ARENATURIST d.d.

ANNUAL REPORT 2010

Pula, April 2011.

Contents

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 2010, W 2005/ Dvadeset Osam d.o.o. holds 74.15% of the shares. The Croatian Privatization Fund owns 1.95% of the Company's shares, treasury shares amount to 0.01% and other 4,392 shareholders own the remaining 23.89% 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 2010:

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

At the ordinary Company General Assembly held on 19 August 2010, 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

Mandate of the Management Board members runs from 25 September 2010.

The member of the Management Board, Gerardus Nicolas Meijssen, resigned from the Management Board membership on 9 November 2010.

The Company is represented by the Executive Directors.

The following Executive Directors were reappointed on 18 September 2009:

Milena Perković	Executive Director
Reuel Slonim	Executive Director
Kurt Kuen	Executive Director

On 19 August 2010, Management Board re-elected Igor Štoković as a Chief Executive Officer for the period up to 31 August 2011.

Executive Directors' Report

The year 2010 was the year of recovery. Economic crisis that we are still experiencing is reflected in postponement of summer holidays of guests from emitting countries which are slowly coming out of recession, shorter stay of guests in our facilities along with cutting the budget intended for holidays and increasingly demanding clientele that seeks the best value for money. However, without significant investments and despite of the harsh conditions and crisis, Arenaturist retained its stability of business operations.

Results of Company's Business Operations

In the year 2010, Arenaturist achieved a valuable result in business activities and despite of difficult conditions, we managed to increase the business volume and to maintain the financial stability. We continued with increased marketing and sales activities on demanding tourism market as well as with the expansion of our offer by new services while keeping in mind that this kind of investment is crucial for the further development of our business operations. During the year we have implemented optimization and increased cost efficiency programs and thus reduced costs and contributed to better business results.

In the year 2010, Arenaturist realized 1,2 million overnights, from which over 95% falls on foreign stays, or 3% more than in the previous year. Increase in number of overnights is achieved in all types of accommodation; hotels for 3%, tourist resorts for 6% and camps for 3%, in relation to previous year. Along with the increase in number of overnights, average price per night also increased which ultimately resulted in an increase in operating income in relation to previous year.

Operating revenue was realized in the amount of 206,7 million Kuna, which represents an increase of 14,7 million Kuna or 7,6% in relation to previous year; mostly due to increase in sales revenues from touristic services.

Operating expenses were realized in the amount of 204,1 million Kuna, which represents an increase of 11,8 million Kuna or 6,1% when compared to previous year. Greatest impact on the increase of operating expenses had the increase in the volume of work, unexpected costs related to snow storms in camps and tourist resorts and increase in personnel costs due to increased seasonal employment and contractual wage increases.

Profit from operating activities was realized in the amount of 2,6 million Kuna, which is a good result when taking into consideration that in the year 2009, Arenaturist realized a loss of 244 thousand Kuna from operating activities.

Financial activities realized a negative effect in the amount of 16,1 million Kuna. This amount includes interest expenses that increased by 1,6 million Kuna or 13,5% due to increase in interest rates on loans received from associated companies. Negative effect of exchange rate differences emerged from revaluation of outstanding principles of loans denominated in foreign currency and amounted to 2,3 million Kuna.

Property and liabilities

Total value of assets on December 31st 2010 was 948,1 million Kuna. Capital and reserves are amounted to 701,3 million Kuna and are decreased in relation to previous year due to loss period.

Total liabilities of the Company are amounted to 246,8 million Kuna, which represents a decrease of 9,5 million Kuna, in relation to previous year. Liabilities on loans were reduced by 29,4 million Kuna, while liabilities to suppliers and other liabilities have increased for 19,9 million Kuna due to included management fee to Park Plaza Hotels and liability for interest rate to associated companies.

Risk exposure and Risk Management

The Company is exposed to variety of financial risks that are related to currency risks, interest rates risks, credit risks and liquidity risks. The Company monitors all 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 its business operations, the Company applies the Code of Corporate Governance of the Zagreb Stock Exchange d.d.

Human Resources

Motivated and creative workforce is the key to satisfied guests and business success.

On December 31st 2010, Arenaturist had 355 permanent employees, and in the peak of the season (August) additional 420 employees were employed.
Annually, based on working hours, Arenaturist employs 451 employees.
Arenaturist concluded Temporary Service Contracts for permanent seasonal jobs with 30 long-term seasonal employees.

More complete and detailed analysis of the results of operations is provided in the continuation of this report in notes.

Expectations for the year 2011

In 2011, we expect that the business conditions will be similar to the conditions of the year 2010.

By applying the Law on tourist and other construction land unvalued in the process of transformation and privatization (NN number 92/10), concession fees for the touristic land in camps managed by Arenaturist and concession fees for the touristic land in ownership of City of Pula and Medulin Municipality that is used our hotels and resorts, will additionally burden the Company's operations in 2011.

By the budget for the year 2011, it is planned to increase the number of overnights for 2% in line with the increase of the average price in relation to the year 2010 that should together with the increase in non half-board spending of guests and further rationalization of costs result in better financial results in relation to this year.

