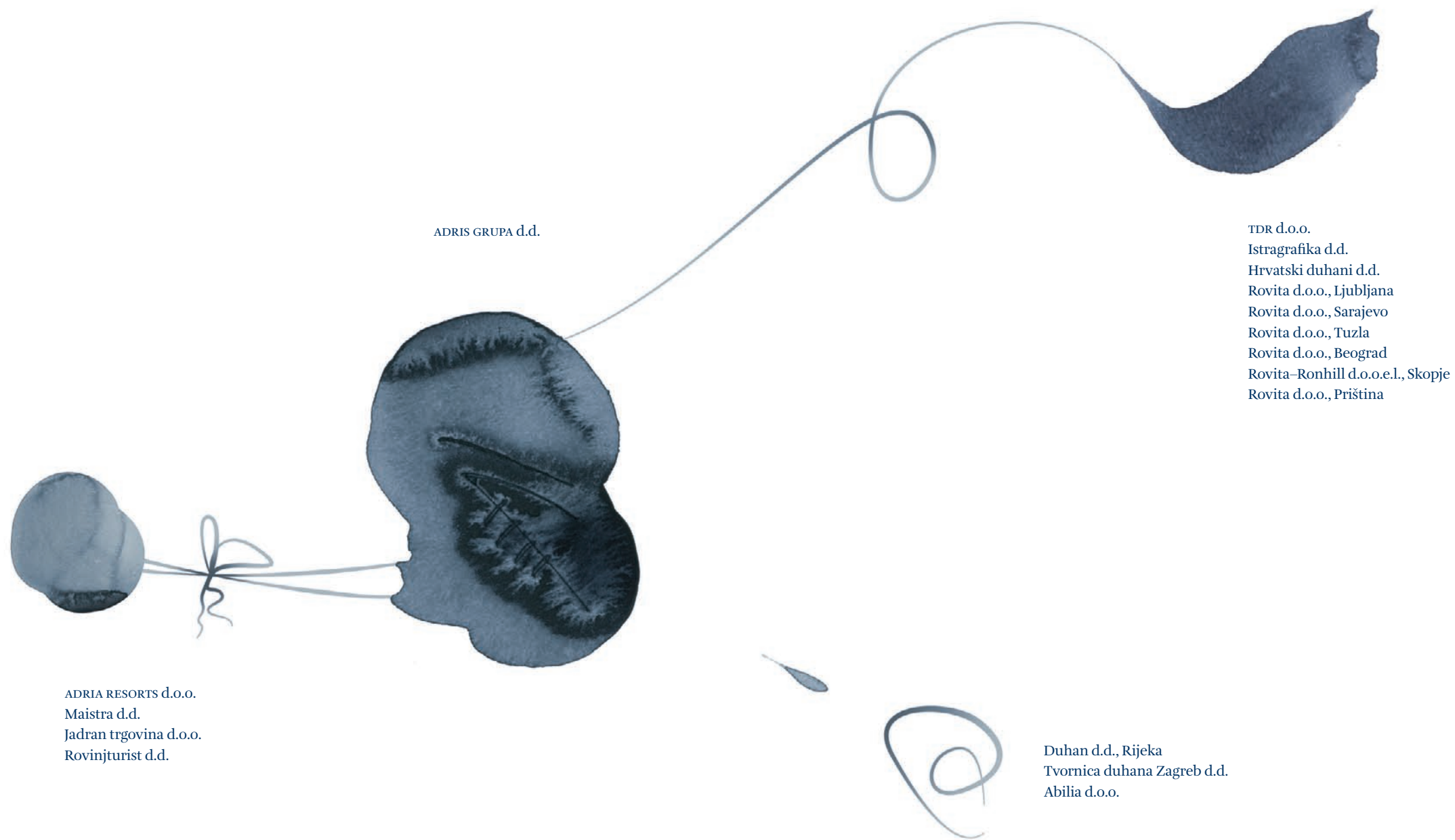




2006 ANNUAL REPORT



CONTENTS
Adris grupa d.d.
Mission and Vision
Letter to the Shareholders
Business Results
Auditors Report

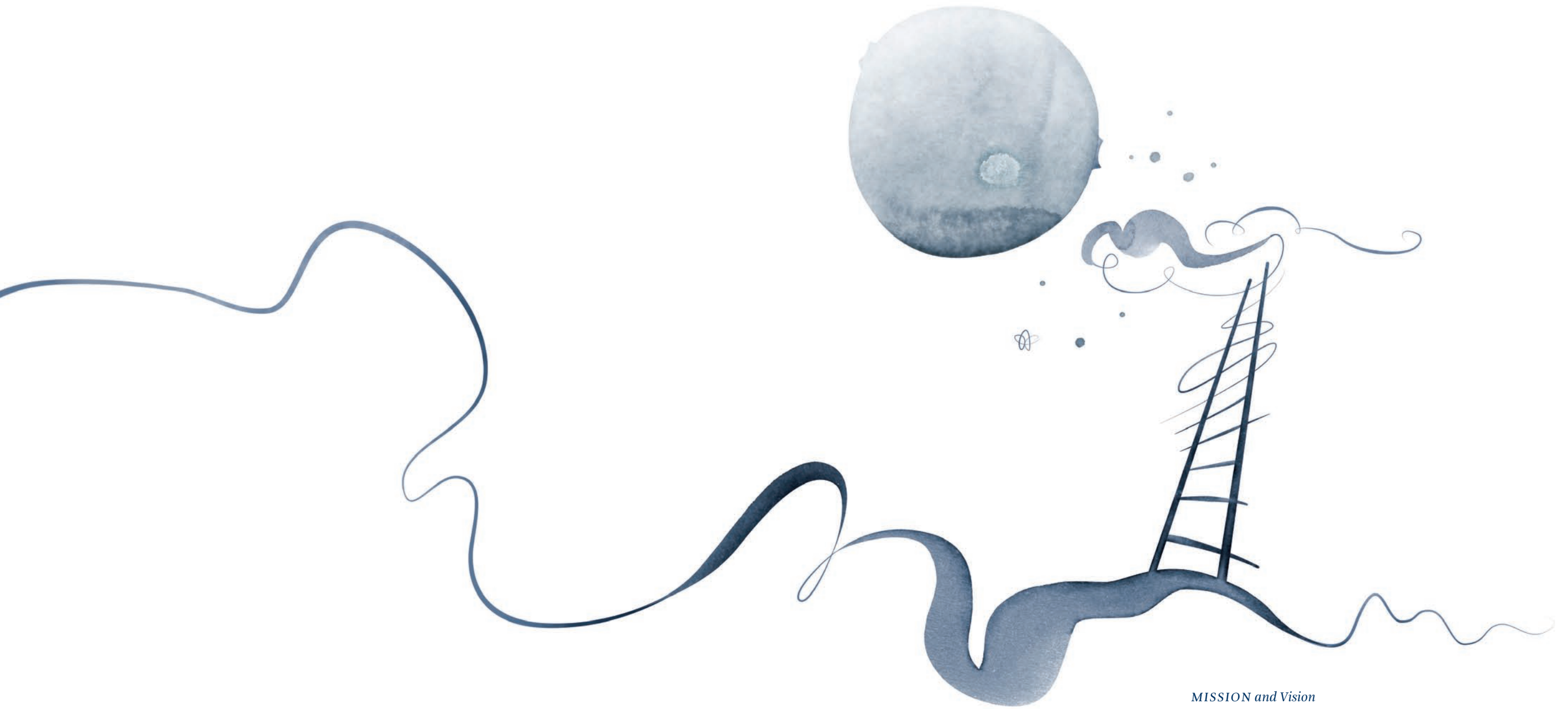


ADRIS GRUPA d.d.

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., Priština

ADRIA RESORTS d.o.o.
Maistra d.d.
Jadran trgovina d.o.o.
Rovinjturist d.d.

Duhan d.d., Rijeka
Tvornica duhana Zagreb d.d.
Abilia d.o.o.



MISSION and Vision

*M*ission

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 community where Adris grupa operates.

*V*ision

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



LETTER to the Shareholders

Dear Shareholders,

A manner of reporting on companies operations changes in time. Public joint stock companies are a subject of increasing interest, not only from owners/investors, potential investors and tax collectors but also other participants in the business scene such as employees, suppliers, customers, consumers and various institutions of the local and wider community. Some countries have announced introduction of mandatory reports on socially responsible behavior of public companies, in addition to market, production, financial and other operational indicators. Based on experience to date, in this respect, too, Adris grupa will stand in the forefront in Croatia.

Over time, the structure of owners/investors has changed and will continue to change, which is also the case with our company. It is entirely normal that individual investors and potential investors analyze the company in their own way and that they are entering or leaving the ownership structure based upon published business results and their own analyses. I believe that the presented company results and their elaboration in this report, particularly anticipated growth in value of capital generated by Adris grupa, have confirmed expectations of such investors.

Spectacular or large organic growth in sales or revenues is objectively impossible in tobacco division today. In the developed markets, total consumption of tobacco products is declining or, in the best case, stagnating. Growth in global consumption has been barely noticeable. Therefore, organic growth can only be achieved at the expense of other companies and significant sales growth only through acquisitions.

