



ARENATURIST d.d.

ANNUAL REPORT 2011

Pula, April 2012

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Executive Directors' Report

History and incorporation

Arenaturist d.d. from Pula (the "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 37 years.

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

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.

Company's shares are listed on the regular listing on the Zagreb Stock Exchange.

According to the ownership structure as of 31 December 2011, W 2005/ Dvadeset Osam d.o.o. holds 74.15% of the shares. The ultimate parent company is Goldman Sachs Company, Inc. USA.

The Croatian Privatization Fund owns 1.95% of the Company's shares, treasury shares amount to 0.01% and other 4,387 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 1,457 rooms, two apartment settlements with 614 units and seven camps with 5,356 units, which represent total accommodation potential of over 21,000 guests per day.



Executive Directors' Report (continued)

In the overall accommodation offer of the Company, camps have the largest share of 72%, while the remaining 28% is shared by hotels and tourist settlements.

Accommodation capacities increase, in relation to the previous year is a result of Camp Kažela and Pomer operating as a part of Arenaturist, until 2011 those camps were leased.

Park Plaza Hotels Europe B.V. with a registered office in Netherland manages Arenaturist. PPHE Hotel Group is committed to improve performances of the Company and introduce the brand Park Plaza to several properties.



Executive Directors' Report (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 2011:

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
Šime Vidulin	Member
Marcus Hubertus Gertrudis Vennekens	Member
Abraham Thomas	Member

At the ordinary Company General Assembly held on 19 August 2011, 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
Michael Furth	Member
Šime Vidulin	Member
Marcus Hubertus Gertrudis Vennekens	Member
Abraham Thomas	Member

Mandate of the Management Board members runs from 25 September 2011.



Executive Directors' Report (continued)

The Company is represented by the Executive Directors.

The following Executive Directors were reappointed on 18 September 2009 for 5 years period:

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

Management Board re-elected Igor Štoković as a Chief Executive Officer for the period up to 31 August 2012.

On 1 March 2012, Management Board elected Abraham Thomas as an Executive Director for the period up to 18 September 2014, instead of former Executive Director Kurt Kuen.

Executive Directors' Report (continued)

2011 Highlights

- After several years of lease Campsites Kažela and Pomer are again part of Arenaturist business activity.
- We applied to obtain the touristic land concession in campsites, touristic settlements and hotels managed by Arenaturist that has not been evaluated in the transformation and privatisation process.
- After the close of the 2011 summer season, we started extensive renovations at Hotel Histria and Punta Verudela as they become a 4* Park Plaza Resort. Investment, worth €25 million is financed using the loan of the Zagrebačka banka.
- We implemented the OPERA Property Management System to all our entities, which provide efficiency and allows connection to the Park Plaza reservation system.

Results of Company's Business Operations

In the year 2011, Arenaturist realized 1,5 million overnights, 24% more than last year. Increase in number of overnights is achieved in all types of accommodation; hotels and apartment complexes for 4% and campsites for 43%, in relation to the previous year. Huge overnights increase is a result of Campsites Kažela and Pomer operating as a part of Arenaturist as well as good weather conditions that prolonged operational activities in campsites. Most of our guests are from Germany, Slovenia, Austria and Italy. Along with the overnights increase, average room rate increased as well.

Operating revenue was realized in the amount of 240,9 million Kuna, which represents an increase of 34,2 million Kuna or 16,5% in relation to the previous year; mostly due to increase in sales revenues from touristic services.

Operating expenses were realized in the amount of 242,2 million Kuna, which represents an increase of 38,1 million Kuna or 17,2% compared to previous year. Operating expenses significantly increased due to lease expenses related to concession fees we are obligated to pay based on the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process (NN broj 92/10) and other Regulations, which entered into force since the beginning of 2011. Operating expenses also increased due to rent of 176 Mobile Homes in Camp Kažela. Other operating expenses increased by 52,3% to a 13,6 million Kuna mostly as a result of provisions that have been made related to legal proceedings and equipment write-off in Hotel Histria and Punta Verudela. Other categories of operating expenses increased due to increase of operating performance.

Executive Directors' Report (continued)

Loss from operating activities was realized in the amount of 1,3 million Kuna, it includes provisions that have been made and equipment write-off.

Financial activities realized a negative effect in the amount of 21,1 million Kuna. This amount includes interest expenses that increased by 3,4 million Kuna or 25,8% due to increase in interest rates on loans received from related parties. Negative effect of exchange rate differences emerged from revaluation of outstanding principles of loans denominated in foreign currency and amounted to 2,1 million Kuna. Unwinding of discount of provision related to the legal proceeding with the company Herculanea d.o.o. Pula which has as yet not been resolved is in the amount of 2,1 million Kuna.

Property and liabilities

Total value of assets on 31 December 2011 was 953,1 million Kuna, it represents a 4,9 million Kuna increase in relation to previous year. Capital and reserves are amounted to 682,4 million Kuna and are decreased in relation to previous year due to loss period.

Total liabilities of the Company are amounted to 270,7 million Kuna, which represents the increase of 23,9 million Kuna, in relation to previous year. Liabilities on loans were reduced by 5,9 million Kuna. Provisions for other liabilities and expenses increased to the amount of 11,3 million Kuna, due to provision related to the legal proceeding with the company Herculanea d.o.o. Pula which has as yet not been resolved. Trade payables and other liabilities increased by 18,4 million Kuna year on year, due to the investment project, touristic land concession fee and accrued interest and principal to related parties that are due on payment on 31 December 2012.

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.

Executive Directors' Report (continued)

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 31 December 2011, Arenaturist had 346 permanent employees, and in the peak of the season (August) additional 470 employees were employed.

Annually, based on working hours, Arenaturist employs 488 employees. Arenaturist concluded Temporary Service Contracts for permanent seasonal jobs with 28 long-term seasonal employees.

Company progress and expectations for the year 2012

At the end of 2011 we started extensive renovations at Hotel Histria and Punta Verudela as a part of development strategy introduced in collaboration with Park Plaza Hotels Europe Company.

After finishing the Hotel Histria – Punta Verudela investment, worth €25.0 million, it will become a 4* Park Plaza Resorts.