Arenaturist will continue with the ongoing policy of employment and investment in education and training of employees. The plan is moderate capital investment by using own resources, and documents for more significant investments in the future are in the preparation phase.

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 8 to 58 were approved by the Executive Directors on 29 March 2011 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

pwc

Independent auditor's report

To the Shareholders of Arenaturist d.d., Pula

We have audited the accompanying financial statements of Arenaturist d.d. (the 'Company'), which comprise the balance sheet as of 31 December 2010 and the statements of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 d.o.o., Alexandera von Humboldta 4, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.com/hr

pwc

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Arenaturist d.d. as of 31 December 2010 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 further qualifying our opinion, we draw attention to Note 28 to these financial statements, which describes the Company's contingent liabilities with respect to ownership of land not evaluated in the transformation and privatisation process. Problems with respect to land ownership disputes are common for tourism entities in the Republic of Croatia. Their resolution is expected in the future upon completion of the process of obtaining concessions and establishing ownership rights in accordance with and pursuant to the provisions of the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, which entered into force on 1 August 2010. Although the Company is not in a position to estimate reliably the outcome of these disputes and contingencies in these financial statements, in addition to incurring additional liabilities with respect to concessions, the Company may also lose a part of operating assets.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 21 April 2011

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 2010

(all amounts in thousands of HRK)	Note	2010	2009
Sales	5	206,333	191,366
Other income	6	345	561
Cost of materials and services	7	(70,900)	(64,892)
Staff costs	8	(71,602)	(65,780)
Depreciation and amortisation	14,15	(35,521)	(35,036)
Other operating expenses	9	(26,095)	(26,623)
Other gains – net	10	61	160
Operating (loss)/profit		**2,621**	**(244)**
Finance income		141	350
Finance costs		(16,227)	(12,341)
Finance costs – net	11	(16,086)	(11,991)
Loss before tax		**(13,465)**	**(12,235)**
Income tax	12	2,246	2,311
Loss for the year		**(11,219)**	**(9,924)**
Other comprehensive income:			
Fair value (losses)/gains on available-for-sale financial assets		(1)	30
Total comprehensive loss for the year		**(11,220)**	**(9,894)**
Loss per share (in HRK) – basic and diluted	13	**(5.14)**	**(4.55)**

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

BALANCE SHEET

AS AT 31 DECEMBER 2010

(all amounts in thousands of HRK)	Note	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	14	918,074	938,095
Intangible assets	15	2,598	2,541
Investment in subsidiaries	16	40	40
Trade and other receivables	21	290	381
Financial assets available for sale	20	164	165
Deferred tax assets	17	6,924	4,678
		928,090	**945,900**
Current assets			
Inventories	18	598	558
Trade and other receivables	21	14,142	11,569
Income tax receivable	12	70	221
Cash and cash equivalents	22	5,249	10,585
		20,059	**22,933**
		948,149	**968,833**
EQUITY			
Equity			
Share capital	23	43,650	43,650
Treasury shares	23	(4)	(4)
Reserves	24	643,304	643,305
Retained earnings	24	14,355	25,574
		701,305	**712,525**
LIABILITIES			
Non-current liabilities			
Borrowings	25	137,564	162,801
Trade and other payables	27	11,917	3,116
Provisions for other liabilities and expenses	26	13,856	10,242
		163,337	**176,159**
Current liabilities			
Borrowings	25	34,357	38,517
Trade and other payables	27	49,150	41,632
		83,507	**80,149**
Total liabilities		**246,844**	**256,308**
Total equity and liabilities		**948,149**	**968,833**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts in thousands of HRK)	Note	Share capital	Treasury shares	Reserves	Retained earnings	Total
At 1 January 2009		43,650	(4)	643,275	35,498	722,419
Total comprehensive loss		-	-	30	(9,924)	(9,894)
At 31 December 2009	23,24	**43,650**	**(4)**	**643,305**	**25,574**	**712,525**
Total comprehensive loss		-	-	(1)	(11,219)	(11,220)
At 31 December 2010	23,24	**43,650**	**(4)**	**643,304**	**14,355**	**701,305**

(all amounts in thousands of HRK)	**Note**	**2010**	**2009**
Cash flows from operating activities			
Cash generated from operations	29	52,527	53,333
Income tax paid	12	(70)	(467)
Interest paid		(14,318)	(8,378)
Net cash from operating activities		38,139	44,488
Cash flows from investing activities			
Purchase of property, plant and equipment		(14,926)	(17,834)
Purchase of intangible assets	15	(956)	(637)
Proceeds from sale of property, plant and equipment	29	131	118
Proceeds from loans and deposits		3,873	-
Loans and deposits granted		-	(3,997)
Interest received	11	141	92
Net cash used in investing activities		**(11,737)**	**(22,258)**
Cash flows from financing activities			
Proceeds from borrowings		68,180	79,324
Repayments of borrowings		(99,918)	(92,602)
Net cash used in financing activities		**(31,738)**	**(13,278)**
Net (decrease)/increase in cash and cash equivalents		**(5,336)**	**8,952**
Cash and cash equivalents, beginning of year		10,585	1,633
Cash and cash equivalents, end of year	22	**5,249**	**10,585**

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 laws 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.

