



A D R I S  
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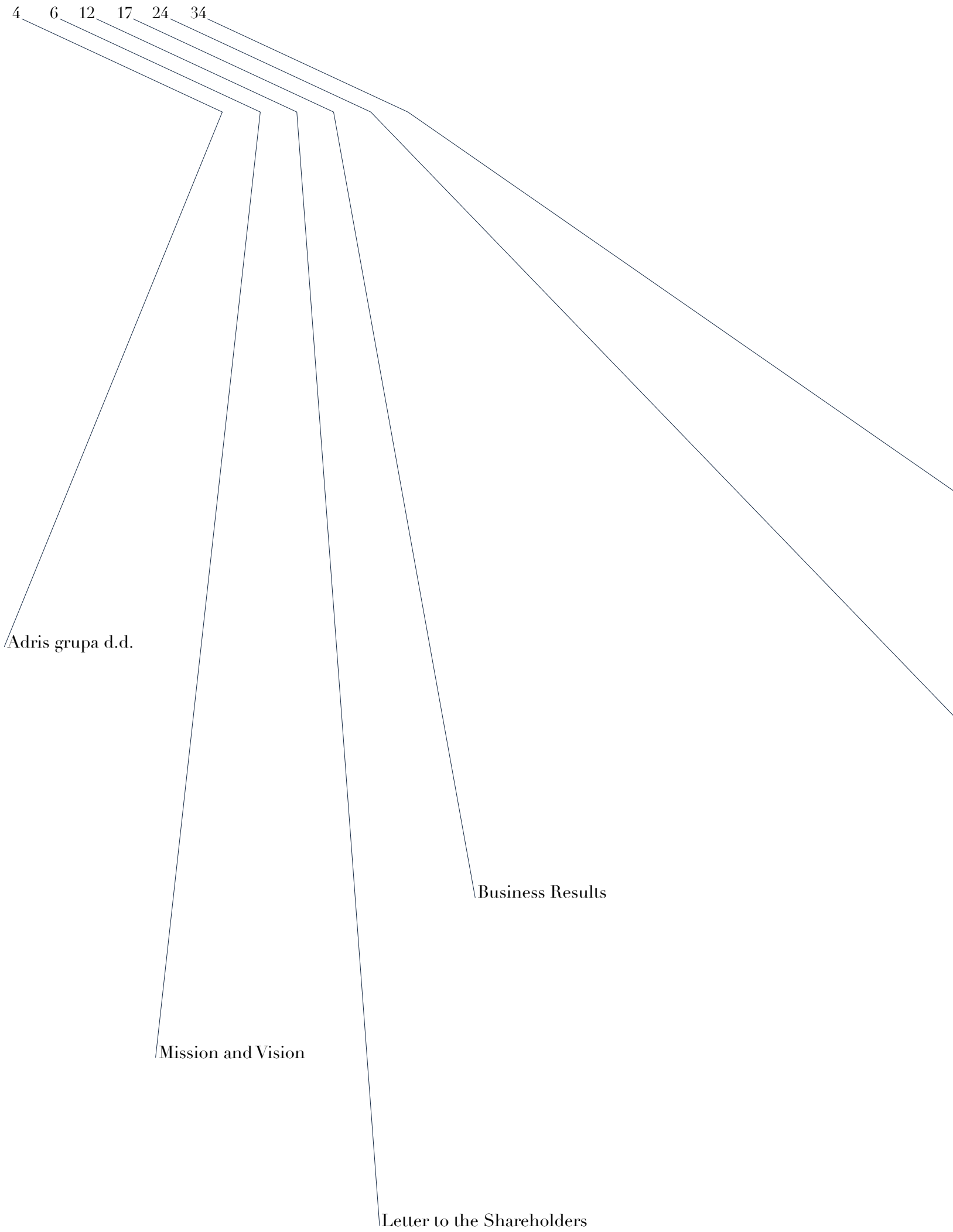
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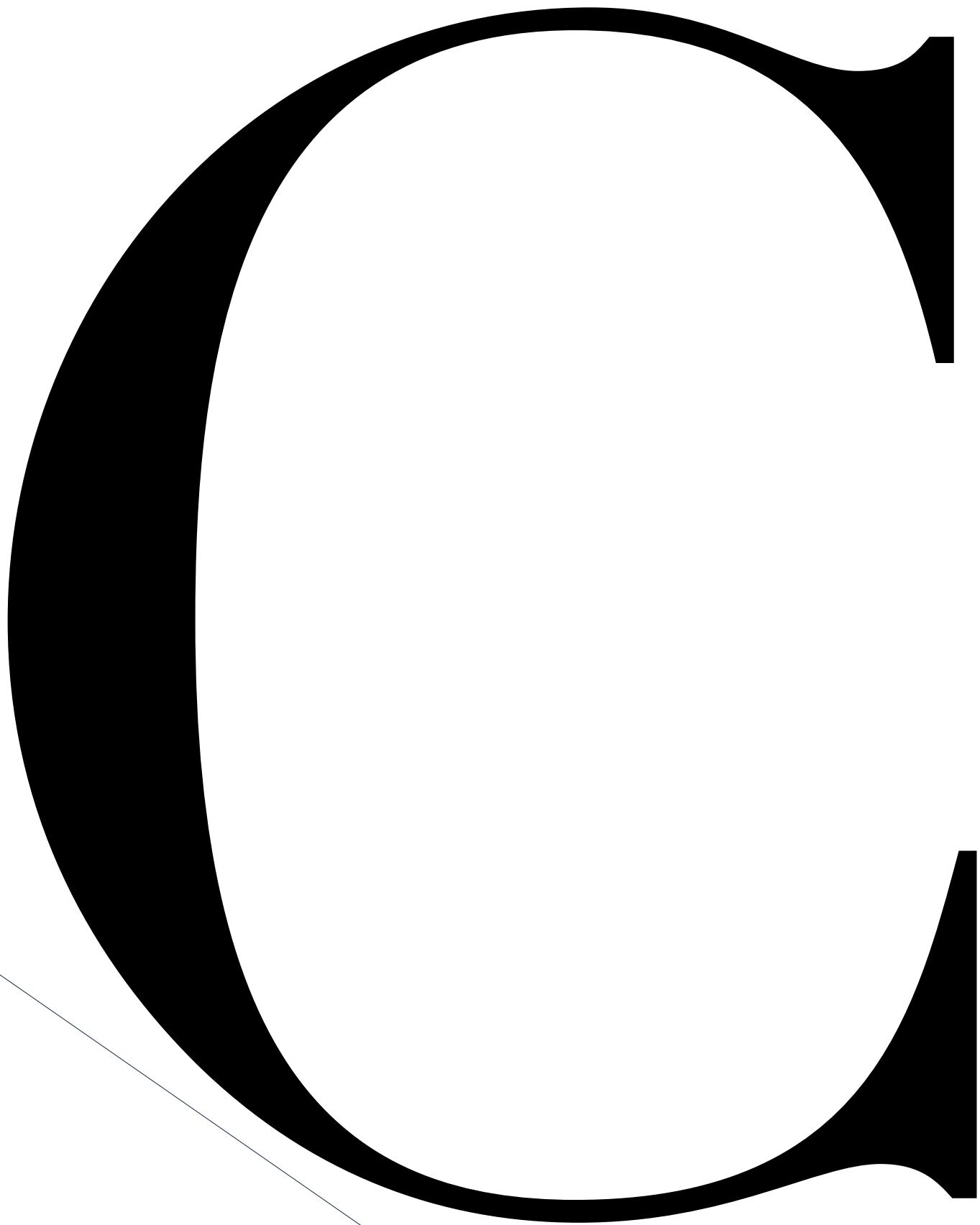
Adris grupa d.d.

