTORIES

Inventories comprise the following:

	2009	**2008**
	(in thousands of HRK)	
Raw materials	398	624
Small inventory	130	10
Trade goods	21	6
Advances for goods	9	54
	558	**694**

NOTE 19A – FINANCIAL INSTRUMENTS BY CATEGORY

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

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	**Total**
31 December 2009			
Assets at balance sheet date			
Available-for-sale financial assets	-	165	165
Trade and other receivables	10,079	-	10,079
Cash and cash equivalents	10,585	-	10,585
Total	**20,664**	**165**	**20,829**

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	**Total**
31 December 2008			
Assets at balance sheet date			
Available-for-sale financial assets	-	135	135
Trade and other receivables	7,676	-	7,676
Cash and cash equivalents	1,633	-	1,633
Total	**9,309**	**135**	**9,444**

MAXIMUM CREDIT RISK IS THE CARRYING AMOUNTS PRESENTED ABOVE.

	2009	**2008**
	(in thousands of HRK)	
Liabilities at the balance sheet date		
Trade and other payables	31,472	17,177
Borrowings	201,318	214,854
	232,790	**232,031**

NOTE 19b – CREDIT QUALITY OF FINANCIAL ASSETS

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

	2009	2008
	(in thousands of HRK)	
Trade and other receivables		
Existing domestic customers – past payments within maturity period (no defaults)	880	1,070
Existing foreign customers – with some defaults in the past	386	370
	1,266	**1,440**

	2009	2008
	(in thousands of HRK)	
Deposits		
Existing domestic supplier – past payments within maturity period (no defaults)	4,339	342
	4,339	**342**

The Company deposits are cash at banks with the following credit ratings by Standard & Poor's:

Cash at bank	2009	2008
	(in thousands of HRK)	
Without credit rating	2,268	963
BBB – (ZABA)	7,688	91
	9,956	**1,054**

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

NOTE 20 – AVAILABLE-FOR-SALE financial assets

	2009	2008
	(in thousands of HRK)	
Listed		
Privredna banka d,d,, Zagreb	125	95
Unlisted		
IRTA d.o.o.	40	40
	165	**135**

The fair values of unlisted securities are based on cost method. Available-for-sale financial assets are denominated in HRK.

The maximum exposure to credit risk at the reporting date is the carrying value of the listed and unlisted securities classified as available for sale.

	2009	2008
	(in thousands of HRK)	
At beginning of year	135	429
Fair value gains/(losses)-net (Note 24)	30	(293)
Sale and disposal	-	(1)
At end of year	**165**	**135**

None of these financial assets is either past due or impaired.

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2009	2008
	(in thousands of HRK)	
Domestic	8,095	7,599
Trade receivables – related parties (Note 30)	217	309
Foreign	2,683	3,621
Less: provision for impairment of trade receivables	(5,255)	(4,195)
Trade receivables – net	5,740	7,334
Deposit receivables /i/	4,339	342
	10,079	7,676
VAT receivable	906	1,700
Other receivables	965	822
	11,950	**10,198**
Less: non-current portion	**(381)**	**(342)**
Current portion	**11,569**	**9,856**

/i/ The deposit is interest-free and given as a collateral for the operating lease of vehicles over a 5-year term.

The fair values of trade and other receivables are as follows:

	2009	2008
	(in thousands of HRK)	
Trade receivables – net	5,740	7,334
Deposit receivables	4,294	255
VAT receivable	906	1,700
Other receivables	965	822
	11,905	**10,111**

The fair values of deposit receivables are based on cash flows discounted using a rate based on the borrowing rate of 6% (2008: 7.73%).