The ownership structure as at 31 December 2010 and 2009 is disclosed in Note 23.

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

As at 31 December 2010 and 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.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- *IFRS 3 (revised), Business combinations*, and consequential amendments to *IAS 27 Consolidated and separate financial statements*, *IAS 28 Investments in associates*, and *IAS 31 Interests in joint ventures*, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured 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 value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IAS 27 (revised)* requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, since the Company does not have any non-controlling interests.

(b) New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2010, but currently not relevant to the Company (although they may affect the accounting treatment of future transactions and events)

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods.

- *IFRIC 17, Distribution of non-cash assets to owners* (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- *IFRIC 18, Transfers of assets from customers*, effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- *IFRIC 9, Reassessment of embedded derivatives* and *IAS 39, Financial instruments: Recognition and measurement*, effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

- *IFRIC 16, Hedges of a net investment in a foreign operation* effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Company should clearly document its hedging strategy because of the possibility of different designations at different levels of the Company. *IAS 38 (amendment), Intangible assets*, effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IAS 1 (amendment), Presentation of financial statements*. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- *IAS 36 (amendment), Impairment of assets*, effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of *IFRS 8, Operating segments* (that is, before the aggregation of segments with similar economic characteristics).

- *IFRS 2 (amendments), Group cash-settled share-based payment transactions*, effective form 1 January 2010. In addition to incorporating *IFRIC 8, Scope of IFRS 2*, and *IFRIC 11, IFRS 2 – Group and treasury share transactions*, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

- *IFRS 5 (amendment), Non-current assets held for sale and discontinued operations*. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

The Company's assessment of the impact of these new standards and interpretations is set out below.

- *IFRS 9, Financial instruments*, issued in November 2009. This standard is the first step in the process to replace *IAS 39, Financial instruments: recognition and measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Company's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Company is yet to assess the full impact of IFRS 9.

- *Revised IAS 24 (revised), Related party disclosures,* issued in November 2009. It supersedes *IAS 24, Related party disclosures,* issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Company will apply the revised standard from 1 January 2011. When the revised standard is applied, the Company will need to disclose any transactions between its subsidiaries and its associates. The Company is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Classification of rights issues* (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with *IAS 8 Accounting policies, changes in accounting estimates and errors*. The Company will apply the amended standard from 1 January 2011. It is not expected to have any impact on the Company's financial statements.

- *IFRIC 19, Extinguishing financial liabilities with equity instruments*, effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Company will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Company’s financial statements.

- *Prepayments of a minimum funding requirement* (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, *IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Company will apply these amendments for the financial reporting period commencing on 1 January 2011. They are not expected to have any impact on the Company’s 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 has 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statements of comprehensive income within 'finance costs – net'. All other foreign exchange losses and gains are recorded in the statement of comprehensive income within 'other gains – net'.

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 and assets under construction are 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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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

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

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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

2.8.1 Classification (continued)

(b) Available-for-sale financial assets

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

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 other comprehensive income.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 non-current 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(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.

(d) Long-term employee benefits

The Company recognises a provision for jubilee awards where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Trade payables

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

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

2.18 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition (continued)

(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.

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 a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro (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 2010, if the EURO had weakened/strengthened by 1.2% and 0.5% for 2009 against the HRK, with all other variables held constant, the loss for the reporting period would have been HRK 1,065 thousand (2009: HRK 465 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 2010, if the CHF had weakened/strengthened by 10% and 2.5% for 2009 against the HRK, with all other variables held constant, the loss for the reporting period would have been HRK 354 thousand (2009: HRK 144 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 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.

At 31 December 2010, if interest rates on currency-denominated borrowings had been higher/lower by 0.2% and 0.3% for 2009, with all other variables held constant, the loss for the year would have been HRK 409 thousand (2009: HRK 324 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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Equity securities risk

The Company owns equity securities and is exposed to price risk of listed equity securities, which are classified as available-for-sale financial assets. The Company invests in securities listed on the Zagreb Stock Exchange (ZSE). The Company is not exposed to commodity price risk.

As at 31 December 2010 and 2009, if the indices of the ZSE had been higher/lower by 4% for 2010 and 40% for 2009 (which was the average index movement), with all other variables held constant, revaluation reserves within equity and other comprehensive income would have been HRK 7 thousand (2009: HRK 66 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.