In the tourism operations of Adris grupa, complete transformation in quality of accommodation capacities as well as in quality and structure of their offer is in progress. Growth in overall tourism and hotel operations at a level exceeding present relatively high European and world trends will only be possible after completion of the ongoing investment cycle. Despite currently poor results which are due to the restructuring of the Group, investors have recognized the soundness of the concept and development strategy of the company Maistra, whose shares have tripled in value on the capital market.

In the international cigarette industry a large and probably, in terms of value, the last wave of takeovers is currently in progress, which will be followed by numerous additional production and operational consolidations.

As a result of these takeovers, it is very likely that instead of the current six multinational and international companies, only four multinationals will remain in and dominate the European scene. Concentrations and takeovers occurred in the United States, too. It is interesting that for the first time a European company took over an American company. Value of major takeovers amounts to over 20 billion dollars.

In our estimation, after all these previous and recent concentrations, the remaining multinational companies will achieve even greater economies of scale and an additional opportunity to maintain profitability at the current level. However, the remaining small, efficient and flexible companies, such as TDR, will be able to retain their market positions with suitable strategies and even strengthen their presence by entering previously inaccessible markets.

In earlier reports we emphasized that Adris could be and should have been engaged in new activities, either within the framework of privatization in Croatia or in greenfield investment, again in Croatia. Unfortunately, Adris did not have any opportunity for such investment during this reporting period, whereas, as we stated, the developed business world and even the transitional countries around us are primarily occupied with mergers and other aspects of investment, in both tourism and tobacco industries.

However, our position is that Adris should first invest in Croatia. It is true that Croatia requires enormous investments because it must double and even triple its GDP in order to catch up with the countries of the European Union. In Croatia, there is a great need for investment in energetics, financial sector, agriculture and food production, as well as in many sectors of industry and infrastructure. Therefore, we in Adris grupa shall responsibly and patiently continue to analyze the situation and take every opportunity for long-term and significant growth and development of Adris grupa, and thereby of the Croatian economy. We shall not rush into projects that would satisfy merely short-run interests of some of our current owners/investors.

The Company's business results presented in the continuation of this report may leave the impression that growth in Adris grupa is at a standstill. However, such impression is incorrect. The internal development of the system, in respect of strengthening business potential, is more difficult to define and difficult to steer, but must not be ignored. Growth for growth's sake,

which can be easily measured according to the established quantitative criteria, cannot and must not be the only goal. During the past year as well, we have intensively created and improved the foundations for growth and development of the Group under conditions of increasingly powerful globalization, imminent joining of our economy with the European Union, and increasingly competitive dynamics on both tourism and tobacco markets. Reorganization and restructuring processes have been completed. The main strategic units of Adris, Tourism and Tobacco, have finally been clearly profiled. The formation and functioning of these strategic units and of Adris d.d., as a holding company, are also evident from our past year's results. Two new modern plants, TDR and Istragrafika, have been opened. Tourism facilities in Rovinj (the island of Sveti Andrija and Hotel Eden) and Vrsar (the Belvedere and Blesička tourism complexes) have been renovated and repositioned. Extensive preparations have been completed for all-year-round operations in selected tourism facilities of Maistra. TDR's brand portfolio has acquired a modern and suitable form of targeting the competitive environment. Several additional innovations and extensions are being developed in the high-priced segment and in the value-for-money (v/m) consumer segment.

Despite unfavorable business environment in the cigarette industry, TDR is recording over five percent organic growth in sales volume, which nearly compensates for its withdrawal from the licensed production.

Service companies have been established in the tourism division and at Adris. The justification for founding our service company Abilia d.o.o. has already been demonstrated during the first year of its operations

as it has improved real estate management efficiency in all of Adris' companies. Implementation of investment plans and decisions is more rationalized and efficient. Former production localities are being prepared to serve new purposes.

Dear Shareholders, we are entering the 135th year of uninterrupted operations of the Company whose current name and legal successor is Adris grupa d.d. Today, economic globalization is not only *ante portas* but also our everyday business life. Nonetheless, despite this fact, we view the future of our company with confidence and optimism. It has two well-established core activities, positive orientation and, most importantly, young and educated workforce.

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



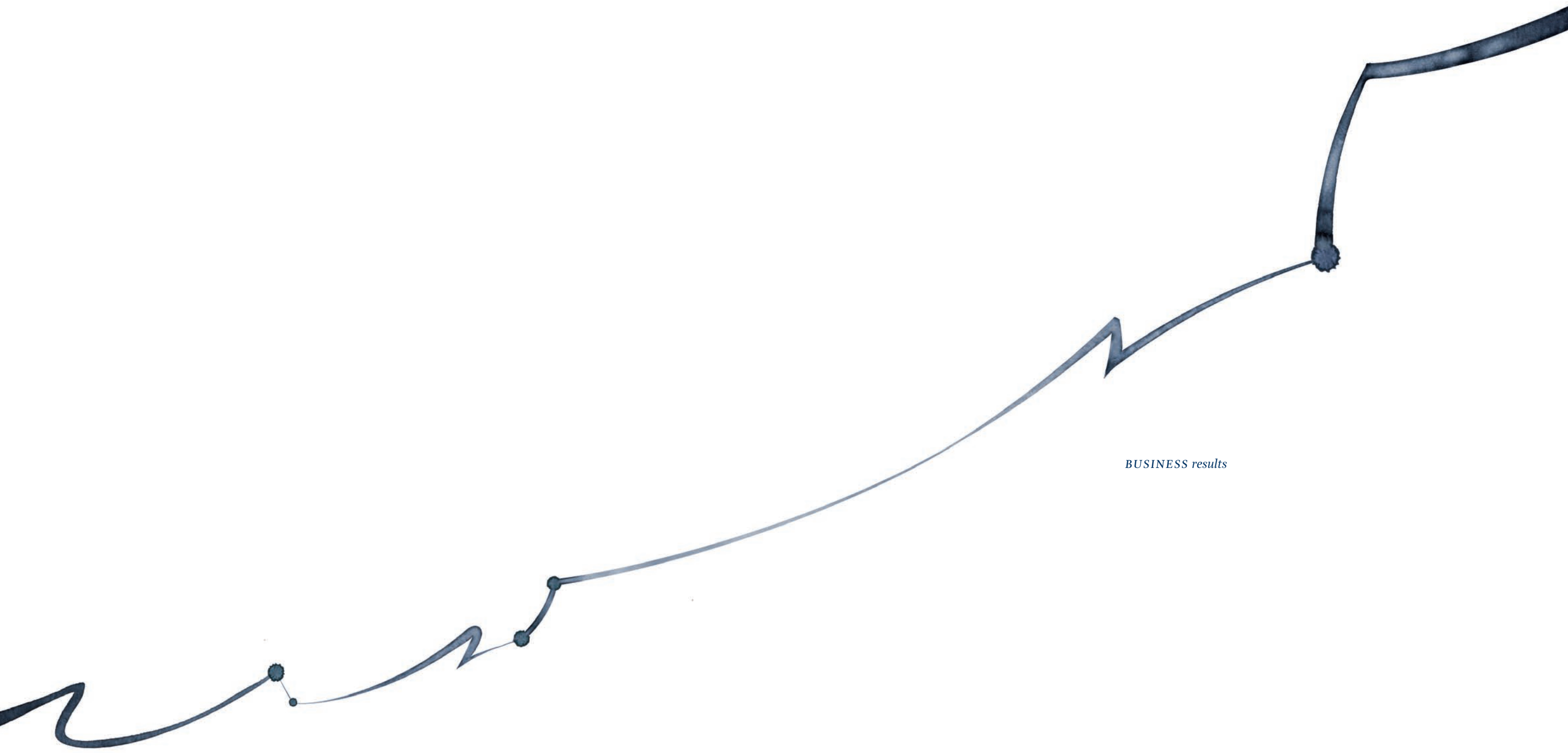


MEMBERS of the Board

Ante Vlahović, M.Sc., *President of the Management Board*
Plinio Cuccurin
Tomislav Budin, Ph.D.
Branko Zec
Želimir Vukina

SUPERVISORY of the Board

Anton Pokrajac, *President of SB*
Giovanni Martinčić, *Deputy President of SB*
Rino Bubičić
Alida Kabbaj
Teodora Hodak
Dražen Jurić Šolto
Ivan Lokmer
Andrea Cerin



BUSINESS results

Adris Performance Results for 2006

Operations of Adris grupa in 2006 were characterized, on the one hand, by outside influences that determined operating conditions, and on the other hand, by business plans and breakthroughs of the Group itself.

Despite somewhat aggravating macroeconomic conditions, Adris' 2006 operations were marked by continued growth in operational activities of the Company. Such growth was achieved primarily through investments in strategic projects and programs but also owing to high quality and efficient work of all the employees.

ADRIS GRUPA – THE LEADING INVESTOR IN CROATIA

Fiscal Year 2006 was marked by several important breakthroughs that enabled Adris grupa to remain among most significant Croatian companies. Simultaneously, it became the leading investor in Croatia. This statement is best supported by the fact that two member companies of Adris grupa completed two exceptionally important investment projects during the past fiscal year: TDR completed construction of and started production in its new cigarette plant and Istragrafika completed construction of the plant for production of cardboard packaging. Total investment in the two plants is valued at one billion kunas. Technologically speaking, these plants are at highest level in their industries, which is a prerequisite for achieving even more competitive production and successful operations during the next period. At the same time, Fiscal Year 2006 was marked by continued investment in tourism activities as a part of the planned five-year investment cycle with average annual investments exceeding 400 million kunas, in order to create tourism offers that will guarantee development of the destination according to the prevailing criteria on the world tourism market. Moreover, these investments will create the prerequisites for a large number of new and quality job openings, contributing so to the local community and the Croatian economy as a whole.

