ARENATURIST d.d. za ugostiteljstvo i turizam

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 2012

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I STATEMENT OF EXECUTIVE DIRECTORS' RESPONSIBILITY

The Executive Directors present the financial statements for the year ended 31 December 2012 to the Management Board.

Pursuant to the Croatian Accounting Act (Official Gazette 109/07), the Executive Directors are required to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and so give a true and fair view of the Company's financial performance and its results for the reporting period.

According to the best knowledge of the Executive Directors:

- The financial statements have been prepared in accordance with International Financial Reporting Standards and give a true and fair view of the assets and liabilities, profits and losses, financial position and operations of the Company.
- The financial statements contain a faithful presentation of the Company's operating results and development with a description of the principal risks and uncertainties the Company is exposed to.

The Executive Directors have reasonable expectation that the Company has adequate resources to continue in business and the going concern principle was applied in preparing these financial statements.

In preparing the financial statements, the Executive Directors are responsible:

- To select and consistently apply appropriate accounting policies
- For making reasonable and prudent judgments and estimates
- To comply with applicable accounting standards, while reporting and explaining all material departures in the financial statements
- To prepare the financial statements under the going concern principle, unless it is inappropriate due to the Company's actual position
- To establish appropriate and statutory accounting records so that they disclose, with reasonable accuracy, the financial position of the Company, income and expenses

The Executive Directors are responsible for protecting the assets of the Company, operating control and the prevention and detection of fraud and other irregularities.

Dr. Igor Štoković Executive Director	Milena Perković Executive Director
Reuel Slonim Executive Director	pp Abraham Thomas Executive Director

Pula, 17 April 2013

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II EXECUTIVE DIRECTORS' REPORT ON BUSINESS RESULTS

General data

Arenaturist d.d. from Pula (the "Company") is one of the biggest hotel companies in Croatia that manages its business in the south of the Istrian peninsula, and has been present in the tourist market under this name over 37 years.

For more than 18 years, the Company has been a joint stock company with its registered office in Pula, Smareglina 3, Croatia.

Previously, the Company was a socially-owned enterprise and was transformed into a joint-stock company based on the Decision on privatisation and transformation issued in 1994 by the Croatian Privatisation Fund.

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

According to the ownership structure as of 31 December 2012, W 2005/ Dvadeset Osam d.o.o. holds 74.15% of the Company's shares.

The Government Asset Management Agency owns 1.95% of the Company's shares, treasury shares amount to 0.01%, while the other 4,364 shareholders own the remaining 23.89% of the Company's shares.

Since 2008, the Company has been managed by the PPHE Hotel Group, a company that manages 38 hotels and tourist resorts, offering more than 8,200 rooms located in Europe, the Middle East and Africa. Their primary activities are operating and franchising full-service upscale and lifestyle hotels.

PPHE Hotel Group is committed to improve performances of the Company and introduce the brand Park Plaza into the accommodation capacities of Arenaturist.

Primary business activity and accommodation capacities

The Company's primary business activity is providing tourist and catering services. In addition to vacation tourism during the summer months, the 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 the tourist offer of Arenaturist owing to excellent traffic connections (vicinity of the airport) and hotels with well-developed infrastructure.

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

The Company's accommodation capacities consist of seven hotels with 1,423 rooms, two apartment settlements with 579 units and seven campsites with 5,261 units, which represent a total accommodation potential of over 21,000 guests per day. In the Company's overall accommodation offer, campsites have the largest share of 72%, while the remaining 28% is shared by hotels and tourist settlements.

Company Management Structure

The Company has a Management Board and Executive Directors.

Management Board

The Management Board represents the Company towards the shareholders and has other duties according the Croatian Companies Act and the Company's Articles of Association.

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

In 2012, members of the Management Board were as follows:

Boris Ivesha	President
Heather Mulahasani	Deputy President
Patrick Tribolet/Ana Estrada	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
Michael Furth	Member

At the regular Company's General Assembly held on 14 August 2012, ten members were re-elected, and the Employees' Council reappointed its representative. Ms. Ana Estrada was appointed as Deputy President of Management Board and replaced the former member Patrick Tribolet.

The mandate of the Management Board members runs from 25 September 2012 to 25 September 2013.

Executive Directors

The Executive Directors manage the Company's operations and represent the Company only together and jointly.

The following Executive Directors were reappointed on 18 September 2009 for a 5-year mandate:

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

The Management Board re-elected Dr Igor Štoković as the Chief Executive Officer for the period up to 31 August 2013.

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

The Audit Committee which supports the Management Board consists of three members:

Arnoud Duin, President
Damir Veizović, Member
Abraham Thomas, Member.

The General Assembly appointed PricewaterhouseCoopers d.o.o. from Zagreb as the Company's auditor for 2012.

General Assembly

The General Assembly has duties and rights according Croatian Companies Act and the Company's Articles of Association.

During 2012, the General Assembly convened once as a regular annual meeting at which decisions were made in accordance with the law and the Company's Articles of Association.

The General Assembly's decisions related to the financial statements for 2011, the discharge of MB members for the business year 2011 and the election of MB members for a new one-year mandate (2012/2013) and the appointment of the Company's auditor for the year 2012.

The number of potential maximum votes at the GA meeting is 2,182,500, which is equal to the number of shares issued.

The shareholder W2005/Dvadeset Osam d.o.o. has 1,618,263 votes or 74.15% of total votes.

At the last GA held on 14 August 2012, 76.6% of total votes were present.

2012 Highlights

- Successful and timely completion of investment in the amount of EUR 25.0 million.
- After being fully refurbished, in June 2012 the hotel Park Plaza Histria and the tourist settlement Park Plaza Verudela were reopened as 4* resorts.

Results of the Company's Business Operations

We are pleased to report that 2012 was one of the most successful years in the history of Arenaturist. The strong increase of operating revenue compared to 2011 and the following statistical data prove that.

In 2012, Arenaturist realised 1.6 million overnights, 5% more than last year. Overnights in hotels and apartments decreased in relation to the previous year due to Hotel Park Plaza Histria and Park Plaza Verudela Resort being closed during the first six months of 2012. Overnights in campsites increased by 12% compared to the previous year; these good results are in line with our expectations. Most of our guests are from Germany, Slovenia, Austria and Italy. Along with the overnights increase, the average room rate increased as well, especially in the facilities that received the Park Plaza brand.