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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

	Up to 1 year	1-2 years	2-5 years	Over 5 years	Carrying value
At 31 December 2010					
Trade payables	8,641	-	-	11,917	20,558
Due to Park Plaza Hotels	29,058	-	-	-	29,058
Borrowings	45,896	35,285	59,184	103,293	171,921
Total liabilities (contractual maturities)	**83,595**	**35,285**	**59,184**	**115,210**	**221,537**
Total assets (contractual maturities)	**17,986**	**-**	**290**	**-**	**18,276**
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	201,318
Total liabilities (contractual maturities)	**76,474**	**84,112**	**57,664**	**41,112**	**323,790**
Total assets (contractual maturities)	**20,448**	**-**	**381**	**-**	**20,829**

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)

3.3 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 2010				
Available-for-sale financial assets:				
- equity securities	124	-	-	124
Total assets	**124**	**-**	**-**	**124**
At 31 December 2009				
Available-for-sale financial assets:				
- 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, and it is not possible to assess the fair value of these investments.

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 loss for the year would have been higher/lower, and the net carrying value of property, plant and equipment would have been lower/higher by HRK 1,776 thousand (2009: HRK 1,752 thousand).

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 HRK 7.473822/EUR for 2011. If the EURO had strengthened/weakened by 1.2% against the HRK over the forecast period, value in use would be, on average, HRK 7,912 thousand lower/higher. No need for impairment was identified.
Value in use is calculated based on cash flow plans (5 years plus residual value and average growth rate of 5.85%) using a discount rate for hotels of 10.5%.

(b) Land ownership

On 28 January 2011, regulations were issued elaborating in more detail the manner of complying with the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process. The stated law, which entered into force on 1 August 2010, mandates companies to submit the relevant requirements under this law within six months from the date of its entry into force (up to 1 February 2011). On 31 January 2011 the Company submitted the relevant requirements to the governing authorities in respect of the property on which the above-mentioned law can be applied. In 2011, it is expected that the governing authorities will proceed based on the Company's requirements in accordance with the procedure prescribed by the provisions of the above-mentioned law and regulations. At this point it is not possible to reliably anticipate the outcome of these proceedings. (See note 28).

NOTE 5 – SEGMENT INFORMATION

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

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 2010 is as follows:

(in thousands of HRK)	**Hospitality and tourism**	**Accompanyin g activities**	**Administrative services**	**Total**
Total sales	200,632	16,632	2,318	219,582
Inter-segment revenue	(1,014)	(12,235)	-	(13,249)
Revenue from external customers	199,618	4,397	2,318	206,333
Restated GOP	74,544	2,472	(20,360)	56,656
Depreciation and amortisation (Note 14 and 15)	28,562	3,820	3,139	35,521
Total assets	**834,576**	**95,300**	**5,607**	**935,483**
Total liabilities	**160,057**	**3,053**	**1,859**	**164,969**

The segment results for the year ended 31 December 2009 are as follows:

(in thousands of HRK)	**Hospitality and tourism**	**Accompanyin g 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
Restated 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**

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of GOP with loss before tax is as follows:

	2010	2009
	(in thousands of HRK)	
Restated GOP – hospitality and tourism	74,544	67,308
Restated GOP – accompanying activities	2,472	2,732
Restated GOP – administrative services	(20,360)	(19,387)
Restated GOP	**56,656**	**50,653**
Fixed costs	(18,514)	(15,861)
Interest	(13,886)	(12,341)
Depreciation of property, plant and equipment	(35,521)	(35,036)
Finance income/(expense) – net	(2,200)	350
Loss before tax	**(13,465)**	**(12,235)**

The Company reports to Management using the Uniform System of Accounts for the Lodging Industry (USALI) method. This methodology supports the demanding system of monitoring and reporting in the hotel industry and obtaining appropriate and better information. According to the USALI standards, subject to observation and hence reporting are the responsibility centres that may be organised as cost, revenue, profit and investment centres, taking into account the specific nature of the hotel business. The Company's responsibility centres are organised as profit centres. Reporting under the USALI method is possible at the Company, due to the fact that the Company already operates according to the methodology that requires a developed accounting system, developed and comprehensive IT support, a decentralized organisational system and management that is interested in performance or non-performance and the place of their generation. The operating performance indicator based on this method is the restated GOP (Gross operating profit) as stated above.

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

	2010		2009	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	935,483	164,969	953,366	159,192
Unallocated:	12,666	81,875	15,467	97,116
Cash and cash equivalents	5,249	-	10,585	-
Deferred tax assets	6,924	-	4,678	-
Other financial assets	493	-	205	-
Borrowings	-	81,875	-	97,116
Total	**948,149**	**246,844**	**968,833**	**256,308**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2010	**2009**
	(in thousands of HRK)	
Domestic sales	18,249	21,024
Foreign sales	188,084	170,342
	206,333	**191,366**

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

Foreign sales	**2010**	**%**	**2009**	**%**
Germany	44,373	24	39,185	23
Italy	25,985	14	27,032	16
Slovenia	27,273	15	23,843	14
Austria	21,287	11	18,606	11
Netherlands	8,266	4	10,106	6
Czech Republic	6,326	3	5,781	4
France	4,578	2	2,474	1
Other EU members	27,826	15	25,844	15
Other	22,170	12	17,472	11
Total	**188,084**	**100**	**170,342**	**100**

NOTE 6 – OTHER INCOME

	2010	**2009**
	(in thousands of HRK)	
Court claims recovered	57	-
Write-off of liabilities	18	363
Income from refunding	248	152
Other income	22	46
	345	**561**