It is precisely this segment of the preservation of existing jobs and the creation of new jobs, including investment into modern production and expansion of operations, together with the economic significance, that is demonstrating Adris' social responsibility. This is undoubtedly most clearly expressed by the figure of three thousand jobs at Adris grupa and another two thousand sub-contractors in Podravina and Slavonia, who are economically dependent on Adris grupa. For many Croatian companies, business cooperation with Adris means continued technical and technological advances, which can improve also their market positions.

The financial indices of 2006 performance, i.e. turnover of 6.1 billion kunas, clearly illustrate commercial importance of Adris grupa and its economic and overall impact on both the localities in which the company operates and the Croatian economy as a whole.

THE BASIC CHARACTERISTICS OF FISCAL YEAR 2006

The two basic characteristics of Adris' operations during Year 2006 are completion of the restructuring process in the Tobacco Business Unit and continuation of strong investment cycle in the Tourism Business Unit of the Group.

The Tobacco Division of Adris grupa completed the construction of and began production at the two new plants located in Kanfanar. This one-billion-kuna-worth investment has been the largest investment ever made in any production plant in Croatia, and certainly the largest greenfield investment. Concurrently with completion of the construction, preparations to consolidate production at a single location were made. The new plants of incomparably higher production capacity have necessitated a more demanding approach to marketing and sales activities on the domestic and foreign markets.

For the Tourism Strategic Business Unit, the Year 2006 was characterized by continued implementa-

tion of the Company policy of investment and introduction of new and repositioned products onto the market. Major investments planned for the Tourism Division require further significant expenditures for completion of the reorganization, partial write-offs and revaluation adjustment of assets that are no longer serviceable.

For 2006, Adris grupa generated gross revenues in the amount of 2.96 billion kunas, which represents a 5% growth. Operating revenue amounted to 2.69 billion kunas, 1.56 billion kunas of which was accounted for by domestic sales. Foreign sales revenues amounted to 971 million kunas, while the operating revenues are at the last year's level. In the same reporting period the realized EBITDA amounted to 708 million ku-

nas, which is a 1% increase on the previous year. Profit before taxation for 2006 amounts to 771 million kunas and net profit 602 million kunas.

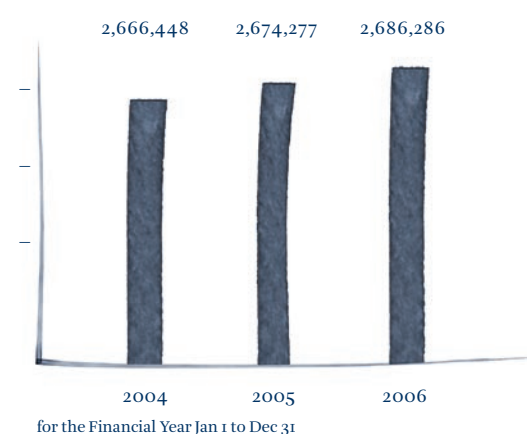
ITEMS AFFECTING COMPARABILITY

It can be undoubtedly said that Year 2006 was characterized by two basic processes, i.e. the completion of the restructuring process of Adris' Tobacco Business Unit and continued intensive investment and creation of new offers in Tourism Business Unit.

Total costs of restructuring, including reserves, amounted to 146 million kunas for Year 2006.

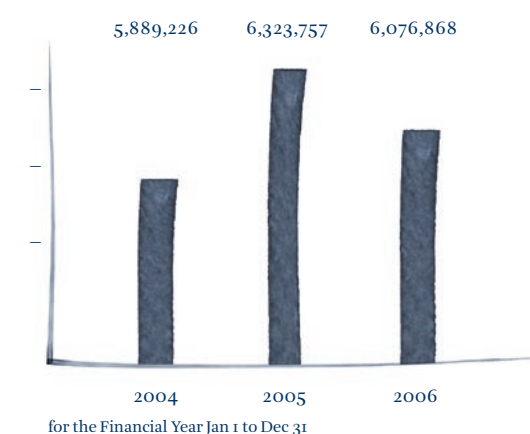
In Tobacco SBU, restructuring costs amounted to 28 million kunas, most of which were caused by the com-

Business Revenues (IN HRK 000'S)



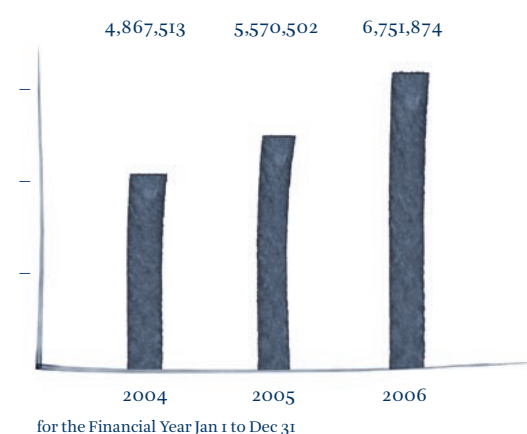
for the Financial Year Jan 1 to Dec 31

Turnover* (IN HRK 000'S)



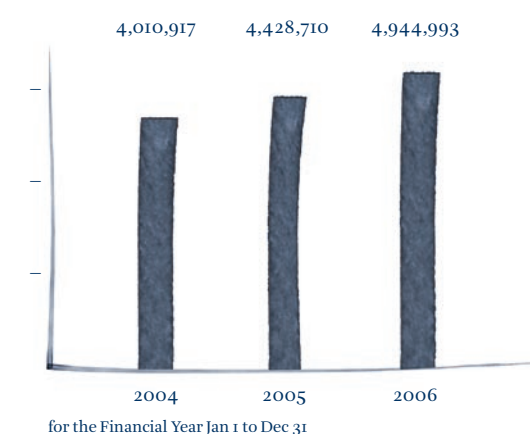
for the Financial Year Jan 1 to Dec 31
* including Excise Duty and VAT

Assets (IN HRK 000'S)



for the Financial Year Jan 1 to Dec 31

Capital (IN HRK 000'S)

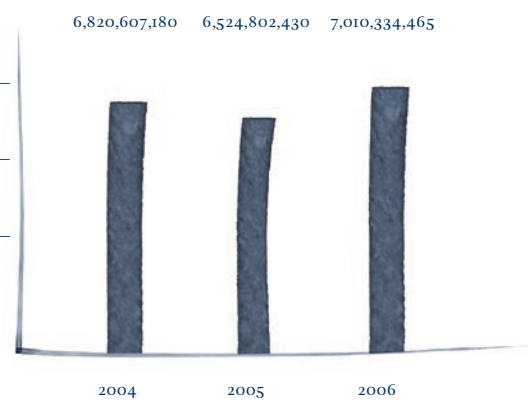


for the Financial Year Jan 1 to Dec 31

CONSOLIDATED INCOME STATEMENT (IN THOUSANDS OF HRK)

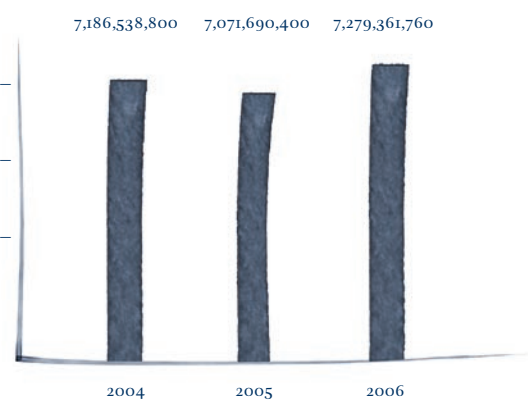
	2004	2005	2006
TOTAL OPERATING REVENUES	2,666,448	2,674,277	2,686,286
Operating profit	863,592	585,374	558,508
PROFIT BEFORE TAXATION	964,161	622,475	770,848
Income tax expense	195,732	146,282	169,087
NET PROFIT FOR THE YEAR	768,429	476,193	601,761
Minority interest	15,781	-18,746	-9,820
NET PROFIT	752,648	494,939	611,581

Domestic Sales (in sticks)



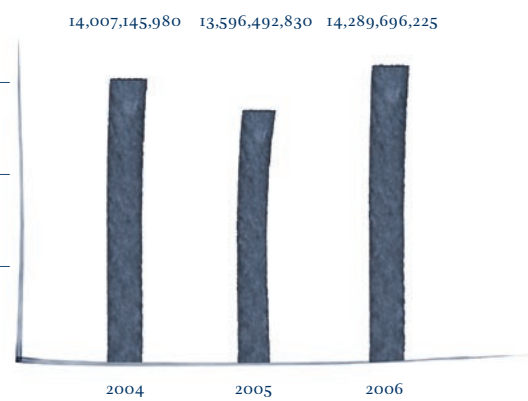
for the Financial Year Jan 1 to Dec 31

Foreign Sales (in sticks)



for the Financial Year Jan 1 to Dec 31

Total Sales (in sticks), own brands



for the Financial Year Jan 1 to Dec 31

pletion of the process of relocating the Rovinj and Zagreb production plants to the new plant in Kanfanar. Relocation of the company Istragrafika d.d. in the year 2006 also resulted in one-off relocation costs.