Hotel Park Plaza Histria renovation includes reconstruction of 233 rooms and 9 apartments, Conference Centre with Congress Hall hosting up to 700 guests and three Executive Boardrooms hosting 20 – 80 guests. All meeting facilities are equipped with the latest audio and visual technology and other required equipment. Our improved offer will also include new Spa-Wellness Centre offering treatment rooms (sauna, massage and beauty treatments), a relaxation lounge, fitness centre and indoor swimming pool.

Park Plaza Punta Verudela renovation project includes 385 apartments as well as a shopping area, children's playground, sport centre, landscaping and outdoor swimming pool.

This investment will improve our quality and prolong operational season, which will further position Arenaturist and the city of Pula as an attractive "business & leisure" destination.

In 2012, we expect challenging business conditions considering Euro crises and expected changes in fiscal and monetary policy in Croatia.



Executive Directors' Report (continued)

We are familiar with the fact that in the time of recession potential guests are very careful about choosing the right destination as well as the length of staying.

Histria and Punta Verudela renovation project will have an effect on less business activity in the first half of 2012. After reopening in May/June 2012, we expect good operational results that will generate even better financial results in comparison to the last year.

To reach high results it is necessary to invest in employee's performances and knowledge. We encourage it by investing in education and human resource improvement. In 2012, we will focus on further educational and training programs of all out employees.

Chief Executive Officer and authorized person of the Executive Director Milena Perković

Dr.sc. Igor Štoković

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

Milena Perković

Executive Director and authorized person of the Executive Director Abraham Thomas

Reuel Israel Gavriel Slonim

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

Abraham Thomas



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 were approved by the Executive Directors on 30 March 2012 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 Abraham Thomas
Reuel Israel Gavriel Slonim

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

ARENATURIST d.d., Pula

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
31 DECEMBER 2011**



Independent auditor's report

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

We have audited the accompanying financial statements of Arenaturist d.d. (the 'Company'), which comprise the balance sheet as at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRSs), 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.

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Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Arenaturist d.d. as at 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Emphasis of matter

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. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.

Zagreb, 2 April 2012

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

ARENATURIST D.D., PULA**STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2011**

<i>(all amounts in thousands of HRK)</i>	Note	2011	2010
Sales	5	240,417	206,333
Other income	6	270	345
Cost of materials and services	7	(90,327)	(70,900)
Staff costs	8	(77,913)	(71,602)
Depreciation and amortisation	14,15	(34,214)	(35,521)
Other operating expenses	9	(39,746)	(26,095)
Other gains – net	10	253	61
Operating (loss) /profit		(1,260)	2,621
Finance income		157	141
Finance costs		(21,230)	(16,227)
Finance costs – net	11	(21,073)	(16,086)
Loss before tax		(22,333)	(13,465)
Income tax	12	3,418	2,246
Loss for the year		(18,915)	(11,219)
Other comprehensive income:			
Fair value losses on available-for-sale financial assets		(20)	(1)
Total comprehensive loss for the year		(18,935)	(11,220)
Loss per share (in HRK) – basic and diluted	13	(8.68)	(5.14)

These financial statements set out on pages 3 to 55 were approved by the Executive Directors of the Company on 30 March 2012.

Executive Directors:

Dr. Igor Štoković (Chairman of the Executive Directors)

Milena Perković (Executive Directors)

Reli Slonim (Executive Directors)

Kurt Kuen (Executive Directors)

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

ARENATURIST D.D., PULA**BALANCE SHEET****AS AT 31 DECEMBER 2011***(all amounts in thousands of HRK)*

	Note	2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	14	916,435	918,074
Intangible assets	15	4,585	2,598
Investment in subsidiaries	16	40	40
Available for sale financial assets	20	144	164
Deferred tax assets	17	10,342	6,924
Deposit receivables	21	504	290
		932,050	928,090
Current assets			
Inventories	18	336	598
Trade and other receivables	21	18,765	13,966
Deposit receivables	21	1,295	176
Income tax receivable	12	70	70
Cash and cash equivalents	22	534	5,249
		21,000	20,059
		953,050	948,149
EQUITY			
Equity			
Share capital	23	43,650	43,650
Treasury shares	23	(4)	(4)
Reserves	24	643,284	643,304
(Accumulated loss)/ retained earnings	24	(4,560)	14,355
		682,370	701,305
LIABILITIES			
Non-current liabilities			
Borrowings	25	150,306	149,481
Provisions for other liabilities and expenses	26	25,118	13,856
		175,424	163,337
Current liabilities			
Borrowings	25	27,660	34,357
Trade and other payables	27	67,596	49,150
		95,256	83,507
Total liabilities		270,680	246,844
Total equity and liabilities		953,050	948,149

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

ARENATURIST D.D., PULA

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

<i>(all amounts in thousands of HRK)</i>	Note	Share capital	Treasury shares	Reserves	(Accumulated loss)/retained earnings	Total
Balance at 1 January 2010		43,650	(4)	643,305	25,574	712,525
Loss for the year		-	-	-	(11,219)	(11,219)
Other comprehensive loss	20	-	-	(1)	-	(1)
Total comprehensive loss		-	-	(1)	(11,219)	(11,220)
Balance at 31 December 2010	23,24	43,650	(4)	643,304	14,355	701,305
Loss for the year		-	-	-	(18,915)	(18,915)
Other comprehensive loss	20	-	-	(20)	-	(20)
Total comprehensive loss		-	-	(20)	(18,915)	(18,935)
Balance at 31 December 2011	23,24	43,650	(4)	643,284	(4,560)	682,370

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

ARENATURIST D.D., PULA**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 DECEMBER 2011**

<i>(all amounts in thousands of HRK)</i>	Note	2011	2010
Cash flows from operating activities			
Cash generated from operations	29	55,146	46,642
Income tax paid	12	-	(70)
Interest paid		(7,412)	(8,433)
Net cash from operating activities		47,734	38,139
Cash flows from investing activities			
Purchase of property, plant and equipment		(31,087)	(14,926)
Purchase of intangible assets	15	(2,581)	(956)
Proceeds from sale of property, plant and equipment	29	256	131
Deposits received		176	3,873
Deposits granted		(1,509)	-
Interest received	11	157	141
Net cash used in investing activities		(34,588)	(11,737)
Cash flows from financing activities			
Proceeds from borrowings		43,565	68,180
Proceeds from finance lease		1,388	-
Repayments of borrowings		(62,184)	(99,918)
Repayments of finance lease		(630)	-
Net cash used in financing activities		(17,861)	(31,738)
Net decrease in cash and cash equivalents		(4,715)	(5,336)
Cash and cash equivalents, beginning of year		5,249	10,585
Cash and cash equivalents, end of year	22	534	5,249

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

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011 and 2010 is disclosed in Note 23.

