

A
A D R I S
grupa

ADRIS ANNUAL REPORT 2007

MISSION AND VISION * 4

LETTER TO THE SHAREHOLDERS * 7

ADRIS GRUPA D.D. * 11

BUSINESS RESULTS OF ADRIS GROUP D.D. IN 2007 * 15

INDEPENDENT AUDITOR'S REPORT 2007 * 39

A
ADRIS
grupa

MISSION * Ensure the development of all strategic business units,
keeping in mind employee and end-user satisfaction in
a way that guarantees the increase of the values
of the share capital, and in accordance
with the interests of the com-
munity where Adris
grupa operates.

* * *

*

VISION* Be a regional leader in all business aspects, based on
tradition, company potential and an innovative
and dynamic market approach.

* * *
*

7

LETTER TO THE SHAREHOLDERS

DEAR SHAREHOLDERS! * The last several years of Adris' operations were marked by significant changes in organization and technology, and in educational and age structure of our employees. General *mondialization* compelled us to continuously follow and adapt to current business trends. It is especially important to develop and use new knowledge in all parts of our holding company in order to remain one of Croatian and regional most successful companies. As said by Jack Welch, a celebrated Adris Business Forum guest speaker, change is strength, even if it means plunging part of the company into total confusion for a while.

Among series of events which marked the last year, one should certainly point out construction and opening of two factories in Kanfanar, further investments in tourism and establishment of Adris Foundation. These events and generated results substantiate that Adris has established itself, in its homeland and in broader social and economic environment, as a development-oriented and socially responsible company. While doing so, stability of goals continues to be the basic quality of our success.

According to the analysis of results achieved in 2007, this was another successful year for Adris. This holding company comprises of about twenty companies and employs more than 3,200 people. Key performance indicators show a two-digit increase relative to the year before (total revenue, operating revenue, EBITDA, EBIT, net profit). *Diluted EPS* grew by 9.3 %, and equity was increased by additional 575 million kunas or by 11.6%.

The Group's results come from successful operations of the main strategic business units and/or companies operating within them (TDR, Hrvatski duhani, Istragrafika, Maistra), as well as from results of the companies and business activities outside the main sBU-s (Duhan Rijeka, Duhan Zagreb, Abilia, and other business activities of Adris corporate functions). Our main companies recorded increase in sales and improved quality of operations, notably in productivity and expenditure management, effectuating so the investments made in restructuring, and/or the investments made in the last four years in the amount of more than 700 million kunas a year. Namely, since 2005, including the 2008 plan, the Group has invested more than 100 million euros, which is almost five times higher than the average depreciation. Taking note of the fact that a large number of Croatian companies are engaged in our projects (and in this way get additional opportunity to grow and develop), it is reasonable to say that Adris grupa is the major national investor in recent years.

It should be noted that Adris' companies are export-oriented for years. In 2007 foreign sales revenues amounted to 1 million kunas and/or 135 million euros, 67% of which was generated by the Tobacco Business Unit (TDR, Hrvatski duhani and Istragrafika; in 2007 TDR exported more than 50% of manufactured cigarettes). In conditions of negative foreign trade balance, we find this a very important contribution to the Croatian economy.

Respectable results of our companies come, in the first place, from constant concern for quality and improvement of our brands, and concern for the companies' reputation with consumers and business partners. In addition to the well-known line of TDR's brands present on about 15 markets worldwide, Maistra with its hotels, Hrvatski duhani and Istragrafika are also becoming more and more recognizable on the local and foreign markets.

Investments into strategic transformation of Maistra have not come to an end yet. Only the most important activities in the process of restructuring and market repositioning are completed. For example, Maistra's capacities in 4-star facilities amounted to only 8% in 2004, in 2007 to more than 50%. In the next three years more than 90% of accommodation capacities will be categorized as 4- and 5-star facilities. Today we are managing a sort of *destination transition*. One-dimensional conception of mass tourism should develop into future luxury tourism, by way of introducing knowledge, competence, competition and responsibility, development

of flexible system of motivation, unidimensional and flexible hierarchical structures in the company and concurrent environmental motivation.

In other companies, the modernization cycle in production is completed. These are, now, state-of-the-art factories, leaders in their respective fields, with modern organization and new personnel structure. For the purpose of optimizing and rationalizing the investments, the previous corporate function developed into the new-established company Abilia, which has proved to be a reasonable business decision.

Concurrently with the focus on developmental investments and improvement in operations, the Group made acquisition of Duhan Zagreb. This paved the way for creation, together with Duhan Rijeka, of a significant retail chain in Croatia (iNovine), which produces certain synergic effects with TDR's operations.

When speaking about our business future it should be pointed out that Adris grupa will continue with bringing into balance the management efforts between modernisation and investment into markets, and/or between organic growth and investments into acquisitions. During 2007 we prepared other smaller acquisitions (Cenmar, Marimirna, the island of Sv. Katarina) that will have certain strategic and positional importance or will contribute to the developmental perspective of our company over the long term. Such acquisitions are not only of business value for us, but of psychological and emotional value as well, especially the island of Sv. Katarina which was repurchased by Adris grupa from the foreign owners. These business moves, including the opening of new factories valued at 1 billion kunas and investment in tourism in the amount of three billion kunas, should be understood as additional opportunity for employing young and educated people, and/or should be viewed through the prism of keeping high-quality employment positions in Croatia and giving rise to emotions known in the developed European countries (France, Germany), and in Hungary and Russia, as economic patriotism.

However, Adris' needs and potentials for acquisition are far larger. We shall take care of such potentials and develop them for the moment when and if an opportunity of adequate scope and quality will emerge. To this end we shall introduce a new management structure and processes into Adris grupa, because the present management structure has lived up to its promise in the last few years, primarily through establishment and consolidation of Adris grupa.

We are especially proud of Adris' achievements in improvement of socially responsible corporate activities. Investments in the two new factories, new machineries and construction of new hotels are the best indicators for socially responsible behaviour of the company towards its employees and communities it operates in.

Moreover, our numerous social and humanitarian activities are now conducted by Adris Foundation. We provided new knowledge and international experience to the business association through Adris Business Forum, promoting in this way knowledge and responsibility in our society. We also helped to relocate the Croatian History Museum into a historical part of the former Zagreb plant.

Dear shareholders, additional investments, business excellence, corporate and social responsibility, reasonable dividend policy and effective management of the Group's capital will result in successful business operations, to the satisfaction of our shareholders, employees and our local and broader community. We must believe that business battles are not always won by the strongest or the fastest. Sooner or later, those who win are those who think they can.



Ante Vlahović, M.Sc.,
President of the Management Board

ADRIS GRUPA d.d.

TDR d.o.o.*Istragrafika d.d.*Hrvatski duhani d.d.

Rovita d.o.o., Ljubljana *Rovita d.o.o., Sarajevo

Rovita d.o.o., Tuzla *Rovita d.o.o., Beograd

Rovita–Ronhill d.o.o.e.l., Skopje

Rovita d.o.o., Podgorica

Rovita d.o.o., Priština

Rovita d.o.o., Sofija

Adista d.o.o.

Maistra d.d.

Adria resorts d.o.o.

Rovinjturist d.d.

Tvornica duhana Zagreb d.d.

iNovine d.d.

Abilia d.o.o.

MEMBERS OF THE BOARD * ANTE VLAHOVIĆ, M.SC., President of the MB,
PLINIO CUCCURIN, Member of the Board,
BRANKO ZEC, Member of the Board,
ŽELIMIR VUKINA, Member of the Board

* * *

*

SUPERVISORY OF THE BOARD * ANTON POKRAJAC, President of SB,
GIOVANNI MARTINČIĆ, Deputy President of SB,
TOMISLAV BUDIN, PH.D., DRAŽEN JURIC ŠOLTO,
TEODORA HODAK, IVAN LOKMER,
ALIDA KABBAJ, RINO BUBIČIĆ,
ANDREA CERIN

* * *

*

15

BUSINESS RESULTS OF ADRIS GROUP D.D. IN 2007

IN
D
ESPIE UNFAVOURABLE BUSINESS CONDITIONS, Adris grupa achieved outstanding business results in 2007. In comparison to the previous year, the Group achieved double-digit growth in all key indicators: total and operating revenues, EBITDA, operating and net profits. Another important fact is that several key projects were carried out to strengthen the vitality of integral parts of the Group, and of the system as a whole.

ADRIS GRUPA CREATES NEW JOBS

On 20 May 2007, Adris grupa opened the new TDR and Istragrafika factories in Kanfanar, which represent one of the most modern production complexes in this part of Europe. More than 10,000 Istrian residents and delegates from Croatia and the region attended the ceremony. More than a billion kunas was invested in the construction of the two factories, making this the largest Greenfield investment in Croatia. The factories were opened in the presence of Croatian President Stjepan Mesić by the youngest and oldest employees of TDR, and on this occasion, the company marked its 135th anniversary.

These new factories, in addition to HRK 3bn invested in tourism, will strengthen the market position of the key companies in Adris grupa. This continuity of investments is an indicator of the Group's commitment to abiding by its own fundamental corporate principles – developmentally

oriented and socially responsible business. In addition to protecting existing jobs and creating new ones, their quality is equally important. At all levels of operations, our employees have the opportunity to work on demanding and creative tasks. Therefore, it could be said that Adris offers more than just *statistical* employment, it offers employment *with substance*.

The importance of Adris in the community in which it operates is multifaceted. In addition to employing 3,200 people and having 2,000 partners in Slavonia and Podravina, and achieved turnover of HRK 6.8bn in 2007, our continued investments in production and tourism capacities are significant. Since 2005, and including plans for 2008, the Group has invested more than HRK 700m a year. In order to achieve these goals, Adris cooperates with a large number of Croatian companies, which in doing so, also achieve their own growth and development. All these reasons make Adris the leading national investor.