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Adris grupa d.d.

TDR d.o.o.

Tvornica duhana Zagreb d.d.

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 Beograd

Rovita d.o.o. Skopje

Duhan d.d. Rijeka

Tisak d.d.

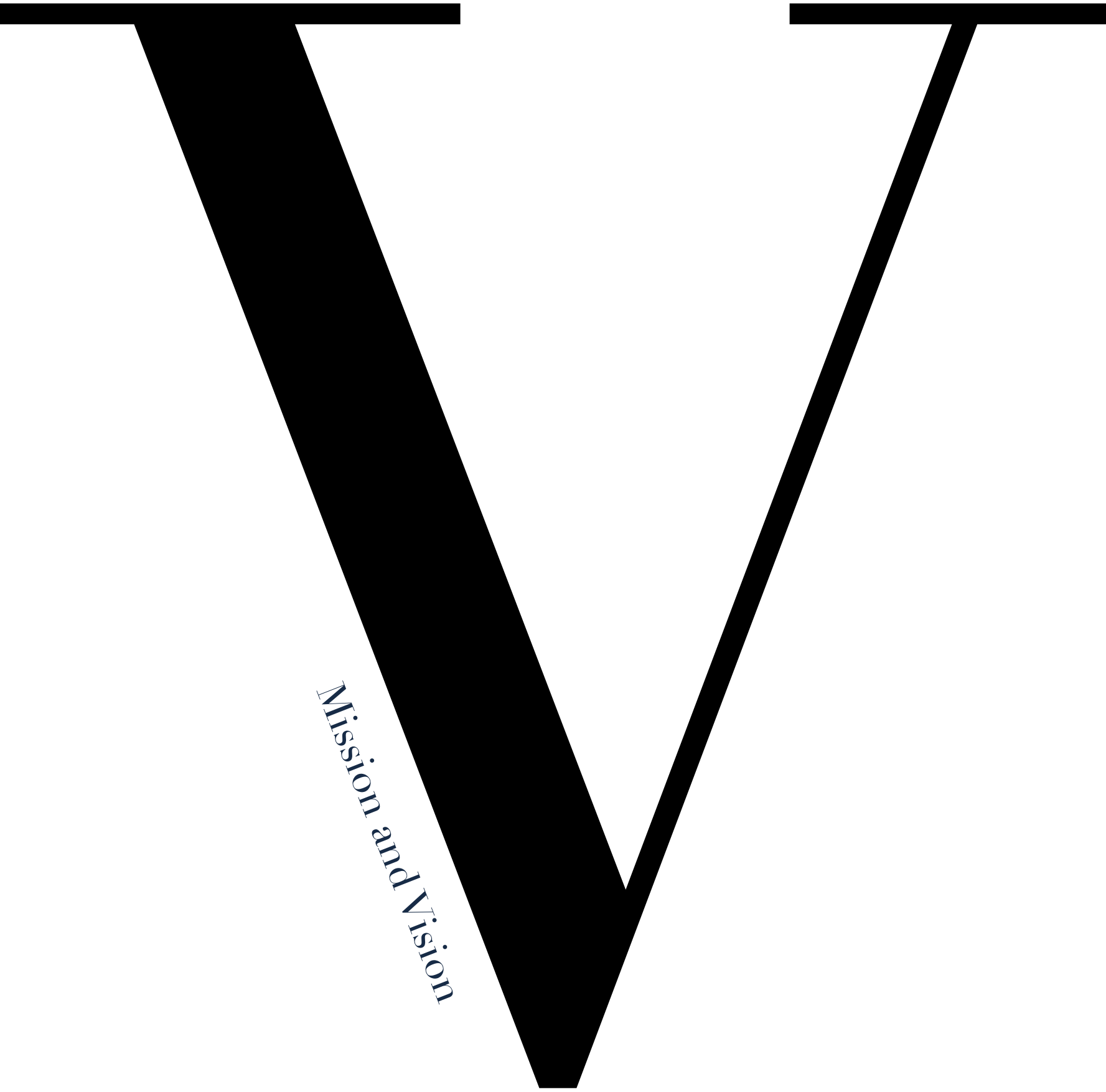
Adria Resorts d.o.o.