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

As at 31 December 2011 and 2010, 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

During the year, the Company adopted the following new and amended IFRSs and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). If the application of standards or interpretations impacted the Company's financial statements or result, the impact is stated.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010). The amendment allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The adoption of the amendment did not have any impact on the financial position and performance of the Company, as the Company does not have such instruments.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 July 2010). The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The adoption of the interpretation did not have any impact on the financial statements as the Company does not negotiate such terms with its creditors.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1. Changes in accounting policy and disclosures (continued)

Amendment to IFRS 1 First time adoption – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for financial years beginning on or after 1 July 2010). The amendment clarifies that first time adopters do not need to provide comparative disclosures as introduced by the IFRS 7 amendment issued in March 2009. The adoption of the amendment did not affect the financial position of the Company.

Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011). The amendments simplify the definition of a related party and modify certain related-party disclosure requirements for government-related entities. The implementation of these amendments did not have any impact on the financial position and performance of the Company and the related parties' disclosures.

Amendment to IFRIC 14 The Limit On A Defined Benefit Assets, Minimum Funding Requirements And Their Interaction (effective for financial years beginning on or after 1 January 2011). Removes unintended consequences arising from the treatment of pre-payments where there is a minimum funding requirement. Results in pre-payments of contributions in certain circumstances being recognised as an asset rather than an expense. The Company is not subject of minimum funding requirements; therefore the amendment of the interpretation did not have any effect on the financial position and performance of the Company.

Improvements to International Financial Reporting Standards (issued in May 2010)

The International Accounting Standards Board (IASB) issued a set of amendments to IFRSs. Adopted amendments derived from improvements to IFRSs to the following standards had no impact on the Company's accounting policies, financial position or result:

IFRS 1 First Time Adoption (effective for annual periods beginning on or after 1 January 2011)

- (a) *Accounting policy changes in the year of adoption* - Clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34, *Interim financial reporting*, it should explain those changes and update the reconciliations between previous accounting standards and IFRS.
- (b) *Revaluation basis as deemed cost* - Allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition but before the first IFRS financial statements are issued. When such remeasurement occurs after the date of transition to IFRSs but during the period covered by its first IFRS financial statements, any subsequent adjustment to that event-driven fair value is recognised in equity.
- (c) *Use of deemed cost for operations subject to rate regulation* - Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under IAS 36 at the date of transition.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1. Changes in accounting policy and disclosures (continued)

IFRS 3 Business combinations (effective for annual periods beginning on or after 1 July 2010)

- (a) *Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS.* - Clarifies that the amendments to *IFRS 7, Financial instruments: Disclosures*, *IAS 32, Financial instruments: Presentation*, and *IAS 39, Financial instruments: Recognition and measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).
- (b) *Measurement of non-controlling interests* - The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS
- (c) *Un-replaced and voluntarily replaced share-based payment awards* - The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards.

IFRS 7 Financial Instruments - Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

IAS 1 Presentation of financial statements - Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 Consolidated and separate financial statements - Clarifies that the consequential amendments from IAS 27 made to *IAS 21, The effect of changes in foreign exchange rates*, *IAS 28, Investments in associates*, and *IAS 31, Interests in joint ventures*, apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when IAS 27 is applied earlier.

IAS 34 Interim financial reporting - Provide guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around: the circumstances likely to affect fair values of financial instruments and their classification; transfers of financial instruments between different levels of the fair value hierarchy; changes in classification of financial assets; and changes in contingent liabilities and assets.

IFRIC 13 Customer loyalty programmes - The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes.

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1. Changes in accounting policy and disclosures (continued)

Standards and interpretations that have been issued but are not yet effective

Below is a list of standards/interpretations that have been issued and are effective for periods after 1 January 2011:

Amendments to IFRS 7 Financial Instruments: Disclosures on Derecognition (effective for annual periods beginning on or after 1 July 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment only affects the presentation and therefore any impact on the Company's financial position or result is not expected. The Company plans to adopt the new standard as of the effective date.

Amendments to IFRS 1 First Time Adoption: Fixed Dates and Hyperinflation (effective for annual periods beginning on or after 1 July 2011). These amendments include two changes to *IFRS 1 First-time adoption of IFRS*. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. Amendments will have no impact on the Company's financial position or result as the Company is not a first-time adopter.

IAS 12 Income Taxes – Deferred Taxes (effective for annual periods beginning on or after 1 January 2012). *IAS 12 Income taxes*, currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in *IAS 40 Investment property*. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, *SIC 21 Income taxes - recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. It is not expected to have an impact on the Company's financial statements, as the Company currently does not hold investment assets recognised under the revaluation model that are not depreciated.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1. Changes in accounting policy and disclosures (continued)

Amendment to IAS 1 Financial Statement Presentation Regarding Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment only affects the presentation and therefore any impact on the Company's financial position or result is not expected.

Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendment might have an impact on the Company's financial position or result.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015). IFRS 9 is the first standard issued as part of a wider project to replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. It is not expected to have any impact on the Company's financial statements. The Company plans to adopt the new standard as of the effective date.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements. The Company is currently assessing the impact of IFRS 10 on the financial statements. The Company plans to adopt the new standard as of the effective date.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013). IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Company expects that IFRS 11 might have an impact on the financial statements and is currently assessing its impact. The Company plans to adopt the new standard as of the effective date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1. Changes in accounting policy and disclosures (continued)

IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013). IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is currently assessing the impact of IFRS 12 on the financial statements. The Company plans to adopt the new standard as of the effective date.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is currently assessing the impact of IFRS 13 on the financial statements. The Company plans to adopt the new standard as of the effective date.

IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013). IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The Company is currently assessing the impact of IAS 27 on the financial statements. The Company plans to adopt the new standard as of the effective date.

IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013). IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Company is currently assessing the impact of IAS 28 on the financial statements. The Company plans to adopt the new standard as of the effective date.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013). The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realised in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met. This amendment is not applicable to the Company's operations.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Company is assessing the impact of this amendment.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, which are accounted at cost less impairment. There are no consolidated financial statements prepared due to the fact that the subsidiaries are not material and have not started their operations. The Company does not control any other enterprises.

2.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses relating to borrowings and cash and cash equivalents are recorded in the 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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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
Plant and equipment	4 - 8 years
Other	10 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income within 'other gains – 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. They are amortised over their estimated useful lives (4 to 10 years).

2.7 Impairment of non-financial assets

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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 reporting date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet (Notes 2.11 and 2.12).

(b) Available-for-sale financial assets

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

2.8.2 Recognition and measurement

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 interest accrued using effective interest rate 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 changes arising from fair value 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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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 directly 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 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

Leases in which a 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.

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.

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 2011, if the EURO had weakened/strengthened by 2% and 1.2% for 2010 against the HRK, with all other variables held constant, the loss for the reporting period would have been HRK 1,264 thousand (2010: HRK 1,065 thousand) lower/(higher), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated borrowings, trade payables, trade and other receivables and foreign cash funds.

At 31 December 2011, if the CHF had weakened/strengthened by 4% and 2.5% for 2010 against the HRK, with all other variables held constant, the loss for the reporting period would have been HRK 0 thousand (2010: HRK 354 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 2011, if interest rates on currency-denominated borrowings had been higher/lower by 0.13% and 0.2% for 2010, with all other variables held constant, the loss for the year would have been HRK 247 thousand (2010: HRK 409 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 2011 and 2010, if the indices of the ZSE had been higher/lower by 4.59 % for 2011 and 4 % for 2010 (which was the average index movement), with all other variables held constant, revaluation reserves within equity and other comprehensive income would have been HRK 6 thousand (2010: HRK 7 thousand) higher/lower, as a result of fair value gain/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 collectability 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.

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)**3.1 Financial risk factors (continued)**

	Less than 3 months	3 months – 1 year	1 – 2 years	2 – 5 years	Over 5 years
At 31 December 2011					
Trade payables	23,907	-	-	-	-
Due to Park Plaza Hotels	29,282	-	-	-	-
Borrowings	4,984	37,988	34,195	69,505	138,485
Total liabilities (contractual maturities)	58,174	37,988	34,195	69,505	138,485
At 31 December 2010					
Trade payables	8,641	-	-	-	-
Due to Park Plaza Hotels	29,058	-	-	-	-
Borrowings	4,936	43,423	35,285	59,184	115,210
Total liabilities (contractual maturities)	42,635	43,423	35,285	59,184	115,210

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.

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)**3.3 Financial risk factors (continued)***Fair value hierarchy*

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 2011				
Available-for-sale financial assets:				
- equity securities	104			104
Total assets				
At 31 December 2010				
Available-for-sale financial assets:				
- equity securities	124	-	-	124
Total assets	124	-	-	124

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.

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

If the depreciation rates on property, plant and equipment had been 5% higher/lower, with all other variables held constant, the loss for the year would have been higher/lower, and the net carrying value of property, plant and equipment would have been lower/higher by HRK 1,711 thousand (2010: HRK 1,776 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 7.681028/EUR for 2012. If the EURO had strengthened/weakened by 2% against the HRK over the forecast period, value in use would be, on average, HRK 12,960 thousand higher/lower.

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%.

On the basis of tests performed no further impairment was identified.

(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. Until 31 December 2011 the single institute proceedings under the provisions the above-mentioned law and regulations has not been completed. At this point due to outstanding issues around the implementation of Law on Tourist and Other Construction Land, it is not possible to reliably anticipate the outcome of these proceeding. (See note 28).

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011****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 2011 is as follows:

<i>(in thousands of HRK)</i>	Hospitality and tourism	Accompan ying activities	Administrati ve services	Total
Total sales	233,918	19,142	2,581	255,641
Inter-segment revenue	(1,008)	(14,216)	-	(15,224)
Revenue from external customers	232,910	4,926	2,581	240,417
Restated GOP	86,407	3,897	(22,539)	67,765
Depreciation and amortisation (Note 14 and 15)	30,106	2,984	1,124	34,214
Total assets	840,628	94,604	6,254	941,486
Total liabilities	175,482	4,329	2,178	181,989

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

<i>(in thousands of HRK)</i>	Hospitality and tourism	Accompan ying activities	Administrati ve 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

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of GOP with loss before tax is as follows:

	2011	2010
	<i>(in thousands of HRK)</i>	
Restated GOP – hospitality and tourism	86,407	74,544
Restated GOP – accompanying activities	3,897	2,472
Restated GOP – administrative services	(22,539)	(20,360)
Restated GOP	67,765	56,656
Fixed costs /i/	(36,588)	(18,514)
Interest	(16,438)	(13,886)
Depreciation of property, plant and equipment	(34,215)	(35,521)
Finance expense – net	(2,497)	(2,200)
Loss before tax	(22,333)	(13,465)

/i/ in the fixed cost is the amount of HRK 13,565 thousand relating to interest at the legal proceedings recorded in 2011.

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:

	2011		2010	
<i>(in thousands of HRK)</i>	Assets	Liabilities	Assets	Liabilities
Segment assets/liabilities	941,486	181,989	935,483	164,969
Unallocated:	11,564	88,691	12,666	81,875
Cash and cash equivalents	534	-	5,249	-
Deferred tax assets	10,342	-	6,924	-
Other financial assets	688	-	493	-
Borrowings	-	88,691	-	81,875
Total	953,050	270,680	948,149	246,844

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Accommodation	191,298	156,973
Foods and beverages	28,767	32,272
Rentals	11,824	9,514
Others	8,528	7,574
	<u>240,417</u>	<u>206,333</u>

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:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Domestic sales	24,646	18,249
Foreign sales	215,771	188,084
	<u>240,417</u>	<u>206,333</u>

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

Foreign sales	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
Germany	59,843	28	44,373	24
Italy	27,725	13	25,985	14
Slovenia	28,691	13	27,273	15
Austria	28,160	13	21,287	11
Netherlands	10,762	5	8,266	4
Czech Republic	7,492	4	6,326	3
France	4,860	2	4,578	2
Other EU members	24,691	12	27,826	15
Other	23,547	10	22,170	12
Total	<u>215,771</u>	<u>100</u>	<u>188,084</u>	<u>100</u>

All non-current assets are located in Croatia.