Operating revenue was realized in the amount of HRK 274.7 million, which represents an increase of HRK 33.8 million or 14% in relation to the previous year, primarily due to the increase in business volume and growth of average prices of accommodation.

Operating expenses amounted to HRK 252.5 million, which represents an increase of HRK 10.3 million or 4.2% compared to the previous year. The growth in operating expenses was mainly effected by the increase in business volume and introducing the Park Plaza standards. Compared to last year, there was a significant increase in marketing costs, tourist land concession fees, staff costs and depreciation.

In 2012, the operating profit amounted to HRK 22.2 million, while in 2011 an operating loss was realised in the amount of HRK 1.3 million.

Finance costs less finance income amounted to HRK 19.9 million, which presents a decrease of 5.7% compared to last year.

After several years of loss (2011: a net loss of HRK 18.9 million), in 2012 the Company realised a net profit of HRK 0.7 million.

Assets and liabilities

The total value of assets at 31 December 2012 was HRK 1,105.6 million; it represents a HRK 152.6 million increase in relation to the previous year. Capital and reserves amounted to HRK 683.0 million, which represents an increase in relation to the previous year due to profit realised in 2012.

Total liabilities of the Company amounted to HRK 422.6 million, which represents an increase of HRK 151.9 million compared to the previous year. This is a result of an increase in bank borrowings for the renovation of Park Plaza Histria and Park Plaza Verudela Resorts and the provision related to the tourist land concession fee.

Risk exposure and Risk Management

Market and financial risk factors

The Company is exposed to a variety of financial risks that are related to foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Company monitors all risks and makes efforts at reducing their potential effect on the Company's financial exposure.

The Company does not use derivative financial instruments to actively hedge financial risk exposure.

The Company operates internationally and is exposed to foreign exchange risk. Revenues are mainly realised in EUR, while operating liabilities are mainly realised in HRK.

In 2012, the Croatian kuna had no major value fluctuations relating to the EUR; however, there is a slight declining tendency. It is the Company's policy to keep its cash reserves in foreign currency on foreign exchange bank accounts. In addition, the Company concluded agreements with banks according to which EUR/HRK conversion is performed at the best and privileged rates.

The Company's long-term borrowings are linked to the EUR currency clause, but the Company had sufficient EUR funds for their repayment.

Interest rate risk is linked to the Euribor rate that was continuously in decrease during 2012, and banks offered hedging instruments at the level of the average Euribor rate in 2011 that the Company estimated as unfavourable and did not accept.

Due to the seasonal nature of the business, liquidity risk is mitigated by Overdraft Agreements with Hypo bank and Zagrebačka banka. That was the Company maintained flexibility in funding. The maturity of the Company's payables was contracted at 60 days on average, which is in line with the maturity of receivables.

Since credit risk may arise from trade receivables, the Company's policies include payment in advance, cash and credit cards, taking collaterals in case of new or financially doubtful partners. The Company had no high credit risk in the reporting period, but in some cases the collection of receivables was past due. The Company was very active in seeking partners for closing claims by assignment. In general credit risk is increasing due to the economic stagnation of the market.

Legal proceedings risk factors

In addition to financial risk factors the Company was exposed to the risk of adverse outcomes of legal proceedings two of which were the most significant for the Company's position:

- The claim of the Municipality of Medulin through its utility company Albanež d.o.o., which amounted to HRK 13.0 million and relates to the sewage connection fee payment (the matter is entitled "Dispute over the Medulin sewage"). A ruling was recently issued in favour of the Company.
- The claim of Herculanea and Vodovod (Municipality of Pula), relating to the sewage development fee, is pending since 1998 and has reached the amount of HRK 24,506 thousand (including penalty interest). This matter is entitled "Dispute over the Pula sewage" and is still in progress.

The Company is also involved in many other disputes relating to the ownership of the Company's facilities. The Company believes that these disputes will be resolved in its favour once the Croatian Government fully implements the Law on Tourist Land from 2010.

Management, shareholder representatives and lawyers (internal and external specialist) are monitoring the litigations and processes very carefully and duly in order to prevent possible adverse outcomes.

Code of Corporate Governance

In its business operations, the Company applies the Code of Corporate Governance of the Zagreb Stock Exchange.

Information regarding the share ownership structure is summarised in Note 23 of these Annual financial statements.

There are no limitations on voting rights within the Company.

Human Resources

Motivated and creative employees are the key to satisfied guests and business success.

At 31 December 2012, Arenaturist had 334 permanent employees, and at the peak of the season (August) additional 563 employees were employed. Annually, based on working hours, Arenaturist employs 510 employees. Arenaturist concluded Temporary Service Contracts for permanent seasonal jobs with 21 long-term seasonal employees.

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Expectations for the year 2013

At the beginning of 2013 we started extensive renovations at Hotel Palma, worth EUR 4.0 million. After completion Hotel Palma will become part of Hotel Park Plaza Histria and will be upgraded to 4*. This development project will enable us to operate all the facilities on the Verudela peninsula under the Park Plaza brand which will attract upscale guests, add further value to the Company and improve the business results of Arenaturist d.d.

After closing the 2013 summer season we are planning to invest EUR 20.0 million in extensive renovations of the Hotel Belvedere in Medulin.

In 2013, we expect realised investments, restructuring operations, better cost management and preparations for further investments to enable revenue growth and increase the operating performance of the Company as a whole.

After Croatia's accession to the European Union we expect a growth in the number of guests from European countries, especially Germany. Reducing the VAT rate to 10% will equalise the tax burden of the Croatian tourist sector with our competitors. We believe this positive change will stimulate consumption.

In 2013, we hope the Croatian Government together with the Ministry of Tourism will implement the Concession Act from 2010, which will, among other benefits, encourage investments in campsites and thus improve their quality.

The growth trend that is present in the past few years along with improved measures of the Croatian Government – Ministry of Tourism should make 2013 another successful tourist year.