Jadran-turist d.d.

Anita d.d

Jadran-trgovina d.o.o.





*Mission and Vision*



## Mission

To ensure development of all strategic business units, keeping satisfaction of the employees and end consumers in mind, in a way which guarantees growth of the value of share capital and in accordance with interests of the community Adris grupa d.d. operates in.



## Vision

To be a regional leader in all aspects of operations, relying on tradition, our own potential and an innovative and dynamic market approach.

A large, bold, black graphic of the letter 'L' is positioned in the upper half of the page. The vertical stem of the 'L' is on the left, and the horizontal base extends to the right. The right side of the horizontal base is curved upwards, ending in a sharp point on the right edge of the page.

Letter to the Shareholders



## Members of the Board

**Ante Vlahović, M. Sc.**  
President of the Management  
Board of Adris grupa d.d.

**Tomislav Budin, D. Sc.**  
Member of the  
Management Board  
of Adris grupa d.d.

**Plinio Cuccurin**  
Member of the  
Management Board  
of Adris grupa d.d.



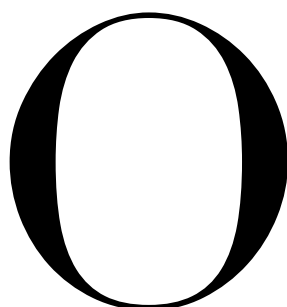


FB

Business  
Results

BR

## 2004 Business Results and Comparison with 2003



Operations of Adris grupa d.d. during 2004 are marked by increases in total revenues, further growth in exports and higher operating profits from sales of goods and services. Continued orientation toward excellence in business operations requires constant improvements in business processes. One could therefore say that the Group's restructuring is a continuous rather than a once-only process. Restructuring costs in 2004 burdened the Group's current results, but optimization of business processes will contribute to higher efficiency in the years to come. The Group's total revenues reached 2.82 billion kunas which represents further growth of 0.7%. Operating revenues are almost at the last year's level, whereas revenues from sales of goods and services raised by 5.1%. 2004 exports showed a 3% increase and amounted to 1.12 billion kunas.

Declared operating profit amounted to 863.6 million kunas. Net revenue from financial activities in the reported period shows a positive result of 100 million kunas. Management of currency risk produced positive effects on financial activities result in the amount of 21 million kunas. Interest revenues are 43% higher than in 2003 and amounted to 84,8 million kunas. Profit before taxation amounting to 964,2 million kunas is 5,3 % lower than a year before. Effective tax rate is 20.3% which is higher in comparison with the last year's 18.57%. Declared loss, resulting mainly from high restructuring costs, of the company Hrvatski duhani d.d. (Croatian Tobaccos) together with partially restricted possibilities of using tax losses from the previous years in the Group's tourism division had an impact on effective tax rate growth. Declared net profit of the Group is 768.4 million kunas.