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 6 – OTHER INCOME

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Court claims recovered	2	57
Write-off of liabilities	-	18
Income from refunding	201	248
Other income	<u>67</u>	<u>22</u>
	270	345

NOTE 7 – COST OF MATERIALS AND SERVICES

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Raw materials		
Raw materials and supplies	20,495	20,736
Energy and water	19,855	16,382
Small inventories	<u>75</u>	<u>47</u>
	40,425	37,165
External services		
Utility services	13,155	9,071
Marketing and promotion	11,608	9,723
Repairs and maintenance	7,029	8,354
Art and entertainment services	2,221	1,664
Telephone, postal and transportation services	1,435	1,107
Rentals	9,122	316
Other services	<u>5,332</u>	<u>3,500</u>
	49,902	33,735
	90,327	70,900

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 8 – STAFF COSTS

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Net salaries	41,148	36,935
Pension contributions	11,831	10,906
Health insurance contributions	9,073	8,453
Other contributions, tax and surtax	7,706	7,985
Termination benefits and jubilee awards	2,369	1,414
Other staff costs /i/	<u>5,786</u>	<u>5,909</u>
	77,913	71,602
Number of employees at 31 December	506	512

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

NOTE 9 – OTHER OPERATING EXPENSES

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Professional services	2,036	1,205
Municipal and similar fees	7,421	6,374
Management services (Note 30)	9,542	8,662
Insurance premiums	1,127	1,801
Bank charges, payment transaction costs and membership fees	2,297	1,847
Provisions for legal proceedings (Note 26)	10,059	3,867
Entertainment costs	665	550
Impairment of property, plant and equipment	1,894	195
Provisions for impairment of receivables (Note 21)	1,465	83
Collection of receivables previously written-off	(36)	(793)
Penalty interest	1,369	71
Other	<u>1,909</u>	<u>2,233</u>
	39,746	26,095

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 10 – OTHER GAINS – NET

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Net gains on sale of property, plant and equipment	39	1
Net foreign exchange gains – other	<u>136</u>	<u>60</u>
	<u>175</u>	<u>61</u>

NOTE 11 – FINANCE COSTS AND INCOME

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Finance income		
Interest income on cash deposits with banks	<u>157</u>	<u>141</u>
	157	141
Finance costs		
Provisions: Unwinding of discount (Note 26)	(2,137)	-
Interest expense	(17,034)	(13,886)
Foreign exchange losses – net	<u>(2,059)</u>	<u>(2,341)</u>
	(21,230)	(16,227)
Finance costs – net	(21,037)	(16,086)

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 12 – INCOME TAX

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Deferred tax – Origination and reversal of temporary differences (Note 17)	<u>3,418</u>	<u>2,246</u>

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Loss before tax	(22,333)	(13,465)
Income tax credit at 20%	(4,467)	(2,693)
Expenses not deductible for tax purposes	2,086	851
Income not subject to tax	(1,068)	(462)
Expiry of unused tax losses	<u>31</u>	<u>58</u>
Net income tax credit	(3,418)	(2,246)
Income tax for the current year		
Prepayment	<u>(70)</u>	<u>(70)</u>
Income tax receivable	70	70

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.

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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).

	<u>2011</u>	<u>2010</u>
Loss for the year (<i>in thousands of HRK</i>)	(18,915)	(11,219)
Weighted average number of shares (basic)	2,182,331	2,182,331
Loss per share (basic) (<i>in HRK</i>)	<u>(8.68)</u>	<u>(5.14)</u>

Diluted

Diluted loss per share for 2011 and 2010 is equal to basic loss per share, since the Company did not have any convertible instruments or share options outstanding during either 2011 or 2010.

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land and buildings	Plant and equipment	Property and assets under construction	Total
At 1 January 2010				
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
Year ended 31 December 2011				
Opening net book amount	867,198	38,773	12,103	918,074
Additions	10,092	5,877	18,123	34,092
Disposals and impairment	(42)	(2,069)	-	(2,111)
Depreciation (Note 29)	(23,503)	(10,117)	-	(33,620)
Closing net book amount	853,745	32,464	30,226	916,435
At 31 December 2011				
Cost	1,310,766	145,965	30,226	1,486,957
Accumulated depreciation and impairment	(457,021)	(113,501)	-	(570,522)
Net book amount	853,745	32,464	30,226	916,435

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

In 2011, the item 'disposals and impairment' includes the write-off of furniture in hotels net book amount of HRK 1,894 thousand due to its obsolescence.

Property with a carrying value of HRK 481,022 thousand (2010: HRK 490,033 thousand) has been pledged as collateral for the repayment of bank borrowings (Note 25).

Borrowing costs amounting to HRK 117 thousand have been capitalised during 2011 and included in the value of buildings. The borrowing costs comprise fees of financing construction work on tourist buildings. The capitalisation rate was 6.44%. In 2010, there were no borrowing costs to be capitalised.

Of the total value of the Company's equipment, those leased under a finance lease contract are as follows:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Cost	1,049	-
Accumulated depreciation	<u>66</u>	<u>-</u>
Net book amount	<u>983</u>	<u>-</u>

In 2011, the Company has finance lease liability (Note 25).

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Cost	188,038	180,299
Accumulated depreciation as at 1 January	(97,508)	(93,733)
Depreciation for the year	<u>(2,870)</u>	<u>(2,737)</u>
Net book amount	<u>87,660</u>	<u>83,829</u>

The operating lease relates to the lease of shops and restaurants or premises and equipment. During 2011, the Company realised rental income in the amount of HRK 11,970 thousand (2010: HRK 9,636 thousand).