The following statements form an integral part of the Annual financial statements of the Company:

1. Independent Auditor's Report for the business year 2012
2. Statement of Comprehensive Income
3. Balance Sheet
4. Statement of Changes in Equity
5. Statement of Cash Flows
6. Notes to the Financial Statements

Dr. Igor Štoković
Chairman of the Executive Directors

Milena Perković
Executive Director

Reuel Slonim
Executive Director

Abraham Thomas
Executive Director

Pula, 17 April 2013

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Independent Auditor's Report

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 24 April 2013

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts in thousands of HRK)	**Note**	**2012**	**2011**
Sales	5	273,706	240,417
Other income	6	543	270
Cost of materials and services	7	(93,643)	(90,327)
Staff costs	8	(86,805)	(77,913)
Depreciation and amortisation	14,15	(39,591)	(34,214)
Other operating expenses	9	(32,452)	(39,746)
Other gains – net	10	449	253
Operating profit/(loss)		**22,207**	**(1,260)**
Finance income		658	157
Finance costs		(20,530)	(21,230)
Finance costs – net	11	(19,872)	(21,073)
Profit/(loss) before tax		**2,335**	**(22,333)**
Income tax	12	(1,668)	3,418
Profit/(loss) for the year		**667**	**(18,915)**
Other comprehensive income:			
Fair value gains/(losses) on available-for-sale financial assets	20	7	(20)
Total comprehensive profit for the year		**674**	**(18,935)**
Earnings/(loss) per share (in HRK) – basic and diluted	13	**0.31**	**(8.67)**

BALANCE SHEET

AS AT 31 DECEMBER 2012

(all amounts in thousands of HRK)	**Note**	**2012**	**2011**
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,047,388	916,435
Intangible assets	15	4,256	4,585
Investment in subsidiaries	16	40	40
Available-for-sale financial assets	20	151	144
Deferred tax assets	17	9,567	10,342
Deposit receivables	21	333	504
		1,061,735	**932,050**
Current assets			
Inventories	18	688	336
Trade and other receivables	21	15,590	20,060
Income tax receivable	12	-	70
Cash and cash equivalents	22	27,615	534
		43,893	**21,000**
		1,105,628	**953,050**
EQUITY			
Equity			
Share capital	23	43,650	43,650
Treasury shares	23	(4)	(4)
Reserves	24	638,731	643,284
Retained earnings/(accumulated loss)	24	667	(4,560)
		683,044	**682,370**
LIABILITIES			
Non-current liabilities			
Borrowings	25	311,036	150,306
Provisions for other liabilities and expenses	26	26,240	25,118
Trade and other payables	27	32,765	-
		370,041	**175,424**
Current liabilities			
Borrowings	25	22,746	27,660
Current income tax payable	27	823	-
Trade and other payables	27	28,974	67,596
		52,543	**95,256**
Total liabilities		**422,584**	**270,680**
Total equity and liabilities		**1,105,628**	**953,050**

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

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts in thousands of HRK)	**Note**	**Share capital**	**Treasury shares**	**Reserves**	**(Accumulated loss)/retained earnings**	**Total**
At 1 January 2011	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)**
At 31 December 2011	23,24	**43,650**	**(4)**	**643,284**	**(4,560)**	**682,370**
At 1 January 2012	23,24	**43,650**	**(4)**	**643,284**	**(4,560)**	**682,370**
Profit for the year		-	-	-	667	667
Other comprehensive income	20	-	-	7	-	7
Total comprehensive income		**-**	**-**	**7**	**667**	**674**
Coverage of loss from reserves	24	-	-	(4,560)	4,560	-
At 31 December 2012		**43,650**	**(4)**	**638,731**	**667**	**683,044**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts in thousands of HRK)	Note	2012	2011
Cash flows from operating activities			
Cash generated from operations	29	65,290	55,146
Interest paid		(9,108)	(7,412)
Net cash from operating activities		56,182	47,734
Cash flows from investing activities			
Purchase of property, plant and equipment		(176,654)	(31,087)
Purchase of intangible assets	15	(1,260)	(2,581)
Proceeds from sale of property, plant and equipment	29	976	256
Deposits received		-	176
Deposits granted		1,293	(1,509)
Interest received	11	658	157
Net cash used in investing activities		**(174,987)**	**(34,588)**
Cash flows from financing activities			
Proceeds from borrowings		291,565	43,565
Proceeds from finance lease		361	1,388
Repayments of borrowings		(145,647)	(62,184)
Repayments of finance lease		(393)	(630)
Net cash from/(used in) financing activities		**145,886**	**(17,861)**
Net increase/(decrease) in cash and cash equivalents		**27,081**	**(4,715)**
Cash and cash equivalents, beginning of year		534	5,249
Cash and cash equivalents, end of year	22	**27,615**	**534**

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

NOTE 1 – GENERAL INFORMATION

ARENATURIST is a joint-stock company (the "Company") with its 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 2012 and 2011 is disclosed in Note 23.

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

As at 31 December 2012 and 2011, 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 policies and disclosures

1) *New and amended standards adopted by the Company*

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.

- *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 Company adopted this amendment that affects disclosure only and did not impact on the Company's financial position or performance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

- *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. The amendments do not have any impact on the Company's financial position or performance because the Company is not 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. Amended IAS 12 does not have an impact on the financial statements of the Company as the Company currently does not have any investment property or non-depreciable asset which is measured using the revaluation model.

2) *Standards and interpretations issued but not yet effective*

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

- *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 affects presentation only and therefore is not expected to have an impact on the Company's financial position or performance.

- *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 could have an impact on the Company's financial position or performance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013).* The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It sets out the accounting requirements for the preparation of consolidated financial statements. The Company does not expect IFRS 10 to have an impact on the financial statements.

- *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 does not expect IFRS 11 to have an impact on the financial statements.

- *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 this new standard on its 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 this new standard on its effective date.

- *IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013).* 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 does not expect this revision to have an impact on the financial statements.

- *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 does not expect this revision to have an impact on the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

- *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 relevant to the Company's operations.

- *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. The Company is considering the implications of the amendment and the impact on the Company.

- *Amendment to IFRS 1 First time adoption on government loans (effective for annual periods beginning on or after 1 January 2013).* This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. This amendment is not relevant to the Company's operations.

- *Amendment to IFRSs 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013).* These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The Company is considering the implications of the amendments and the impact on the Company.

- *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 considering the implications of the amendment and the impact on the Company.

- *IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015).* 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 two primary measurement categories for financial assets: amortised cost and fair value. The basis of 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. The Company is currently considering the impact of IFRS 9 on the financial statements. The Company plans to adopt this new standard on its effective date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

- *Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).* The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Company is currently assessing the impact of the amendments on its financial statements.