FUNDAMENTAL FEATURES OF THE 2007 CORPORATE YEAR

Adris' operations in 2007 were marked by several processes. Firstly, 2007 was the first full year of operations in the new factory at Kanfanar. The process of restructuring the tobacco unit of the Group has been fully completed and the expected positive impacts are already visible. The new factories, with their increased production capacities, have given a strong stimulus and have created a more demanding approach to marketing and sales processes on the domestic market, and especially on foreign markets.

CONSOLIDATED INCOME STATEMENT (IN THOUSANDS OF HRK)

	2005	2006	2007
TOTAL OPERATING REVENUES	2,674,277	2,686,286	3,177,044
Operating profit	585,374	558,508	685,437
PROFIT BEFORE TAXATION	622,475	770,848	873,624
Income tax expense	146,282	169,087	203,838
NET PROFIT FOR THE YEAR	476,193	601,761	669,786
Minority interest	-18,746	-9,820	2,065
NET PROFIT	494,939	611,581	667,721

In the tourism strategic business unit, 2007 was marked by market repositioning into the four-star category for Hotel Eden and Hotel Istra on the island of St. Andrija, and the tourism settlements Amarin, Petalon, Belvedere and Blesička. Intensive marketing and logistics preparations are underway to introduce Rovinj's first five-star hotel, Monte Mulini, scheduled to be opened in the second half of 2008. The planned investments in tourism continue to require substantial costs for completion of the reorganization, partial write-offs and revalorization of the value of assets that are being taken out of use.

Furthermore, the acquisition of Duhan d.d. Zagreb, a retail kiosk chain, launched the process of a merger with the company Duhan d.d. Rijeka into the new company iNovine, which was completed at the end of the year.

In 2007, Adris grupa achieved total revenues of HRK 3.46bn, representing an increase of 16.8%. Operating revenues totalled HRK 3.18bn and sales revenues amounted to HRK 2.75bn, which is an increase of 8.8%. Sales revenues totalled HRK 1.76bn on the domestic market and HRK 986m on foreign markets. In the same period, earnings before interest, taxes, depreciation and amortization amounted to HRK 882m, representing an increase of 24.6% over the previous year. Earnings before interest and taxes rose by 22.7% to HRK 685m. Pre-tax profits totalled HRK 874m, up 13.3%, while net profits of HRK 670m show an increase of 11.3% over the year before.

ITEMS AFFECTING COMPARABILITY

Several processes resulting in a one-off increase in expenditures unfolded in 2007. Primarily, this refers to the completed process of restructuring of the tobacco segment of Adris grupa and, within the investment cycle, of continuing preparations to create new value in the tourism segment. Furthermore, this included the purchase of the retail kiosk chain Duhan d.d. Zagreb and preparations for the development project in former production locations in Rovinj and Zagreb.

Restructuring costs including reserves and one-off items were also reported in 2007. Restructuring costs in the tobacco business unit totalled HRK 66m, due, primarily, to the relocation to the new factory in Kanfanar.

Restructuring costs in the tourism business unit totalled HRK 49m, and were largely the result of revalorization and write-offs of structures taken out of use. New structures are planned to be built at those locations. Of the total HRK 49m, the majority of these expenses refer to the revalorization of value and write-off of assets that will not have cash outflows in the future.

These expenditures were also the result of preparations for development projects at the Rovinj and Zagreb locations, and the merger of the companies Duhan d.d. Rijeka and Duhan d.d. Zagreb into a single new company, iNovine.

STRATEGIC BUSINESS UNITS (SBU)

The operations of Adris grupa are divided into two strategic business units (SBU): the tobacco BU and the tourism BU. These strategic business units operate independently, while taking advantage of the effects of synergic operations of Adris grupa as a whole.

TOBACCO BU: MORE THAN HALF OF SALES CONTINUE TO BE EXPORTS

Twelve companies operate within the tobacco BU: TDR d.o.o.; Istragrafika d.d.; Hrvatski duhani d.d.; Adista d.o.o.; Rovita d.o.o. Sarajevo; Rovita d.o.o. Tuzla; Rovita d.o.o. Ljubljana; Rovita d.o.o. Beograd; Rovita d.o.o. Skopje; Rovita d.o.o. Priština; Rovita d.o.o. Podgorica; Rovita d.o.o. Sofia. The tobacco BU comprises of a group of vertically integrated companies, with TDR d.o.o. as the main driver of operations. The operations of the tobacco business unit include activities in the primary production and processing of tobacco, production of cardboard packaging, production and distribution of cigarettes and retail support. In practice, the vertical integration of the entire chain has proven to positively influence the flexibility and stability of operations of this unit.

The year 2007 was the first full year of TDR's operations in Kanfanar. The expected positive results were achieved in the new factory, including the better use of capacities in conditions of a growing number of markets and product variation.

The simplified logistical process and more effective production have resulted in a double-digit increase in productivity. In addition to the positive effects on the economy of scale and ensuring top quality products, it must also be stated that the new production facilities have made substantial achievements in workplace safety and environmental protection. With this, even before Croatia's formal EU accession, TDR and its new plant have met all demanding EU standards pertaining to production and environmental protection.

This year, again, sales of the leading brands grew on the leading TDR markets. Sales of Ronhill and Walter Wolf grew in the mid-price segment, while sales of the brand Filter 160 increased in the v/m segment. This growth shows the strength of these products while facing competition from international brands. The redesign of Ronhill, TDR's best selling brand, is an indicator of the continuity of the innovation cycle and active monitoring of market demands. During the year, a new product was launched to supplement the existing product line in the Ronhill family, Ronhill Rich. In order to meet the challenges in an exceptionally complex business environment, TDR continually reinforces its marketing and sales team to strengthen its direct presence and investments on the market. This complexity is seen in the wide spectrum of segments covered by the TDR brands, from the highest segment, with the Avangard brand, through the medium segment with the two best selling brands (Ronhill and Walter Wolf), to the low segment, where York is the best selling brand. Special mention should be made of the fact that TDR is present on a large number of markets, with entirely different tax systems, positions, growth potentials and business models. In 2007, TDR opened branch offices in Podgorica, Montenegro and in Sofia, Bulgaria. With Serbia's entry into CEFTA, big changes are occurring on this important market for TDR, owing to the equalization of tax treatment for TDR's products with those of multinational companies that manufacture in Serbia. The cessation of tax discrimination will enable TDR to further strengthen its market position in the coming period. In line with these new circumstances, the brand York was launched on the Serbian market, thereby achieving entry into these market segments which were previously not economically justified. However, challenges to sales growth still exist, both on markets where TDR is the absolute or just the relative leader, and on selected European and Asian markets.

Other important activities include establishing our own distribution system in Croatia in the second half of 2007 which began to operate on 1 January 2008. There were multiple objectives behind this project: improved and direct communication with points of sales, standardization of the entire distribution process and achieving financial savings.

Istragrafika had an outstanding year, increasing its sales revenues by 15% and retaining its position as the leading producer of commercial cardboard packaging in Croatia. This company is an important link in the Group's tobacco segment, and ensures flexibility and quick response within TDR, and the stability of one of the most important supply markets. Also, after several years of restructuring aimed at the core activities and rationalization of operations, the company Hrvatski duhani ended 2007 with a profit.

TOBACCO BU – BUSINESS RESULTS

In 2007, TDR achieved total revenues of HRK 2.21bn, representing an increase of 8.9% over 2006. The achieved operating revenues total HRK 2.17bn, up 9.2% over the previous year. Earnings before interest, taxes, depreciation and amortization of HRK 771m shows an increase of 10.4% over 2006, while operating profit rose 5.7% to HRK 668m.

TDR's sales growth in 2007 was 2% on both domestic and foreign markets. The leading brands (Ronhill and Walter Wolf) saw sales growth, and the key markets also showed positive trends. Total sales in 2007 amounted to 14.52 billion cigarettes, of which 51% was achieved on export markets.

INCOME STATEMENT – TOBACCO SCU (IN THOUSANDS OF HRK)

	2005	2006	2007
TOTAL OPERATING REVENUES	2,025,073	1,989,643	2,173,185
Operating profit	670,590	631,857	667,897
PROFIT BEFORE TAXATION	657,600	633,671	669,469
Income tax expense	142,322	129,798	143,555
NET PROFIT FOR THE YEAR	515,278	503,873	525,914
Minority interest	-6,101	583	2,247
NET PROFIT	521,379	503,290	523,667

Three companies operate within the tourism strategic business unit: Adria Resorts d.o.o., Maistra d.d. and Rovinjturist d.d. The investment dynamics in the tourism BU have been adapted to the corporate policy to 2010. The primary objective is to round out what the company offers and, from the market standpoint, to fully shape the destination Rovinj/Vrsar. Both basic and new services have been adapted to a high price segment, with the company Maistra which held only 8% of its capacities in four-star facilities in 2004, and in 2007 this figure rose to more than 50%. In the forthcoming period, more than 75% of Maistra's capacities will fall into the four- and five-star categories.

The strong investment cycle will continue throughout 2008, with investments totalling HRK 669m. In the Rovinj Monte Mulini neighbourhood, the first five-star hotel is under construction. Furthermore, the existing products in the company will be fully rounded out to create significant higher quality services, in line with the strategy of repositioning the facilities into a higher price category, while retaining the same capacity.

Fully aware of the fact that investment into accommodation capacities is one of the prerequisites for development, Maistra continues to systematically recruit young professionals to create its own management potential. A long-term cooperation program with the Cornell University, one of the finest in the United States, is just one in a series of indicators of the commitment to continuing education and improving in-house human resources as a key factor for corporate success. In a word, Maistra is attempted to put all the conditions in place to ensure that its products differ from those of the competition, and are attractive and sustainable in the long-run. The fact that tourism demand is on the rise and that Croatia is one of the world's hottest destinations is a favourable circumstance.

Through systematic investments we wish to create a destination which will fulfil various motives and demands of the modern guest, from entertainment and recreation, wellness and sports to distinctive gastronomic pleasure and congress tourism. Meanwhile, efforts are in place in all our product groups (hotels, settlements and camps) to ensure they offer products and services to satisfy these growing market segments.