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

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:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	11,631	6,909
From 2 to 5 years	15,424	3,016
Over 5 years	<u>51,959</u>	<u>69,473</u>
	<u>79,014</u>	<u>79,398</u>

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

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 15 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Technical documentation	Licences	Total
At 1 January 2010			
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
Year ended 31 December 2011			
Opening net book amount	1,667	931	2,598
Additions	-	2,581	2,581
Amortisation for the year (Note 29)	(276)	(318)	(594)
Closing net book amount	1,391	3,194	4,585
At 31 December 2011			
Cost	8,978	4,756	13,734
Accumulated amortisation	(7,587)	(1,562)	(9,149)
Net book amount	1,391	3,194	4,585

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 16 – INVESTMENTS IN SUBSIDIARIES

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
At 1 January	<u>40</u>	<u>40</u>
At 31 December	40	40

The subsidiaries are:

	<u>Country</u>	<u>Ownership %</u>	
		<u>2011</u>	<u>2010</u>
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:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	409	538
Deferred tax asset to be recovered within 12 months	<u>9,933</u>	<u>6,386</u>
	10,342	6,924
Deferred tax liabilities	-	-
Deferred tax assets (net)	10,342	6,924

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011****NOTE 17 – DEFERRED TAX ASSETS (continued)**

	Provisions for concessions	Provisions for legal claims	Accruals for management services	Retirement enefit obligatio	Tax loss carry forward	Total
At 1 January 2010	-	-	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
Credited to the statement of comprehensive income	1,028	2,323	2,569	843	-	6,763
Charged to the statement of comprehensive income	-	-	(2,525)	(789)	(31)	(3,345)
At 31 December 2011	1,028	2,323	5,856	1,046	89	10,342

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:

	2011	2010
	<i>(in thousands of HRK)</i>	
Raw materials	293	532
Small inventory	39	64
Trade goods	3	2
Advances for goods	1	-
	336	598

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY

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

<i>(in thousands of HRK)</i>	<u>Loans and receivables</u>	<u>Available-for-sale financial assets</u>	<u>Total</u>
31 December 2011			
Assets at balance sheet date			
Available-for-sale financial assets	-	144	144
Trade and other receivables	13,824	-	13,824
Cash and cash equivalents	534	-	534
Total	14,358	144	14,502

<i>(in thousands of HRK)</i>	<u>Loans and receivables</u>	<u>Available-for-sale financial assets</u>	<u>Total</u>
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

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.

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Liabilities at the balance sheet date – at amortised cost		
Trade and other payables	53,189	37,699
Borrowings	177,966	183,838
	<u>231,155</u>	<u>221,537</u>

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

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:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Trade and other receivables		
Existing domestic customers – past payments within maturity period (no defaults)	5,097	1,054
Existing foreign customers – with some defaults in the past	<u>121</u>	<u>752</u>
	5,218	1,806

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Deposits and loans		
Financial institutions - no credit rating	<u>1,799</u>	<u>466</u>
	1,799	466

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

Cash at bank	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Without credit rating	127	4,034
BBB- (ZABA)	<u>112</u>	<u>352</u>
	239	4,386

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

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
<i>Listed</i>		
Privredna banka d.d., Zagreb	104	124
<i>Unlisted</i>		
IRTA d.o.o.	<u>40</u>	<u>40</u>
	<u>144</u>	<u>164</u>

Unlisted securities are stated at cost . Available-for-sale financial assets are denominated in HRK.

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
At beginning of year	164	165
Fair value losses on available-for-sale financial assets (Note 24)	<u>(20)</u>	<u>(1)</u>
At end of year	<u>144</u>	<u>164</u>

None of these assets is either past due or impaired.

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 21 – TRADE AND OTHER RECEIVABLES

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Domestic	15,108	13,531
Trade receivables – related parties (Note 30)	391	203
Foreign	2,665	3,373
Less: provision for impairment of trade receivables	<u>(6,139)</u>	<u>(4,710)</u>
Trade receivables – net	12,025	12,397
Deposit receivables /i/	<u>1,799</u>	<u>466</u>
<i>Total financial assets</i>	13,824	12,863
 VAT receivable	 4,523	 1,100
Prepayments	1,982	134
Other receivables	<u>235</u>	<u>335</u>
	20,564	14,432
Less: non-current portion	<u>(504)</u>	<u>(290)</u>
Current portion	20,060	14,142

/i/ The deposit receivables relate to a interest-free deposit given as a collateral for the operating lease of vehicles over a 5-year term (HRK 504 thousand) and a short-term time deposit with an interest rate of 0.82% p.a. (HRK 1,295 thousand). Since current year deposit receivables are presented separately in the balance sheet. The change did not have significant impact on prior year balance sheets.

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Trade receivables – net	12,025	12,397
Deposit receivables	<u>1,718</u>	<u>424</u>
	13,743	12,821

The fair values of deposit receivables are based on cash flows discounted using a rate based on the borrowing rate of 7% (2010: 6%).

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
From 1 to 2 years	172	-
From 2 to 5 years	332	290
	<u>504</u>	<u>290</u>

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
At 1 January	4,710	5,255
Additional provision	1,465	83
Collection	(36)	(628)
At 31 December	<u>6,139</u>	<u>4,710</u>

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Trade receivables – gross:		
Neither past due nor impaired	5,218	1,806
Past due, but not impaired	6,807	10,591
Past due and impaired	6,139	4,710
	<u>18,164</u>	<u>17,107</u>

As of 31 December 2011, trade receivables in the amount of HRK 6,807 thousand (2010: HRK 10,591 thousand) were past due, but not impaired. The ageing analysis of these receivables is as follows:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Up to one month	159	1,528
One to two months	727	2,384
Two to three months	2,010	1,969
Over three months up to 1 year	3,911	4,710
	<u>6,807</u>	<u>10,591</u>

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
EUR	4,465	8,725
HRK	<u>9,359</u>	<u>4,138</u>
	13,824	12,863

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Giro accounts	220	500
Foreign currency accounts	19	3,886
Cash in hand	<u>295</u>	<u>863</u>
	534	5,249

Current accounts bear an interest rate of 0.15% to 1% (2010: 0.01% to 1%).