- *Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013).* These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to:

  IFRS 1, 'First time adoption'
  IAS 1, 'Financial statement presentation'
  IAS 16, 'Property plant and equipment'
  IAS 32, 'Financial instruments; Presentation'
  IAS 34, 'Interim financial reporting'

The Company is considering the implications of the improvements.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Foreign currencies (continued)

(b) Transactions and balances

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

Foreign exchange gains and losses relating to borrowings and cash and cash equivalents are recorded in the statements of comprehensive income within ‘finance costs – net’. All other foreign exchange losses and gains are recorded in the statement of comprehensive income within ‘other gains – net’.

2.4 Segment reporting

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

2.5 Property, plant and equipment

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

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of replacement of larger items of property, plant and equipment is capitalised, and the carrying amount of the replaced part is derecognised.

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

Buildings	25 - 60 years
Plant and equipment	4 - 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'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 have an indefinite useful life, such as land, are not subject to amortisation. Such assets are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

(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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax (continued)

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.

(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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade and other 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.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Leases

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). 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. Therefore, movements in exchange rates between the EURO and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow.

At 31 December 2012, if the EURO had weakened/strengthened by 1.5% (2011: 2%) against the HRK, with all other variables held constant, the profit for the year would have been HRK 3,569 thousand higher/lower (2011: HRK 1,264 thousand lower/higher loss), 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. This risk is decreased by the fact that the majority of revenues is contracted in EUROs.

The Company maintains an active policy of foreign exchange risk hedging by keeping cash on foreign currency accounts, concluding contracts with banks on using a more favourable exchange rate than the one officially published, contracting operating liabilities in HRK without linking to the currency clause.

(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 exposed to fair value interest rate risk with respect to borrowings from related parties.

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

At 31 December 2012, if 3M EURIBOR on EURO-denominated borrowings had been higher/lower by 0.8% (2011: 0.14%) higher/lower, with all other variables held constant, the profit for the year would have been HRK 1,886 thousand (2011: HRK 247 thousand) (lower)/higher, mainly as a result of higher/lower interest expense on variable-rate borrowings.

In 2012, the interest rate risk hedges were rated unfavourable, and the contracts were not concluded. The Company actively monitors changes in interest rates and in cases of above-average growth seeks to replace the borrowings with more favourable debt facilities or renew negotiations with banks. In 2012, there was no adverse impact of interest rate risk.

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.

At 31 December 2012 and 2011, if the indices of the ZSE had been higher/lower by 20% for 2012 (2011: 4.6%), which was the expected potential annual index movement at the ZSE, with all other variables held constant, revaluation reserves within equity and other comprehensive income would have been HRK 22 thousand (2011: HRK 6 thousand) higher/lower, as a result of fair value gain/losses on available-for-sale financial assets.

(b) 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). 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.

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 2012					
Trade payables	10,372	193	11,485	-	-
Due to Park Plaza Hotels	-	-	-	22,195	-
Borrowings	3,750	41,318	33,213	103,019	289,946
Total liabilities (contractual maturities)	**14,122**	**41,511**	**44,698**	**125,214**	**289,946**
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**

3.2 Capital risk management

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for the owner and to maintain an optimal capital structure to reduce the cost of capital. In accordance with the Companies Act, the Company is committed to maintain the level of capital above HRK 200 thousand as required for joint stock companies. The Company has no objectives or policies with respect to managing capital. Equity as presented in these financial statements is considered as the Company’s capital.

3.3 Fair value estimation

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Financial risk factors (continued)

Fair value hierarchy

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 2012				
Available-for-sale financial assets:				
- equity securities	111		40	151
Total assets	**111**		**40**	**151**
At 31 December 2011				
Available-for-sale financial assets:				
- equity securities	104		40	144
Total assets	**104**		**40**	**144**

Level 3 includes available-for-sale investment securities, which are carried at cost and include a small share in an unlisted Croatian limited liability company. The stated company represents a strategic investment whose fair value cannot be measured reliably. There is no similar company and there was no distribution of profits to members/shareholders, and it is not possible to assess the fair value of these investments.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated useful life – property, plant and equipment

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

The useful lives 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 profit for the year would have been lower/higher, and the net carrying value of property, plant and equipment would have been lower/higher by HRK 1,980 thousand (2011: HRK 1,711 thousand) lower/higher.

In accordance with the accounting policy stated in Note 2.7, where there are indicators of impairment 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 7.66 /EUR for 2013. If the EURO had strengthened/weakened by 1.5% against the HRK over the forecast period, the value in use would be, on average, HRK 16,339 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 the weighted average discount rate for hotels of 10.5%. A test determined that the value in use exceeds the carrying amount and there was no impairment during 2012.

(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 2012 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.

(c) Classification of liabilities into non-current and current portion

When classifying liabilities without fixed payment maturities, the Company had to make a best estimate of expectations when the outflow of cash will occur in order to settle these liabilities. The stated issue is especially emphasised when determining the classification of accrued liabilities for the payment of the agreed management fee. Under the management fee contract, the cash outflow depends on the Company's estimates of the availability of cash flows to meet these liabilities and in case of the accrued liability for the concession fee for which an invoice was not received as yet due to the current inability to determine the exact amount (based on the joint ownership ratio) or due to unregulated ownership relations.

If the planned EBITDA had increased by 10%, a surplus of HRK 8.3 million would be realised, with which a part of the management fee liabilities would be settled. In addition, the classification of current liabilities would be higher by HRK 8.3 million. As for the accrued concession fees, Management does not expect this amount to be invoiced during 2013.

