

ISTRATURIST UMAG d.d.

**ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2004**

MANAGEMENT BOARD'S RESPONSIBILITIES

The Management Board is responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Company and the Group and of the results of their operations and cash flows for the financial year. In preparing those financial statements, the Management Board should have due regard to:

- selecting suitable accounting policies to conform with International Financial Reporting Standards and Croatian accounting law and then applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether applicable accounting standards have been followed; and
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Company or Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with Croatian accounting law. The Management Board has general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

The financial statements herein reported have been approved by the Management Board on 3 March 2005 and have been signed by the President of the Management Board, Mrs. Gordana Tomicic.



Independent Auditors' Report to the shareholders of Istraturist Umag d.d.

We have audited the accompanying unconsolidated balance sheet of Istraturist Umag d.d. ("the Parent Company") as of 31 December 2004 and the related unconsolidated statements of income, changes in equity and cash flows for the year then ended. We have also audited the accompanying consolidated balance sheet of Istraturist Umag d.d. Group ("the Group) as of 31 December 2004 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements which have been presented together to report the financial position, results of operations, and changes in cash flows for both the parent company and the consolidated group, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the unconsolidated financial statements of the Company and the consolidated financial statements of the Group based on our audits. The financial statements as of 31 December 2003 were audited by another auditor, whose report dated 4 March 2004 expressed an unqualified opinion.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

The Parent Company

In our opinion, the unconsolidated parent company financial statements give a true and fair view of the financial position of Istraturist Umag d.d. as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The Group

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Istraturist Umag d.d. Group as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Croatia d.o.o.

Registered auditors
Centar Kaptol
Nova Ves 11
10000 Zagreb
Croatia

3 March 2005

Istraturist Umag d.d.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

In HRK thousand	Note	Group		Company	
		2004	2003	2004	2003
Operating revenue					
Sales revenue	3	281,692	269,511	275,350	264,984
Other operating income	4	12,090	15,210	11,181	13,614
Total operating income		293,782	284,721	286,531	278,598
Operating costs					
Raw material, consumables and services used	5	107,540	105,408	101,672	100,357
Employee costs	6	71,619	68,211	70,827	67,374
Depreciation	12	47,117	31,984	47,069	31,942
Other operating expenses	7	19,060	19,263	19,098	18,674
Total operating costs		245,336	224,866	238,666	218,347
Profit from operations		48,446	59,855	47,865	60,251
Net financing costs	8	(6,504)	(10,544)	(6,525)	(10,542)
Profit before tax		41,942	49,311	41,340	49,709
Profit tax benefit/(expense)	9	38,264	(4,000)	38,407	(4,000)
Profit after tax		80,206	45,311	79,747	45,709
Earnings per share	10	17.16	9.69	17.06	9.78

BALANCE SHEET

AS AT 31 DECEMBER 2004

In HRK thousand	Note	Group		Company	
		2004	2003	2004	2003
ASSETS					
Non-current assets					
Property, plant & equipment	12	813,652	774,710	813,198	774,380
Intangible assets	12	1,577	1,601	1,577	1,601
Equity investments	13	682	739	719	776
Long-term receivables	14	643	705	643	705
Deferred tax assets	15	46,407	8,000	46,407	8,000
Total non-current assets		862,961	785,755	862,544	785,462
Current assets					
Inventories	16	13,767	13,631	13,754	13,619
Trade and other receivables	17	13,919	11,943	12,154	10,880
Short term loans	18	101	101	2,892	2,548
Cash and cash equivalents	19	1,773	2,605	1,491	2,462
Total current assets		29,560	28,280	30,291	29,509
TOTAL ASSETS		892,521	814,035	892,835	814,971
SHAREHOLDERS EQUITY					
Share capital					
Share capital	23	467,500	467,500	467,500	467,500
Other Reserves	23	23,375	23,375	23,375	23,375
Retained earnings		164,569	107,738	165,163	108,791
Total shareholders equity		655,444	598,613	656,038	599,666
Liabilities					
Non-current liabilities					
Borrowings	21	121,022	144,977	121,022	144,977
Trade and other payables	20	227	582	227	582
Total non-current liabilities		121,249	145,559	121,249	145,559
Current liabilities					
Borrowings	21	81,349	39,319	81,349	39,319
Trade and other payables	20	33,140	29,849	32,860	29,732
Provisions	22	1,339	695	1,339	695
Total current liabilities		115,828	69,863	115,548	69,746
Total liabilities		237,077	215,422	236,797	215,305
Total equity and liabilities		892,521	814,035	892,835	814,971

These financial statements were approved by the management board of Istraturist Umag d.d. on 3 March 2005.