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
HRK	515	1,363
EUR	19	3,866
Other	<u>-</u>	<u>20</u>
	534	5,249

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 23 – SHARE CAPITAL

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

	2011		2010	
	Number of shares	%	Number of shares	%
W2005/Dvadeset Osam d.o.o.	1,618,263	74.15	1,618,263	74.15
SG-SB d.d./ KD Investments - Victoria Fond	57,235	2.62	-	-
HPB d.d./ KD Investments - Victoria Fond	-	-	56,654	2.59
State Property Management Agency (AUDIO)	42,491	1.95	-	-
Croatian Privatisation Fund	-	-	42,454	1.95
SG-SB d.d. / joint account for Skandinaviska Eskilda Banken	-	-	42,000	1.92
Bakić Nenad	33,855	1.55	-	-
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
SG-SB d.d. / Abacus Brokeri d.d. – client funds	6,535	0.30		
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	359,699	16.48	358,707	16.43
TOTAL	2,182,500	100.00	2,182,500	100.00

/ii/ As at 31 December 2011 and 2010, the Company's share capital 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.

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 24 – RESERVES AND (ACCUMULATED LOSS)/RETAINED EARNINGS

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Legal reserves	2,129	2,129
Other reserves	641,155	641,175
(Accumulated loss)/retained earnings	<u>(4,560)</u>	<u>14,355</u>
	638,724	657,659
Changes in reserves:		
Legal reserves		
At beginning of the year	<u>2,129</u>	<u>2,129</u>
At end of the year	2,129	2,129
Other reserves		
At beginning of the year	641,175	641,176
Fair value losses on available-for-sale financial assets (Note 20)	<u>(20)</u>	<u>(1)</u>
At end of the year	641,155	641,175
(Accumulated loss)/retained earnings		
At beginning of the year	14,355	25,574
Loss for the year	<u>(18,915)</u>	<u>(11,219)</u>
At end of the year	(4,560)	14,355

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 2011 and 2010, legal reserves amounted to HRK 2,129 thousand or 4.88% of the share capital.

As at 31 December 2011, other reserves amounting to HRK 641,155 thousand (2010: HRK 641,175 thousand) comprise of HRK 611,100 thousand (2010.: HRK 611,100 thousand) which relate to decrease of share capital in previous year, retained earnings from previous years of HRK 30,001 thousand (2010: HRK 30,001 thousand), reserves for treasury shares of HRK 4 thousand (2010: HRK 4 thousand) and revaluation reserves formed from unrealised fair value gains/(losses) on available-for-sale financial assets of HRK 50 thousand (2010: HRK 70 thousand).

Other reserves in the amount of HRK 641,101 thousand (2010: HRK 641,101 thousand) are distributable.

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 25 – BORROWINGS

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Short-term		
Finance lease	300	-
Bank borrowings – current portion of long-term borrowings	<u>27,360</u>	<u>34,357</u>
	27,660	34,357
Long-term		
Bank borrowings	61,801	71,364
Finance lease	458	-
Borrowings from related parties /i/ (Note 30)	<u>88,047</u>	<u>78,117</u>
	150,306	149,481
	<u>177,966</u>	<u>183,838</u>

In current year period the Company reclassified interest payable to related parties in amount of HRK 21.847 thousand (2010: HRK 11.917 thousand) from trade and other payables and presented them in borrowings. The change in presentation was according to the contract addendums dated 21st of October 2010 and 1st of Jan 2011, therefore the prior year balance sheets were not affected by this change in presentation. In accordance with these contracts addendums, maturity of borrowing from related parties, including the interest payable, was changed to 31 December 2021, while the interest rate was increased from 5% to 15% p.a. Since the difference between present value of the new cash flows discounted using original interest rate and carrying amounts of long-term borrowings is below 10%, the renegotiation was accounted for as modification of the financial liabilities.

All bank borrowings are secured by a mortgage over hotel facilities (Note 14) with a net carrying amount of HRK 481,022 thousand (2010: HRK 490,033 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	89,919	105,721
2 – 5 years	-	-
Over 5 years	<u>88,047</u>	<u>78,117</u>
	177,966	183,838

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

	2011		2010	
Borrowings:	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%
- CHF	-	-	4,420	3.25
- EUR	89,919	2.5-8.08	101,301	2-8.5
- HRK	<u>88,047</u>	12-15	<u>78,117</u>	4.89-15
	<u>177,966</u>		<u>183,838</u>	

Borrowings denominated in HRK carry a fixed interest rate.

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 25 – BORROWINGS (continued)

Maturities of long-term borrowings are as follows:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
1-2 years	21,638	26,553
2-5 years	37,382	39,170
Over 5 years	<u>90,828</u>	<u>83,758</u>
	<u>149,848</u>	<u>149,481</u>

Maturities of long-term finance leases are as follows:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
1-2 years	300	-
2-5 years	<u>158</u>	<u>-</u>
	<u>458</u>	<u>-</u>

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

<i>(in thousands of HRK)</i>	<u>Carrying amounts</u>		<u>Fair value</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Borrowings	150,306	149,481	145,351	134,327

The fair value is based on cash flows discounted using a rate based on the market rate of 7.83% (2010: 8.08%).

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

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 26 – PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

<i>(in thousands of HRK)</i>	Legal proceedings /i/	Termination benefits/ii/	Jubilee awards /ii/	Total
At 1 January 2011	11,919	677	1,260	13,856
Additional provisions	10,059	2	116	10,177
Unwinding of discount (Note 11)	2,137	-	-	2,137
Used during year	(890)	(12)	(150)	(1,052)
At 31 December 2011	23,225	667	1,226	25,118

	2011	2010
	<i>(in thousands of HRK)</i>	
Non-current provision	25,118	13,856

/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.

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 27 – TRADE AND OTHER PAYABLES

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Domestic trade payables	10,344	4,059
Related parties – domestic (Note 30)	5,381	3,515
Related parties – foreign (Note 30)	1,336	-
Foreign trade payables	970	20
Interest payable	739	1,047
Accruals for concession of tourist land	5,137	-
Accruals for management services (Note 30)	29,282	29,058
<i>Total financial liabilities</i>	<u>53,189</u>	<u>37,699</u>
Advances received	5,379	3,458
Due to employees/salaries	6,351	5,750
Taxes and contributions from and on salaries	2,045	1,933
Accrued liabilities for other employee benefits	43	83
Other accrued and other payables	589	227
	<u>67,596</u>	<u>49,150</u>

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
HRK	20,862	8,620
EUR	32,327	29,076
Other	-	3
	<u>53,189</u>	<u>37,699</u>

ARENATURIST D.D., PULA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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, including legal proceeding with the company Herculanea d.o.o. Pula which has as yet not been resolved. In the financial statements for the year ended 31 December 2011, provisions for certain legal proceedings have been made for which the Company anticipates an outflow of economic benefits in the amount of HRK 23,225 thousand (2010: HRK 11,918 thousand), as set out in Note 26. The possible uncertainties and risks were taken into account in reaching the best estimate of the provision.