Creating an efficient business model that gives the user the feeling of value for the money, and opens the door to the company's profitable and

sustainable growth, is the foundation for building and maintaining the competitive advantage. The tourism segment of Adris grupa intends to develop this idea, which has since become an integral part of everyday business, a reality.

TOURISM SBU – BUSINESS RESULTS

The tourism BU of Adris grupa achieved sales revenues of HRK 414m, which represents an increase of 7%. Overnight stays were up 4.3% over the year before, amounting to 2.63 million. This was achieved despite a decreased capacity of 8% as compared to 2006, which was due to the fact that 275 units were not in use in 2007.

The average room price in Maistra was increased by more than 5%, while the number of fully booked days grew by 10%, indicating the extended length of the season and improved management efficiency. Furthermore, the average daily a la carte consumption per guests increased by 17%, due to the expansion of the range of services offered and their improved quality. Operative losses totalled HRK 8m, resulting from high costs of restructuring which total nearly HRK 50m.

The 2007 fiscal year was marked by the process of separating and selling off parts of the business that do not fall under the core activity, tourism. In 2007, Maistra established three new companies: Servisi hortikultura d.o.o., Servisi elektro d.o.o. and Servisi održavanje d.o.o. These three companies, and Jadran trgovina d.o.o., were sold to strategic partners. With the focus on core activities, full employment for the workers in those companies was ensured.

INCOME STATEMENT – TOURISM SCU

(IN THOUSANDS OF HRK)	2005	2006	2007
TOTAL OPERATING REVENUES	413,420	443,791	556,204
Operating profit	-88,861	-55,975	-8,163
PROFIT BEFORE TAXATION	-91,352	-70,196	-32,580
Income tax expense	-6,929	-2,597	392
NET PROFIT FOR THE YEAR	-84,423	-67,599	-32,972
Minority interest	-14,676	-10,726	-5,244
NET PROFIT	-69,747	-56,873	-27,728

ADRIŠ' FINANCIAL INDICATORS

Cash flow from business activities in 2007 totalled HRK 392m, while cash generated from operations totalled HRK 611m.

Cash flow from investment activities in 2007 totalled HRK 100m. Inflow resulted from the sale of tangible assets without development potential, the sale of branch offices stemming from the new focus on core activities in the Group's tourism segment. Outflow was the result of acquisition activities in 2007 and investments in tangible assets. These investments were part of the continuing investment cycle into the tourism BU, which intends to completely change the content and level of the products and services it offers in the destination Rovinj/Vrsar. As of 2007, the development projects of Abilia, a new company for the real estate development and management, are part of the Group's overall investments and assets. The first large market project, the residential settlement Sv. Vid in Rovinj, was launched in 2007. A portion of the available funds was invested in various financial products, while keeping the optimum share of yields and liquidity in mind.

Cash flow from financial activities in 2007 totalled HRK -345m, due to the payment of dividends in the amount of HRK 89m and repayment of a revolving loan worth HRK 251m used to manage working capital.

Good liquidity and low indebtedness continue to be important features of Adris' operations. The coefficient of liquidity is defined by the ratio of liquid assets and current liabilities, and this remained high in 2007 at 2.6. An debt ratio of 0.2 indicates the future possibility of better use of financial leverage, i.e. the use of foreign sources of financing future business activities. Adris grupa has only HRK 21.7m in long-term loans, which relate virtually in whole to Rovinjturist d.d., while 46% of short-term liabilities (HRK 517m) are short-term loans. Reducing the short-term credit liabilities is due to the repayment of part of a revolving loan following the optimization of yields on existing long-term placements and other financial products on one hand, and optimal management of working capital on the other.

The equity of Adris grupa increased by 11.6% in 2007 to HRK 5.52bn. Earnings per share totalled HRK 41.2, with very intensive trading on the Croatian capital market the whole year round.

Hrvoje Patajac, M.Sc.

6⁹7⁹6⁹9²9⁶7⁹9²6⁴9⁶7⁶7

9⁷6⁹2¹6¹9⁴2⁷4⁶1⁹2⁶7⁹6¹6²9⁷6⁹2⁶2⁹6⁷9⁶9¹2⁶7⁹6¹2⁶9⁴7⁶1²6⁹4⁷6¹2⁶2⁹6⁹6⁶6²1⁴6⁷2⁹1⁶6⁷2⁹4⁹6⁴2⁷6⁹6⁶

TURNOVER IN HRK 000'S

2005 | 6,323,757 2006 | 6,076,868

2007 | 6,774,129

BUSINESS REVENUES IN HRK 000'S

2005 | 2,674,277 2006 | 2,686,286

2007 | 3,177,044

ASSETS IN HRK 000'S

2005 | 5,570,502 2006 | 6,751,874

2007 | 6,928,365

6⁶3²5⁰6²3⁰5
5³0⁰6³3⁰3²3
3⁰5
3³
6⁰
5³
6⁰
3⁰
5⁶2⁰5³0³
2⁶0⁰6⁵0³
0²5³6⁰
0⁵3²3⁰
6²6³
5³0⁵
2³5²
6⁰3⁶
2⁵5³6⁰3²0²0⁶5²6³5²3⁶0⁵0³6⁵
0⁶2⁵6⁵2⁶3⁵3²0⁶

CAPITAL IN HRK 000'S

2005 | 4,428,710 2006 | 4,944,993

2007 | 5,520,362

7⁴4⁸7²1⁴8⁹5⁸4⁷
5²7⁹1⁷2⁹2⁷2⁷
2¹7⁹5⁹4⁹9⁵9⁵
4⁵4⁵2⁷7⁹8²4²5⁷
8²7⁹4²2⁵8²5⁸
2⁴9²4⁵7⁴7⁷8¹

DOMESTIC SALES in sticks

2005 | 6,524,802,430 2006 | 7,010,334,465

2007 | 7,152,849,525

27³94⁹72⁰9⁰7⁴
997230720923
4933
927
070
297
77
40
99
37
97
22
27
37
49
27
0077

FOREIGN SALES in sticks

2005 | 7,071,690,400 2006 | 7,279,361,760

2007 | 7,399,409,420

2195418291
5792
8891
479
258
991
845
229
154
899
572
22222172222

4⁹
4⁵
4⁹
2²
9⁹
4⁵
4⁵
2¹
5²
2¹
5¹
2¹
4¹
5¹
4¹
4¹
5⁵
9⁸
9⁸
4⁸
2⁵
5⁸
1⁴
5⁸
2⁸
2⁴
145
922
154
981
225
219
24
145
29

TOTAL SALES, OWN BRANDS in sticks
2005 | 13,596,492,830 2006 | 14,289,696,225
2007 | 14,552,258,945

39

INDEPENDENT AUDITOR'S REPORT

2007

T O THE SHAREHOLDERS OF ADRIS GRUPA d.d. * We have audited the accompanying consolidated financial statements of ADRIS GRUPA d.d. and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Pricewaterhousecoopers d.o.o.,
Zagreb, March 25th 2008

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

(IN THOUSANDS OF HRK)	NOTE	2007	2006
Operating revenues	5	2.774.066	2.563.657
Other revenues	6	115.905	122.442
		2.889.971	2.686.099
Operating expenses			
Cost of materials and services	7	(1.381.569)	(1.236.950)
Staff costs	8	(424.161)	(448.610)
Depreciation and amortisation	15, 16	(196.792)	(149.465)
Impairment of tangible assets	15, 16	(97.074)	(42.036)
Other operating expenses	9	(173.270)	(135.139)
		(2.272.866)	(2.012.200)
Other gains/(losses) net	10	280.120	120.367
Operating profit		897.225	794.266
Finance costs	11	(23.601)	(23.418)
Profit before taxation		873.624	770.848
Income tax expense	12	(203.838)	(169.087)
Net profit for the year		669.786	601.761
Net profit attributable to:			
The Company's shareholders		667.721	611.581
Minority interest		2.065	(9.820)
		667.721	601.761
Basic/diluted earnings per share attributable to the Company's shareholders (in HRK)	13	41,21	37,70

These consolidated financial statements set out on pages 41 to 115 were approved by the Management Board of the Company on 25 March 2008.

President of the Management Board,
Ante Vlahović, M. Sc.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

(IN THOUSANDS OF HRK)

	NOTE	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	15	2.911.513	2.849.137
Intangible assets	16	121.967	63.929
Investments in associates	17	101.414	87.923
Available-for-sale financial assets	19	7.927	13.570
Trade and other receivables	20	11.087	14.443
Deferred tax assets	21	19.807	22.438
		3.173.715	3.051.440
Current assets			
Inventories	22	464.250	478.125
Trade and other receivables	20	674.259	462.883
Deposits	24	1.717.171	1.845.281
Financial assets at fair value through profit or loss	25	827.609	767.205
Cash and cash equivalents		37.614	91.021
		3.720.903	3.644.515
Non-current assets held for sale	23	33.747	55.919
		3.754.650	3.700.434
Total assets		6.928.365	6.751.874
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		164.000	164.000
Share premium		16.922	16.922
Treasury shares		(39.566)	(38.570)
Legal reserves		12.448	12.448
Other reserves		4.566.769	4.046.544
Retained earnings		799.789	743.649
	26	5.520.362	4.944.993
Minority interest		217.841	218.361
Total equity		5.738.203	5.163.354
LIABILITIES			

Non-current liabilities

Borrowings	27	21.719	19.919
Provisions	29	39.684	37.850
		61.403	57.769

Current liabilities

Trade and other payables	28	502.272	553.619
Current income tax payable		69.838	59.142
Borrowings	27	517.494	766.033
Provisions	29	39.155	151.957
		1.128.759	1.530.751
Total liabilities		1.190.162	1.588.520
Total equity and liabilities		6.928.365	6.751.874

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

(IN THOUSANDS OF HRK)