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 2012 is as follows:

(in thousands of HRK)	**Hospitality and tourism**	**Accompanying activities**	**Administrative services**	**Total**
Total sales	266,647	18,898	3,229	288,774
Inter-segment revenue	(961)	(14,107)	-	(15,068)
Revenue from external customers	265,686	4,791	3,229	273,706
Restated GOP	113,229	3,556	(25,198)	91,587
Depreciation and amortisation (Note 14 and 15)	35,200	2,995	1,397	39,592
Total assets	**962,322**	**92,503**	**12,924**	**1,067,749**
Total liabilities	**314,923**	**5,289**	**3,932**	**324,144**

The segment results for the year ended 31 December 2011 are as follows:

(in thousands of HRK)	**Hospitality and tourism**	**Accompanying activities**	**Administrative 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**

NOTE 5 – SEGMENT INFORMATION (continued)

Reconciliation of GOP with profit before tax is as follows:

	2012	**2011**
	(in thousands of HRK)	
Restated GOP – hospitality and tourism	113,229	86,407
Restated GOP – accompanying activities	3,556	3,897
Restated GOP – administrative services	(25,198)	(22,539)
Restated GOP	91,587	67,765
Fixed costs /i/	(34,458)	(36,588)
Interest	(19,920)	(16,438)
Depreciation of property, plant and equipment	(39,592)	(34,215)
Finance costs/income – net	48	(2,497)
Profit/(loss) before tax	**2,335**	**(22,333)**

/i/ Fixed costs include an amount of HRK 13,565 thousand relating to interest arising from 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:

	2012		**2011**	
(in thousands of HRK)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	1,067,749	324,144	941,486	181,989
Unallocated:	37,879	98,440	11,564	88,691
Cash and cash equivalents	27,615	-	534	-
Deferred tax assets	9,567	-	10,342	-
Other financial assets	697	-	688	-
Borrowings	-	98,440	-	88,691
Total	**1,105,628**	**422,584**	**953,050**	**270,680**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2012	2011
	(in thousands of HRK)	
Accommodation	216,538	191,298
Foods and beverages	35,677	28,767
Rentals	11,159	11,824
Others	10,332	8,528
	273,706	**240,417**

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:

	2012	2011
	(in thousands of HRK)	
Domestic sales	23,100	24,646
Foreign sales	250,606	215,771
	273,706	**240,417**

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

Foreign sales	**2012**	**%**	**2011**	**%**
Germany	76,916	31	59,843	28
Italy	28,540	11	27,725	13
Slovenia	31,111	12	28,691	13
Austria	31,899	13	28,160	13
Netherlands	14,719	6	10,762	5
Czech Republic	8,184	3	7,492	4
France	3,853	2	4,860	2
Other EU members	30,417	12	24,691	12
Other	24,966	10	23,547	10
Total	**250,606**	**100**	**215,771**	**100**

All non-current assets are located in Croatia.

NOTE 6 – OTHER INCOME

	2012	2011
	(in thousands of HRK)	
Court claims recovered	19	2
Income from refunding	464	201
Other income	60	67
	543	**270**

NOTE 7 – COST OF MATERIALS AND SERVICES

	2012	2011
	(in thousands of HRK)	
Raw materials and supplies		
Raw materials and supplies	21,464	20,495
Energy and water	18,359	19,855
Small inventories	25	75
	39,848	**40,425**
External services		
Utility services	11,686	13,155
Marketing and promotion	13,350	11,608
Repairs and maintenance	5,388	7,029
Art and entertainment services	2,049	2,221
Telephone, postal and transportation services	1,516	1,435
Rentals	432	3,984
Concession fee	10,699	5,138
Agency services for sale of tourist packages	5,548	4,050
Other services	3,127	1,283
	53,795	**49,902**
	93,643	**90,327**

NOTE 8 – STAFF COSTS

	2012	2011
	(in thousands of HRK)	
Net salaries	44,152	41,148
Pension contributions	12,850	11,831
Health insurance contributions	8,857	9,073
Other contributions, tax and surtax	8,781	7,706
Termination benefits and jubilee awards	6,269	2,369
Other staff costs /i/	5,896	5,786
	86,805	**77,913**
Number of employees at 31 December	**530**	**506**

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

NOTE 9 – OTHER OPERATING EXPENSES

	2012	2011
	(in thousands of HRK)	
Professional services	2,307	2,036
Municipal and similar fees	7,289	7,421
Management services (Note 30)	6,582	9,542
Insurance premiums	1,551	1,127
Bank charges, payment transaction costs and membership fees	2,766	2,297
Provisions for legal proceedings (Note 26)	1,281	10,059
Entertainment costs	804	665
Impairment of property, plant and equipment	6,374	1,894
Provisions for impairment of receivables (Note 21)	44	1,465
Collection of receivables previously written-off (Note 21)	(623)	(36)
Penalty interest	36	1,369
Professional literature and education	506	178
Donations and sponsorships	525	310
Franchise costs	471	-
Other	2,538	1,419
	32,452	**39,746**

NOTE 10 – OTHER GAINS – NET

	2012	2011
	(in thousands of HRK)	
Net gains on sale of property, plant and equipment	36	39
Net foreign exchange gains – other	413	214
	449	**253**

NOTE 11 – FINANCE COSTS AND INCOME

	2012	2011
	(in thousands of HRK)	
Finance income		
Interest income on cash deposits with banks	658	157
	658	157
Finance costs		
Provisions: Unwinding of discount (Note 26)	-	(2,137)
Interest expense	(19,920)	(16,438)
Bank charges	(465)	(596)
Foreign exchange losses – net	(145)	(2,059)
	(20,530)	(21,230)
Finance costs – net	**(19,872)**	**(21,073)**

NOTE 12 – INCOME TAX

	2012	2011
	(in thousands of HRK)	
Deferred tax – Origination and reversal of temporary differences (Note 17)	(775)	3,418
Current tax	(893)	-
Income tax (expense)/credit	**(1,668)**	**3,418**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 20% (2011: 20%) as follows:

	2012	2011
	(in thousands of HRK)	
Loss/profit before tax	2,335	(22,333)
Income tax at 20%	(467)	(4,467)
Expenses not deductible for tax purposes	(4,160)	(1,068)
Income not subject to tax	2,870	2,086
Expiry of unused tax losses	89	31
Net income tax expense	**(1,668)**	**(3,418)**

In accordance with the regulations of the Republic of Croatia, the Tax authorities may at any time inspect the Company's books and records within 3 years following the year in which the tax liability was reported, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 13 – LOSS/EARNINGS PER SHARE

Basic

Basic loss/earnings per share is calculated by dividing the loss/profit 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).