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 2011 future commitments with respect to investments in tourism facilities amounted to HRK 172,265 thousand (2010: nil).

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

	2011	2010
	<i>(in thousands of HRK)</i>	
Up to 1 year	390	438
From 2 to 5 years	708	676
	1,098	1,114

Lease agreements relate to the operating lease of vehicles.

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 29 – CASH GENERATED FROM OPERATIONS

Adjustment of loss with cash generated from operations:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Loss before taxation	(22,333)	(13,465)
Adjustments for:		
Depreciation and amortisation (Notes 14,15)	34,214	35,521
Impairment of property, plant and equipment (Note 9)	1,894	195
Gains on sale of property, plant and equipment (Note 10)	(39)	(1)
Provision for impairment of receivables - net	1,429	(545)
Finance costs – net (Note 11)	21,073	16,086
Income from liability write-off (Note 6)	-	(18)
Interest expense (Note 9)	1,369	71
Increase in provisions	10,177	3,867
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade and other receivables	(6,228)	(5,810)
- inventories	262	(40)
- trade and other payables	13,328	10,781
	<hr/>	<hr/>
Cash generated from operations	55,146	46,642

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Net book value of sold property, plant and equipment	217	130
Gain on sale of property, plant and equipment (Note 10)	39	1
	<hr/>	<hr/>
Proceeds from sale of property, plant and equipment	256	131
	<hr/>	<hr/>

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

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 Company, 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.

Park Plaza Hotels indirectly owns 20% of W2005/Dvadeset Devet d.o.o., Zagreb shares.

Related party transactions were as follows:

	<u>Note</u>	<u>2011</u>	<u>2010</u>
		<i>(in thousands of HRK)</i>	
a) Sale of services			
- AT Hoteli Medulin d.o.o., Medulin		3,512	3,019
- AT Zlatne stijene d.o.o., Pula		3,500	3,315
- AT Turistička naselja d.o.o., Pula		256	288
		<u>7,268</u>	<u>6,662</u>
b) Marketing and promotion costs			
- AT Hoteli Medulin d.o.o., Medulin		8,004	6,653
c) Management services			
- Park plaza Hotels	9	9,542	8,662
d) Interest expense			
- W2005/Dvadeset Osam d.o.o., Zagreb		9,930	5,815

ARENATURIST D.D., PULA**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2011**

NOTE 30 – RELATED PARTY TRANSACTIONS (continued)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
		<i>(in thousands of HRK)</i>	
e) Trade and other receivables:			
- AT Hoteli Medulin d.o.o., Medulin		349	173
- AT Zlatne stijene d.o.o., Pula		27	15
- AT Turistička naselja d.o.o., Pula		15	15
	21	<u>391</u>	<u>203</u>
f) Trade and other payables:			
- AT – Hoteli Medulin d.o.o., Medulin		5,373	3,485
- AT – Zlatne stijene d.o.o., Pula		8	30
- Park plaza Hotels		30,618	29,058
	27	<u>35,999</u>	<u>32,573</u>
g) Borrowings /i/			
W 2005/ Dvadeset Osam d.o.o., Zagreb		88,047	78,117
	25	<u>88,047</u>	<u>78,117</u>

/i/ The amounts include interest payable amounting to HRK 21,847 thousand (2010: HRK 11,917 thousand) and principal amounting to HRK 66,200 thousand. According to new contract, accrued interest and principal are due on payment on 31 December 2021. Borrowings are not secured and carry 15% fixed interest rate .

h) Key management compensation (Executive Directors)

Net salaries	2,063	2,292
Pension contributions	245	345
Health insurance contributions	292	359
Other contributions, tax and surtax	653	759
	<u>3,253</u>	<u>3,755</u>

The Company has 4 Executive Directors (2010: 4).



MANAGEMENT BOARD

Number:

Pula,2012

At the meeting held on2012, the Arenaturist d.d. Management Board passed the following

D E C I S I O N
ON APPROVEMENT OF ANNUAL COMPANY FINANCIAL STATEMENTS FOR FY 2011 AND OF STATE OF THE COMPANY REPORT

I

We hereby approve the Annual Company Financial Statements for FY 2011 submitted to the Management Board by the Executive Directors. In conformity with provision of Article 300.d, Paragraph1. of Companies Act, the above mentioned statements are thereby considered determined.

We hereby approve the state of the company report of the Executive Directors for the FY 2011 submitted to the Management Board by the Executive Directors.

II

The following items are constituent parts of the Annual Company Financial Statements for FY 2011:

- Arenaturist d.d. Pula Profit and Loss Account
- Arenaturist d.d. Pula Balance Sheet
- Report of Changes in Equity
- Arenaturist d.d. Pula Cash Flow Report
- Arenaturist d.d. Pula Notes to Financial Statements
- Independent auditor's report to shareholders of Arenaturist d.d. made by PricewaterhouseCoopers d.o.o., Alexandera von Humboldta 4, 10000 Zagreb

III

This decision shall take effect on the day of its passing.

Boris Ernest Ivesha
President of the Management Board



MANAGEMENT BOARD

Number:

Pula,2012

At the meeting held on2012, the Arenaturist d.d. Management Board passed the following

DECISION

ON COVERING LOSS OF FY 2011

Based on approved annual financial statements, loss after taxation of HRK 18.914.969,32 for the year 2011 shall be covered from:

1. Retained earnings in amount of HRK 14.354.359,58,
2. Other reserves in amount of HRK 4.560.609,74.

The proposal shall be presented to the General Assembly for approval.

Boris Ernest Ivesha
President of the Management Board