## Consolidated Income Statement

in HRK 000's for the Financial Year Jan 1 to Dec 31	2002	2003	2004
Net domestic sales	1,268,507	1,394,964	1,488,058
Net foreign sales	1,048,927	1,088,813	1,122,073
Other operating revenues	65,396	151,143	56,317
Total operating revenues	2,382,830	2,634,920	2,666,448
Cost of material and services	974,185	1,036,119	1,113,103
Employee and related costs	365,372	404,952	407,416
Depreciation	171,252	114,141	102,767
Other operating expenses	113,366	150,941	179,570
Operating profit	758,655	928,767	863,592
Net financial income	101,288	89,567	100,569
Profit before taxation	859,943	1,018,334	964,161
Income tax expense	162,078	189,054	195,732
Net profit for the year	697,865	829,280	768,429
Minority interest	-17,954	-20,301	-15,781
Net profit	679,911	808,979	752,648

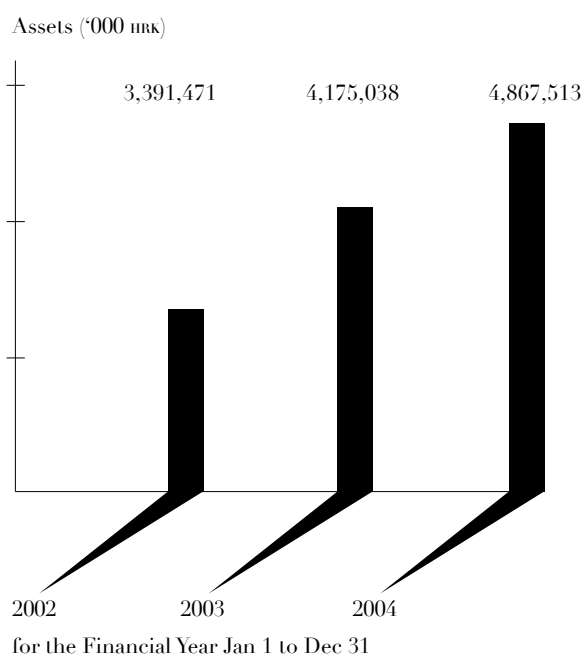
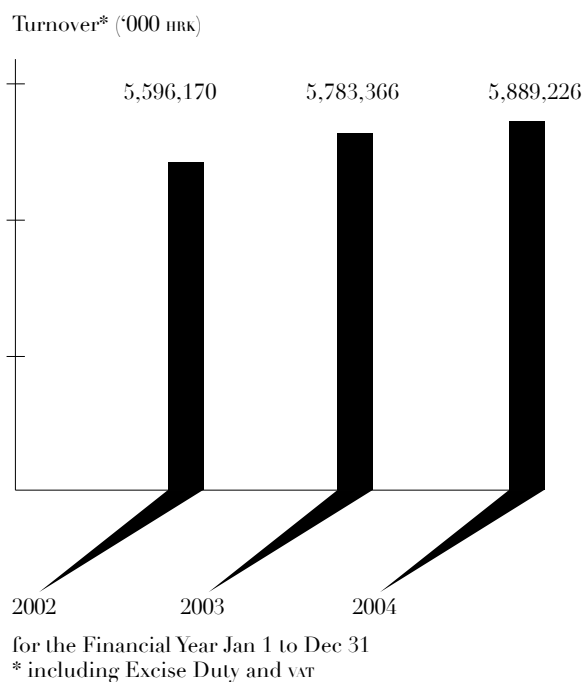
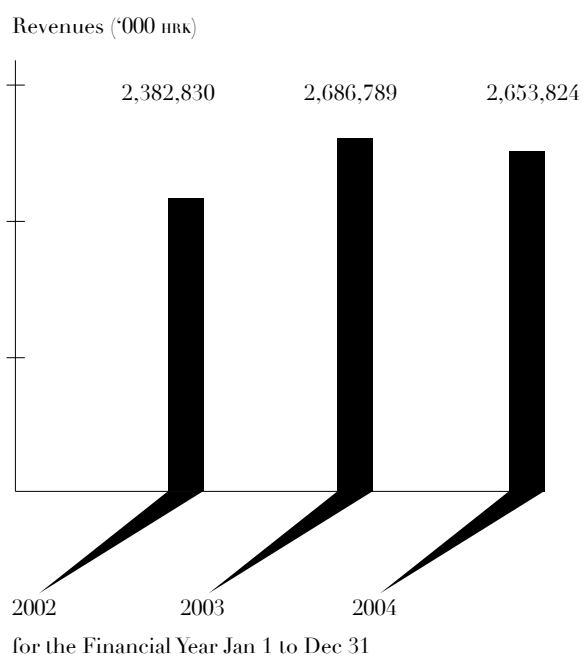
## Items Affecting Comparability

The restructuring process within the Group continued in 2004 which had some effect on the growth of business expenses in the amount of 33.2 million kunas. In 2003 the binding assessment of long term assets by chartered experts was conducted to include such assets into the capital of newly established company **TRR d.o.o.** The mentioned activity had positive effects on increase of operating profits by 70.7 million kunas and also affects comparability of figures in the reported periods. Overall, in case of eliminating nonrecurring incomes and charges in the comparable report periods, operating business results show that:

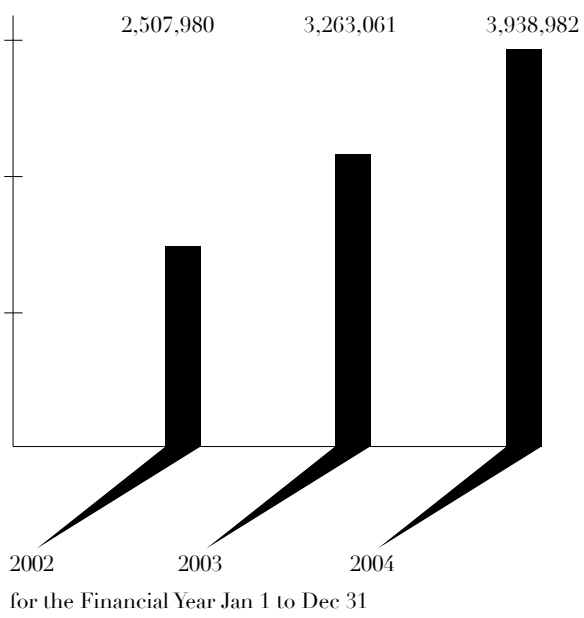
- 2004 operating profit would be 897 million kunas or 4.4% higher than operating profit produced in 2003;
- 2004 profit before taxation would be 997.4 million kunas or 5.2% higher than in the previous report period.

## Strategic Business Units

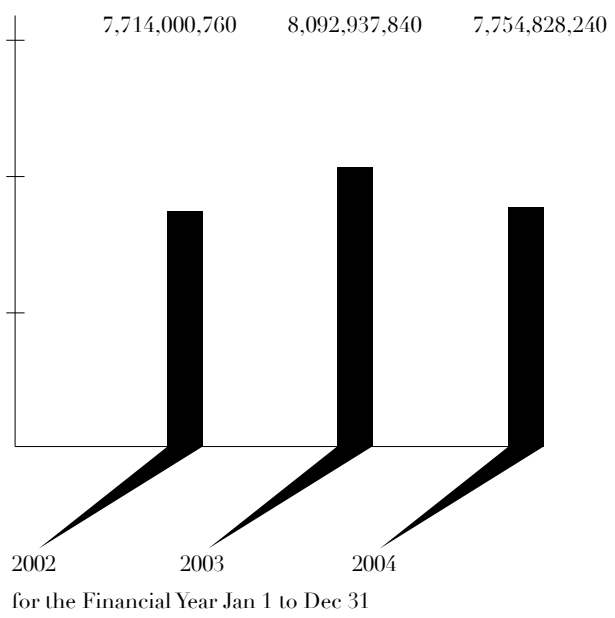
According to the Group's new organization which took place in 2003, its operations have been divided into two strategic business units (sbu): Tobacco and Tourism. 2004 operations have shown that establishment of these strategic business units is reasonable: high decentralization allows for autonomy and flexibility, together with simultaneous use of synergistic effect in respect of sharing management knowledge, skills and financial resources.



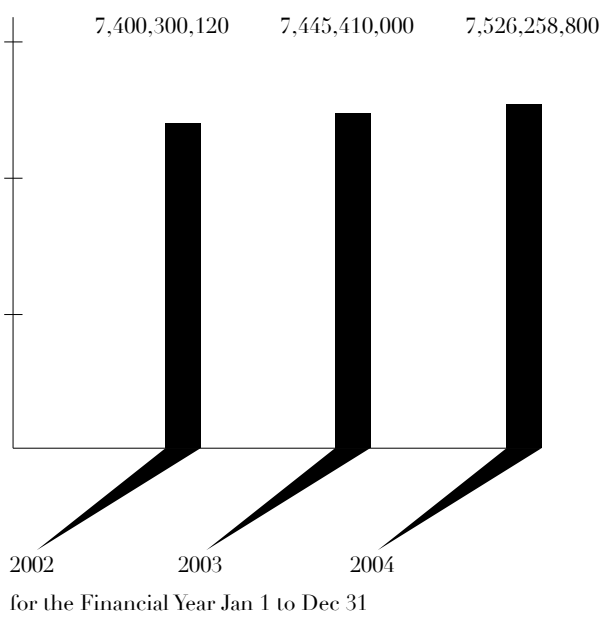
Capital (\*000 HKK)