President of the Management Board:
Gordana Tomičić

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

Group	Share capital	Legal reserves	General reserves	Retained earnings	Total
In HRK thousand					
Balance at 1 January 2003	467,500	23,375	2,970	87,506	581,351
Dividend for 2002 (Note 11)	-	-	(2,970)	(25,079)	(28,049)
Profit for the year	-	-	-	45,311	45,311
Balance at 31 December 2003	467,500	23,375	-	107,738	598,613
Dividend for 2003 (Note 11)	-	-	-	(23,375)	(23,375)
Profit for the year	-	-	-	80,206	80,206
Balance at 31 December 2004	467,500	23,375	-	164,569	655,444

Company	Share capital	Legal reserves	General reserves	Retained earnings	Total
In HRK thousand					
Balance at 1 January 2003	467,500	23,375	2,970	88,161	582,006
Dividend for 2002	-	-	(2,970)	(25,079)	(28,049)
Profit for the year	-	-	-	45,709	45,709
Balance at 31 December 2003	467,500	23,375	-	108,791	599,666
Dividend for 2003 (Note 11)	-	-	-	(23,375)	(23,375)
Profit for the year	-	-	-	79,747	79,747
Balance at 31 December 2004	467,500	23,375	-	165,163	656,038

CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 DECEMBER 2004**

In HRK thousand	Note	Group		Company	
		2004	2003	2004	2003
Cash flows from operating activities					
Cash flow from operations	25	91,657	72,761	91,348	73,915
Interest paid		(9,509)	(9,317)	(9,509)	(9,313)
Net cash flow from operating activities		82,148	63,444	81,839	64,602
Cash flow from investing activities					
Acquisition of property, plant and equipment		(86,784)	(88,826)	(86,620)	(88,793)
Acquisition of intangible assets		(536)	(528)	(528)	(528)
Loans given		(73)	(83)	(73)	(1,222)
Proceeds from sale of property, plant and equipment		3,979	8,431	3,979	8,429
Interest received		193	107	191	105
Dividends received		243	118	243	118
Financial instruments proceeds		4,855	-	4,855	-
Net cash flow from investing activities		(78,123)	(80,781)	(77,953)	(81,891)
Cash flows from financing activities					
Proceeds from borrowings		142,922	137,182	142,922	137,182
Repayment of borrowings		(124,847)	(91,105)	(124,847)	(91,105)
Dividends paid		(22,932)	(27,903)	(22,932)	(27,903)
Net cash flow from financing activities		(4,857)	18,174	(4,857)	18,174
Net increase / (decrease) in cash and cash equivalents		(832)	837	(971)	885
Cash and cash equivalents at the beginning of the year		2,605	1,768	2,462	1,577
Cash and cash equivalents at the end of the year	19	1,773	2,605	1,491	2,462

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 1 – GENERAL INFORMATION

Istraturist Umag d.d. (Company) is a joint stock company registered and domiciled in Umag, Croatia. Consolidated financial statements of the Company for the year ended 31 December 2004, comprise the company and its subsidiary (referred to as the Group).

The Istraturist Group comprises Istraturist Umag, a joint stock company for catering and tourism (the "Parent Company" or "Company") and its 100% owned subsidiary Istra Golf, a limited liability company which organizes the annual ATP tennis tournament in Umag.

According to the laws of the Republic of Croatia and with the approval of the Croatian Privatisation Fund, the Company was transformed from state ownership into a joint stock company in the year 1993. The Company and its subsidiary are registered at the Commercial Court in Rijeka.

The Istraturist Group is controlled by Zagrebačka banka d.d., Zagreb. The ownership structure as at 31 December 2004 is disclosed in note 23.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB"), and interpretations issued by the Standing Interpretations Committee of the IASB and in accordance with Croatian accounting standards. These financial statements include both the consolidated group and unconsolidated company financial statements.

Basis of preparation of financial statements

These financial statements are presented in the Croatian currency, Kuna (HRK), rounded to the nearest thousands that have been prepared under the historical cost convention except assets that are valued at fair values: derivative financial instruments, financial instruments held for trading and financial instruments available for sale (except those that are not part of trading on the active market, and that are stated on the basis of amortised expense lowered for impairment in value).

The accounting policies have been consistently applied by the group members, and are not different from accounting policies used last year.

The financial statements have been prepared under the assumption that the Group and Company will continue to operate as a going concern. In view of the Group's and Company's net current liabilities, the ability of the Group and Company to continue as a going concern may be dependant on the continued financial support of the parent company and its related parties (as disclosed in note 26) which are also the major creditors of the Company (as disclosed in note 21).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation

Subsidiaries are those companies in which Istraturist Umag d.d., directly or indirectly, owns more than a half of the voting rights or otherwise has power to govern financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to Istraturist Umag d.d.