The restructuring costs in Tourism SBU amounted to 116.5 million kunas and were primarily a consequence of the value adjustment and one-time write-offs of properties no longer serviceable which will be replaced with new ones.

Out of a total of 146 million kunas of the cited costs, a half refers to value adjustments and write-off of properties which will not result in future cash outflow.

STRATEGIC BUSINESS UNITS (SBUS)

Adris' operations are divided into two strategic business units (SBUS): Tobacco SBU and Tourism SBU. The strategic business units operate independently utilizing, at the same time, the strength of Adris grupa as a whole.

**TOBACCO STRATEGIC BUSINESS UNIT
– NEW PLANTS IN KANFANAR**

There are nine companies within Tobacco SBU: TDR d.o.o.; Istragrafika d.d.; Hrvatski duhani d.d.; Rovita d.o.o., Sarajevo; Rovita d.o.o., Tuzla; Rovita d.o.o., Ljubljana; Rovita d.o.o., Belgrade; Rovita-Ronhill d.o.o.e.l., Skopje and Rovita d.o.o., Priština.

Tobacco SBU is comprised of a group of vertically linked companies with TDR d.o.o. as a core company. Operations of Tobacco SBU encompass activities from the primary production of tobacco to retail support. Practice has shown that flexibility and stability of the entire chain are a direct consequence of the vertical linkage of the Group's Tobacco Division.

During the course of the year 2006, TDR completed the process of relocating the Rovinj and Zagreb plants to the new plant located in Kanfanar. In late March 2006, the first cigarettes for the market were manufactured in the new plant. Experience gained at the consolidated location in less than a year shows numerous positive effects resulting from the instituted changes, such as increased flexibility, improved utilization of capacities, possibilities of introducing new production programs and of further improvement. Increased automation, particularly in the area of automated packing and palletizing, together with entirely computerized monitoring of the working environment parameters have assured and will continue to assure uniform and excellent quality of the products. Over time, the logistics process and all the supporting activities will become more effective, which will

enable additional savings in operations. In addition to the guaranteed quality improvement and positive effects of economies of scale, it is necessary to emphasize that a series of quality changes have been made at the new production plants in respect of safety of workers and environmental protection. It can be surely said that TDR already entered the European Union with the new plant, prior to Croatia's formal accession, by meeting all the rigorous standards regarding production and environmental protection.

At the same time, the relocation of the manufacturing plants from the headquarters in Rovinj and Zagreb opens new opportunities to create and initiate development programs at these locations. As a responsible owner, Adris grupa has actively begun to assess operational possibilities for utilizing the locations in Rovinj and Zagreb. All of this is related to the fact that, in addition to social sensitivity, Adris grupa is also concerned with optimum utilization of all available resources, which it is undoubtedly entitled and obligated to.

In the year 2006, the company Istragrafika relocated to the new premises in Kanfanar, completing so the business cycle within Tobacco BU in a single location. Positive operating effects on Istragrafika are similar to those on TDR: increased capacities, improvement in quality of the logistics process flow, the possibility of entering more demanding market segments, increased production flexibility, improved quality and product uniformity, as well as improved safety for the workers, assets and processes. With production in the new plant, Istragrafika completely complies with all most rigorous rules and regulations in force in the European Union.

INCREASED GROWTH IN COMPANY'S BRANDS

In December 2005, the license contract for production, sales and distribution of Marlboro cigarettes between TDR and the company Philip Morris International was terminated. TDR responded to business and

market challenges with what is considered the imperative for every successful company, i.e. with growth. Consequently, TDR has expanded its market activities to selected European markets, particularly to the Czech Republic, and has also penetrated some markets outside of Europe, more precisely in the territory of Asia. We can state with full reason that Year 2006 was the first year in the new development cycle of TDR as a pan-regional independent company.

The cycle of innovation begun in 2005 proved its full justification in Year 2006. In Fiscal Year 2006, stabilization of and growth in the leading brands were achieved on the key markets where TDR's products are present. These are Ronhill and Walter Wolf in the medium-priced segment, York in the low-priced segment and MC in the v/m (value for money) segment. They have demonstrated market strength when confronted with and surrounded by strong international brands, which has made it possible to retain and stabilize TDR's existing market shares on the most significant markets, in Croatia as well as in the Region. Within the framework of innovations made in the best known brand of the TDR family – Ronhill – a slim extension was launched which recorded strong growth in the last year. One of the most significant characteristics of the tobacco industry operations is a constant rise in excise taxes and constant narrowing of taxation range among price segments. TDR responded by launching the brand Respect in the v/m segment on export markets. In the same innovation cycle, a breakthrough was achieved in the premium segment with the introduction of the Avangard brand, and its extensions added in 2006 to meet the requirements of the increasing number of highly demanding consumers.

Implementation of the growth strategy in a highly complex business environment requires constant organizational and personnel upgrading. Therefore, 2006 was the year in which TDR significantly strengthened its marketing/sales team, as in Croatia so too in its foreign branch offices.

**INCOME STATEMENT — TOBACCO STRATEGIC BUSINESS UNIT
(IN THOUSANDS OF HRK)**

	2004	2005	2006
TOTAL OPERATING REVENUES	2,083,055	2,025,073	1,989,643
Operating profit	794,195	674,924	631,857
PROFIT BEFORE TAXATION	887,526	661,934	633,671
Income tax expense	192,590	142,322	129,798
NET PROFIT FOR THE YEAR	694,936	519,612	503,873
Minority interest	2,908	-6,101	583
NET PROFIT	692,028	525,713	503,290

In 2006 a several-year process of restructuring in the company Hrvatski duhani was completed. Focus on the core activity, rationalization of operations and significant increase in sales brought positive operating results to the company.

TOBACCO SBU – BUSINESS RESULTS

TDR's total revenues for 2006 was 2.03 billion kunas, or by 1.8% less than for 2005. Operating revenues of 1.99 billion kunas are down 1.8% from the last year. Operating profit amounts to 632 million kunas.

In 2006 TDR recorded strong growth in sales of its own brands on both domestic and foreign markets. Total growth was 5%, and over 7% within the Region. Trend of growth in popular cigarette brands continues on the Croatian and on export markets. Total sales for 2006 amounted to 14.29 billion cigarettes, 51% of which was realized on the export markets.

TOURISM SBU – NEW, IMPROVED AND COMPETITIVE OFFER

Within Tourism SBU there are four companies: Adria Resorts d.o.o., Maistra d.d., Rovinjturist d.d. and Jadran trgovina d.o.o.

Total investments of 481 million kunas in Year 2006 are a part of an all-encompassing, well-defined and long-term investment process which should be achieved within the 2005-2009 period, valued at over two billion kunas. Year 2006 was marked by continued implementation of the investment strategy, with the goal of repositioning the destination of Rovinj-Vrsar into a recognizable and most desirable destination in the northern Adriatic. New and/or repositioned products have been introduced into the tourism offer – the Istra and Eden hotels and the Belvedere and Blesička tourism complexes.

Investment also continued in Year 2007 with additional 315 million kunas. One of the results of contin-

ued investment is increased share of four-star accommodation units (hotels and communities), from 18 percent in Year 2005 to 44 percent in 2006. Creation of offers of significantly higher quality is fully consistent with the strategy for creating offers in the higher-priced segment, while maintaining accommodation capacities at the same level.

The investment process is only a part of the total company's policy, which is focused upon improving the quality of services and expanding the total offer of the destination, in order to achieve full investment effects. Within the framework of implementing development plans and a high quality tourism offer, continuous work on personnel upgrading has a significant role. Special attention is given to the systematic process of hiring trainees and building our own managerial resources. Furthermore, there is an ongoing focus on improving the marketing processes, with emphasis placed on development of distribution channels and standardization of the product. During the past fiscal year, changes in core activities continued, including the reorganization of horticulture and maintenance.

In Year 2006, the company Abilia d.o.o. was established, a real estate management and development company, with a view to manage the existing property more effectively.

Although the investment cycle in Tourism Division of Adris grupa resulted in one-off and significant restructuring costs, the fact remains that Tourism SBU continues to operate under favorable circumstances in consideration of continued growth in demand, as illustrated by the fact that Croatia is still ranked among the most desirable world tourism destinations. Under conditions of growing demand, but also of increasingly high quality offers, distinctiveness in relation to the competition represents a business imperative, because distinctiveness and specific qualities of the destination can certainly be a powerful motive for guests to visit a certain destination, but also a motive

to visit it again. Precisely recognition and strengthening of the basic motives to visit the destination as well as constant innovations in the offer enable creation of effective business model. Such model that offers value for money for users, simultaneously develops competitive capability and creates room for profitable and sustainable growth of Adris' Tourism Division.

TOURISM SBU – BUSINESS RESULTS

In Tourism Business Unit, total revenues amounted to 579 million kunas, representing a 5% growth. The figure of 2.62 million bednights recorded shows a 7% decrease. The basic reason for this is the investment cycle which caused a temporary decrease in fixed structures capacity by 20 % or a loss of 240 thousand bednights.

Despite decreased number of bednights, growth in revenues was achieved due to increases in average prices, with emphasis on the introduction of repositioned and new products onto the market during the 2005–2006 period. The 7% increase in RevPAR (Revenue Per Available Room), one of the key indicators of performance in the hotel industry, provides sufficient illustration of the achieved operational progress.