NOTE 21 – TRADE AND OTHER RECEIVABLES (CONTINUED)

The maturity of non-current portion of the deposit is as follows:

	2009	2008
	(in thousands of HRK)	
From 2 to 5 years	381	342
	381	**342**

Movements on the provision for impairment of trade and other receivables are as follows:

	2009	2008
	(in thousands of HRK)	
At 1 January	4,195	4,185
Additional provision	1,270	528
Elimination	-	(507)
Collection	(210)	(11)
At 31 December	**5,255**	**4,195**

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

	2009	2008
	(in thousands of HRK)	
Trade receivables – gross:		
Neither past due nor impaired	1,266	1,440
Past due, but not impaired	4,474	5,894
Past due and impaired	5,255	4,195
	10,995	**11,529**

As of 31 December 2009, trade receivables in the amount of HRK 4,474 thousand (2008: HRK 5,894 thousand) were past due, but not impaired. The ageing analysis of these receivables is as follows:

	2009	2008
	(in thousands of HRK)	
Up to one month	303	310
One to two months	221	361
Two to three months	1,071	1,511
Over three months	2,879	3,712
	4,474	**5,894**

NOTE 21 – TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2009	2008
	(in thousands of HRK)	
EUR	7,700	3,230
HRK	2,379	4,446
	10,079	7,676

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company does not hold any collateral as security.

NOTE 22 – CASH AND CASH EQUIVALENTS

	2009	2008
	(in thousands of HRK)	
Giro accounts	1,796	118
Foreign currency accounts	8,160	936
Cash in hand	629	579
	10,585	**1,633**

CURRENT ACCOUNTS BEAR AN INTEREST RATE OF 0.01% TO 1.25% (2008: FROM 0.15% TO 0.50%).

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

	2009	2008
	(in thousands of HRK)	
HRK	2,425	697
EUR	8,156	935
Other	4	1
	10,585	**1,633**

NOTE 23 – SHARE CAPITAL

i/ The ownership structure as at 31 December was as follows:

	2009		2008	
	Number of shares	%	Number of shares	%
W2005/Dvadeset Osam d.o.o.	1,618,263	74.15	1,618,263	74.15
HPB d.d./ KD Investments - Victoria Fond	55,255	2.53	55,255	2.53
Croatian Privatisation Fund	42,443	1.94	42,606	1.95
SG-SB d.d. / joint account Skandinavska Eskilda Banken	42,000	1.92	40,087	1.84
ZABA d,d, / Joint account for Unicredit Bank Austria AG	28,170	1.29	30,139	1.38
Piovesana Ezio	11,844	0.54	11,844	0.54
Dinova Diona d.o.o.	11,273	0.52	11,273	0.52
RBA Banka d.d. (custodian accounts)	8,473	0.39	8,473	0.39
SG-SB d.d. / joint account - domestic investors	-	-	5,193	0.23
Hypo Alpe Adria Bank d.d. / Gianpaolo de Lucca	4,493	0.21	4,493	0.21
Treasury shares	169	0.01	169	0.01
Other	360,117	16.50	354,705	16.25
TOTAL	**2,182,500**	**100.00**	**2,182,500**	**100.00**

ii/ As at 31 December 2007, the Company's share capital amounted to HRK 654,750 thousand and comprised 2,182,500 ordinary shares with a nominal value of HRK 300 per share. All issued shares are fully paid.

On 30 May 2008, the Company's General Assembly issued a Decision on a regular decrease in the registered capital from the amount of HRK 654,750,000 to the amount of HRK 43,650,000, i.e. by HRK 611,100,000, with the purpose of "…returning a part of the company's capital to the shareholders within the legally prescribed period (6-month period – from 6 August 2008), when the Company will have sufficient funds for distribution at its disposal". Since the Company, in addition to intensive efforts made to find foreign and domestic sources of funding, did not manage to secure such funds, the majority shareholder initiated a motion for a meeting of the Assembly which was held on 16 January 2009 and at which the decrease in the registered capital was allocated to other reserves, since it was certain that the condition of disposing of sufficient funds for returning a portion of capital to the shareholders within the legally prescribed period would not be met.