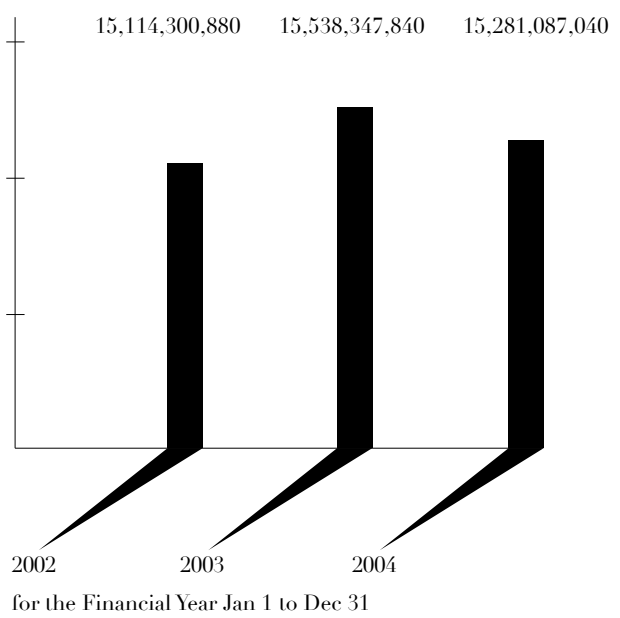
Domestic Sales, in sticks



Foreign Sales, in sticks



Total Sales, in sticks



## Tobacco SBU

The following companies operate within Tobacco SBU: TDR d.o.o., TDZ d.d., 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. Beograd. Vertically integrated activities within Tobacco SBU, with TDR d.o.o. as a parent company, enable the tobacco division to operate with stability, certainty and flexibility throughout the entire process, from tobacco primary production to retail. TDR d.o.o. is a main operating leverage in Tobacco SBU, with new brands, innovations and recognizable *marketing philosophy*. The company has remained the regional market leader. Its presence in the regional market was additionally strengthened at the end of 2004, when a new company was established in Macedonia, named Rovita d.o.o. Skopje. Early this year introduction of the integral IT solution was finalized. This, after significant organizational changes in the last two years, has completed the cycle of changes produced to achieve more efficient management. The project began in April 2003 and encompassed the following companies within Tobacco SBU: TDR d.o.o., TDZ d.d., Istragrafika d.d. and Hrvatski duhani d.d. The year 2004 was also marked by commencement of construction of new, modern plants in Kanfanar which will enable an increase in productivity while maintaining the high technological level of operations.

## Tobacco SBU - Business Results

Revenues from sales of goods and services amount to 2.05 billion kunas and are by 7.2% higher than in the previous reported period. The sales in the Croatian market amounted to 7.75 million cigarettes. 2004 exports of cigarettes reached 7.53 billion cigarettes which represents almost 1% growth and in terms of value a rise of almost 5%. In 2004 too, almost half of our total sales were realized abroad. Business results show total revenue growth whereas other indicators show some decrease. Of course, as indicated in previously analyzed figures for the Group, the mentioned once-only effects had a great impact on the values declared in this way.

If the mentioned items are excluded, for the sake of comparability, business activities indicators reveal that:

- operating revenues amounting to 2.08 billion kunas would increase by 5%
  - operating profit amounting to 827 million kunas would increase by 5.6%
  - profit before taxation amounting to 921 million kunas would grow by 5.7%.
- The current 2005 will be the first report year which will, for tobacco operations, have realistic comparison with the previous 2004.

## Income Statement for Tobacco SBU

in HRK 000's for the Financial Year Jan 1 to Dec 31	2002	2003	2004
Net domestic sales	1,011,312	1,106,986	1,207,290
Net foreign sales	764,375	805,533	842,288
Other operating revenues	43,917	187,832	33,477
Total operating revenues	1,819,604	2,100,351	2,083,055
Cost of material and services	699,774	764,054	840,352
Employee and related costs	227,939	272,906	277,166
Depreciation	115,144	59,076	45,537
Other operating expenses	70,663	150,850	125,805
Operating profit	706,084	853,465	794,195
Net financial income (expense)	101,476	87,537	93,331
Profit before taxation	807,560	941,002	887,526
Income tax expense	161,944	188,843	192,590
Net profit for the year	645,616	752,159	694,936
Minority interest	-7,941	-6,697	-2,908
Net profit	637,675	745,462	692,028

## Tourism SBU

Tourism SBU consists of four companies: Adria Resorts d.o.o., Jadran-turist d.d., Anita d.d. and Jadran-trgovina d.o.o. Adria Resorts d.o.o. manages other companies using the benefits of economies of scale in terms of relative reduction in certain fixed costs and promotion of stability in the sales market as well as on the supply side. The company's prime concern is strategic development of new products in tourism through marketing-based approach, following the best practice in everyday management and technological processes, and providing knowledge and skill upgrade for its employees.

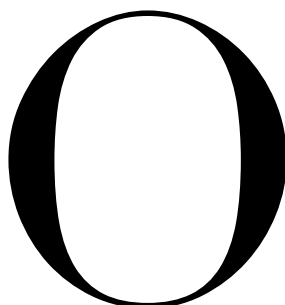
## Tourism SBU - Business Results

The current offering in the tourist sector has used up all the possibilities for further growth. Preparations have therefore started for the new development and investment cycle which should ensure differences and varieties, primarily overall improvement in offering. Development of new products and of the entire Rovinj-Vrsar destination will give a new dimension to Istrian and Croatian tourism industry. 2004 total revenues of Tourism SBU amount to 514,5 million kunas and show an increase of 1.7%. Operating revenues raised by 0.9% and amount to 501 million kunas. The number of bednights in 2004 amounted to 2,793 million, 1,162 million of which was realized in permanent structures. REVPAR (revenue per available room), one of key indicators in the hotel industry, rose by 0.9% as a result of higher prices and improved quality of service. Profit before taxation decreased by 1.6% and amounts to 75.6 million kunas. Net profit came to 72.5 million kunas. 2004 operating profit of Tourism SBU represented 8% of the Group's operating profit, same as last year. In the previous year preparations for creation of a new company by merging Jadran-turist d.d. and Anita d.d. were completed. Such merger was also approved at the general meetings of the companies in February 2005. This was a pre-requisite for successful implementation of the strategic development plan for the next five-year period, which includes investments worth more than 2 billion kunas.