Operating loss amounts to 64 million kunas which is a consequence of continued high restructuring expenses in the amount of 116.5 million kunas, mostly due to demolition of dilapidated structures, which will be replaced with new properties and tourist facilities of higher quality. Loss after taxes amounted to 76.4 million kunas.

FINANCIAL INDICATORS OF ADRIS GRUPA

Cash flow from business activities for Year 2006 amounted to 689 million kunas and money generated by operations amounted to 858 million kunas.

Cash flow from investment activities for Year 2006 was up 13.4 % in comparison with 2005 and amounted to 1.12 billion kunas.

Analysis of the investment structure in Year 2006 demonstrates that special emphasis is placed on investment in tangible assets. A portion of nearly 900 million kunas refers to investment in the Group's Tobacco Division, i.e. the completion of the new plants in Kanfanar. On the other hand, investments made in Tourism SBU relate to creating new, comprehensive offers in several price segments, including properties as well as infrastructure. A portion of free cash flow was invested in various financial products, taking into account the optimum ratio between returns and liquidity.

Cash flow from financial activities amounted to 472 million kunas. The payment of dividends amounted to 80.7 million kunas. The increased line of credit of 568 million kunas was used for the purpose of managing the working capital. The structure of investment activities demonstrates that both strategic business units are financed from its own resources.

Good liquidity and low debt continue to characterize the operations of the Group. The liquidity coefficient, defined by the ratio of current assets to current liabilities, continues to be high and amounts to 2.6 in 2006. The debt-service ratio of 0.2 indicates that it would be possible to increase the use of financial leverage, i.e. the use of outside sources for financing future business activities.

Adris grupa has only 19.9 million kunas of long term borrowings, nearly all of which involve Rovinjturist d.d. Within the structure of current liabilities, 50 % i.e. 766 million kunas consists of short-term loans. Increase in short term borrowings is a consequence of optimizing the returns on different financial products, including optimum working capital management.

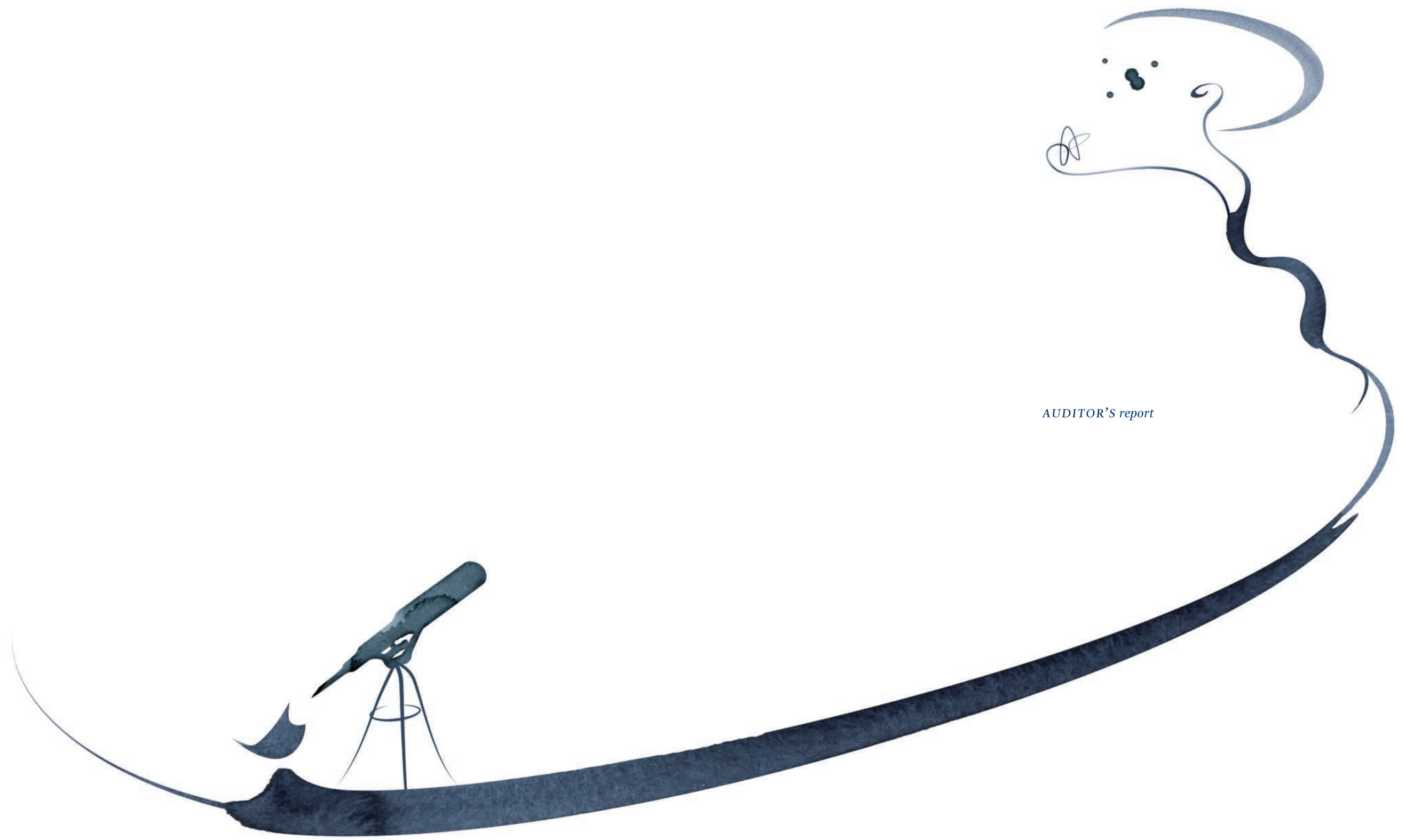
The equity of Adris grupa increased in Year 2006 to 4.94 billion kunas or 11.7 %. The return on equity (ROE) was 13 percent.

Earnings per share amounted to 37.7 kunas, with very intensive trading throughout the year on the Croatian capital market. In December 2006, the stock capital of the Company was divided into 16,400,000 shares, i.e. into 6,784,100 preferred shares with a face value of 10 kunas each and 9,615,900 common shares with a face value of 10 kunas each. Thus, the shareholders exchanged each share with a face value of 100 kunas for ten new shares with a face value of 10 kunas each.

Hrvoje Patajac, M.Sc.

INCOME STATEMENT — TOURISM STRATEGIC BUSINESS UNIT (IN THOUSANDS OF HRK)

	2004	2005	2006
TOTAL OPERATING REVENUES	501,068	543,030	566,792
Operating profit	68,286	-86,607	-64,272
PROFIT BEFORE TAXATION	75,622	-89,039	-78,130
Income tax expense	3,142	-6,466	-1,717
NET PROFIT FOR THE YEAR	72,480	-82,574	-76,413
Minority interest	-12,525	-14,378	-12,143
NET PROFIT	59,955	-68,195	-64,270



AUDITOR'S report

Independent auditor's report

To 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 2006 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 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers d.o.o.
Zagreb, 23 March 2007

Tatjana Rukavina
President of the Management Board

Ranka Bunčić
Certified auditor



*CONSOLIDATED financial
reports as at 31 december 2006*

(IN THOUSANDS OF HRK)	NOTE	2006	2005
Operating revenues	5	2,563,657	2,648,625
Other revenues	6	122,442	92,220
		2,686,099	2,740,845
Operating expenses			
Cost of materials and services	7	(1,236,950)	(1,160,815)
Staff costs	8	(448,610)	(502,206)
Depreciation and amortisation	15, 16	(149,465)	(116,253)
Impairment of tangible assets	15	(42,036)	(100,100)
Other operating expenses	9	(135,139)	(196,587)
		(2,012,200)	(2,075,961)
Other gains/(losses) net	10	120,367	(36,052)
Operating profit		794,266	628,832
Finance costs	11	(23,418)	(6,357)
Profit before taxation		770,848	622,475
Income tax expense	12	(169,087)	(146,282)
Net profit for the year		601,761	476,193
Net profit attributable to:			
The Company's shareholders		611,581	494,939
Minority interest		(9,820)	(18,746)
		601,761	476,193
Basic/diluted earnings per share attributable to the Company's shareholders (in HRK)	13	37.70	30.47

These consolidated financial statements set out on pages 2 to 40 were approved by the Management Board of the Company on 23 March 2007.