	2012	**2011**
Profit/(loss) for the year *(in thousands of HRK)*	667	(18,915)
Weighted average number of ordinary shares (basic)	2,182,331	2,182,331
Earnings/(loss) per share (basic) *(in HRK)*	**0.31**	**(8.67)**

Diluted

Diluted loss/earnings per share for 2012 and 2011 is equal to basic loss per share, since the Company did not have any convertible instruments or share options outstanding during either 2012 or 2011.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Plant and equipment	Property and assets under construction	Total
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**
Year ended 31 December 2012				
Opening net book amount	853,745	32,464	30,226	916,435
Additions	155,907	41,371	(20,624)	176,654
Disposals and impairment	(6,306)	(1,008)		(7,314)
Depreciation (Note 29)	(26,671)	(11,716)		(38,387)
Closing net book amount	976,675	61,111	9,602	1,047,388
At 31 December 2012				
Cost	1,458,759	169,620	9,602	1,637,982
Accumulated depreciation and impairment	(482,084)	(108,509)	-	(590,593)
Net book amount	**976,675**	**61,111**	**9,602**	**1,047,388**

In 2012, the item 'disposals and impairment' includes the write-off of a portion of the hotel Histria and the apartment complex Punta Verudela for the purposes of reconstruction works with a net carrying value of HRK 6,306 thousand. In 2011, there were no significant write-offs.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (continued)

Property with a carrying value of HRK 471,685 thousand (2011: HRK 481,022 thousand) has been pledged as collateral for the repayment of bank borrowings (Note 25).

Borrowing costs amounting to HRK 2,170 thousand have been capitalised during 2012 and included in the value of buildings (2011: HRK 117 thousand). The borrowing costs include interest for financing construction work on tourist buildings. The capitalisation rate was 4.90% (2011: 6.44%).

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

	2012	**2011**
	(in thousands of HRK)	
Cost	1,389	1,049
Accumulated depreciation	(364)	(66)
Net book amount	1,025	983

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

	2012	**2011**
	(in thousands of HRK)	
Cost	188,032	188,038
Accumulated depreciation as at 1 January	(100,346)	(97,508)
Depreciation for the year	(2,866)	(2,870)
Net book amount	**84,826**	**87,660**

The operating lease relates to the lease of shops and restaurants or premises and equipment. During 2012, the Company realised rental income in the amount of HRK 11,159 thousand (2011: HRK 11,970 thousand).

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

	2012	**2011**
	(in thousands of HRK)	
Up to 1 year	11,605	11,631
From 2 to 5 years	16,922	15,424
Over 5 years	56,592	51,959
	85,119	**79,014**

In 2012 and 2011, there were no contingent rents recognised as income in the statement of comprehensive income. All lease agreements are renewable and the existing lessees have a priority right with respect to the extension of the lease agreement. There is no purchase option.

NOTE 15 – INTANGIBLE ASSETS

(in thousands of HRK)	**Technical documentation**	**Licences**	**Total**
At 1 January 2011			
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**
Year ended 31 December 2012			
Opening net book amount	1,391	3,194	4,585
Additions	910	350	1,260
Disposals	(385)	-	(385)
Amortisation for the year (Note 29)	(239)	(965)	(1,204)
Closing net book amount	1,677	2,579	4,256
At 31 December 2012			
Cost	9,503	5,093	14,596
Accumulated amortisation	(7,826)	(2,514)	(10,340)
Net book amount	**1,677**	**2,579**	**4,256**

NOTE 16 – INVESTMENTS IN SUBSIDIARIES

	2012	2011
	(in thousands of HRK)	
At 1 January	40	40
At 31 December	**40**	**40**

The subsidiaries are:

	Country	Ownership % 2012	Ownership % 2011
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.

	2012	2011
	(in thousands of HRK)	
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	8,653	409
Deferred tax asset to be recovered within 12 months	914	9,933
	9,567	**10,342**

NOTE 17 – DEFERRED TAX ASSETS (continued)

	Provisions for concessions	Provisions for legal claims	Accruals for management services	Retirement benefit obligation	Tax loss carry forward	Total
At 1 January 2011	-	-	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**
Credited to the statement of comprehensive income	1,186	283	498	936	-	2,903
Charged to the statement of comprehensive income	(901)	(5)	(1,990)	(693)	(89)	(3,678)
At 31 December 2012	**1,313**	**2,601**	**4,364**	**1,289**	**-**	**9,567**

Temporary differences between the accounting profit and tax base arose due to expenses not recognised for tax purposes such as accruals for management services, the legal costs provided for, uninvoiced concession costs and provisions for retirement benefit expenses.

NOTE 18 – INVENTORIES

Inventories comprise the following:

	2012	**2011**
	(in thousands of HRK)	
Raw materials	574	293
Small inventory	91	39
Trade goods	5	3
Advances for goods	18	1
	688	**336**

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORY

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

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	**Total**
31 December 2012			
Financial assets at balance sheet date			
Available-for-sale financial assets	-	151	151
Trade and other receivables	9,558	-	9,558
Cash and cash equivalents	27,615	-	27,615
Total	**37,173**	**151**	**37,324**

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	**Total**
31 December 2011			
Financial 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**

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.

	2012	**2011**
	(in thousands of HRK)	
Liabilities at the balance sheet date – *at amortised cost*		
Trade and other payables	44,976	53,189
Borrowings	333,782	177,966
	378,758	**231,155**

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:

	2012	2011
	(in thousands of HRK)	
Trade and other receivables		
Existing domestic customers – past payments within maturity period (no defaults)	2,299	5,097
Existing foreign customers – with some defaults in the past	125	121
	2,424	**5,218**

	2012	2011
	(in thousands of HRK)	
Deposits and loans		
Financial institutions – no credit rating	505	1,799
	505	**1,799**

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

Cash at bank	2012	2011
	(in thousands of HRK)	
Without credit rating	12,142	127
BBB- (Zagrebačka banka)	-	112
BB+ (Zagrebačka banka)	15,044	-
	27,186	**239**

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

NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012	2011
	(in thousands of HRK)	
Equity securities		
Listed		
Privredna banka d.d., Zagreb	111	104
Unlisted		
IRTA d.o.o., Poreč	40	40
	151	**144**

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

	2012	2011
	(in thousands of HRK)	
At beginning of year	144	164
Fair value gains/(losses) on available-for-sale financial assets (Note 24)	7	(20)
At end of year	**151**	**144**

None of these assets is either past due or impaired.

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2012	**2011**
	(in thousands of HRK)	
Domestic	10,402	14,464
Trade receivables – related parties (Note 30)	1,199	1,152
Foreign	3,012	2,548
Provision for impairment of trade receivables	(5,560)	(6,139)
Trade receivables – net	9,053	12,025
Deposit receivables /i/	505	1,799
Total financial assets	9,558	13,824
VAT receivable	3,954	4,523
Prepayments	2,121	1,982
Other receivables	290	235
	15,923	**20,564**
Less: non-current portion	**(333)**	**(504)**
Current portion	**15,590**	**20,060**

/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 in the amount of HRK 505 thousand (2011: HRK 504 thousand) and a short-term time deposit with an interest rate of 0.82% maturing in 2012 (2011: HRK 1,295 thousand).