## Income Statement for Tourism SBU

in HRK 000's for the Financial Year Jan 1 to Dec 31	2002	2003	2004
Net domestic sales	173,247	199,202	203,929
Net foreign sales	277,639	283,280	279,785
Other operating revenues	24,174	14,024	17,354
Total operating revenues	475,060	496,506	501,068
Cost of material and services	217,529	202,532	207,742
Employee and related costs	109,992	117,376	115,663
Depreciation	54,179	53,680	56,039
Other operating expenses	41,022	48,074	53,338
Operating profit	52,338	74,844	68,286
Net financial income (expense)	-34	2,009	7,336
Profit before taxation	52,304	76,853	75,622
Income tax expense	134	211	3,142
Net profit for the year	52,170	76,642	72,480
Minority interest	-11,268	-13,440	-12,525
Net profit	40,902	63,202	59,955

## Financial Indicators for the Group



operating cash flow provided during 2004 amounted to 878.6 million kunas. The money was generated by 1.103 million kunas worth operations. Net profit increased by depreciation amounts to 855.4 million kunas.

Cash flow from investing activities during 2004 was 4.2% higher than that recorded in the previous period and amounted to 767.4 million kunas. A part of the investing activities related to purchase of tangible and intangible assets in the amount of 227.5 million kunas. Investments made in Tobacco SBU mainly refer to investments in production equipment, commenced construction of the plants in Kanfanar and introduction of IT system SAP R/3. Tourism SBU invested in the existing structures to improve product quality. A part of free cash was invested in various financial products while taking into account the optimal ratio between returns and

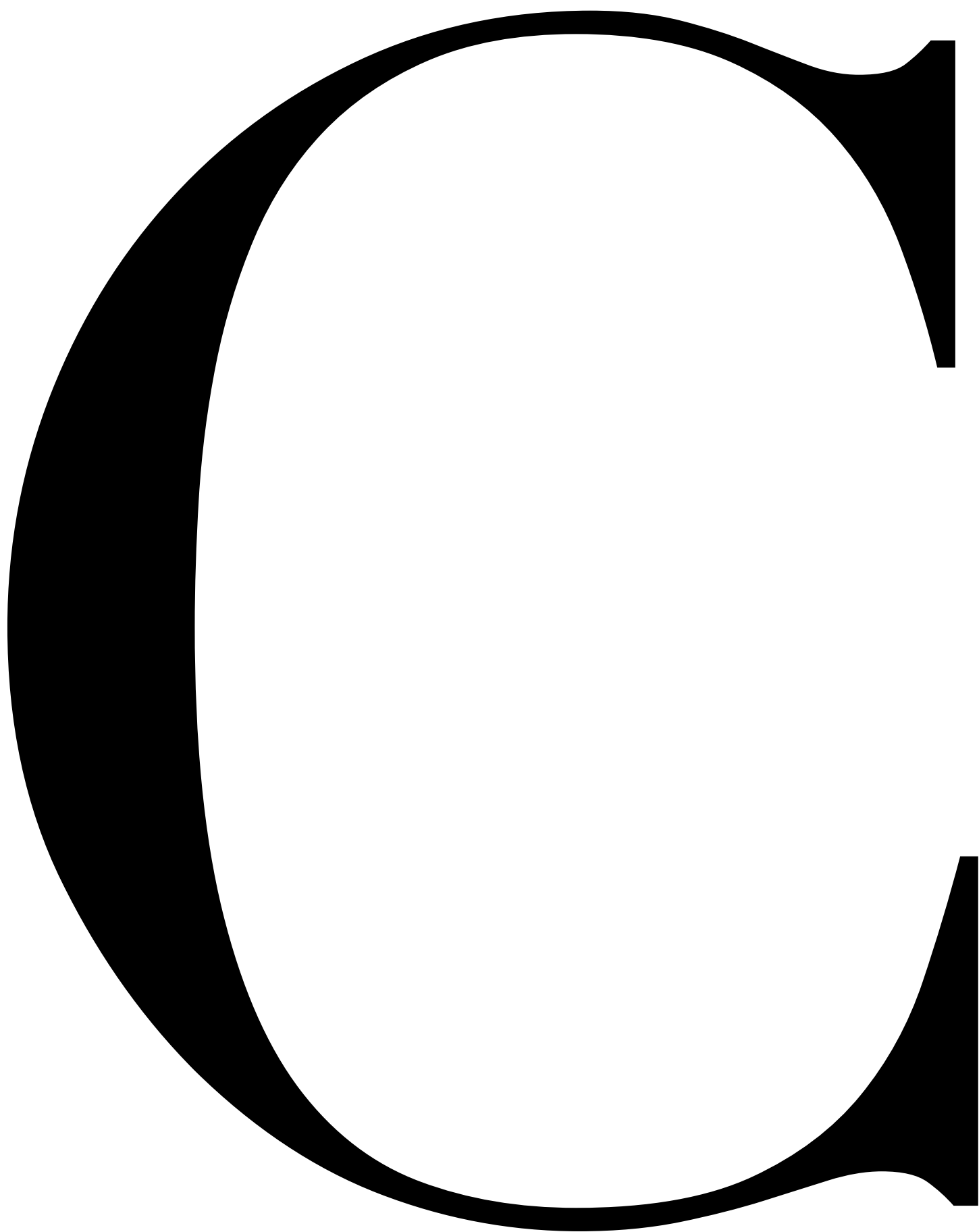
liquidity. Cash flow from financial activities amounts to 143 million kunas and is mainly defined by payment of dividends in the sum of 64 million kunas and repayment of a revolving credit of 53 million kunas which was used for working capital management.