	NOTE	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	31	611.437	858.287
Taxes paid		(193.142)	(144.449)
Interest paid		(26.190)	(24.387)
Cash flows from operating activities		392.105	689.451
Cash flows from investing activities:			
Purchase of share in associate	17	–	(26.200)
Cash used for acquisition of subsidiary	30	(106.184)	–
Cash generated from sale of subsidiaries	30	56.945	–
Purchase of shares from minority interests		(4.746)	–
Collection of/investment in deposits and bonds		230.066	(39.324)
Investment in securities and interests		(72.146)	(155.098)
Purchase of tangible and intangible assets	15,16	(383.888)	(915.691)
Movements in loans given		4.644	8.144
Proceeds from sale of tangible assets		170.286	–
Dividends received	10	4.610	7.719
Cash flows from investing activities		(100.413)	(1.120.450)

Cash flows from financing activities:		
Dividends paid		(89.074) (80.727)
Purchase of treasury shares	26/11/	(996) (12.414)
Repayment of long-term borrowings		(4.446) (2.792)
(Repayment of)/proceeds from short-term borrowings		(250.583) 568.257
Cash flows from financing activities		(345.099) 472.324
Net (decrease)/increase in cash and cash equivalents		(53.407) 41.325
Cash and cash equivalents at beginning of year		91.021 49.696
Cash and cash equivalents at end of year		37.614 91.021

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED
31 DECEMBER 2007

(IN THOUSANDS OF HRK)	NOTE	EQUITY ATTRIBUTABLE TO THE	
		SHARE CAPITAL	SHARE PREMIUM
At 31 December 2005		164.000	16.922
Foreign exchange differences		–	–
Net income/(expense) recognised directly in equity		–	–
Profit for 2006		–	–
Total recognised income for 2006		–	–
Allocation of prior year's profit	26/III/	–	–
Dividends declared	26/IV/	–	–
Purchase of treasury shares	26/11/	–	–
At 31 December 2006		164.000	16.922
Purchase from minority interests		–	–
Foreign exchange differences		–	–
Net income/(expense) recognised directly in equity		–	–
Profit for 2007		–	–
Total recognised income for 2007		–	–
Allocation of prior year's profit		–	–
Dividends declared		–	–
At 31 December 2007		164.000	16.922

COMPANY'S SHAREHOLDERS				MINORITY	
TREASURY	LEGAL		RETAINED	INTEREST	TOTAL
SHARES	RESERVES	RESERVES	EARNINGS		
(26.156)	12.448	3,490.320	771.176	228.181	4,656.891
—	—	(884)	—	—	(884)
—	—	(884)	—	—	(884)
—	—	—	611.581	(9,820)	601.761
—	—	(884)	611.581	(9,820)	600.877
—	—	557.108	(557.108)	—	—
—	—	—	(82,000)	—	(82,000)
(12,414)	—	—	—	—	(12,414)
(38,570)	12,448	4,046,544	743,649	218,361	5,163,354
—	—	(773)	—	(2,585)	(3,358)
—	—	(383)	—	—	(383)
—	—	(1,156)	—	(2,585)	(3,741)
—	—	—	667,721	2,065	669,786
—	—	(1,156)	667,721	(520)	666,045
—	—	521,381	(521,381)	—	—
(996)	—	—	(90,200)	—	(91,196)
(39,566)	12,448	4,566,769	799,789	217,841	5,738,203

1

NOTE GENERAL INFORMATION

Adris grupa Rovinj (the Group) consists of the parent Company Adris grupa d.d., Rovinj (the Company) and the subsidiaries listed below. The parent Company is registered in Rovinj, Obala Vladimira Nazora 1, Croatia, for tobacco manufacturing and processing and trade of tobacco products. In addition, the Group also performs tourism and trade activities through a number of its subsidiaries.

As at 31 December 2007, the Company's shares were listed on the public joint stock company listing on the Zagreb Stock Exchange.

Adris grupa d.d. owns several companies comprising the Adris group (the Group).

NAME OF SUBSIDIARY	OWNERSHIP OF ADRIS GRUPA D.D. ROVINJ %	INDIRECT OWNERSHIP IN SUBSIDIARIES	
		TDR %	ADRIA RESORTS %
TDR d.o.o., Rovinj, Croatia	100	–	–
Tvornica duhana Zagreb d.d., Croatia	96,12	–	–
Hrvatski duhani d.d. Virovitica, Croatia	–	85,97	–
Duhan d.d., Rijeka, Croatia	89,93	–	–
Duhan d.d., Zagreb, Croatia	88,59	–	–
Istragrafika d.d., Rovinj, Croatia	–	96,32	–
Dugraf d.o.o., Rovinj, Croatia	100	–	–
Abilia d.o.o., Rovinj, Croatia	100	–	–
Rovita d.o.o., Rovinj, Croatia	100	–	–
Rovita Vaduz, Liechtenstein	100	–	–
Rovita Ljubljana, Slovenia	–	100	–
Rovita Tuzla, Bosnia and Herzegovina	–	100	–
Rovita Sarajevo, Bosnia and Herzegovina	–	100	–

Rovita Beograd, Serbia	–	100	–
Rovita Skopje, Macedonia	–	100	–
Rovita Priština, Kosovo	–	100	–
Ronhill d.o.o., Kanfanar, Croatia	100	–	–
Rovita Podgorica, Montenegro	–	100	–
Rovita Sofija, Bulgaria	–	100	–
Rang d.o.o., Rovinj, Croatia	–	100	–
Adria Resorts d.o.o., Rovinj, Croatia	100	–	–
Maistra d.d., Rovinj, Croatia	–	–	83,92
Rovinjturist d.d., Rovinj, Croatia	–	–	85,58

2

NOTE

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

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 Group'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.

- A *standards and interpretations to existing standards effective in 2007*
The following standard is mandatory for accounting periods beginning on or after 1 January 2007, and is relevant to the Group's operations:
- IFRS 7, *Financial Instruments: Disclosures and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)*. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures

about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation.

B *standards and interpretations early adopted by the Group*

No standards or interpretations were early adopted by the Group.

C *standards, amendments and interpretations effective in 2007 but not relevant for the Group*

The following standards, amendments and interpretations to existing standards are mandatory for accounting periods beginning on or after 1 January 2007, but they are not relevant to the Group's operations:

- IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*. IFRIC 7 is not relevant as the Group does not operate in a hyperinflationary environment.
- IFRIC 8, *Scope of IFRS 2*. IFRIC 8 is not relevant since the Group does not have share-based payments.
- IFRIC 9, *Reassessment of embedded derivatives*. IFRIC 9 is not relevant to the Group's operations because it does not have any embedded derivatives.
- IFRIC 10, *Interim Financial Reporting and Impairment*. IFRIC 10 is not relevant to the Group's operations because interim financial reports are not produced.

D *standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following interpretations to existing standards are mandatory for the Group's accounting period beginning on or after the effective date, but the Group has not early adopted them:

- IAS 23 (revised), *Borrowing costs (effective from 1 January 2009)*. The standard removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group will apply IAS 23 (Amended) from 1 January 2009.
- IAS 27 (revised) *Consolidated and Separate Financial Statements (effective from 1 July 2009)*. The Group will apply IAS 27 (revised) from 1 July 2009

and is considering the impact of the amended standard on its financial statements.

- IFRS 3 (revised), *Business Combinations* (effective from 1 July 2009). The Group will apply IFRS 3 (revised) from 1 July 2009 and is currently considering its impact.
 - IFRS 8, *Operating segments* (effective from 1 January 2009). IFRS 8 replaces IAS 14 and adjusts segment reporting with to internal reporting procedures of each entity. The Group assessed the impact of IFRS 8 and concluded that segment reporting will be summarised and focused on the income statement. The Group will apply IFRS 8 for annual periods after 1 January 2008.
- E *interpretations to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards are mandatory for the Group's accounting periods beginning on or after the effective date, but are not relevant to the Group's operations:

- IFRIC 11, IFRS 2 – *Group and Treasury share transactions* (effective from 1 March 2007). IFRIC 11 is not relevant since the Group does not award members of Management Boards of its subsidiaries with own equity instruments.
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 is not relevant since the Group is not an operator of a public-to-private service concession arrangement.
- IFRIC 13, *Customer loyalty programmes* (effective from 1 July 2008) IFRIC 13 is not relevant, since the Group does not operate such programmes.
- IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from 1 January 2008). IFRIC 14 is not relevant since the Group does not have defined benefit plans.

2.2 CONSOLIDATION

A *subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are

considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

B *transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity.

C *associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition

movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 FOREIGN CURRENCIES

A *functional and presentation currency*

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

B *transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such

transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

c group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- I assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- II income and expenses for each income statement are translated at average exchange rates; and
- III all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation. 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Buildings	8 – 50 years
Cars	2 – 4 years
Production equipment	4 – 20 years
Other	2,5 – 20 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated cost 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 Group 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other expenses' in the income statement.

2.6 INTANGIBLE ASSETS

A *computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

B *trademarks and licences*

Trademarks and licences are shown at historical cost. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 5 years.

2.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

2.8 FINANCIAL ASSETS

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

A *financial assets at fair value through profit or loss*

Financial asset at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other gains/(losses) net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised within the same income statement line item when dividend is received.

B *loans and receivables*

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

Loans and receivables are carried at amortised cost using the effective interest method. Impairment testing of loans and receivables is described in Note 2.11.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The fair value of quoted investments is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.9 LEASES

Leases where the significant portion of risks and rewards of ownership are not retained by the Group are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. The Group has no finance leases.

2.10 INVENTORIES

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-process and finished goods comprise raw materials, direct labour, other direct costs and related production overheads.

Trade goods are carried at selling price less applicable taxes and margins.

Small inventory and tools are expensed when put into use.

2.11 TRADE AND LOAN RECEIVABLES

Trade receivable and loan receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and loan receivables is established when there is objective evidence that the Group 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 income statement within other costs.

2.12 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date rather than through continuing use. Assets are reclassified when all of the following conditions are met: (A) the assets are available for immediate sale in their present condition; (B) the Group's management

approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet.