Balances and transactions within the Group as well as all unrealised profits or losses from transactions within the Group are eliminated upon consolidation.

c) Foreign currency

Transactions in foreign currencies are translated into Croatian kuna at the Croatian National Bank mid foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into kuna at the Croatian National Bank mid foreign exchange rate ruling at balance sheet date. Foreign exchange differences arising from translation are recognised in the income statement in the period incurred.

d) Property, plant and equipment

Items of property, plant and equipment are stated at cost or revalued amount less accumulated depreciation and impairment as per note 2(f). Depreciation is calculated on a straight-line basis as to write off the cost or the revalued amount of each asset to their residual values over their estimated useful lives.

Property, plant and equipment disposed or written off during the year has been booked out of balance sheet together with the accumulated depreciation. Profit or loss made on disposal has been included into the income statement for current period.

The average estimated useful lives are as follows:

Buildings	35	years
Plant and equipment	4 – 20	years

Freehold land and assets under construction are not depreciated.

e) Intangible assets

Intangible assets comprise software and are presented at acquisition cost and amortised on a straight line basis. Their estimated useful life is 5 years. Intangible assets are not revaluated.

f) Impairment of the assets

The carrying amounts of the Group's and Company's assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. The recoverable amount of assets is the greater of their net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash flows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Investments in available-for-sale securities

Investments in available-for-sale securities are stated at fair value. Any gain or loss realised from changes in value are recognised in the income statement. The fair value is based on the quoted bid price at the balance sheet date, and when not available, at cost less impairment loss as per note 2 (f).

h) Leases

Assets leased to others are included in the balance sheet under “property, plant and equipment”. Assets are depreciated on a straight-line basis over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised over the lease term.

i) Inventories

Inventories of raw materials and consumable goods are stated at the lower of cost or net realisable value. The cost of these inventories to determine balances or usage is calculated on the basis of average purchase prices.

Small inventory is stated at cost less accumulated depreciation and impairment as per note 2 (f). Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of inventories.

The estimated useful lives are as follows:

Glassware and cutlery:	2 years
Porcelain, kitchen appliances and linens:	3 years
Curtains and blankets:	5 years
Other inventory:	5 years

Other inventories are stated at the lower of purchase price or net realisable value using the FIFO method (first in, first out).

j) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables as set out in note 2 (f).

k) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and deposits with less than 90 days maturity.

l) Borrowings

Borrowings are recognized initially at cost, less attributable transaction costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Taxation

Profit tax is calculated at a rate of 20% (2003: 20%) on a legally prescribed base. The amount of the profit tax for the year comprises current and deferred income tax. Current income tax is the expected tax payable on the taxable income for the year.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

n) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

o) Revenue recognition

Revenue from the sale of goods and services rendered is recognized at invoice amount less value added tax (VAT), after eliminating revenues within the Group. Revenue from the sale of goods and services rendered is recognized in the income statement when significant risks and rewards of ownership have been transferred to the buyer.

Other revenues of the Group are recognized as follows:

- income from dividends based on shares in unrelated companies are recognised as income for the period when transferred.
- interest income is recognized as income for the period when earned.

The amount of the VAT receivable from the State is included in current receivables. The amount of VAT payable to the State is included in current payables. Cash flows are included in the statement of cash flows on a gross basis. The VAT components of cash flows arising from investing and financing activities which are received from the State are classified as operating cash flows.

p) Net financing costs

Net financing costs comprise interest payable on borrowings, penalty interest, dividend income, interest income arising from receivables, foreign exchange gains and losses. Net financing costs include gains and losses on financial instruments.

Interest expense arising in respect of loans is recognised in the income statement using the applicable interest rate in the period when incurred. Borrowing expenses occurring from loans for financing Property, plant and equipment, that need a significant amount of time to be completed and put into use are capitalised according to IAS 23 as presented in note 12 Tangible and intangible assets.

Interest income arising from receivables is recognised in the income statement in the period when earned. Dividend income is recognised in the income statement in the period when the dividend is declared.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Comparatives

Where necessary, comparative figures from 2003 have been reclassified to conform with changes in presentation in the current year. In the comparative income statement, some costs were reclassified from “other operating expenses” to “employee costs”.

FINANCIAL INSTRUMENTS

(1) Financial risk factors

The Group is exposed to various financial risks that are related to foreign currency, interest rate, credit and liquidity risk. The Group monitors the mentioned risks and seeks to minimise their potential effect on the Group’s financial exposure, using protective instruments that are available on the financial market.

(i) Foreign currency and interest rate risk

Income from foreign sales is predominantly realised in Euro. Income from domestic sales is realised in Croatian kuna (HRK). Long-term loans mainly relate to loans in Euro and Swiss francs. Foreign currency risk is present because of possible changes in the exchange rates of foreign currencies. The Group is also exposed to interest rate risk as the loans were concluded at floating rates.

(ii) Credit risk

Financial assets that may expose the Group to credit risk comprise cash, receivables from customers and loan receivables. The Group keeps its cash in the bank that is also the majority owner of the Group. Provisions for receivables from customers are made for bad and doubtful receivables. The Group decreases the credit risk by short-term deposits at the bank i.e. the owner of the Group. Loans given are secured by instruments of payment insurance.