NOTE 7 – COST OF MATERIALS AND SERVICES

	2010	2009
	(in thousands of HRK)	
Raw materials		
Raw materials and supplies	20,736	19,863
Energy and water	16,382	14,670
Small inventories	47	85
	37,165	**34,618**
External services		
Utility services	9,071	9,052
Marketing and promotion	9,723	8,987
Repairs and maintenance	8,354	6,064
Art and entertainment services	1,664	1,769
Telephone, postal and transportation services	1,107	949
Rentals	316	351
Other services	3,500	3,102
	33,735	**30,274**
	70,900	**64,892**

NOTE 8 – STAFF COSTS

	2010	2009
	(in thousands of HRK)	
Net salaries	36,935	33,890
Pension contributions	10,906	9,960
Health insurance contributions	8,453	7,800
Other contributions, tax and surtax	7,985	7,344
Termination benefits and jubilee awards	1,414	1,617
Other staff costs /i/	5,909	5,169
	71,602	**65,780**
Number of employees at 31 December	**512**	**488**

/i/ Other staff costs comprise fees and transportation costs and remunerations for temporary services.

NOTE 9 – OTHER OPERATING EXPENSES

	2010	2009
	(in thousands of HRK)	
Professional services	1,205	3,626
Municipal and similar fees	6,374	6,338
Management services (Note 30)	8,662	8,614
Insurance premiums	1,801	1,785
Bank charges, payment transaction costs and membership fees	1,847	1,858
Provisions for legal proceedings (Note 26)	3,867	60
Entertainment costs	550	668
Impairment of property, plant and equipment	195	158
Provisions for impairment of receivables (Note 21)	83	1,270
Collection of receivables previously written-off	(793)	(210)
Interest expense	71	30
Other	2,235	2,426
	26,097	**26,623**

NOTE 10 – OTHER GAINS – NET

	2010	2009
	(in thousands of HRK)	
Net gains on sale of property, plant and equipment	1	5
Net foreign exchange gains – other	60	155
	61	**160**

NOTE 11 – FINANCE COSTS AND INCOME

	2010	2009
	(in thousands of HRK)	
Finance income		
Interest income on cash deposits with banks	141	92
Foreign exchange gains – net	-	258
	141	350
Finance costs		
Interest expense	(13,886)	(12,341)
Foreign exchange losses – net	(2,341)	-
	(16,227)	(12,341)
Finance costs – net	**(16,086)**	**(11,991)**

NOTE 12 – INCOME TAX

	2010	2009
	(in thousands of HRK)	
Deferred tax – Origination and reversal of temporary differences (Note 17)	2,246	2,311
	2,246	**2,311**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 20% (2009: 20%) as follows:

	2010	2009
	(in thousands of HRK)	
Loss before tax	(13,465)	(12,235)
Income tax expense at 20%	(2,693)	(2,447)
Expenses not deductible for tax purposes	3,531	3,045
Income not subject to tax	(780)	(776)
Recognition of deferred tax assets (Note 17)	2,187	2,489
Net income tax credit	**2,246**	**2,311**
Income tax for the current year		**-**
Prepayment	(70)	(221)
Income tax receivable	70	221
Effective tax rate	-	-

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 – LOSS PER SHARE

Basic

Basic loss 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).

	2010	2009
Loss for the year *(in thousands of HRK)*	(11,219)	(9,924)
Weighted average number of shares (basic)	2,182,331	2,182,331
Loss per share (basic) *(in HRK)*	**(5,14)**	**(4,55)**

Diluted

Diluted loss per share for 2010 and 2009 is equal to basic loss per share, since the Company did not have any convertible instruments or share options outstanding during either 2010 or 2009.

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 2009				
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**
Year ended 31 December 2010				
Opening net book amount	881,880	43,823	12,392	938,095
Additions	8,527	6,688	(289)	14,926
Transfer from intangible assets (Note 15)	240	-	-	240
Disposals and impairment	(27)	(298)	-	(325)
Depreciation (Note 29)	(23,422)	(11,440)	-	(34,862)
Closing net book amount	867,198	38,773	12,103	918,074
At 31 December 2010				
Cost	1,300,499	162,631	12,103	1,475,233
Accumulated depreciation and impairment	(433,301)	(123,858)	-	(557,159)
Net book amount	**867,198**	**38,773**	**12,103**	**918,074**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Property with a carrying value of HRK 490,033 thousand (2009: HRK 497,680 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 on tourist buildings. The capitalisation rate was 1%. In 2010, there were no borrowing costs to be capitalised.