The decrease in share capital was performed by decreasing the nominal value of the Company's ordinary shares from HRK 300 to HRK 20 per share. As at 31 December 2009 and 2008, the Company's share capital, after the registration of the decrease, amounts to HRK 43,650 thousand and is divided into 2,182,500 ordinary shares of with a nominal value of HRK 20 per share.

NOTE 24 – RESERVES AND RETAINED EARNINGS

	2009	**2008**
	(in thousands of HRK)	
Legal reserves	2,129	2,129
Other reserves	641,176	641,146
Retained earnings	25,574	35,498
	668,879	**678,773**
Changes in reserves:		
Legal reserves		
At beginning of the year	2,129	1,950
Transfer from retained earnings	-	179
At end of the year	**2,129**	**2,129**
Other reserves		
At beginning of the year	641,146	30,386
Transfer from share capital	-	611,100
Decrease in reserves for treasury shares		(47)
Fair value gains/(losses) on available-for-sale financial assets (Note 20)	30	(293)
At end of the year	**641,176**	**641,146**
Retained earnings		
At beginning of the year	35,498	41,260
Loss for the year	(9,924)	(5,583)
Transfer to legal reserves	-	(179)
At end of the year	**25,574**	**35,498**

The legal reserve is required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. This reserve is not distributable. Based on the Decision of the General Assembly from 29 July 2008, retained earnings in the amount of HRK 179 thousand were transferred to legal reserves.

As at 31 December 2009, legal reserves amounted to HRK 2,129 thousand or 4.88% of the share capital (2008: HRK 2,129 thousand or 4.88%).

NOTE 24 – RESERVES AND RETAINED EARNINGS (continued)

As at 31 December 2009, other reserves amounting to HRK 641,176 thousand (2008: 641,146 thousand) comprise of retained earnings from previous years of HRK 30,001 thousand (2008: HRK 30,001 thousand) , reserves for treasury shares of HRK 4 thousand (2008: HRK 4 thousand) and revaluation reserves formed from unrealised fair value gains/(losses) on available-for-sale financial assets of HRK 71 thousand (2008: HRK 41 thousand).

The remaining other reserves of HRK 611,100 thousand (2008: HRK 611,100 thousand) which is distributable, relate to reserves formed from share capital (Note 23).

NOTE 25 – BORROWINGS

	2009	2008
	(in thousands of HRK)	
Short-term		
Bank borrowings	3,653	6,220
Bank borrowings – current portion of long-term borrowings	34,864	50,640
	38,517	56,860
LONG-TERM		
Bank borrowings	96,601	91,794
Borrowings from related parties (Note 30)	66,200	66,200
	162,801	157,994
	201,318	**214,854**

All bank borrowings are secured by a mortgage over hotel facilities (Note 14) with a net carrying amount of HRK 497,680 thousand (2008: HRK 506,292 thousand).

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

6 months or less	135,118	148,654
2 – 5 years	40,706	40,706
Over 5 years	25,494	25,494
	201,318	**214,854**

NOTE 25 – BORROWINGS (continued)

The carrying amount of borrowings is denominated in EUR and CHF. The effective interest rates at the balance sheet date were as follows:

	2009		2008	
Borrowings:	*(in thousands of HRK)*	**%**	*(in thousands of HRK)*	**%**
- CHF	7,205	3.75	12,214	5.75
- EUR	127,913	2 - 8.08	133,882	6.5 - 9
- HRK	66,200	4.89 - 5	68,758	4.89 - 5
	201,318		**214,854**	

Borrowings denominated in HRK carry a fixed interest rate.

Maturities of long-term borrowings are as follows:

	2009	2008
	(in thousands of HRK)	
1-2 years	76,478	36,446
2-5 years	49,933	78,183
Over 5 years	36,390	43,365
	162,801	**157,994**

The carrying amount and fair value of long-term borrowings is as follows:

(in thousands of HRK)	Carrying amounts		Fair value	
	2009	**2008**	**2009**	**2008**
Borrowings	162,801	157,994	148,887	145,414

The fair value is based on cash flows discounted using a rate based on the borrowing rate of 8.08% (2008: 7.73%).