Concentration of credit risk from receivables is limited due to a large number of customers. The Management board believes that there are no additional credit risks that might require an increase in provisions for impairment in value of trade and other receivables.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, as well as the availability of financial assets in form of credit lines.

(2) Fair value estimation

As at 31 December 2004 the value, of current assets (cash and trade receivables) and current liabilities (trade payables and accrued costs) was stated at amounts, which approximate their fair value, based on the short-term maturity of these assets and liabilities. Inventories are stated at the lower of cost or the net realizable value. The fair value of other long-term borrowings is not materially different from the carrying value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 3 – INCOME FROM SALE OF GOODS AND SERVICES

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Income from sale to domestic guests	60,859	52,818	54,737	48,177
Income from sale to foreign guests	220,833	216,693	220,613	216,807
	281,692	269,511	275,350	264,984

NOTE 4 – OTHER OPERATING INCOME

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Proceeds from sale of property, plant and equipment	2,695	5,862	2,695	5,862
Rental income	4,418	4,011	4,463	4,056
Reversal of liabilities	246	184	243	184
Sponsorships	1,598	1,609	35	-
Sale of materials	1,020	1,386	1,020	1,386
Insurance recoveries	570	742	555	742
Recovery of bad debts and income from prior years	1,295	898	1,294	875
Other	248	518	876	509
	12,090	15,210	11,181	13,614

The net profit from the sale of property, plant and equipment amounts to HRK 1,570 thousand (2003,: HRK 3,354 thousand). Proceeds from the sale of property, plant and equipment are stated above and their carrying amounts are stated in note 7 – Other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 5 – COST OF RAW MATERIALS, CONSUMABLES AND SERVICES

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Raw materials and consumables				
Raw materials and consumables	39,519	37,360	39,160	36,989
Energy, water and telephone	17,322	18,160	17,252	18,078
Spare parts and miscellaneous inventory	6,066	5,648	6,062	5,645
	62,907	61,168	62,474	60,712
External services				
Services of Sol Melia	17,604	19,004	17,604	19,004
Maintenance services	5,693	6,002	5,677	5,953
ATP services	3,468	3,636	-	10
Utilities	2,956	3,091	2,956	3,091
Advertising and promotion	2,249	2,250	2,155	2,237
Entertainment and music services	3,966	2,693	4,043	2,693
Other services	8,697	7,564	6,763	6,657
	44,633	44,240	39,198	39,645
	107,540	105,408	101,672	100,357

The Company appointed Sol Melia by contract as its representative in managing and operating its properties and the Company is obliged by contract to pay a basic monthly and incentive quarterly fee.

NOTE 6 – EMPLOYEE COSTS

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Gross salaries	61,399	58,057	60,898	57,558
Other employee expenses	10,220	10,154	9,929	9,816
	71,619	68,211	70,827	67,374

Other employee expenses include travel reimbursements, redundancy payments, anniversary awards, temporarily contracted staff fees and author fees.

During 2004, the average number of employees in the Istraturist Group was 773 (2003: 769 employees), and in the Company there were 770 employees (2003: 766 employees),

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 7 – OTHER OPERATING EXPENSES

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Utility rates and taxes	6,664	6,341	6,657	6,335
Promotions and travel	2,177	2,100	1,694	1,638
Net book value of disposed property, plant and equipment	1,284	2,569	1,284	2,567
Insurance premiums	2,153	1,987	2,149	1,987
Subscriptions and membership fees	1,524	1,368	1,500	1,348
Bank service charges	1,279	1,998	1,256	1,976
Impairment of receivables	696	391	695	391
Increase in provision for court cases	1,092	634	1,092	634
Other	2,191	1,875	2,771	1,798
	19,060	19,263	19,098	18,674

Other expenses comprise taxes and levies which do not depend on results, professional education expenses, administrative and court fees, expenses from prior periods and other miscellaneous costs.

NOTE 8 – NET FINANCIAL COSTS

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Interest income	193	107	191	105
Dividend income	104	94	104	94
Income from sale of equity instruments	139	24	139	24
Income from financial instruments	4,855	702	4,855	702
	5,291	927	5,289	925
Interest expense	9,509	9,632	9,509	9,628
Net foreign exchange losses	2,229	1,815	2,248	1,815
Loss from sale of equity instruments	57	24	57	24
	11,795	11,471	11,814	11,467
	(6,504)	(10,544)	(6,525)	(10,542)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 9 – NET PROFIT TAX INCOME/(EXPENSE)

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Current tax expense	(143)	-	-	-
Deferred tax benefit	38,407	(4,000)	38,407	(4,000)
Net tax income/(expense)	38,264	(4,000)	38,407	(4,000)

The following table presents the reconciliation of profit tax calculated at the applicable tax rate:

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Profit before tax	41,942	49,311	41,340	49,709
Profit tax expense at 20%	(8,388)	(9,862)	(8,268)	(9,942)
Non deductible costs	(2,714)	(394)	(2,691)	(344)
Non taxable income	21	19	21	19
Income from recognition of deferred tax assets from prior periods	49,345	6,237	49,345	6,267
Net tax income/(expense)	38,264	(4,000)	38,407	(4,000)

NOTE 10 – EARNINGS PER SHARE

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Profit after taxation	80,206	45,311	79,747	45,709
Number of shares issued (in thousands)	4,675	4,675	4,675	4,675
Earnings per share (in HRK)	17,16	9,69	17,06	9,78

Earnings per share are calculated based on the net profit of the owner of ordinary shares and the number of ordinary shares.