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

	2010	**2009**
	(in thousands of HRK)	
Cost	180,299	180,868
Accumulated depreciation as at 1 January	(93,733)	(90,871)
Depreciation for the year	(2,737)	(2,833)
Net book amount	**83,829**	**87,164**

The operating lease relates to the lease of shops and restaurants or premises and equipment. During 2010, the Company realised rental income in the amount of HRK 9,636 thousand (2009: HRK 9,335 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:

	2010	**2009**
	(in thousands of HRK)	
Up to 1 year	6,909	9,813
From 2 to 5 years	3,016	13,185
Over 5 years	69,473	55,118
	79,398	**78,116**

In 2010 and 2009, 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 2009			
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
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**
Year ended 31 December 2010			
Opening net book amount	2,264	277	2,541
Additions	-	956	956
Transfer to property, plant and equipment (Note 14)	(240)	-	(240)
Amortisation for the year (Note 29)	(357)	(302)	(659)
Closing net book amount	1,667	931	2,598
At 31 December 2010			
Cost	8,986	4,722	13,708
Accumulated amortisation	(7,319)	(3,791)	(11,110)
Net book amount	**1,667**	**931**	**2,598**

NOTE 16 – INVESTMENTS IN SUBSIDIARIES

	2010	2009
	(in thousands of HRK)	
At 1 January	40	40
At 31 December	**40**	**40**

The principal subsidiaries are:

	Country	Ownership %	
		2010	**2009**
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 to date.

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:

	2010	2009
	(in thousands of HRK)	
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	538	616
Deferred tax asset to be recovered within 12 months	6,386	4,062
	6,924	**4,678**
Deferred tax liabilities		
	-	**-**
Deferred tax assets (net)	**6,924**	**4,678**

NOTE 17 – DEFERRED TAX ASSET (continued)

	Accruals for management services	Retirement benefit obligation	Tax loss carry forward	**Total**
At 1 January 2009	**1,327**	**1,040**	-	**2,367**
Credited to the statement of comprehensive income	2,308	584	178	3,070
Charged to the statement of comprehensive income	(185)	(574)	-	(759)
At 31 December 2009	**3,450**	**1,050**	**178**	**4,678**
Credited to the statement of comprehensive income	2,362	708	-	3,070
Charged to the statement of comprehensive income	-	(766)	(58)	(824)
At 31 December 2010	**5,812**	**992**	**120**	**6,924**

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:

	2010	**2009**
	(in thousands of HRK)	
Raw materials	482	398
Small inventory	63	130
Trade goods	53	21
Advances for goods	-	9
	598	**558**

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 2010			
Assets at balance sheet date			
Available-for-sale financial assets	-	164	164
Trade and other receivables	12,863	-	12,863
Cash and cash equivalents	5,249	-	5,249
Total	**18,112**	**164**	**18,276**

(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**

The above amounts of financial assets represent the Company's maximum exposure to credit risk at the reporting date. The carrying amount approximates its fair value due to the short-term maturities.

	2010	**2009**
	(in thousands of HRK)	
Liabilities at the balance sheet date – ***at amortised cost***		
Trade and other payables	49,616	31,472
Borrowings	171,921	201,318
	221,537	**232,790**

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:

	2010	2009
	(in thousands of HRK)	
Trade and other receivables		
Existing domestic customers – past payments within maturity period (no defaults)	1,054	880
Existing foreign customers – with some defaults in the past	752	386
	1,806	**1,266**

	2010	2009
	(in thousands of HRK)	
Deposits and loans		
Financial institutions - no credit rating	466	4,339
	466	**4,339**

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

Cash at bank	2010	2009
	(in thousands of HRK)	
Without credit rating	4,034	2,268
BBB- (ZABA)	352	7,688
	4,386	**9,956**

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

NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010	**2009**
	(in thousands of HRK)	
Listed		
Privredna banka d.d., Zagreb	124	125
Unlisted		
IRTA d.o.o.	40	40
	164	**165**

The fair values of unlisted securities are based on the 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.

	2010	**2009**
	(in thousands of HRK)	
At beginning of year	165	135
Fair value (losses)/gains of available-for-sale financial assets (Note 24)	(1)	30
At end of year	**164**	**165**

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

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2010	2009
	(in thousands of HRK)	
Domestic	13,531	8,095
Trade receivables – related parties (Note 30)	203	217
Foreign	3,373	2,683
Less: provision for impairment of trade receivables	(4,710)	(5,255)
Trade receivables – net	12,397	5,740
Deposit receivables /i/	466	4,339
Total financial assets	12,863	10,079
VAT receivable	1,100	906
Other receivables	469	965
	14,432	**11,950**
Less: non-current portion	**(290)**	**(381)**
Current portion	**14,142**	**11,569**

/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:

	2010	2009
	(in thousands of HRK)	
Trade receivables – net	12,397	5,740
Deposit receivables	424	4,294
VAT receivable	1,100	906
Other receivables	469	965
	14,390	**11,905**

The fair values of deposit receivables are based on cash flows discounted using a rate based on the borrowing rate of 6% (2009: 6%).

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

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

	2010	2009
	(in thousands of HRK)	
From 2 to 5 years	290	381
	290	**381**

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

	2010	2009
	(in thousands of HRK)	
At 1 January	5,255	4,195
Additional provision	83	1,270
Collection	(628)	(210)
At 31 December	**4,710**	**5,255**

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.