The structure of financial and some investing activities suggests that the Group has a high financial potential which can substantially facilitate and accelerate investments in the existing and new activities.

Good liquidity and low indebtedness are characteristic for the Group's operations for some time now. The ratio of current assets and current liabilities shows an increase in 2004 as well. The liquidity ratio of 4.43 in 2004, if compared to 3.55 in 2003, indicates high liquidity. Debt-service ratio of 0.14 shows the possibility of more effective use of financial leverage and/or possibility of financing the future operating activities from external sources. The Group's long-term debts are no more than 1.6 million kunas and short-term credits account for 5.5% of current liabilities or 32 million kunas.

Capital of the Group rose by 20,7% to 3.94 billion kunas in 2004. The Group's ROE was 20,9% and EPS amounted to 463 kunas. Share dealing in Croatian capital market was very intensive throughout the year.

Consolidated  
Financial  
Reports as at  
31 December  
2004



# Consolidated Balance Sheet - 31 December 2004

## Assets

in mkk 000's for the Financial Year Jan 1 to Dec 31	2002	2003	2004
<hr/>			
Non-current assets			
Intangible assets	15,171	27,236	32,045
Tangible assets	1,356,012	1,417,310	1,519,870
Investments	88,244	89,668	156,045
Non-current receivables	533,151	135,877	502,638
Total non-current assets	1,992,578	1,670,091	2,210,598
Current assets			
Cash and cash equivalents	72,962	76,651	44,749
Trade debtors	153,689	173,281	231,046
Inventories	489,346	494,328	503,972
Other current assets	682,896	1,760,687	1,877,148
Total current assets	1,398,893	2,504,947	2,656,915
<hr/>			
Total assets	3,391,471	4,175,038	4,867,513

# Equity and Liabilities

in mkk 000's for the Financial Year Jan 1 to Dec 31	2002	2003	2004
Capital and reserves			
Share capital	164,000	164,000	164,000
Reserves	1,563,708	1,852,614	2,652,975
Retained profit	780,272	1,246,447	1,122,007
Total capital and reserves	2,507,980	3,263,061	3,938,982
Minority interest	300,532	300,726	312,964
Long term provisions	56,078	23,289	35,383
Long term debt	12,753	1,764	1,566
Current liabilities	514,128	586,198	578,618
<b>Total equity and liabilities</b>	<b>3,391,471</b>	<b>4,175,038</b>	<b>4,867,513</b>

# Cash Flow

in mk 000's	2002	2003	2004
Cash flow from operating activities	829,815	959,828	878,547
Cash flow from financing activities	(716,103)	(219,917)	(143,033)
Cash flow from investing activities	(80,707)	(736,222)	(767,416)
Net (+/-)	33,005	3,689	(31,902)

# Key Indicators

	2002	2003	2004
Employees	2970	2981	2932
Gross sales	5,596,170	5,783,366	5,889,226
Growth (%)	8.9%	3.3%	1.8%
Paid excise duty and vat	2,924,229	3,148,446	3,235,402
Growth (%)	0.9%	7.7%	2.8%
Total operating revenue	2,382,830	2,634,920	2,653,824
Growth (%)	6.3%	10.6%	0.7%
Net sales	2,317,434	2,483,777	2,597,507
Growth (%)	8.2%	7.2%	4.6%
Operating profit	758,655	928,767	863,594
Growth (%)	20.8%	22.4%	-7.0%
EBITDA	929,907	1,042,908	966,359
Growth (%)	11.4%	12.2%	-7.3%
Net profit after minority interests	679,911	808,979	752,648
Growth (%)	33.8%	19.0%	-7.0%

# Profitability Indicators

	2002	2003	2004
ROA	22.40%	21.92%	17.00%
ROE	31.21%	28.04%	20.90%
EBT margin	31.84%	35.25%	32.39%
Net profit margin	29.29%	31.47%	28.82%
Cost-effectiveness	151	159	152
Cost-effectiveness of basic activity	147	154	148

# Liquidity Indicators

	2002	2003	2004
Current ratio	2.56	3.55	4.43
Quick ratio	1.61	2.65	3.57
Level of financial coverage	79.95	62.45	53.42
Debt ratio (%)	20.34	15.78	13.57
EPS	4,149	495	463
DPS	160	30	40

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Auditor's Report

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# Report of the auditors to the shareholders of Adris grupa d.d., Rovinj

W

e have audited the accompanying consolidated balance sheet of Adris grupa d.d., Rovinj (“the parent company”) and its subsidiaries (together “the Group”) as at 31 December 2004, and the related consolidated statements of income and cash flows for the year then ended. These financial statements set out on pages 2 to 31 are the responsibility of the company’s Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2004 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.





# Impressum

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Design:  
Bruketa&Žinić o.m.  
www.bruketa-zinic.com

Printed by:  
Stega-tisak

CD design & production:  
Skin29, www.skin29.net