NOTE 11 – DIVIDEND PER SHARE

By the shareholder assembly decision in 2001 general reserves in the amount of HRK 2,970 thousand were created. By the shareholder assembly decision in 2003, the amount of HRK 2,970 thousand was declared as a dividend for payment in that year. During 2004, the Company paid out a dividend in the amount of HRK 23,375 thousand. The decision for the dividend payment of HRK 5.00 per share was made at the annual Shareholder assembly held during 2004.

Management board have proposed a dividend in the amount of HRK 5.30 per share, which is subject to Shareholder approval and will be paid out of 2004 profits, in total amount of HRK 24,777 thousand. The proposed dividend will be accounted for after approval by the Shareholders at their annual General Shareholders Assembly.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 12 – PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Group	Tangible assets			Intangible assets	
In HRK thousand	Land and buildings	Computers, equipment and vehicles	Assets under construction	Total tangible assets	Software
Cost or valuation					
Balance at 1 January 2004	890,378	197,388	329	1,088,095	4,225
Additions	-	-	87,319	87,319	-
Transfer to intangible assets	-	(19)	-	(19)	19
Transfer from assets under construction	68,015	18,042	(86,593)	(536)	536
Write-off and disposal	(3,313)	(8,516)	-	(11,829)	-
Balance at 31 December 2004	955,080	206,895	1,055	1,163,030	4,780
Depreciation & impairment					
Balance at 01 January 2004	184,814	128,571	-	313,385	2,624
Write-off and disposal	(2,188)	(8,357)	-	(10,545)	-
Transfer to intangible assets	-	(6)	-	(6)	6
Depreciation and impairment	32,461	14,083	-	46,544	573
Balance at 31 December 2004	215,087	134,291	-	349,378	3,203
Net book value					
At 1 January 2004	705,564	68,817	329	774,710	1,601
At 31 December 2004	739,993	72,604	1,055	813,652	1,577

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 12 – PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (continued)

Company	Tangible assets				Intangible assets
In HRK thousand	Land and buildings	Computers, equipment and vehicles	Assets under construction	Total tangible assets	Software
Cost or valuation					
Balance at 1 January 2004	890,378	197,000	329	1,087,707	4,225
Additions	-	-	87,147	87,147	-
Transfer to intangible assets	-	(19)	-	(19)	19
Transfer from assets under construction	68,015	17,870	(86,421)	(536)	536
Write-off and disposal	(3,313)	(8,516)	-	(11,829)	-
Balance at 31 December 2004	955,080	206,335	1,055	1,162,470	4,780
Depreciation & impairment					
Balance at 01 January 2004	184,814	128,513	-	313,327	2,624
Write-off and disposal	(2,188)	(8,357)	-	-10,545	-
Transfer to intangible assets	-	(6)	-	-6	6
Depreciation and impairment	32,461	14,035	-	46,496	573
Balance at 31 December 2004	215,087	134,185	-	349,272	3,203
Net book value					
At 1 January 2004	705,564	68,487	329	774,380	1,601
At 31 December 2004	739,993	72,150	1,055	813,198	1,577

As at 31 December 2004, buildings owned by the Company with a net book value of HRK 399,950 thousand (2003: HRK 380,627 thousand) were secured against loans as disclosed in note 21 – Loans and borrowings.

Borrowing costs amounting to HRK 848 thousand (2003: HRK 1,089 thousand) have been capitalised during 2004 and included in the value of buildings. The borrowing costs comprise interest and other expenses of financing construction work performed on tourism properties. The capitalisation rate is 6.33% (2003: 5.10%).

In 2004, the Company has assessed assets that are not in use. An impairment of HRK 12,255 has been recorded against these assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 13 – INVESTMENTS IN EQUITY INSTRUMENTS

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Investment in subsidiary (Note 26)	-	-	37	37
Other equity instruments available for sale	682	739	682	739
	682	739	719	776

NOTE 14 – LONG TERM RECEIVABLES

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Long term loans to employees	744	806	744	806
Current portion of long term receivables (Note 18)	(101)	(101)	(101)	(101)
Total long term receivables	643	705	643	705

Loans to employees are granted for the purchase of flats and repayable over 10-32 years at an interest rate of 1%-10% p.a. and education loans repayable over 2-5 years at an interest rate of 6% p.a.