	2010	2009
	(in thousands of HRK)	
Trade receivables – gross:		
Neither past due nor impaired	1,806	1,266
Past due, but not impaired	10,591	4,474
Past due and impaired	4,710	5,255
	17,107	**10,995**

As of 31 December 2010, trade receivables in the amount of HRK 10,591 thousand (2009: HRK 4,474 thousand) were past due, but not impaired. The ageing analysis of these receivables is as follows:

	2010	2009
	(in thousands of HRK)	
Up to one month	1,528	303
One to two months	2,384	221
Two to three months	1,969	1,071
Over three months	4,710	2,879
	10,591	**4,474**

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

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

	2010	2009
	(in thousands of HRK)	
EUR	8,725	7,700
HRK	4,138	2,379
	12,863	**10,079**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company requires advances and promissory notes as security.

NOTE 22 – CASH AND CASH EQUIVALENTS

	2010	2009
	(in thousands of HRK)	
Giro accounts	500	1,796
Foreign currency accounts	3,886	8,160
Cash in hand	863	629
	5,249	**10,585**

Current accounts bear an interest rate of 0.01% to 1% (2009: 0.01% to 1.25%).

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

	2010	2009
	(in thousands of HRK)	
HRK	1,363	2,425
EUR	3,866	8,156
Other	20	4
	5,249	**10,585**

NOTE 23 – SHARE CAPITAL

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

	2010		2009	
	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	56,654	2.59	55,255	2.53
Croatian Privatisation Fund	42,454	1.95	42,443	1.94
SG-SB d.d. / joint account Skandinavska Eskilda Banken	42,000	1.92	42,000	1.92
ZABA d,d, / joint account for Unicredit Bank Austria AG	28,170	1.29	28,170	1.29
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
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	358,707	16.43	360,117	16.50
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 2010 and 2009, 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

	2010	2009
	(in thousands of HRK)	
Legal reserves	2,129	2,129
Other reserves	641,175	641,176
Retained earnings	14,355	25,574
	657,659	**668,879**
Changes in reserves:		
Legal reserves		
At beginning of the year	2,129	2,129
At end of the year	**2,129**	**2,129**
Other reserves		
At beginning of the year	641,176	641,146
Fair value (losses)/gains on available-for-sale financial assets (Note 20)	(1)	30
At end of the year	**641,175**	**641,176**
Retained earnings		
At beginning of the year	25,574	35,498
Loss for the year	(11,119)	(9,924)
At end of the year	**14,355**	**25,574**

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.

At 31 December 2010 and 2009, legal reserves amounted to HRK 2,129 thousand or 4.88% of the share capital.

NOTE 24 – RESERVES AND RETAINED EARNINGS (continued)

As at 31 December 2010, other reserves amounting to HRK 641,175 thousand (2009: HRK 641,176 thousand) comprise of retained earnings from previous years of HRK 30,001 thousand (2009: HRK 30,001 thousand), reserves for treasury shares of HRK 4 thousand (2009: HRK 4 thousand) and revaluation reserves formed from unrealised fair value gains/(losses) on available-for-sale financial assets of HRK 70 thousand (2009: HRK 71 thousand).

Other reserves in the amount of HRK 641,101 thousand (2009: HRK 641,100 thousand) are distributable.

NOTE 25 – BORROWINGS

	2010	**2009**
	(in thousands of HRK)	
Short-term		
Bank borrowings	-	3,653
Bank borrowings – current portion of long-term borrowings	34,357	34,864
	34,357	38,517
LONG-TERM		
Bank borrowings	71,364	96,601
Borrowings from related parties (Note 30)	66,200	66,200
	137,564	162,801
	171,921	**201,318**

All bank borrowings are secured by a mortgage over hotel facilities (Note 14) with a net carrying amount of HRK 490,033 thousand (2009: HRK 497,680 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	105,721	135,118
2 – 5 years	-	40,706
Over 5 years	66,200	25,494
	171,921	**201,318**

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:

	2010		2009	
Borrowings:	*(in thousands of HRK)*	**%**	*(in thousands of HRK)*	**%**
- CHF	4,420	3.25	7,205	3.75
- EUR	101,301	2-8.5	127,913	2-8.08
- HRK	66,200	4.89-15	66,200	4.89-5
	171,921		**201,318**	

Borrowings denominated in HRK carry a fixed interest rate.

Maturities of long-term borrowings are as follows:

	2010	**2009**
	(in thousands of HRK)	
1-2 years	26,553	76,478
2-5 years	39,170	49,933
Over 5 years	71,841	36,390
	137,564	**162,801**

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

(in thousands of HRK)	**Carrying amounts**		**Fair value**	
	2010	**2009**	**2010**	**2009**
Borrowings	137,564	162,801	134,327	148,887

The fair value is based on cash flows discounted using a rate based on the borrowing rate of 7.83% (2009: 8.08%),

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

NOTE 26 – PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

(in thousands of HRK)	**Legal proceedings /i/**	**Termination benefits and jubilee awards /ii/**	**Total**
At 1 January 2010	**8,051**	**2,191**	**10,242**
Additional provisions	3,867	-	3,867
Used during year	-	(253)	(253)
At 31 December 2010	**11,918**	**1,938**	**13,856**

	2010	**2009**
	(in thousands of HRK)	
Non-current provision	13,856	10,242
	13,856	10,242

/i/ The provision relates 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.