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

31 DECEMBER (IN THOUSANDS OF HRK)	NOTE	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	15	2.849.137	2.213.907
Intangible assets	16	63.929	64.833
Investments in associates	17	87.923	61.723
Available for sale investments	18	13.570	13.590
Trade and other receivables	19	14.443	6.842
Deferred tax assets	20	22.438	29.479
		3.051.440	2.390.374
Current assets			
Inventories	21	478.125	470.037
Non-current assets held for sale	22	55.919	—
Trade and other receivables	19	462.883	351.431
Deposits	23	1.845.281	1.615.663
Financial assets at fair value through profit or loss	24	767.205	693.301
Cash and cash equivalents		91.021	49.696
		3.700.434	3.180.128
Total assets		6.751.874	5.570.502
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		164.000	164.000
Share premium		16.922	16.922
Treasury shares		(38.570)	(26.156)
Legal reserves		12.448	12.448
Other reserves		4.046.544	3.490.320
Retained earnings		743.649	771.176
	25	4.944.993	4.428.710
Minority interest		218.361	228.181
Total equity		5.163.354	4.656.891
LIABILITIES			
Non-current liabilities			
Borrowings	26	19.919	22.879
Provisions	28	37.850	39.990
		57.769	62.869
Current liabilities			
Trade and other payables	27	553.619	462.599
Current income tax payable		59.142	34.504
Borrowings	26	766.033	197.700
Provisions	28	151.957	155.939
		1.530.751	850.742
Total liabilities		1.588.520	913.611
Total equity and liabilities		6.751.874	5.570.502

(IN THOUSANDS OF HRK)	EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS			EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS			MINORITY INTEREST	TOTAL EQUITY	
	NOTE	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	LEGAL RESERVES	RESERVES			RETAINED EARNINGS
Balance at 31 December 2004		164.000	16.922	(26.156)	12.448	2.722.143	1.121.560	241.029	4.251.946
Foreign exchange differences		—	—	—	—	(2.990)	(356)	—	(3.346)
Net income/(expense) recognised directly in equity		—	—	—	—	(2.990)	(356)	—	(3.346)
Profit for 2005		—	—	—	—	—	494.939	(18.746)	476.193
Total recognised income for 2005		—	—	—	—	(2.990)	494.583	(18.746)	472.847
Allocation of prior year's profit	25/iii/	—	—	—	—	771.167	(771.167)	—	—
Dividends declared	25/iv/	—	—	—	—	—	(73.800)	—	(73.800)
Minority interest arising on business combination		—	—	—	—	—	—	5.898	5.898
Balance at 31 December 2005		164.000	16.922	(26.156)	12.448	3.490.320	771.176	228.181	4.656.891
Foreign exchange differences		—	—	—	—	(884)	—	—	(884)
Net income/(expense) recognised directly in equity		—	—	—	—	(884)	—	—	(884)
Profit for 2006		—	—	—	—	—	611.581	(9.820)	601.761
Total recognised income for 2006		—	—	—	—	(884)	611.581	(9.820)	600.877
Allocation of prior year's profit	25/iii/	—	—	—	—	557.108	(557.108)	—	—
Dividends declared	25/iv/	—	—	—	—	—	(82.000)	—	(82.000)
Purchase of treasury shares	25/ii/	—	—	(12.414)	—	—	—	—	(12.414)
Balance at 31 December 2006		164.000	16.922	(38.570)	12.448	4.046.544	743.649	218.361	5.163.354

Note I — 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 2006, 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).

(IN THOUSANDS OF HRK)	NOTE	2006	2005
Cash flows from operating activities:			
Cash generated from operations	29	858.287	1.088.382
Taxes paid		(144.449)	(179.509)
Interest paid		(24.387)	(6.407)
Cash flows from operating activities		689.451	902.466
Cash flows from investing activities:			
Purchase of share in associate	17	(26.200)	—
Cash used for acquisition of subsidiary		—	(29.744)
Collection of investment in deposits and bonds		(39.324)	40.072
Investment in securities and interests		(155.098)	(104.482)
Purchase of tangible and intangible assets	15,16	(915.691)	(895.801)
Loans given		8.144	—
Dividend received	10	7.719	2.134
Cash flows from investing activities		(1.120.450)	(987.821)
Cash flows from financing activities:			
Dividends paid		(80.727)	(72.846)
Purchase of treasury shares	25/ii/	(12.414)	—
Repayment of non-current borrowings		(2.792)	(2.421)
Proceeds from short-term borrowings		568.257	165.569
Cash flows from financing activities		472.324	90.302
Net increase in cash and cash equivalents		41.325	4.947
Cash and cash equivalents at beginning of year		49.696	44.749
Cash and cash equivalents at end of year		91.021	49.696

NAME OF SUBSIDIARY — DIRECT OWNERSHIP OF ADRIS GRUPA D.D. ROVINJ	HOLDING IN %	INDIRECT OWNERSHIP IN SUBSIDIARIES		
		TDR %	MAISTRA %	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	77,50			
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 d.o.o., Ljubljana, Slovenia		100		
Rovita d.o.o., Tuzla, Bosnia and Herzegovina		100		
Rovita d.o.o., Sarajevo, Bosnia and Herzegovina		100		
Rovita d.o.o., Beograd, Serbia		100		
Rovita-Ronhill d.o.o.e.l., Skopje, Macedonia		100		
Rovita d.o.o., Priština, Kosovo		100		
Ronhill d.o.o., Kanfanar, Croatia	100			
Adria Resorts d.o.o., Rovinj, Croatia	100			
Maistra d.d., Rovinj, Croatia				83,92
Rovinjturist d.d., Rovinj, Croatia				85,58
Jadran trgovina d.o.o., Rovinj, Croatia			100	

Note 2 — 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 and financial assets available for sale.

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 early adopted by the Group

No standards were early adopted by the Group.

(b) Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 19 (Amendment), Employee Benefits
- IAS 39 (Amendment), The Fair Value Option
- IAS 39 (Amendment), Cashflow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
- IFRS 1 (Amendment), First-Time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRIC 4, Determining whether an Arrangement contains a Lease
- IFRIC 5, Rights to interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6, Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment.

(c) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards are mandatory for the Group's accounting period beginning on or after the effective date but have not been early adopted by the Group:

- 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 statements. 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*. The Company will apply IFRS 7 beginning 1 January 2007. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.
- IFRS 8, *Business segments* (effective from 1 January 2009). IFRS 8 replaces IAS 14 and adjusts segment reporting 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.

(d) Interpretations to existing standards that are not yet effective and are not relevant to the Group's operations

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

- IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective from 1 March 2006). IFRIC 7 is not relevant as the Group does not operate in hyperinflationary environment.
- IFRIC 8, *Scope of IFRS 2* (effective from 1 May 2006). IFRIC 8 is not relevant since the Group does not have share-based payments.
- IFRIC 9, *Reassessment of embedded derivatives* (effective from 1 June 2006). 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* (effective from 1 November 2006). IFRIC 10 is not rele-

vant to the Group's operations because interim financial reports are not produced.

- IFRIC 11, *IFRS 2 – Group and Treasury share transactions* (effective from 1 March 2007). IFRIC 11 is not relevant since the Group does not have payment arrangements involving its' own equity instruments (or equity instruments of other Group entities).
- 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.

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 parties external

to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(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 line item 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 purposes of

assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 FINANCIAL ASSETS

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

(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 the line item '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.

(c) Available-for-sale financial assets

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

Regular purchases and sales of financial assets are recognised on 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 has 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.

Note 3 — Financial Risk Management

3.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk. The Group does not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Group's Finance department.

(a) Foreign exchange risk

The majority of the Group's foreign sales revenue and long-term debt is denominated in EUROS. Therefore, movements in exchange rates between the EURO and Croatian kuna may have an impact on the results of future operations and future cash flow. The Group does not use derivative instruments to actively hedge foreign exchange risk exposure.

(b) Credit risk

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and within predetermined credit limits. Credit risk with respect to loan receivables is limited due to insignificant amounts involved and to their dispersion among a number of sub-contractors and employees. The Group holds its cash and deposits primarily in one bank, which exposes the Group to credit risk. Management considers the bank to be reliable. Credit risk is analysed on a regular basis, which reduces exposure to the stated risk.

(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 Group aims to maintain flexibility in funding by keeping committed credit lines available. The Finance department regularly monitors available cash resources.

(d) 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.

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.

Note 4 — Critical Accounting Estimates and Judgements

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 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.

Note 5 — 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)

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

The segment results for the year ended 31 December 2005 are as follows:

(IN THOUSANDS OF HRK)	MANUFACTURE AND SALE OF TOBACCO PRODUCTS AND OTHER	TOURISM	GROUP
Total gross segment sales	2.113.050	548.021	2.661.071
Inter-segment sales	(7.467)	(4.979)	(12.446)
Sales	2.105.583	543.042	2.648.625
Operating profit	714.715	(85.883)	628.832
Finance costs			(6.357)
Profit before income tax			622.475
Income tax expense			(146.282)
Profit for the year			476.193

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 PRODUCTS AND OTHER	TOURISM	GROUP
Depreciation (Note 15)	67.609	72.580	140.189
Amortisation (Note 16)	6.847	2.429	9.276
Restructuring costs (Note 28)	28.242	—	28.242
Impairment of property, plant and equipment (Note 15)	—	42.036	42.036

Other segment items included in the income statement for the year ended 31 December 2005 are as follows:

(IN THOUSANDS OF HRK)	MANUFACTURE AND SALE OF TOBACCO PRODUCTS AND OTHER	TOURISM	GROUP
Depreciation (Note 15)	45.932	63.421	109.353
Amortisation (Note 16)	5.147	1.753	6.900
Restructuring costs (Note 28)	102.750	—	102.750
Impairment of property, plant and equipment (Note 15)	—	100.100	100.100

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

(IN THOUSANDS OF HRK)	MANUFACTURE AND SALE OF TOBACCO PRODUCTS AND OTHER	TOURISM	GROUP
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

The segment assets and liabilities as at 31 December 2005 are as follows:

(IN THOUSANDS OF HRK)	MANUFACTURE AND SALE OF TOBACCO PRODUCTS AND OTHER	TOURISM	GROUP
Assets	4.328.543	1.180.236	5.508.779
Associates	61.723	—	61.723
	4.390.266	1.180.236	5.570.502
Total segment liabilities	775.226	138.385	913.611
Capital expenditure (Notes 15, 16)	670.699	294.921	965.620