The provision for impairment of loans is based on the credit risk and fair value estimate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 15 – DEFERRED TAX ASSETS

Prior year tax losses in the amount of HRK 16,309 thousands (year 2003: HRK 37,437 thousands) are available for offsetting against future taxable profits of the company. Tax losses can be carried forward for 5 years after the year in which it was incurred.

Other deferred tax asset consists of temporary differences between accounting depreciation that is presented in this financial statements and depreciation that is used in the profit tax computation. These deductible temporary differences do not expire under current tax legislation.

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Deferred tax asset	46,407	8,000	46,407	8,000
Tax asset from 1999,- (tax loss) valid to 31.12.2004.	0	21,128	0	21,128
Tax asset from 2000,- (tax loss) valid to 31.12.2005.	14,237	14,237	14,237	14,237
Tax asset from 2001,- (tax loss) valid to 31.12.2006.	2,072	2,072	2,072	2,072
Total tax losses	16,309	37,437	16,309	37,437
Total temporary differences arising from depreciation of property, plant and equipment	45,708	51,937	45,708	51,937
Total deferred tax assets	62,017	89,374	62,017	89,374
Not recognised as deferred tax asset	(15,610)	(81,374)	(15,610)	(81,374)
Recognized as deferred tax asset	46,407	8,000	46,407	8,000

Deferred tax assets are recognised to the extent that probable future taxable profit will be available against which the benefits therefore can be utilised.

NOTE 16 – INVENTORIES

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Raw material and consumables	817	815	817	815
Goods for resale	7	52	7	52
Miscellaneous inventory	12,943	12,764	12,930	12,752
	13,767	13,631	13,754	13,619

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 17 – TRADE AND OTHER RECEIVABLES

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Domestic trade receivables	11,636	7,142	9,922	6,137
Receivables from related parties(Note 26)	181	152	181	152
Foreign trade receivables	3,729	4,716	3,684	4,716
Provision for impairment of receivables	(5,101)	(4,606)	(5,101)	(4,606)
Net trade receivables	10,445	7,404	8,686	6,399
VAT receivables	224	3,274	221	3,219
Receivables from employees	82	45	80	45
Receivables for advances given	3000	616	3000	613
Receivables from insurance companies	61	56	61	56
Other receivables	93	81	92	81
Other receivables from related companies (Note 26)	14	467	14	467
Total other receivables	3,474	4,539	3,468	4,481
Total trade and other receivables	13,919	11,943	12,154	10,880

NOTE 18 – SHORT TERM LOANS

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Loans to subsidiaries	-	-	2,791	2,447
Current portion of long-term receivables (Note 14)	101	101	101	101
	101	101	2,892	2,548

NOTE 19 – CASH AND CASH EQUIVALENTS

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Giro accounts	727	1,601	721	1,466
Cash in hand	190	173	190	173
Foreign currency accounts	856	831	580	823
	1,773	2,605	1,491	2,462

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 20 – TRADE AND OTHER PAYABLES

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Long-term liabilities				
Other long term employee entitlements	227	582	227	582
Total long-term liabilities	227	582	227	582
Short term liabilities				
Trade payables	22,509	20,260	22,491	20,241
Liabilities towards related parties (Note 26)	30	8	30	8
Other short-term employee entitlements (i)	4,815	2,310	4,712	2,298
Liability for net salary	1,976	3,225	1,962	3,184
Liability for tax and contributions	2,185	2,129	1,948	2,087
Liability for advances	827	1,107	827	1,107
Liability for interest towards related parties (Note 26)	0	315	0	315
Liabilities for dividends	443	146	443	146
Other short-term liabilities	355	349	447	346
Total short-term liabilities	33,140	29,849	32,860	29,732

(i) Other employee entitlements comprise constructive and contractual obligations arising from organisational changes and contracts signed with employees in respect of overtime hours.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 21 – LOANS AND BORROWINGS

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Short term liabilities				
Related parties (Note 26):				
Zagrebačka Banka Group				
Zagrebačka Banka d.d., Zagreb (Parent)	2,325	14,500	2,325	14,500
Zagrebačka Banka Bosnia and Herzegovina, Mostar	24,111	-	24,111	-
UniCredito Italiano Group				
UniBanka a.s., Bratislava	8,924	8,799	8,924	8,799
Bulbank AD, Sofija	45,989	16,020	45,989	16,020
	81,349	39,319	81,349	39,319
Long term liabilities				
Related parties (Note 26):				
UniCredito Italiano Group				
UniBanka a.s., Bratislava	44,233	52,411	44,233	52,411
Bulbank AD, Sofija	76,789	92,566	76,789	92,566
	121,022	144,977	121,022	144,977
Total loan liabilities	202,371	184,296	202,371	184,296

Loans and borrowings include amounts secured against property in the amount of HRK 399,950 thousand (2003: HRK 380,627 thousand). See note 12 – Property, plant and equipment.