NOTE 27 – TRADE AND OTHER PAYABLES

	2010	2009
	(in thousands of HRK)	
Domestic trade payables	4,059	3,242
Related parties (Note 30)	3,515	3,204
Foreign trade payables	20	266
Interest payable to related parties (Note 30)	11,917	6,103
Interest payable	1,047	1,408
Accruals for management services (Note 30)	29,058	17,249
Total financial liabilities	49,616	31,472
Advances received	3,458	5,350
Due to employees/salaries	5,750	5,630
Taxes and contributions from and on salaries	1,933	1,877
Accrued liabilities for other employee benefits	83	193
Other accrued and other payables	227	226
	61,067	44,748
Less: non-current portion	(11,917)	(3,116)
Current portion	**49,150**	**41,632**

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

	2010	2009
	(in thousands of HRK)	
HRK	20,537	13,957
EUR	29,076	17,363
Other	3	152
	49,616	31,472

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 2010, provisions for certain legal proceedings have been made for which the Company anticipates an outflow of economic benefits in the amount of HRK 11,918 thousand (2009: HRK 8,051 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 these properties, apart from the land, was included into the Company’s registered capital upon privatisation, and that it is continually used for performing its principal 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 Company’s share capital. On 1 August 2010, the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, entered into force in accordance with which and based on which the ownership and co-ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures for submitting requests for concessions and other prescribed requirements. After the outcome of these procedures, the ownership and/or co-ownership of the Company on the part of the land that was not evaluated in the transformation and privatisation process will finally be determined (Note 4b).

Capital commitments

As at 31 December 2010 and 2009, 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:

	2010	2009
	(in thousands of HRK)	
Up to 1 year	438	260
From 2 to 5 years	676	603
	1,114	**863**

Lease agreements relate to the operating lease of vehicles.

NOTE 29 – CASH GENERATED FROM OPERATIONS

Adjustment of loss with cash generated from operations:

	2010	2009
	(in thousands of HRK)	
Loss before taxation	(13,465)	(12,235)
Adjustments for:		
Depreciation and amortisation (Notes 14,15)	35,521	35,036
Impairment of property, plant and equipment (Note 9)	195	158
Gains on sale of property, plant and equipment (Note 10)	(1)	(5)
Provision for impairment of receivables - net	(545)	1,060
Finance costs – net (Note 11)	16,086	11,991
Income from liability write-off (Note 6)	(18)	(363)
Interest expense (Note 9)	71	30
Increase in provisions	3,867	2,980
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade and other receivables	(5,810)	1,185
- inventories	(40)	136
- trade and other payables	16,666	13,360
Cash generated from operations	**52,527**	**53,333**

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

	2010	2009
	(in thousands of HRK)	
Net book value of sold property, plant and equipment	130	113
Gain on sale of property, plant and equipment (Note 10)	1	5
Proceeds from sale of property, plant and equipment	**131**	**118**

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. USA.

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: 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	2010	2009
		(in thousands of HRK)	
a) Sale of services			
- AT Hoteli Medulin d.o.o., Medulin		3,019	2,511
- AT Zlatne stijene d.o.o., Pula		3,315	3,067
- AT Turistička naselja d.o.o., Pula		288	244
		6,662	5,822
b) Marketing and promotion costs			
- AT Hoteli Medulin d.o.o., Medulin		6,653	6,036
c) Management services			
- Park plaza Hotels	9	8,662	8,614
d) Interest expense			
- W2005/Dvadeset Osam d.o.o., Zagreb		5,815	3,265

NOTE 30 – RELATED PARTY TRANSACTIONS (continued)

	Note	2010	2009
		(in thousands of HRK)	
e) Trade and other receivables:			
- AT Hoteli Medulin d.o.o., Medulin		173	173
- AT Zlatne stijene d.o.o., Pula		15	35
- AT Turistička naselja d.o.o., Pula		15	9
	21	**203**	**217**
f) Trade and other payables:			
- W 2005/ Dvadeset osam d.o.o., Zagreb		11,917	6,103
- AT – Hoteli Medulin d.o.o., Medulin		3,485	3,161
- AT – Zlatne stijene d.o.o., Pula		30	43
- Park plaza Hotels		29,058	17,249
	27	**44,490**	**26,556**
g) Borrowings /i/			
W 2005/ Dvadeset Osam d.o.o., Zagreb		40,706	40,706
W 2005/ Dvadeset Osam d.o.o., Zagreb		25,494	25,494
	25	**66,200**	**66,200**

/i/ Borrowings are not secured.

		2010	2009
h) Key management compensation (Executive Directors)			
Net salaries		2,292	1,876
Pension contributions		345	225
Health insurance contributions		359	253
Other contributions, tax and surtax		759	593
		3,755	**2,947**

The Company has 4 Executive Directors (2009: 4).