The carrying amounts of short-term borrowings approximate their fair value.

note 26 – provisions

(in thousands of HRK)	**Legal proceedings /i/**	**Termination benefits, jubilee awards, unused overtimes and vacation /ii/**	**Total**
At beginning of the year	7,991	5,200	13,191
Additional provisions	60	2,920	2,980
Used during year	-	(2,870)	(2,870)
At end of the year	**8,051**	**5,250**	**13,301**

	2009	**2008**
	(in thousands of HRK)	
Non-current provision	10,242	10,399
Current provision /iii/	3,059	2,792
	13,301	13,191

/i/ In 2007, a provision was made based on the Decision of the Management in relation to the legal proceeding with the company Herculanea d.o.o., Pula which has as yet not been resolved (see Note 28).

/ii/ Provisions for termination benefits and jubilee awards were made in accordance with the current regulations of the Republic of Croatia.

/iii/ Provisions for unused overtimes and vacation

NOTE 27 – TRADE AND OTHER PAYABLES

	2009	2008
	(in thousands of HRK)	
Domestic trade payables	3,242	3,808
Related parties (Note 30)	3,204	2,753
Foreign trade payables	266	1,357
Interest payable to related parties (Note 30)	6,103	1,555
Interest payable	1,408	1,993
Accruals for management services (Note 30)	17,249	5,711
	31,472	17,177
Advances received	5,350	1,108
Due to employees/salaries	2,571	2,574
Taxes and contributions from and on salaries	1,877	1,687
Accrued liabilities for other employee benefits	193	-
Other accrued and other payables	226	465
	41,689	22,811
Less: non-current portion	(3,116)	(1,555)
Current portion	**38,573**	**21,256**

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

	2009	2008
	(in thousands of HRK)	
HRK	13,957	7,609
EUR	17,363	9,526
Other	152	42
	31,472	17,177

NOTE 28 – CONTINGENCIES AND COMMITMENTS

Legal proceedings

The Company is involved in a number of legal proceedings, both as defendant and as plaintiff, arising from the ordinary course of business. In the financial statements for the year ended 31 December 2009, provisions for certain legal proceedings have been made for which the Company anticipates an outflow of economic benefits in the amount of HRK 8,051 thousand (2008: HRK 7,991 thousand), as set out in Note 26.

Ownership of land and property

Based on the review of the Company's legal disputes, litigation is in progress against local authority units of the City of Pula for establishing ownership rights over a portion of property in the bungalow complex "Horizont" in Zlatne Stijene and against the municipality of Medulin for establishing ownership rights over the property at campsites.

It should be noted that this property, apart from the land, was included into the Company's registered capital upon privatisation, and that it is continually used for performing its primary activities. This is the basis for a legal proceeding that was launched at the end of 2002 upon the original claim of the municipality of Medulin against Arenaturist d.d. for the payment of HRK 20,300 thousand, and unfounded profit gaining. This claim is suspended pending settlement.

Neither the outcome of the above mentioned proceeding nor its effect (if any) on the Company's financial or operating position may be reliably anticipated. The financial statements have been prepared under the assumption of the complete Court registration of ownership of buildings which, upon privatisation, were included in the equity of Arenaturist d.d.

Capital commitments

As at 31 December 2009 and 2008, there were no future commitments with respect to investments in tourism facilities.

Operating lease commitments - where the Company is the lessee. The future aggregate minimum lease payments under operating leases are as follows:

	2009	**2008**
	(in thousands of HRK)	
Up to 1 year	260	245
From 2 to 5 years	603	979
	863	**1,224**

Lease agreements relate to the operating lease of vehicles.