In HRK thousands		Total 2004	Repayment period			
Creditor	Interest rate		1 year or less	1-2 years	2-5 years	More than 5 years
UniBanka, a.s., Bratislava	3 month Libor for CHF +3.5% margin	53,157	8,924	8,924	26,773	8,536
Bulbank AD, Sofia	3 month Libor for EUR +2.8% margin	92,860	16,071	16,071	60,718	-
Bulbank AD, Sofia	3 month Libor for EUR +2.75% margin	29,918	29,918	-	-	-
UniCredit Zagrebačka Banka, Mostar	3 month Libor for CHF +3.5% margin	24,111	24,111	-	-	-
Zagrebačka Banka d.d., Zagreb revolving loan	RS +2.35% margin	2,325	2,325	-	-	-
Total		202,371	81,349	24,995	87,491	8,536

Revolving loans interest rates are based on the Croatian referent rate (RS) which are calculated on return from state treasury notes.

At 31 December 2004, Company had unused revolving credit line facilities at Zagrebačke banka d.d., Zagreb totalling HRK 28,8 million (2003,: HRK 20,4 million),

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 22 – PROVISIONS

Provisions for court cases

In HRK thousand	Group		Company	
	2004	2003	2004	2003
At beginning of the year	695	105	695	105
Increase	1,568	590	1,568	590
Decrease	(924)	-	(924)	-
At end of the year	1,339	695	1,339	695

NOTE 23 – CAPITAL AND RESERVES

The issued share capital comprises 4,674,995 ordinary shares (2003: 4,674,995 ordinary shares). The nominal value of each share is HRK 100 (2003: HRK 100).

The legal reserve is formed in accordance with the Companies Act which prescribes that the company must transfer 5% of the current year's profit into these reserves until these reserves total five per cent (5%) of the company's share capital. This legal reserve now corresponds to 5% of the Company's share capital. This reserve is not distributable.

The ownership structure of the company Istraturist Umag d.d. as at 31 December 2004 according to the Central Deposit Agency is as follows:

		share
1,	ZAGREBAČKA BANKA D.D.	71.80%
2,	PBZ D.D./KAPITALNI FOND D.D. CLOSED INVESTMENT FUND	8.77%
3,	HRVATSKI FOND ZA PRIVATIZACIJU	1.79%
4,	DOM HOLDING D.D.	1.38%
5,	PBZ D.D./NLB/HANSBANK CLIENTS ACCOUNT	1.32%
6,	HVB SPLITSKA BANKA D.D./COLLECTIVE ACCOUNT, FOR SKAN, ENSK, BANK,, ŠVED, REZIDENTI	1.17%
7,	HVB SPLITSKA BANKA D.D./COLLECTIVE ACCOUNT, FOR BANK AUSTRIA CREDITANSTALT AG	0.86%
8,	MEĐIMURSKA BANKA D.D. ČAKOVEC	0.49%
9,	RAIFFEISENBANK AUSTRIA D.D. ZAGREB/COLLECTIVE ACCOUNT ZA DP	0.31%
10,	OTHER SHAREHOLDERS	12.11%
		100.00%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 24 – CONTINGENCIES

Legal cases

Prior to 1991, the Company owed approximately DEM 31 million to Ljubljanska banka d.d., Ljubljana in respect of borrowings and other financial obligations. Following the dissolution of former Yugoslavia, entities resumed their operating activities within separate independent republics. It is against this background, that the Company reached a contractual agreement with Zagrebačka banka d.d., Zagreb.

Pursuant to the regulations passed in the Republic of Croatia upon becoming an independent state, which define the settlement of the deposits of Croatian citizens with banks domiciled in the Republic of Croatia, and pursuant to a contract concluded with the Croatian Ministry of Finance, Zagrebačka banka d.d., Zagreb retained a part of its receivables from Ljubljanska banka d.d., Ljubljana amounting to DEM 31 million with the objective to sell them to its customer Istraturist Umag d.d., Umag.

On the basis of this transaction, the Company assumed a receivable from Ljubljanska banka d.d., Ljubljana of DEM 31 million; in accordance with the Law on Obligations, the Company offset the assumed receivable with its loan obligation to Ljubljanska banka d.d., Ljubljana for the equivalent amount.

The operations and assets of Ljubljanska banka d.d., Ljubljana were subsequently acquired by and transferred to Nova Ljubljanska banka d.d., Ljubljana; Nova Ljubljanska banka d.d., Ljubljana does not recognise the liabilities of Ljubljanska banka d.d., Ljubljana, including liabilities to Croatian depositors and the receivable purchased by the Company from Zagrebačka banka d.d., Zagreb.

Nova Ljubljanska banka d.d. brought legal action against the Company in Slovenian courts demanding the repayment of the original liability of DEM 31 million plus interest.