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

	2012	**2011**
	(in thousands of HRK)	
Trade receivables – net	9,053	12,025
Deposit receivables	448	1,718
	9,501	**13,743**

The fair values of deposit receivables are based on cash flows discounted using a rate based on the borrowing rate of 5.5% (2011: 7%).

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

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

	2012	2011
	(in thousands of HRK)	
From 1 to 2 years	124	172
From 2 to 5 years	209	332
	333	**504**

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

	2012	2011
	(in thousands of HRK)	
At 1 January	6,139	4,710
Additional provision	44	1,465
Collection	(623)	(36)
At 31 December	**5,560**	**6,139**

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.

	2012	2011
	(in thousands of HRK)	
Trade receivables – gross:		
Neither past due nor impaired	2,424	5,218
Past due, but not impaired	6,629	6,807
Past due and impaired	5,560	6,139
	14,613	**18,164**

As of 31 December 2012, trade receivables in the amount of HRK 6,629 thousand (2011: HRK 6,807 thousand) were past due, but not impaired. The ageing analysis of these receivables is as follows:

	2012	2011
	(in thousands of HRK)	
Up to one month	370	159
One to two months	1,001	727
Two to three months	861	2,010
Over three months up to 1year	4,397	3,911
	6,629	**6,807**

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

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

	2012	2011
	(in thousands of HRK)	
EUR	3,492	4,465
HRK	6,066	9,359
	9,558	**13,824**

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

	2012	2011
	(in thousands of HRK)	
Giro accounts	2,322	220
Foreign currency accounts	24,865	19
Cash in hand	428	295
	27,615	**534**

Current accounts bear an interest rate of 0.01% to 0.5% (2011: 0.15% to 1%).

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

	2012	2011
	(in thousands of HRK)	
HRK	2,750	515
EUR	24,865	19
	27,615	**534**

NOTE 23 – SHARE CAPITAL

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

	2012		2011	
	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 Victoria Fond	46,430	2.13	57,235	2.62
State Property Management Agency (AUDIO)	42,539	1.95	42,491	1.95
Bakić Nenad	36,314	1.66	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
SG-SB d.d. / (joint account – domestic investors)	6,535	0.30	-	-
ZABA d,d, / joint custodian accounts	6,491	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	361,506	16.56	359,699	16.48
TOTAL	**2,182,500**	**100.00**	**2,182,500**	**100.00**

/ii/ As at 31 December 2012 and 2011, 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.

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

	2012	**2011**
	(in thousands of HRK)	
Legal reserves	2,129	2,129
Other reserves	636,602	641,155
Retained earnings/(accumulated loss)	667	(4,560)
	639,398	**638,724**
Changes in reserves:		
Legal reserves		
At beginning of the year	2,129	2,129
At end of the year	**2,129**	**2,129**
Other reserves		
At beginning of the year	641,155	641,175
Coverage of accumulated loss	(4,560)	
Fair value gains/(losses) on available-for-sale financial assets (Note 20)	7	(20)
At end of the year	**636,602**	**641,155**
Retained earnings/(accumulated loss)		
At beginning of the year	(4,560)	14,355
Transfer from other reserves	4,560	
Profit/(loss) for the year	667	(18,915)
At end of the year	**667**	**(4,560)**

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 2012 and 2011, legal reserves amounted to HRK 2,129 thousand or 4.88% of the share capital.

As at 31 December 2012, other reserves amounting to HRK 636,602 thousand (2011: HRK 641,155 thousand) comprise of HRK 611,100 thousand (2011: HRK 611,100 thousand) which relate to the share capital decrease, retained earnings from previous years of HRK 25,441 thousand (2011: HRK 30,001 thousand), reserves for treasury shares of HRK 4 thousand (2011: HRK 4 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 57 thousand (2011: HRK 50 thousand).

Other reserves in the amount of HRK 636,541 thousand (2011: HRK 641,101 thousand) are distributable.

NOTE 25 – BORROWINGS

	2012	2011
	(in thousands of HRK)	
Short-term		
Finance lease /ii/	370	300
Bank borrowings – current portion of long-term borrowings	22,376	27,360
	22,746	27,660
Long-term		
Bank borrowings	212,711	61,801
Finance lease /ii/	348	458
Borrowings from related parties (Note 30) /i/	97,977	88,047
	311,036	150,306
	333,782	**177,966**

/i/ Borrowings from related parties including interest payable mature on 31 December 2021, while the interest rate on the original principal amount is 15% p.a., which results in an effective interest rate of 7.5%.

All bank borrowings are secured by a mortgage over hotel facilities (Note 14) with a net carrying amount of HRK 471,685 thousand (2011: HRK 481,022 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:

	2012	2011
	(in thousands of HRK)	
6 months or less	235,805	89,919
Fixed interest rate	97,977	88,047
	333,782	**177,966**

The carrying amount of the Company's borrowings is denominated in the following currencies:

	2012	2011
	(in thousands of HRK)	
EUR	235,805	89,919
HRK	97,977	88,047
	333,782	**177,966**

NOTE 25 – BORROWINGS (continued)

Maturities of long-term borrowings are as follows:

	2012	2011
	(in thousands of HRK)	
1-2 years	28,054	22,096
2-5 years	48,248	37,382
Over 5 years	234,734	90,828
	311,036	**150,306**

The average annual effective interest rate on bank borrowings at the balance sheet date was 5.28% (2011: 5.94%), while on borrowings from related parties it was 7.47% (2011: 7.47%).

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

(in thousands of HRK)	**Carrying amounts**		**Fair value**	
	2012	**2011**	**2012**	**2011**
Borrowings	311,036	150,306	329,022	164,053

The fair value of short-term borrowings approximates their carrying amount because the impact of discounting is not significant. The fair value is based on cash flows discounted using a rate based on the market rate of 5.47% (2011: 6.29%).

/ii/ Finance lease liabilities

The finance leases were granted in EUR.

Lease liabilities were effectively secured as the rights to the leased asset revert to the lessor in the event of default (Note 14).