Held-for-sale property, plant and equipment are measured at the lower of their carrying amount and fair value less costs to sell. Held-for-sale property, plant and equipment are not depreciated.

2.13 DEPOSITS

Deposits with banks have defined maturities. Deposits with the original maturity more than 3 months are measured at amortised cost, classified to the 'loans and receivables' category and disclosed separately as 'deposits' on the balance sheet.

2.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

2.15 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or 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.

2.16 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 income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 DEFERRED INCOME TAX

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.

2.18 EMPLOYEE BENEFITS

A *pension obligations and post-employment benefits*

In the normal course of business through salary deductions, the Group 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 Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits.

B *termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

C *long-term employee benefits*

The Group recognises a liability for long-term employee benefits (retirement termination benefits) evenly over the period the benefit is earned based on actual years of service.

D *short-term employee benefits*

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Group recognises a liability for accumulated compensated absences based on unused vacation days at the balance sheet date.

2.19 PROVISIONS

Provisions for restructuring costs and legal claims are recognised when: the Group 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.

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.

2.20 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, excise tax, returns, rebates and discounts and after eliminated sales within the Group.

The Group 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 Group's activities as described below.

A *sales of goods and materials – wholesale*

Sales of goods and materials are recognised when the Group has delivered the products to the customer, the customer has full discretion over the price to sell, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of loss has been transferred to the customer and either of the following has occurred: the customer has accepted the products in accordance with the contract or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specific in the sales contracts, net of estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate the discounts and returns. No element of financing is deemed present as the sales are made with a credit term of 15 – 60 days, which is consistent with the market practice.

B *sales of services*

These services are provided as a fixed-price contract with contract terms of up to 1 year.

Revenue from fixed-price contracts for tourist services is generally recognised in the period the services are provided, using a straight-line basis over the terms of the contract.

C *sales of goods – retail*

Sales of goods sold in retail stores are recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in other expenses.

D *interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at 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.

E *dividend income*

Dividend income is recognised when received.

2.21 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

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 disclosed 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.

2.23 MUTUAL CANCELLATIONS AND OTHER NON-CASH SETTLEMENTS

A portion of receivables and liabilities are settled by mutual cancellations and other non-cash settlements including debt instruments such as promissory notes and bills of exchange. Sales and purchases that are expected to be settled as stated are performed at fair value.

3

NOTE FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Overall risk management is carried out by the parent Company's treasury department.

A *market risk*

I *foreign exchange risk*

The Group is exposed to foreign exchange risk arising from movements in the EURO exchange rate. Foreign exchange risk arises primarily from recognised assets and liabilities.

At 31 December 2007, if the EURO had strengthened/weakened by 0.5% against the HRK, with all other variables held constant, the profit after tax for the reporting period would have been HRK 1,768 thousand (2006: HRK 4,830 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EURO denominated financial assets and the foreign currency account.

II *price risk*

The Group is exposed to price risk arising from investments in equity instruments that are classified in the balance sheet as financial assets at fair value through profit or loss. Price risk arising from investments in equity instruments is managed by diversifying investments according to the limits determined by Management.

The Group's investments in equity instruments that are publicly traded are included in the CROBEX index.

As at 31 December 2007, if the CROBEX index had increased/decreased by 10%, with all other variables held constant, the profit after tax for the

reporting period would have been HRK 17,561 thousand (2006: HRK 19,738 thousand) higher/lower, mainly as a result of gains/losses on equity instruments classified at fair value through profit or loss.

III *cash flow and fair value interest rate risk*

As the Group has significant interest-bearing assets, the Group's income and operating cash flows are substantially dependent of changes in market interest rates. Assets with contracted variable rates expose the Group to cash flow interest rate risk. Assets with fixed rates expose the Group to fair value interest rate risk. The Group does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

At 31 December 2007, if the effective interest rate on deposits and borrowings had increased/decreased by 1% on an annual level, the profit after tax for the reporting period would have been by approximately HRK 13,768 thousand lower/higher (2006: HRK 13,593 thousand).

B *credit risk*

The Group keeps its cash and deposits mainly in one bank, which exposes the Group to credit risk. Management considers this bank to be stable, with a BBB- credit rating by Standard & Poor's. The credit risk is constantly being analysed, which reduces the exposure to the stated risk. The Group does not have significant concentrations of other credit risks.

C *liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations.

The table below analyses financial liabilities of the Group according to contracted maturities. The amounts stated below represent undiscounted cash flows. Trade and other payables do not include taxes, payables to employees and advances.

31 DECEMBER 2007	LESS THAN 1 YEAR	BETWEEN 1–2 YEARS	BETWEEN 2–5 YEARS
Borrowings	517.901	3.826	17.893
Trade and other payables	147.057	–	–

31 DECEMBER 2006	LESS THAN 1 YEAR	BETWEEN 1–2 YEARS	BETWEEN 2–5 YEARS
Borrowings	769.029	2.207	17.712
Trade and other payables	147.997	–	–

D *capital risk management*

The Group monitors capital on the basis of Croatian laws and regulations which require minimum paid in capital of HRK 200 thousand for joint-stock companies. There are no specific measures required by the owners in managing capital. The Group is not subject to externally imposed capital requirements. In addition, there are no internally monitored capital objectives.

3.2 FAIR VALUE ESTIMATION

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The carrying amount of non-current financial liabilities approximates their fair value.

4

NOTE

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments with few trade transactions in an active market and the fair value of financial instruments whose trading in an active market relates only to a small percentages of ownership is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

LEGAL CLAIMS AND DISPUTES

Provisions for legal claims and disputes are recorded based on management's estimate of probable losses after consultation with legal counsel. Based on existing knowledge, it is reasonably possible that future litigation outcomes will be different from management assumptions of probable losses.

USEFUL LIVES OF PROPERTY AND EQUIPMENT

The Management of the Group determines and revises the useful lives and relevant depreciation charge for property, plant and equipment. This estimate is based on the assessment of the remaining useful lives of assets. It could change significantly as a result of technical innovations and competitor actions. Management will either increase the depreciation charge after assessing that the remaining useful lives of assets are lower than before the assessment, or it will write off obsolete and discarded assets.

5

NOTE SEGMENT INFORMATION

PRIMARY REPORTING SEGMENT – BUSINESS SEGMENTS

The Group is organised into two main business segments:

- 1 Manufacture and wholesale of tobacco products and other
- 2 Tourism (including hotel and camping business and catering operations)

Rezultati poslovanja segmenta za godinu koja je završila 31. prosinca 2007

IN THOUSANDS OF HRK	MANUFACTURE AND SALE OF TOBACCO		
	PRODUCTS AND OTHER	TOURISM	GROUP
Total gross segment sales	2.305.258	482.145	2.787.403
Inter-segment sales	(8.229)	(5.108)	(13.337)
Sales	2.297.029	477.037	2.774.066
Operating profit	923.233	(26.008)	897.225
Finance costs	–	–	(23.601)
Profit before income tax	–	–	873.624
Income tax expense	–	–	(203.838)
Profit for the year	–	–	669.786

The segment results for the year ended 31 December 2006 are as follows:

IN THOUSANDS OF HRK	MANUFACTURE AND SALE OF TOBACCO		
	PRODUCTS AND OTHER	TOURISM	GROUP
Total gross segment sales	2.015.735	566.855	2.582.590
Inter-segment sales	(9.174)	(9.759)	(18.933)
Sales	2.006.561	557.096	2.563.657
Operating profit	858.536	(64.270)	794.266
Finance costs	—	—	(23.418)
Profit before income tax	—	—	770.848
Income tax expense	—	—	(169.087)
Profit for the year	—	—	601.761

Other segment items included in the income statement for the year ended 31 December 2007 are as follows:

IN THOUSANDS OF HRK	MANUFACTURE AND SALE OF TOBACCO		
	PRODUCTS AND OTHER	TOURISM	GROUP
Depreciation (Note 15)	105.684	84.039	189.723
Amortisation (Note 16)	6.490	579	7.069
Restructuring costs (Note 29)	16.000	—	16.000
Impairment of property, plant and equipment and intangible assets (Note 15, 16)	60.831	36.243	97.074

Other segment items included in the income statement for the year ended 31 December 2006 are as follows:

IN THOUSANDS OF HRK	MANUFACTURE AND SALE OF TOBACCO		GROUP
	PRODUCTS AND OTHER	TOURISM	
Depreciation (Note 15)	67.609	72.580	140.189
Amortisation (Note 16)	6.847	2.429	9.276
Restructuring costs (Note 29)	28.242	—	28.242
Impairment of property, plant and equipment (Note 15)	—	42.036	42.036

The segment assets and liabilities as at 31 December 2007 are as follows:

IN THOUSANDS OF HRK	MANUFACTURE AND SALE OF TOBACCO		GROUP
	PRODUCTS AND OTHER	TOURISM	
Assets	5.208.376	1.618.575	6.826.951
Associates	87.923	13.491	101.414
	5.296.299	1.632.066	6.928.365
Total segment liabilities	487.391	702.771	1.190.162
Capital expenditure (Notes 15, 16)	208.721	175.626	384.347

The segment assets and liabilities as at 31 December 2006 are as follows:

IN THOUSANDS OF HRK	MANUFACTURE AND SALE OF TOBACCO		GROUP
	PRODUCTS AND OTHER	TOURISM	
Assets	5.035.481	1.628.470	6.663.951
Associates	87.923	—	87.923
	5.123.404	1.628.470	6.751.874
Total segment liabilities	921.119	667.401	1.588.520
Capital expenditure (Notes 15, 16)	412.761	503.377	916.138

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash.

Segment liabilities comprise trade payables and borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 15) and intangible assets (Note 16), including additions resulting from acquisitions through business combinations.

SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

The Group's business segments operate in three main geographical areas – Croatia, Western and Northern Europe and Central, Eastern Europe and other:

Sales (IN THOUSANDS OF HRK)	2007	2006
Croatia	1.690.867	1.523.973
Western and Northern Europe	285.450	232.799
Central, Eastern Europe and other	797.749	806.885
	2.774.066	2.563.657

Sales are allocated based on the country in which the customer is located.