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)	2006	2005
Croatia	1.523.973	1.614.708
Western and Northern Europe	232.799	210.852
Central, Eastern Europe and other	806.885	823.065
	2.563.657	2.648.625

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

Total assets (IN THOUSANDS OF HRK)	2006	2005
Croatia	6.644.397	5.504.251
Central, Eastern Europe and other	107.477	66.251
	6.751.874	5.570.502

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

Capital expenditure (IN THOUSANDS OF HRK)	2006	2005
Croatia	910.166	960.098
Central, Eastern Europe and other	5.972	5.522
	916.138	965.620

Analysis of sales by category (IN THOUSANDS OF HRK)	2006	2005
Sales of goods	2.117.959	2.236.859
Revenue from services	445.698	411.766
	2.563.657	2.648.625

Note 6 — Other Revenues

(IN THOUSANDS OF HRK)	2006	2005
Interest income	117.247	90.919
Income from insurance reimbursements	5.195	1.301
	122.442	92.220

Note 7 — Costs of Materials and Services

(IN THOUSANDS OF HRK)	2006	2005
Raw materials and supplies		
Raw materials and supplies	533.833	559.543
Energy cost	42.274	35.089
Cost of goods sold	244.311	219.993
	820.418	814.625
External services		
Transport, telephone, postage	16.386	16.137
Repairs and maintenance	45.813	26.679
Rental expense	6.083	4.989
Marketing, advertising and distribution	298.308	258.601
Municipal utility services	15.726	6.182
Other	34.216	33.602
	416.532	346.190
	1.236.950	1.160.815

Note 8 — Staff Costs

(IN THOUSANDS OF HRK)	2006	2005
Salaries and other staff costs	291.891	252.993
Taxes and contributions from and on salaries	198.451	164.213
Provisions for termination benefits arising from restructuring process	26.517	85.000
Reversal of provisions	(68.249)	—
	448.610	502.206

Note 9 — Other Operating Expenses

(IN THOUSANDS OF HRK)	2006	2005
Intellectual services	14.760	17.412
Fees, contributions and other levies	19.046	10.514
License fees	—	18.675
Travel and entertainment	18.754	14.603
Insurance	9.399	8.343
Bank charges	8.412	7.414
Write-off of assets	941	2.677
Net provision for receivables	(2.608)	(4.471)
Provision for legal proceedings (Note 28)	47.895	41.815
Movements in other provisions	(10.011)	17.750
Impairment of financial assets	—	19.419
Impairment of inventories	—	10.000
Other	28.551	32.436
	135.139	196.587

52 As at 31 December 2006, the number of staff employed by the Group was 2,872 (2005: 2,945).

53

Note 10 — Other Gains/ (Losses) Net

(IN THOUSANDS OF HRK)	2006	2005
Financial assets at fair value through profit and loss (Note 24)		
— gains from change in fair value	110.644	33.399
— dividend income	7.719	2.134
— profit/(loss) from sale of financial assets	429	(2.117)
Net exchange differences	1.575	(69.468)
	120.367	(36.052)

Note 11 — Finance Costs

(IN THOUSANDS OF HRK)	2006	2005
Interest expense	(23.510)	(7.236)
Net exchange differences from bank borrowings	92	879
	(23.418)	(6.357)

Note 12 — Income Tax

(IN THOUSANDS OF HRK)	2006	2005
Current income tax	162.047	175.761
Deferred tax assets	7.040	(29.479)
	169.087	146.282

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)	2006	2005
PROFIT BEFORE TAX	770.848	622.475
Tax calculated at a rate of 20%	154.170	124.495
Effect of utilised tax losses	(24.598)	(8.927)
Impact of inter-Group transactions and different profitability in subsidiaries	9.372	12.270
Effect of tax disallowable expenses	29.996	18.200
Effects of different taxation rates in subsidiaries	147	244
INCOME TAX CHARGE	169.087	146.282
Effective tax rate	21,9%	23,5%

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 2001 to 2003 and they are currently performing a review of the income tax returns for 2004 and 2005. 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)	
2008	9.563
2009	25.062
2010	46.863
2011 and thereafter	8.801
	90.289

In its financial statements, the Group did not recognise deferred income tax assets of 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.

Note 13 — 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.

	2006	2005
Net profit (<i>in thousands of HRK</i>)	611.581	494.939
Weighted average number of shares	16.221.238	16.243.400
Basic/diluted earnings per share (<i>in HRK</i>)	37,70	30,47

The calculation of EPS for 2005 has taken into consideration the share split described in Note 25 /i/.

Note 14 — Dividends per Share

The dividends paid in 2006 and 2005 amounted to HRK 82,000 thousand (HRK 5.00 per share) and HRK 73,800 thousand (HRK 4.50 per share), respectively.

Note 15 — Property, Plant and Equipment

(IN THOUSANDS OF HRK)	LAND AND BUILDINGS	PLANT AND EQUIPMENT	ASSETS UNDER CONSTRUCTION AND ADVANCES	TOTAL
At 31 December 2004				
Cost	2.032.124	711.939	117.089	2.861.152
Accumulated depreciation	(869.598)	(471.684)	—	(1.341.282)
Net book amount	1.162.526	240.255	117.089	1.519.870
Year ended 31 December 2005				
Opening net book amount	1.162.526	240.255	117.089	1.519.870
Assets acquired through purchase of subsidiary	65.474	3.478	—	68.952
Additions	3.405	5.794	847.778	856.977
Transfer from assets under construction	185.008	172.129	(357.137)	—
Disposals	(14.827)	(5.642)	(9)	(20.478)
Impairment	(96.933)	(3.167)	—	(100.100)
Depreciation charge for the year	(52.353)	(57.000)	—	(109.353)
Foreign exchange differences	—	(330)	(1.631)	(1.961)
Closing net book amount	1.252.300	355.517	606.090	2.213.907
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

As at 31 December 2006, the cost of fully written off property, plant and equipment in the Group amounted to HRK 355,890 thousand (2005: 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 (2005: HRK 11,526 thousand) and hotel and annex buildings with a present value of HRK 25,364 thousand (2005: HRK 25,731 thousand).

Note 16 — Intangible Assets

(IN THOUSANDS OF HRK)	TOTAL
At 31 December 2004	
Cost	53.003
Accumulated amortisation	(20.958)
Net book amount	32.045
Year ended 31 December 2005	
Opening net book amount	32.045
Intangible assets acquired through purchase of subsidiary	867
Additions	38.824
Amortisation charge for the year	(6.900)
Disposals	(3)
Closing net book amount	64.833
At 31 December 2005	
Cost	92.691
Accumulated amortisation	(27.858)
Net book amount	64.833
Year ended 31 December 2006	
Opening net book amount	64.833
Additions	8.401
Amortisation charge for the year	(9.276)
Disposals	(29)
Closing net book amount	63.929
At 31 December 2006	
Cost	98.608
Accumulated amortisation	(34.679)
Net book amount	63.929

Note 17 — Investments in Associates

(IN THOUSANDS OF HRK)	2006	2005
Tisak d.d. Zagreb	61.723	61.723
Distri-Press d.o.o. Zagreb	26.200	—
Total	87.923	61.723

Changes in investments in associates are as follows:

(IN THOUSANDS OF HRK)	2006	2005
At 1 January	61.723	70.083
Acquired share in associate	26.200	—
Impairment of investments in associates	—	(8.360)
At 31 December	87.923	61.723

As at 31 December 2006, investments in associates include goodwill in the amount of HRK 14,924 thousand (2005: nil).

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. The financial information on the stated companies is not material for the financial statements of the Group.

Note 18 — Available for Sale Investments

(IN THOUSANDS OF HRK)	2006	2005
Slobodna Katarina	13.491	13.491
Other	79	99
	13.570	13.590

During 1999, the Group invested HRK 13,491 thousand in the company Slobodna Katarina d.o.o. Rovinj, representing 49.9% of the registered capital of Slobodna Katarina d.o.o. The owner of the remaining part of the capital is Alpina Mare Hotel Holding, Austria. The carrying amount of the investment represents the fair value that should be realised through contracted disposal of the investment to Alpina Mare Hotel Holding. Legal proceedings have been initiated against Alpina Mare Hotel Holding (Note 30/i/).

Note 19 — Trade and Other Receivables

(IN THOUSANDS OF HRK)	2006	2005
Trade receivables:		
Domestic trade receivables	197.166	140.052
Foreign trade receivables	82.598	78.881
Due from exporters	127	252
	279.891	219.185
Less: Provision for trade receivables	(27.884)	(31.399)
Trade receivables – net	252.007	187.786
Loans:		
Loans to co-operatives	22.829	19.820
Housing loans	315	343
Other loans	84.946	95.561
	108.090	115.724
Less: Provision for loans	(22.427)	(26.903)
Loans – net	85.663	88.821
Taxes receivable	101.501	45.270
Interest receivable	13.658	28.725
Other receivables	24.497	7.671
	139.656	81.666
	477.326	358.273
Less non-current portion	(14.443)	(6.842)
Current portion	462.883	351.431

Movements in provisions for impairment of trade and other receivables:

(IN THOUSANDS OF HRK)	2006	2005
At beginning of year	58.302	78.664
Provisions made in year (Note 9)	3.802	1.357
Recovery of bad debts written-off (Note 9)	(6.410)	(5.828)
Write-off of previously provided receivables	(5.383)	(15.891)
At 31 December	50.311	58.302

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:

	2006	2005
	4,50–6%	4,50–6%

Note 20 — Deferred Tax Assets

(IN THOUSANDS OF HRK)	2006	2005
Deferred tax assets to be recovered within 12 months	12.509	22.550
Deferred tax assets to be recovered after more than 12 months	9.929	6.929
	22.438	29.479

Deferred tax assets were incurred on temporary differences arising between the carrying amounts and tax bases of restructuring provisions and impairment of tangible assets.