NOTE 29 – CASH GENERATED FROM OPERATIONS

Adjustment of loss with cash generated from operations:

	2009	2008
	(in thousands of HRK)	
Loss before taxation	(9,924)	(6,772)
Adjustments for:		
Depreciation and amortisation (Notes 14,15)	35,036	35,653
Impairment of property, plant and equipment (Note 9)	158	157
Gains on sale of property, plant and equipment (Note 10)	(5)	(2)
Gains on sale of available-for-sale financial assets (Note 10)	-	(4)
Provision for impairment of receivables - net	1,060	517
Finance costs – net (Note 11)	11,991	15,735
Income from liability write-off (Note 6)	(363)	(134)
Interest expense (Note 9)	30	951
Increase in provisions	2,980	231
Other non-cash items	(2,311)	(79)
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade and other receivables	1,185	(2,915)
- inventories	136	115
- trade and other payables	13,360	5,693
Cash generated from operations	**53,333**	**49,146**

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

	2009	2008
	(in thousands of HRK)	
Net book value of sold property, plant and equipment	113	5
Gain on sale of property, plant and equipment (Note 10)	5	2
Proceeds from sale of property, plant and equipment	**118**	**7**

NOTE 30 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the power to exercise control over the other party, is under common control or if it has significant influence over the other party in making financial or business decisions. Arenaturist d.d., Pula is controlled by W2005/Dvadeset Osam d.o.o., Zagreb, which owns 74,15% of the Company's shares as of 1 August 2007. The ultimate parent is Goldman Sachs Group, Inc.

W2005/Dvadeset Devet d.o.o., Zagreb is the parent company of the following subsidiaries: W2005/Dvadeset Osam d.o.o., AT Hoteli Medulin d.o.o., Medulin, AT Zlatne stijene d.o.o., Pula, AT Turistička naselja d.o.o., Pula.

Related parties in the W2005/Dvadeset Devet Group are: W2005/Dvadeset Osam d.o.o., Zagreb, AT Hoteli Medulin d.o.o., Medulin, AT Zlatne stijene d.o.o., Pula, AT Turistička naselja d.o.o., Pula, Ulika d.o.o., Zagreb and Mažurana d.o.o ,Zagreb.

Arenaturist d.d., Pula is the parent company of the subsidiaries Ulika d.o.o., Zagreb and Mažurana d.o.o., Zagreb.

Related party transactions with entities under common control were as follows:

	Note	2009	2008
		(in thousands of HRK)	
a) Sale of services			
- AT Hoteli Medulin d.o.o., Medulin		2,511	3,094
- AT Zlatne stijene d.o.o., Pula		3,067	3,223
- AT Turistička naselja d.o.o., Pula		244	214
		5,822	6,531
b) Marketing and promotion costs			
- AT Hoteli Medulin d.o.o., Medulin		6,036	6,401
c) Management services			
-Park plaza Hotels	9	8,614	5,710
d) Interest expense			
- W2005/Dvadeset Osam d.o.o., Zagreb		3,265	3,265

NOTE 30 – RELATED PARTY TRANSACTIONS (continued)

	Note	2009	2008
		(in thousands of HRK)	
e) Trade and other receivables:			
- AT Hoteli Medulin d.o.o., Medulin		173	175
- AT Zlatne stijene d.o.o., Pula		35	84
- AT Turistička naselja d.o.o., Pula		9	50
	21	**217**	**309**
f) Trade and other payables:			
- W 2005/ Dvadeset osam d.o.o., Zagreb		6,103	2,166
- AT – Hoteli Medulin d.o.o., Medulin		3,161	2,101
- AT – Zlatne stijene d.o.o., Pula		43	41
- Park plaza Hotels		17,249	5,711
	27	**26,556**	**10,019**
g) Borrowings			
W 2005/ Dvadeset Osam d.o.o., Zagreb */i/*		40,706	40,706
W 2005/ Dvadeset Osam d.o.o., Zagreb */ii/*		25,494	25,494
	25	**66,200**	**66,200**
h) Key management compensation (Executive Directors)			
Net salaries		1,876	1,334
Pension contributions		225	395
Health insurance contributions		253	378
Other contributions, tax and surtax		593	599
		2,947	**2,706**

The Company has 4 Executive Directors (2008: 4).