Total assets (IN THOUSANDS OF HRK)	2007	2006
Croatia	6.800.292	6.644.397
Central, Eastern Europe and other	128.073	107.477
	6.928.365	6.751.874

Total assets are allocated based on where the assets are located.

Capital expenditure (IN THOUSANDS OF HRK)	2007	2006
Croatia	381.983	910.166
Central, Eastern Europe and other	2.364	5.972
	384.347	916.138
 Analysis of sales by category (IN THOUSANDS OF HRK)	 2007	 2006
Sales of goods	2.333.661	2.117.959
Revenue from services	440.405	445.698
	2.774.066	2.563.657

6

NOTE OTHER REVENUES

(IN THOUSANDS OF HRK)	2007	2006
Interest income	113.314	117.247
Income from insurance reimbursements	2.591	5.195
	115.905	122.442

7

NOTE COSTS OF MATERIALS AND SERVICES

(IN THOUSANDS OF HRK)	2007	2006
Raw materials and supplies		
Raw materials and supplies	609.126	533.833
Energy cost	43.895	42.274
Cost of goods sold	190.723	244.311
	843.744	820.418
External services		
Transport, telephone, postage	15.971	16.386
Repairs and maintenance	53.702	45.813
Rental expense	7.756	6.083
Marketing, advertising and distribution	394.889	298.308
Municipal utility services	10.553	15.726
Other	54.954	34.216
	537.825	416.532
	1.381.569	1.236.950

8

NOTE STAFF COSTS

(IN THOUSANDS OF HRK)	2007	2006
Salaries and other staff costs	246.926	254.354
Taxes and contributions from and on salaries	163.488	167.739
Provisions for termination benefits arising from restructuring process	13.747	26.517
	424.161	448.610

As at 31 December 2007, the number of staff employed by the Group was 3,118 (2006: 2,872).

9

NOTE OTHER OPERATING EXPENSES

(IN THOUSANDS OF HRK)	2007	2006
Intellectual services	21.519	14.760
Contributions and taxes irrespective of business results	23.121	19.046
License fees	661	—
Travel and entertainment	30.706	18.754
Insurance	8.863	9.399
Bank charges	15.994	8.412
Write-off of assets	—	941
Net provision for receivables (Note 20)	(2.161)	(2.608)
Provision for legal proceedings (Note 29)	534	47.895
Movements in other provisions	14.339	(10.011)
Donations	32.523	—
Other	27.171	28.551
	173.270	135.139

10

NOTE OTHER GAINS/(LOSSES) NET

(IN THOUSANDS OF HRK)	2007	2006
Financial assets at fair value through profit and loss (Note 25)		
– gains from change in fair value	90.214	110.644
– dividend income	4.610	7.719
– profit/(loss) from sale of financial assets	20.773	429
Gains from sale of tangible assets	151.813	–
Net exchange differences	12.710	1.575
	280.120	120.367

11

NOTE FINANCE COSTS

(IN THOUSANDS OF HRK)	2007	2006
Interest expense	(23.370)	(23.510)
Net exchange differences from bank borrowings	(231)	92
	(23.601)	(23.418)

12

NOTE INCOME TAX

(IN THOUSANDS OF HRK)	2007	2006
Current income tax	201.207	162.047
Deferred tax expense	2.631	7.040
	203.838	169.087

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

(IN THOUSANDS OF HRK)	2007	2006
Profit before tax	873.624	770.848
Tax calculated at a rate of 20%	174.725	154.170
Effect of utilised tax losses	(2.620)	(24.598)
Impact of inter-Group transactions and different profitability in subsidiaries	19.435	9.372
Effect of expenses not deductible for tax purposes	12.298	29.996
Effects of different taxation rates in subsidiaries	—	147
Income tax charge	203.838	169.087
Effective tax rate	23,3%	21,9%

The parent Company and its subsidiaries are subject to taxation according to the laws and regulations of the Republic of Croatia or other countries where they are registered.

To date, the Tax Authority performed a review of several companies' income tax returns for the period from 2003 to 2006. In accordance with local regulations, the Tax Authority may at any time inspect the Group companies' books and records within 3 years following the year in which

the tax liability is reported and may impose additional tax assessments and penalties. The Group companies' and Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

The total tax loss carry forward on the Group level is as follows:

(IN THOUSANDS OF HRK)	2007	2006
2008	—	9.563
2009	20.486	25.062
2010	29.179	46.863
2011 and thereafter	118.299	8.801
	167.964	90.289

In its financial statements, the Group did not recognise deferred income tax assets of HRK 33,593 thousand (2006: HRK 18,058 thousand), as it is not certain that the tax loss will be utilized by the respective companies in the stated amounts before the expiry dates.

13

NOTE EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to the parent Company's shareholders by the weighted average number of ordinary shares, excluding the average number of ordinary shares purchased by the Company and held as treasury shares. Basic earnings per share equals diluted as there are no diluted shares.

	2007	2006
Net profit (IN THOUSANDS OF HRK)	667.721	611.581
Weighted average number of shares	16.203.719	16.221.238
Basic/diluted earnings per share (IN HRK)	41,21	37,70

14

NOTE DIVIDENDS PER SHARE

The dividends paid in 2007 and 2006 amounted to HRK 90,200 thousand (HRK 5.50 per share), and HRK 82,000 thousand (HRK 5.00 per share), respectively.

15

NOTE
PROPERTY, PLANT AND EQUIPMENT

(IN THOUSANDS OF HRK)	ASSETS UNDER			TOTAL
	LAND AND BUILDINGS	PLANT AND EQUIPMENT	CONSTRUCTION AND ADVANCES	
At 31 December 2005				
Cost	2.174.251	884.201	606.090	3.664.542
Accumulated depreciation	(921.951)	(528.684)	—	(1.450.635)
Net book amount	1.252.300	355.517	606.090	2.213.907
Year ended 31 December 2006				
Opening net book amount	1.252.300	355.517	606.090	2.213.907
Additions	521.766	4.787	381.184	907.737
Transfer from assets under construction	339.972	527.713	(867.685)	—
Transfer to intangible assets	—	—	(447)	(447)
Disposals	(21.326)	(8.672)	—	(29.998)
Sale	(3.237)	(365)	—	(3.602)
Impairment	(42.036)	—	—	(42.036)
Non-current assets held for sale	(45.958)	(84)	(9.877)	(55.919)
Depreciation charge for the year	(60.982)	(79.207)	—	(140.189)
Foreign exchange differences	—	(316)	—	(316)
Closing net book amount	1.940.499	799.373	109.265	2.849.137
At 31 December 2006				
Cost	2.988.377	1.245.131	109.265	4.342.773
Accumulated depreciation	(1.047.878)	(445.758)	—	(1.493.636)
Net book amount	1.940.499	799.373	109.265	2.849.137

Year ended 31 December 2007

Opening net book amount	1.940.499	799.373	109.265	2.849.137
Acquisition of subsidiary (Note 30)	14.337	3.478	542	18.357
Additions	3.325	1.458	370.673	375.456
Transfer from assets under construction	114.415	66.868	(181.283)	—
Transfer to intangible assets	—	—	(459)	(459)
Disposals	(3.001)	(14.261)	(16.390)	(33.652)
Sale	(830)	(2.827)	—	(3.657)
Impairment	(60.546)	—	—	(60.546)
Non-current assets held for sale	(27.771)	—	—	(27.771)
Sale of subsidiary (Note 30)	(8.671)	(6.956)	—	(15.627)
Depreciation charge for the year	(76.093)	(113.630)	—	(189.723)
Foreign exchange differences	(2)	—	—	(2)
Closing net book amount	1.895.662	733.503	282.348	2.911.513
At 31 December 2007				
Cost	3.026.769	1.206.929	282.348	4.516.046
Accumulated depreciation	(1.131.107)	(473.426)	—	(1.604.533)
Net book amount	1.895.662	733.503	282.348	2.911.513

As at 31 December 2007, the cost of fully written off property, plant and equipment in the Group amounted to HRK 355,890 thousand (2006: HRK 367,581 thousand).

Bank and other borrowings of the subsidiary Rovinjturist d.d., Rovinj are secured by mortgages over properties, i.e. land in the amount of HRK 11,099 thousand (2006: HRK 11,526 thousand and hotel and annex buildings with a present value of HRK 25,364 thousand (2006: HRK 25,731 thousand).

16

NOTE INTANGIBLE ASSETS

(IN THOUSANDS OF HRK)	GOODWILL	OTHER INTANGIBLE ASSETS	TOTAL
At 31 December 2005			
Cost	–	92.691	92.691
Accumulated amortisation	–	(27.858)	(27.858)
Net book amount	–	64.833	64.833
Year ended 31 December 2006			
Opening net book amount	–	64.833	64.833
Additions	–	8.401	8.401
Amortisation charge for the year	–	(9.276)	(9.276)
Disposals	–	(29)	(29)
Closing net book amount	–	63.929	63.929
At 31 December 2006			
Cost	–	98.608	98.608
Accumulated amortisation	–	(34.679)	(34.679)
Net book amount	–	63.929	63.929
Year ended 31 December 2007			
Opening net book amount	–	63.929	63.929
Acquisition of subsidiary (Note 30)	–	261	261
Additions	–	8.891	8.891
Goodwill from acquisition of subsidiary (Note 30)	96.455	–	96.455
Amortisation charge for the year	–	(7.069)	(7.069)
Impairment of assets	–	(36.528)	(36.528)
Disposals	–	(3.972)	(3.972)

Closing net book amount	96.455	25.512	121.967
At 31 December 2007			
Cost	96.455	104.278	200.733
Accumulated amortisation	–	(78.766)	(78.766)
Net book amount	96.455	25.512	121.967

Other intangible assets mainly comprise software.