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

	PROVISIONS	IMPAIRMENT LOSSES	TOTAL
At 1 January 2005	—	—	—
Charged to the income statement	22.550	6.929	29.479
As at 31 December 2005	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

Note 21 — Inventories

(IN THOUSANDS OF HRK)	2006	2005
Raw materials and supplies	427.018	426.653
Work in progress	6.345	8.124
Finished goods	12.674	3.953
Merchandise	30.985	27.195
Prepayments for raw materials and supplies	1.103	4.112
	478.125	470.037

Note 22 — Non-current Assets Held for Sale

Non-current assets held for sale in the amount of HRK 55,919 thousand relates to tourist facilities, land and a warehouse. The stated assets are expected to be sold by the end of 2007. 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 42,707 thousand and to assets included in the Tourism segment in the amount of HRK 13,212 thousand.

Note 23 — Deposits

(IN THOUSANDS OF HRK)	2006	2005
Deposits	1.845.281	1.615.663

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:

(IN THOUSANDS OF HRK)	2006	2005
Deposits	3,82–5,86%	3,77–4,77%

Note 24 — Financial Assets at Fair Value Through Profit or Loss

(IN THOUSANDS OF HRK)	2006	2005
Investments in bonds	316.530	509.646
Investments in shares	245.709	111.817
Investments in investment funds	204.966	71.838
	767.205	693.301

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).

Note 25 — 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 2006 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 2006, the Company purchased 3,885 treasury shares (2005: nil) with a nominal value of hrk 388 thousand for an amount of hrk 12,414 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 12 May 2006 (and 12 May 2005) an amount of hrk 557,108 thousand (2005: hrk 771,167 thousand) was transferred to other reserves. Other reserves are distributable.
- /iv/ Pursuant to its decision from 12 May 2006 (and 12 May 2005), the General Assembly approved a dividend in the amount of hrk 82,000 thousand or hrk 5.00 per share (in 2005: a dividend in the amount of hrk 73,800 thousand or hrk 4.50 per share).

The ownership structure of the Company is as follows:

	NOMINAL VALUE	NUMBER OF SHARES	2006 %
Small shareholders	10	16.204.550	98,81
Treasury shares	10	195.450	1,19
		16.400.000	100

Movements within treasury shares were as follows:

	31 DECEMBER 2006		31 DECEMBER 2005	
	NUMBER OF SHARES	(IN 000 OF HRK)	NUMBER OF SHARES	(IN 000 OF HRK)
At beginning of year	15.660	26.156	15.660	26.156
Purchased from shareholders	3.885	12.414	—	—
At end of year	19.545	38.570	15.660	26.156
Share split 1:10	195.450	38.570	—	—

Reserves can be analysed as follows:

(IN THOUSANDS OF HRK)	2006	2005
Translation reserve		
At beginning of year	(8.885)	(5.895)
Exchange differences during the year	(884)	(2.990)
At end of year	(9.769)	(8.885)
Legal reserves		
At beginning of year	12.448	12.448
At end of year	12.448	12.448
Other reserves		
At beginning of year	3.499.205	2.728.038
Distribution of retained earnings	557.108	771.167
At end of year	4.056.313	3.499.205
	4.058.992	3.502.768

Note 26 — Borrowings

(IN THOUSANDS OF HRK)	2006	2005
Long-term borrowings	21.952	26.104
Current portion of borrowings	(2.033)	(3.225)
Non-current portion	19.919	22.879
Short-term bank borrowings	764.000	194.475
Current portion of borrowings	2.033	3.225
Total current borrowings	766.033	197.700

Long-term borrowings relate to the subsidiary Rovinjturist d.d. 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:

	2006	2005
Borrowings granted in EUR countervalue	5% – 7%	5,87%
Current bank borrowings	3,50% – 4,60%	4,55%

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

(IN THOUSANDS OF HRK)	2006	2005
Borrowings at fixed interest rates	18.918	21.673
Borrowings at variable interest rates	767.034	198.906
	785.952	220.579

The book value of the Group's long-term 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)	2006	2005
Between 1 and 2 years	2.207	2.283
Between 2 and 5 years	6.063	8.677
Over 5 years	11.649	11.919
	19.919	22.879

Note 27 — Trade and Other Payables

(IN THOUSANDS OF HRK)	2006	2005
Domestic suppliers	117.704	92.855
Foreign suppliers	30.293	68.439
Excise duty payable	203.914	160.451
VAT payable	82.098	36.528
Taxes and contributions on and from salaries	36.505	32.478
Due to employees	40.385	41.093
Accrued interest	2.996	1.260
Dividends payable	8.686	7.414
Advances from customers	5.944	2.648
Other accruals and liabilities	25.094	19.433
	553.619	462.599

Note 28 — Provisions

(IN THOUSANDS OF HRK)	LONG-TERM		SUBTOTAL	OTHER	LEGAL	TOTAL
	TERMINATION	EMPLOYEE		RESTRUCTURING	CLAIMS	
	BENEFITS	BENEFITS		EXPENSES		
At 1 January 2006	85.000	39.990	124.990	17.750	53.189	195.929
Additional provisions	25.142	1.375	26.517	—	50.000	76.517
Reversal of provisions	(65.040)	(3.209)	(68.249)	(10.011)	(2.105)	(80.365)
Transfer from						
/ (to) other liabilities	500	(306)	194	—	(2.468)	(2.274)
At 31 December 2006	45.602	37.850	83.452	7.739	98.616	189.807

Analysis of total provisions:

(IN THOUSANDS OF HRK)	2006	2005
Non-current (long-term employee benefits)	37.850	39.990
Current	151.957	155.939
	189.807	195.929

RESTRUCTURING

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

LEGAL CLAIMS

The amount primarily represents a provision for the legal claim initiated against the Group by the former management company from the tourist segment. The provision charge is recognised in operating expenses. The balance at 31 December 2006 is expected to be utilised by the end of 2007. 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.

Note 29 — Cash Generated from Operations

(IN THOUSANDS OF HRK)	2006	2005
Net profit for the year	601.761	476.193
Depreciation (Note 15, 16)	149.465	116.253
Gains on sale of property, plant and equipment	(941)	2.677
Property, plant and equipment and intangible assets written off	76.606	117.901
Fair value gains (including profit on disposal) on financial assets at fair value through profit and loss	(110.396)	33.918
Impairment of investments in associates	—	8.360
Movements in provisions	(1.848)	151.487
Movements in trade receivable	(66.598)	46.889
Movements in other current assets	(57.990)	(29.479)
Movements in inventories	(8.088)	35.138
Movements in trade payables and other liabilities	278.947	129.500
Other	(2.631)	(455)
Cash generated from operations	858.287	1.088.382

Note 30 — Contingent Liabilities

LEGAL PROCEEDINGS

- /i/ During 2003, the subsidiary Maistra d.d. (former Jadran–turist Rovinj d.d.) initiated legal proceedings against Alpina Mare Hotel Holding, Austria, the co–investor in Slobodna Katarina d.o.o., Rovinj due to the breach of the investment contract. Up to the balance sheet date, the stated proceedings have not been finalised. However, after taking appropriate legal advice, Management believes the outcome of these legal proceedings will not give rise to additional expenses for the Group.
- /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 give rise to additional expenses for the Group.

Note 31 — Commitments

Costs for the purchase of tangible fixed assets agreed with suppliers as at balance sheet date in the amount of HRK 19,533 thousand (2005: HRK 375,934 thousand), which have not yet been realised and have not been recognised in the balance sheet as at 31 December 2006 and 2005

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

(IN THOUSANDS OF HRK)	2006	2005
No later than 1 year	434	581
Later than 1 year and no later than 5 years	362	1.065
	796	1.646

Note 32 — 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) Sales of products

(IN THOUSANDS OF HRK)	2006	2005
Associates	218.013	202.825

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

(ii) Key management compensation

(IN THOUSANDS OF HRK)	2006	2005
Salaries and other short-term benefits	91.870	81.117

Management includes 105 employees of the Adris group (2005: 103 employees).

Receivables and payables at balance sheet date

(IN THOUSANDS OF HRK)	2006	2005
Receivables from associates	326	3.278
Payables to associates	1.961	4.510

PUBLISHER:
Adris grupa
Obala Vladimira Nazora 1
HR-52210 Rovinj
tel:
+385(52)801 312
fax:
+385(52)813 587
e-mail:
adris@adris.hr
EDITOR:
Predrag D. Grubić
EXECUTIVE EDITOR:
Zdravko Basarić
TEXT:
Hrvoje Patajac
DESIGN:
Bruketa&Žinić O.M.
www.bruketa-zinic.com
CD ROM:
Skin29, www.skin29.net
PRINTED BY:
Kratiss