The court of first instance in Slovenia brought decisions in favour of Ljubljanska banka d.d. and Nova Ljubljanska banka d.d., upon which the Company lodged an appeal. The court of second instance confirmed one of the the first judgements, to which the Company, within the statutory limit lodged an extraordinary appeal against this judgement, which included revision, application for protection of legality and application for a retrial.

In December 2004, the Supreme Court of the Republic of Slovenia agreed with the request for a revision, terminated the decisions of the courts of first and second instance and returned the case to the court of first instance for a retrial.

The Supreme Court of Slovenia concluded that the courts have incorrectly applied material law concerning:

- Legal interpretation of the contract of sale of receivable made between the Company and Zagrebačka banka, d.d., on the basis of which the Company assumed a receivable from Ljubljanska banka, d.d. and
- Legal provisions concerning the presumptions for settlement of receivables between entities.

This ruling significantly influences the future of this case and also other similar cases between the parties that are in progress in courts in Slovenia and Croatia.

The Company brought legal action against Ljubljanska Banka d.d. and Nova Ljubljanska Banka d.d. at the Commercial Court in Zagreb regarding the termination of liabilities, due to the offset against receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 24 – CONTINGENCIES (continued)

The receivables claimed by the Company are not recognised in the financial statements of the Company, nor is any liability recognised to Ljubljanska Banka d.d. or Nova Ljubljanska Banka d.d.. Should the legal proceedings not be positively resolved for the Company, the Company's Management

believes that this resolution will be the topic of constant negotiations of the Governments of the Republic of Slovenia and Croatia dealing with the issues of foreign currency savings of Croatian citizens with banks domiciled in the Republic of Slovenia.

Ownership of land and buildings

As at 31 December 2004, the ownership over the Company's land and buildings was registered partly with Istraturist Umag d.d. and partly with Istraturist holding company for hotel management and tourism, Umag prior to privatisation. The process of re-registering ownership over land and buildings with Istraturist Umag d.d. is still in progress. The financial statements have been compiled under the assumption of the completion of this re-registration.

NOTE 25 – CASH GENERATED FROM OPERATIONS

Adjustment of profit and cash generated from operations:

In HRK thousand	Group		Company	
	2004	2003	2004	2003
Profit before tax	41,942	49,311	41,340	49,709
Depreciation	47,117	31,984	47,069	31,942
Income from sale of property, plant and equipment	(2,695)	(5,862)	(2,695)	(5,862)
Loss on sale of investments	57	24	57	24
Small inventory write-off	3,099	2,936	3,097	2,934
Provision for impairment of assets	57	25	57	25
Interest income	(193)	(107)	(191)	(105)
Dividend income	(243)	(118)	(243)	(118)
Interest expense	9,509	9,632	9,509	9,628
Provisions for impairment of assets	644	590	644	590
Other cash items	562	-	35	-
Changes in working capital				
Trade and other receivables	(2,471)	(2,139)	(1,769)	(1,468)
Inventories	(3,235)	(4,900)	(3,232)	(4,896)
Trade and other payables	(2,493)	(8,615)	(2,330)	(8,488)
Cash generated from operations	91,657	72,761	91,348	73,915

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 26 – RELATED PARTY TRANSACTIONS

- a) The Istraturist Group is controlled by Zagrebačka Banka d.d., Zagreb that owns 71.8% of shares. The remaining 28.2% is owned by various persons and legal entities. The ultimate Parent company is UniCredito Italiano.
- b) Subsidiaries of the company

	Country of registration	Share of ownership	
		2004	2003
Istra Golf Umag d.o.o.	Croatia	100%	100%

Basic activity of the subsidiary is organisation of the annual ATP tennis tournament in Umag, Croatia.

- c) The nature of transactions between related parties and the Group is financing and performing banking services, which are presented in notes 20, 21, 22 and 26 above.
- a. During the year, the following transactions occurred the Zagrebačka Banka Group and are included in the income statement:

In HRK thousands	2004	2003
Zagrebačka banka d.d. Zagreb		
Interest income	170	19
Income from financial instruments	4,855	702
Other income	225	43
Interest expense	747	5,100
Fee expense	394	416
	6,391	6,280
Zagrebačka banka BH Mostar		
Interest expense	477	-

- b. During the year, the following transactions with related parties within the UniCredito Group were included in the income statement:

In HRK thousand	2004	2003
Interest expense		
UniBanka a,s, Bratislava	2,338	1,556
Bulbank AD, Sofija	5,782	315
	8,120	1,871
Fee expense		
UniBanka a,s,, Bratislava	61	56
Bulbank AD, Sofija	103	776
	164	832

On the 31 December 2004 the company had receivables from operating activities towards the group of HRK 195 thousand, and total liabilities arising from loans and other liabilities of HRK 202,401 thousands (2003: HRK 184,304 thousands).