17

NOTE INVESTMENTS IN ASSOCIATES

(IN THOUSANDS OF HRK)	2007	2006
Tisak d.d. Zagreb	61.723	61.723
Distri–Press d.o.o. Zagreb	26.200	26.200
Slobodna Katarina d.o.o., Rovinj	13.491	–
Total	101.414	87.923

Changes in investments in associates are as follows:

(IN THOUSANDS OF HRK)	2007	2006
At 1 January	87.923	61.723
Acquired share in associate	–	26.200
Transfer from assets held for sale	13.491	–
At 31 December	101.414	87.923

The Group has a 25.6% interest in the associate Tisak d.d., Zagreb and a 25% interest in the associate Distri press d.o.o. In accordance with IAS, the Group should disclose information about assets and revenues of associate companies, but the stated financial information is not material for the financial statements of the Group.

In an earlier period, a Group company invested HRK 13,491 thousand in the company Slobodna Katarina d.o.o. Rovinj (formerly: Otok Katarina d.o.o.) representing 49.9% of the registered capital, with the intention to sell the share to another investor. The Group initiated a legal claim against the second investor with the intention to terminate the investment contract. Based on the information obtained from the legal counsel, the stated proceedings will be settled by consent.

As at 31 December 2007, investments in associates include goodwill in the amount of HRK 14,924 thousand (2006: HRK 14,924 thousand).

18

NOTE A 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	ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
31 December 2007		
Assets		
Trade receivables	454.282	—
Loan receivables	96.880	—
Financial assets at fair value through profit or loss	—	827.609
Deposits	1.717.171	—
Cash and cash equivalents	37.614	—
	2.305.947	827.609
31 December 2006		
Assets		
Trade receivables	279.891	—
Loan receivables	108.090	—
Financial assets at fair value through profit or loss	—	767.205
Deposits	1.845.281	—
Cash and cash equivalents	91.021	—
	2.324.283	767.205

(IN THOUSANDS OF HRK)
OTHER FINANCIAL LIABILITIES

31 December 2007

Liabilities

Borrowings	539.213
Trade and other payables	147.057
	686.270

31 December 2006

Liabilities

Borrowings	785.952
Trade and other payables	147.997
	933.949

Trade and other payables do not include tax liabilities, liabilities to employees, taxes and contributions and advances.

18

NOTE B CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are not past due can be assessed by reference to historical information about counterparty default rates.

(IN THOUSANDS OF HRK)	2007	2006
Trade receivables – neither past due nor impaired		
Key customers groups	121.816	46.281
Other trade receivables	175.278	87.956
	297.094	134.237

The Group mainly deposits its cash at a bank with a BBB- credit rating by Standard & Poor's.

(IN THOUSANDS OF HRK)	2007	2006
Cash at bank and deposits		
BBB-	1.754.785	1.936.302

19

NOTE
AVAILABLE-FOR-SALE INVESTMENTS

(IN THOUSANDS OF HRK)	2007	2006
Slobodna Katarina (Note 17)	—	13.491
Other	7.929	79
	7.929	13.570

20

NOTE TRADE AND OTHER RECEIVABLES

(IN THOUSANDS OF HRK)	2007	2006
Trade receivables:		
Domestic trade receivables	306.364	136.716
Foreign trade receivables	146.525	143.048
Due from exporters	1.393	127
	454.282	279.891
Less: Provision for trade receivables	(24.975)	(27.884)
Trade receivables – net	429.307	252.007
Loans:		
Loans to subcontractors	6.960	22.829
Housing loans	188	315
Other loans	89.732	84.946
	96.880	108.090
Less: Provision for loans	(15.861)	(22.427)
Loans – net	81.019	85.663
Taxes receivable	123.528	101.501
Interest receivable	8.950	13.658
Other receivables	42.542	24.497
	175.020	139.656
	685.346	477.326
Less non-current portion	(11.087)	(14.443)
Current portion	674.259	462.883

Movements in provisions for impairment of trade receivables and loans given:

(IN THOUSANDS OF HRK)	2007	2006
At beginning of year	50.311	58.302
Provisions made in year (Note 9)	4.153	3.802
Recovery of bad debts written-off (Note 9)	(6.314)	(6.410)
Write-off of previously provided receivables	(7.314)	(5.383)
At 31 December	40.836	50.311

All non-current receivables are due within five years from the balance sheet date.

The book value of the Group's non-current receivables approximates their fair value, since the stated interest rates do not significantly differ from current market rates.

Effective interest rates on current and non-current receivables at the balance sheet date were as follows:

	2007	2006
	4,50 –6%	4,50 –6%

(IN THOUSANDS OF HRK)	2007	2006
Trade receivables – not past due		
Key customers groups	121.816	46.281
Other trade receivables	175.278	87.956
	297.094	134.237

As at 31 December 2007, trade receivables in the amount of HRK 132,213 (2006: HRK 117,770) were past due but not impaired.

(IN THOUSANDS OF HRK)	2007	2006
Up to one month	44.375	76.470
One to two months	39.094	23.926
Two to three months	3.117	4.637
Over three months	45.627	12.737
	132.213	117.770

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

(IN THOUSANDS OF HRK)	2007	2006
EUR	148.657	143.235
HRK	305.625	136.656
	454.282	279.891

The book value of the Group's non-current receivables approximates their fair value, since the stated interest rates do not significantly differ from current market rates.

21

NOTE DEFERRED TAX ASSETS

(IN THOUSANDS OF HRK)	2007	2006
Deferred tax assets to be recovered within 12 months	–	12.509
Deferred tax assets to be recovered after more than 12 months	19.807	9.929
	19.807	22.438

Deferred tax assets were incurred on temporary differences arising between the carrying amounts of assets and the legally prescribed tax base. The difference mainly arises from restructuring provisions and impairment of tangible assets.

The movement in deferred tax assets during the year is as follows:

	IMPAIRMENT		TOTAL
	PROVISIONS	LOSSES	
At 1 January 2006	22.550	6.929	29.479
Charged to the income statement	(10.041)	3.000	(7.041)
As at 31 December 2006	12.509	9.929	22.438
Charged to the income statement	(2.631)	–	(2.631)
As at 31 December 2007	9.878	9.929	19.807

22

NOTE INVENTORIES

(IN THOUSANDS OF HRK)	2007	2006
Raw materials and supplies	380.264	427.018
Work in progress	36.325	6.345
Finished goods	10.626	12.674
Merchandise	36.333	30.985
Prepayments for raw materials and supplies	702	1.103
	464.250	478.125

23

NOTE

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale in the amount of HRK 33,747 thousand (2006: HRK 55,919 thousand) relates to tourist facilities, land and a warehouse. The stated assets are expected to be sold by the end of 2008. The Group recorded assets held for sale at carrying amount which is lower than fair value less costs to sell.

Non-current assets held for sale relate to assets included in the business segment Manufacture and sale of tobacco products and other in the amount of HRK 4,473 thousand (2006: HRK 42,707 thousand) and to assets included in the Tourism segment in the amount of HRK 29,274 thousand (2006: HRK 13,212 thousand).

24

NOTE DEPOSITS

(IN THOUSANDS OF HRK)	2007	2006
Deposits	1.717.171	1.845.281

Deposits have defined maturities and are given with variable interest rates which reflect market rates. All deposits mature within one year after the balance sheet date.

The effective interest rates on deposits during the year were as follows:

	2007	2006
Deposits	4,50 – 8,05%	3,82 – 5,86%

25

NOTE

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(IN THOUSANDS OF HRK)	2007	2006
Investments in bonds	248.490	316.530
Investments in shares	408.070	245.709
Investments in investment funds	171.049	204.966
	827.609	767.205

Changes in fair values of financial assets at fair value through profit or loss are recorded in other gains/(losses) net in the income statement (Note 10).

26

NOTE CAPITAL AND RESERVES

- I On 5 December 2006 the General Assembly of the Company reached a decision to split the shares using a 1:10 ratio. The existing 1,640,000 shares with a nominal value of HRK 100.00 per share were exchanged with 16,400,000 shares with a nominal value of HRK 10.00. As at 31 December 2007, the share capital of the Company amounting to HRK 164,000 thousand is distributed among 9,615,900 ordinary shares and 6,784,100 preferred shares, with a nominal value of HRK 10.00 per share. Preferred shares have the same rights as ordinary shares, except that they do not have voting rights in the General Assembly.
- II During 2007, the Company purchased 1,800 treasury shares (2006: 3,885) with a nominal value of HRK 180 thousand for an amount of HRK 996 thousand.
- III In accordance with Croatian regulations, in earlier periods the Company formed legal reserves in the amount of HRK 12,449 thousand. This reserve is not distributable. Pursuant to the decision of the General Assembly from 25 May 2007 (and 12 May 2006) an amount of HRK 521,381 thousand (2006: HRK 557,108 thousand) was transferred to other reserves.
- IV Pursuant to its decision from 25 May 2007 (and 12 May 2006), the General Assembly approved a dividend in the amount of HRK 90,200 thousand or HRK 5.50 per share (in 2006: a dividend in the amount of HRK 82,000 thousand or HRK 5.00 per share).

The ownership structure of the Company as at 31 December 2007 is as follows:

	NOMINAL VALUE	NUMBER OF SHARES	%
Small shareholders	10	16.202.750	98,80
Treasury shares	10	197.250	1,20
		16.400.000	100

Movements within treasury shares were as follows:

	31 DECEMBER 2007		31 DECEMBER 2006	
	NUMBER OF	(IN THOUSANDS	NUMBER OF	(IN THOUSANDS
	SHARES	OF HRK)	SHARES	OF HRK)
At beginning of year	195.450	38.570	15.660	26.156
Purchased from shareholders	1.800	996	3.885	12.414
At end of year	197.250	39.566	19.545	38.570
Share split 1:10	—	—	195.450	38.570

Reserves can be analysed as follows:

(IN THOUSANDS OF HRK)	2007	2006
Translation reserve		
At beginning of year	(9.769)	(8.885)
Exchange differences during the year	(383)	(884)
At end of year	(10.152)	(9.769)
Legal reserves		
At beginning of year	12.448	12.448
At end of year	12.448	12.448
Other reserves		
At beginning of year	4.056.313	3.499.205
Distribution of retained earnings	520.608	557.108
At end of year	4.576.921	4.056.313
	4.579.217	4.058.992

27

NOTE BORROWINGS

(IN THOUSANDS OF HRK)	2007	2006
Long-term borrowings	25.545	21.952
Current portion of long-term borrowings	(3.826)	(2.033)
Non-current portion	21.719	19.919
Short-term bank borrowings	513.668	764.000
Current portion of long-term borrowings	3.826	2.033
Total current borrowings	517.494	766.033

Long-term borrowings relate to the subsidiaries Rovinjturist d.d., Rovinj and Duhan d.d., Zagreb. The borrowings have been secured with bills of exchange, promissory notes and mortgages over assets.