	2012	2011
	(in thousands of HRK)	
Future minimum finance lease payments:		
No later than one year	404	359
Later than 1 year and no later than 5 years	375	499
	779	858
Future interest charge	(61)	(100)
Present value of finance lease liabilities	**718**	**758**

NOTE 26 – PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

(in thousands of HRK)	**Legal proceedings /i/**	**Termination benefits/ii/**	**Jubilee awards /ii/**	**Total**
At 1 January 2012	23,225	667	1,226	25,118
Additional provisions through profit or loss	1,906	-	91	1,997
Reversal of provisions through profit or loss	(625)	(68)	-	(693)
Used during year	-	(8)	(174)	(182)
At 31 December 2012	**24,506**	**591**	**1,143**	**26,240**

/i/ The provision relates to the legal proceedings with the companies Herculanea d.o.o. Pula and Vodovod d.o.o. Pula which have as yet not been finalised (Note 28).

/ii/ Provisions for termination benefits and jubilee awards were made in accordance with agreed employee rights as defined by the Collective bargaining agreement.

NOTE 27 – TRADE AND OTHER PAYABLES

	2012	**2011**
	(in thousands of HRK)	
Domestic trade payables	5,365	10,344
Related parties – domestic (Note 30)	2,126	5,381
Related parties – foreign (Note 30)	1,227	1,336
Foreign trade payables	48	970
Interest payable	2,821	739
Accruals for concession of tourist land	11,194	5,137
Accruals for management services (Note 30)	22,195	29,282
Total financial liabilities	44,976	53,189
Advances received	2,122	5,379
Due to employees/salaries	7,681	6,351
Taxes and contributions from and on salaries	2,110	2,045
Accrued liabilities for other employee benefits	119	43
Termination benefits payable	3,914	83
Other accrued and other payables	817	506
	61,739	**67,596**
Less: Non-current portion	**32,765**	**-**
Current portion	**28,974**	**67,596**

NOTE 27 – TRADE AND OTHER PAYABLES (continued)

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

	2012	**2011**
	(in thousands of HRK)	
HRK	21,506	20,862
EUR	23,470	32,327
Other		-
	44,976	53,189

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 the 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 2012, provisions for certain legal proceedings have been made for which the Company anticipates an outflow of economic benefits in the amount of HRK 24,506 thousand (2011: HRK 23,225 thousand), as set out in Note 26. The possible uncertainties and risks were taken into account in reaching the best estimate of the provision.

Capital commitments

As at 31 December 2012, future commitments with respect to investments in tourism facilities amounted to HRK 0 thousand (2011: HRK 172,265 thousand).

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

	2012	**2011**
	(in thousands of HRK)	
Up to 1 year	321	390
From 1 to 5 years	404	708
	725	**1,098**

Lease agreements relate to the operating lease of vehicles.

NOTE 29 – CASH GENERATED FROM OPERATIONS

The adjustment of profit/(loss) with cash generated from operations is as follows:

	2012	2011
	(in thousands of HRK)	
Profit/(loss) before taxation	2,335	(22,333)
Adjustments for:		
Depreciation and amortisation (Notes 14,15)	39,591	34,214
Impairment of property, plant and equipment (Note 9)	6,760	1,894
Gains on sale of property, plant and equipment (Note 10)	(36)	(39)
Provision for impairment of receivables - net (Note 9)	(579)	1,429
Finance costs – net (Note 11)	19,872	21,073
Penalty interest expense (Note 9)	36	1,369
Increase in provisions (Note 26)	1,304	10,177
Changes in working capital (excluding the effects of acquisition and disposal):		
- trade and other receivables	3,269	(6,228)
- inventories	(352)	262
- trade and other payables	(6,910)	13,328
Cash generated from operations	**65,290**	**55,146**

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

	2012	2011
	(in thousands of HRK)	
Net book value of sold property, plant and equipment	940	217
Gain on sale of property, plant and equipment (Note 10)	36	39
Proceeds from sale of property, plant and equipment	**976**	**256**

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.

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

Related parties in the W2005/Dvadeset Devet Group are as follows: 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.

Goldman Sachs Group owns 80%, and Park Plaza Hotels indirectly owns 20% of the shares of the company W2005/Dvadeset Devet d.o.o., Zagreb.

Related party transactions were as follows:

	Note	2012	2011
		(in thousands of HRK)	
a) Sale of services			
- AT Hoteli Medulin d.o.o., Medulin		4,215	3,512
- AT Zlatne stijene d.o.o., Pula		3,630	3,500
- AT Turistička naselja d.o.o., Pula		286	256
		8,131	7,268
b) Marketing and promotion costs			
- AT Hoteli Medulin d.o.o., Medulin		8,939	8,004
c) Management services			
- Park plaza Hotels	9	6,582	9,542
d) Interest expense			
- W2005/Dvadeset Osam d.o.o., Zagreb		10,274	9,930

NOTE 30 – RELATED PARTY TRANSACTIONS (continued)

	Note	2012	2011
		(in thousands of HRK)	
e) Trade and other receivables:			
- AT Hoteli Medulin d.o.o., Pula		508	349
- AT Zlatne stijene d.o.o., Pula		67	27
- AT Turistička naselja d.o.o., Pula		5	15
- Park Plaza Hotels		619	761
	21	**1,199**	**1,152**
f) Trade and other payables:			
- AT Hoteli Medulin d.o.o., Medulin		2,116	5,373
- AT Zlatne stijene d.o.o., Pula		8	8
- AT Turistička naselja d.o.o., Pula		2	
- Park plaza Hotels		23,422	30,618
	27	**25,548**	**35,999**
g) Borrowings			
W 2005/ Dvadeset Osam d.o.o., Zagreb		97,977	88,047
	25	**97,977**	**88,047**
h) Key management compensation (Executive Directors)			
Net salaries		2,052	2,063
Pension contributions		248	245
Health insurance contributions		262	292
Other contributions, tax and surtax		647	653
		3,209	**3,253**

The Company has 4 Executive directors (2011: 4).

These financial statements set out on pages 11 to 59 were approved by the Executive Directors of the Company on 17 April 2013.

Dr. Igor Štoković
Executive Director

Milena Perković
Executive Director

Reuel Slonim
Executive Director

Abraham Thomas
Executive Director

ARENATURIST
d.d. za turizam i ugostiteljstvo
PULA (1)