The effective interest rates at the balance sheet date were as follows:

	2007	2006
Borrowings granted in EUR countervalue	5,0% – 8,0%	5% – 7%
Current bank borrowings	3,50% – 4,10%	3,50% – 4,60%

The exposure of the Group's borrowings to interest rate changes:

(IN THOUSANDS OF HRK)	2007	2006
Borrowings at fixed interest rates	15.101	18.918
Borrowings at variable interest rates	524.112	767.034
	539.213	785.952

The book value of the Group's borrowings approximates their fair value since the stated interest rates do not significantly differ from the Group's current borrowing rate.

The maturity of long-term borrowings is as follows:

(IN THOUSANDS OF HRK)	2007	2006
Between 1 and 2 years	3.826	2.207
Between 2 and 5 years	8.160	6.063
Over 5 years	9.733	11.649
	21.719	19.919

28

NOTE TRADE AND OTHER PAYABLES

(IN THOUSANDS OF HRK)	2007	2006
Domestic suppliers	112.225	117.704
Foreign suppliers	34.832	30.293
Excise duty payable	146.168	203.914
VAT payable	55.839	82.098
Taxes and contributions on and from salaries	32.962	36.505
Due to employees	52.829	40.385
Accrued interest	407	2.996
Dividends payable	9.811	8.686
Advances from customers	14.887	5.944
Other accruals and liabilities	42.312	25.094
	502.272	553.619

29

NOTE PROVISIONS

(IN THOUSANDS OF HRK)	I	II	III	IV	V	VI
At 1 January 2007	45.602	37.850	83.452	7.739	98.616	189.807
Additional provisions	13.577	170	13.747	16.000	6.118	35.865
Payment of provisions	(45.290)	(788)	(46.078)	–	(93.006)	(139.084)
Reversal of provisions	–	–	–	(7.739)	–	(7.739)
Transfer from / (to) other liabilities	–	–	–	–	(10)	(10)
At 31 December 2007	13.889	37.232	51.121	16.000	11.718	78.839

- I Termination benefits
- II Long-term employee benefits
- III Subtotal
- IV Other restructuring expenses
- V Legal claims
- VI Total

In 2007, a legal claim was finalised and provisions from earlier periods in the amount of HRK 93,006 thousand were utilised.

Analysis of total provisions:

(IN THOUSANDS OF HRK)	2007	2006
Non-current (long-term employee benefits)	39.684	37.850
Current	39.155	151.957
	78.839	189.807

RESTRUCTURING

Restructuring provisions primarily relate to estimated costs of termination benefits for early termination of employment.

LEGAL CLAIMS

The amount represents provisions for several legal claims initiated against the Company in the tourist segment. In the Management's opinion, after taking appropriate legal advice, the outcome of this legal claim will not give rise to additional expenses for the Group.

LONG-TERM EMPLOYEE BENEFITS

The provision relates to termination benefits, to which employees in Group companies are entitled upon retirement.

30

NOTE BUSINESS COMBINATIONS

At 31 December 2007, the Group acquired 88.59% of shares in a domestic company, whose main activity is retail. From the date of acquisition until 31 December 2007, the acquired subsidiary contributed revenues in the amount of HRK 85,120 thousand and net profit for the Group in the amount of HRK 1,996 thousand. If the acquisition had occurred on 1 January 2007, Group revenue would have been HRK 272,023 thousand, and the loss would have been HRK 9,499 thousand.

The assets and liabilities arising from the acquisition are as follows:

(IN THOUSANDS OF HRK)
ACQUIREE'S CARRYING AMOUNT

Intangible assets	201
Property and equipment	18.357
Financial assets	9.341
Inventories	14.772
Receivables	3.103
Cash	1.658
Trade and other payables	(34.578)
Net assets	12.854
Minority interests	(1.467)
Net value of assets acquired	11.387

Goodwill in amount of HRK 96.455 thousand has been determined provisionally as the difference between purchase consideration and net book value of assets acquired. While it is anticipated that the goodwill relates primarily to synergy effects as a result improved sales terms, it will be adjusted when net assets and liabilities are fair valued in future periods within one year of the date of the acquisition.

SALE OF SUBSIDIARIES

In June 2007, the Group sold its wholly owned subsidiary Jadran trgovina d.o.o., Rovinj. Up to the date of the sale, the revenue of Jadran trgovina d.o.o. included in the consolidated financial statements amounted to HRK 45,201 thousand, and the net loss before tax amounted to HRK 4,196 thousand. During 2007, the Group also sold its subsidiaries Servisi hortikultura d.o.o., Servisi elektro d.o.o. and Servisi održavanje d.o.o. which have been established during 2007 with the intention to be sold.

Net profit from the sale of subsidiaries was as follows:

(IN THOUSANDS OF HRK)

Total purchase consideration	57.736
Less: cash in balance sheet	(391)
	56.945
Assets and liabilities sold:	
net tangible and intangible assets (Note 13 and 14)	16.101
current assets (excluding cash)	21.711
current liabilities	(12.337)
Net value of assets	25.475
Gains on sale of subsidiaries	31.470

31

NOTE

CASH GENERATED FROM OPERATIONS

(IN THOUSANDS OF HRK)	2007	2006
Net profit for the year	669.786	601.761
Depreciation (Note 15, 16)	196.792	149.465
Gains on sale of property, plant and equipment	(120.343)	(941)
Property, plant and equipment and intangible assets written off	138.355	76.606
Fair value gains (including profit on disposal) on financial assets at fair value through profit and loss	(94.823)	(110.396)
Gains on sale of subsidiaries (Note 30)	(31.470)	–
Movements in provisions	(116.304)	(1.848)
Movements in trade receivable	(195.909)	(66.598)
Movements in other current assets	(32.733)	(57.990)
Movements in inventories	28.647	(8.088)
Movements in trade and other payables	168.975	278.947
Other	464	(2.631)
Cash generated from operations	611.437	858.287

32

NOTE

CONTINGENT LIABILITIES AND UNCERTAIN EVENTS

LEGAL PROCEEDINGS

- I During 2003, the Group initiated legal proceedings against the company Alpina Mare Hotel Holding, Austria, the co-investor in the company Slobodna Katarina d.o.o., Rovinj (formerly: Otok Katarina d.o.o.) due to the breach of the investment contract. Based on the information obtained from the legal counsel, the stated proceedings will be settled by consent.
- II In line with the Law on Privatisation, during the privatisation process of a tourist sector company, title was recognised over land built upon and a minor part of land not built upon. Before the privatisation process, the companies utilised a significantly larger land surface. However, in the period from 1995 to 2001, the companies initiated legal proceedings against the state for the purpose of title recognition over the entire land surface, used for the performance of business activities. Up to the balance sheet date, the proceedings have not been finalised, although the Court of first instance ruled in favour of the companies.

SUPERVISION OF THE PRIVATISATION PROCESS

In the period from 2002 to 2004, audits of the ownership transformation and privatisation processes in several Group companies were performed. The ownership transformation process of all companies has been performed in compliance with the Law on Ownership Transformation, with the exception of companies in the tourist sector. According to the report on the performed supervision of the ownership transformation and privatisation process of the previously socially owned company Anita, Vrsar, (now Maistra d.d.) it has been concluded that the ownership transformation and privatisation process has not been performed in compliance

with legal provisions, namely in the period before it was acquired by the Group. The audit did not result in an opinion with respect to the ownership over property of the companies in the tourist sector. The companies made their representations with respect to the report, however up to the balance sheet date no replies have been received. However, after taking appropriate legal advice, Management believes the outcome of these legal proceedings will not have a significant impact on the companies operating in the tourist segment.

33

NOTE COMMITMENTS

Costs for the purchase of tangible fixed assets agreed with suppliers as at balance sheet date amount to HRK 6,798 thousand (2006: HRK 19,533 thousand), and have not yet been realised or recognised in the balance sheet as at 31 December 2007 and 2006.

Contracted lease payments under operating leases for the utilisation of business premises are as follows:

(IN THOUSANDS OF HRK)	2007	2006
No later than 1 year	477	434
Later than 1 year and no later than 5 years	–	362
	477	796

34

NOTE RELATED PARTY TRANSACTIONS

The Group is controlled by private persons, none of which have individual control.

The following transactions were carried out with related parties:

I <i>sales of products</i> (IN THOUSANDS OF HRK)	2007	2006
Associates	269.348	218.013

Sales of products to associates are carried out using the current price list for unrelated parties.

II <i>key management compensation</i> (IN THOUSANDS OF HRK)	2007	2006
Salaries and other short-term benefits	98.836	91.870

Management includes 107 employees of the Adris Group (2006: 105 employees).

Receivables and payables at balance sheet date

(IN THOUSANDS OF HRK)	2007	2006
Receivables from associates	44.806	326
Payables to associates	2.101	1.961

PUBLISHER * Adris grupa d.d.
Obala Vladimira Nazora 1, HR-52210 Rovinj
T +385 52 801 122, F +385 52 813 587, adris@adris.hr
EDITOR * Predrag D. Grubić
EXECUTIVE EDITOR * Kristina Damijanić
TEXT * Hrvoje Patajac
DESIGN * BruketaŽžinić O.M.
www.bruketa-zinic.com
PRINTED BY * Kratis