

ISTRATURIST UMAG d.d.

**ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2006**

RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and the Company and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Group and the Company including the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The financial statements set out on pages 4 to 30 were authorised by the Management Board on 2 March 2007 for issue to the Supervisory Board and are signed below to signify this.

President of the Management Board
Gordana Tomičić

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

We have audited the accompanying consolidated financial statements of Istraturist Umag d.d. Group ("the Group"), which comprise the consolidated balance sheet as at 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.

We have also audited the accompanying unconsolidated balance sheet of Istraturist Umag d.d. ("the Company") which comprise the unconsolidated balance sheet as at 31 December 2006, and the unconsolidated income statement, unconsolidated statement of changes in equity and unconsolidated 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 and unconsolidated 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2006, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Croatia d.o.o. za reviziju

Croatian Certified Auditors

Eurotower, 17th floor

Ivana Lucica 2a

10000 Zagreb

Croatia

2 March 2007

For and on behalf of KPMG Croatia d.o.o. za reviziju:

Tony Ilijanić

Director, Croatian Certified Auditor

INCOME STATEMENT**FOR THE YEAR ENDED 31 DECEMBER 2006**

In HRK thousand	Note	Consolidated Group		Parent Company	
		2006	2005	2006	2005
Operating revenue					
Sales revenue	4	309,687	284,350	299,894	276,918
Other operating income	5	13,707	12,521	11,945	11,041
Total operating income		323,394	296,871	311,839	287,959
Operating costs					
Raw material, consumables and services used	6	126,989	111,469	117,955	104,356
Personnel expenses	7	86,742	74,881	85,752	74,045
Depreciation and amortisation	13	37,863	37,338	37,768	37,258
Other operating expenses	8	20,190	19,322	19,628	18,613
Total operating costs		271,784	243,010	261,103	234,272
Operating profit		51,610	53,861	50,736	53,687
Financial income	9	11,644	15,830	11,619	15,778
Financial expense	9	(19,730)	(19,944)	(19,685)	(19,871)
Net financial expense		(8,086)	(4,114)	(8,066)	(4,093)
Profit before tax		43,524	49,747	42,670	49,594
Income tax expense	10	(9,615)	(6,295)	(9,385)	(6,230)
Profit for the year		33,909	43,452	33,285	43,364
Earnings per share (in HRK)	11	7.25	9.29	7.12	9.28

The notes set out on pages 8 to 30 form part of these financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2006

In HRK thousand	Note	Consolidated Group		Parent Company	
		2006	2005	2006	2005
ASSETS					
Non-current assets					
Property, plant and equipment	13	1,058,320	893,761	1,057,507	893,006
Intangible assets	13	1,256	1,168	1,218	1,168
Loans and receivables	14	399	455	399	455
Other investment		-	-	37	37
Deferred tax assets	15	30,861	40,177	30,861	40,177
Total non-current assets		1,090,836	935,561	1,090,022	934,843
Current assets					
Inventories	16	15,050	12,750	14,880	12,666
Trade and other receivables	17	12,389	14,143	11,258	12,204
Other financial assets	18	12,409	1,508	13,179	4,384
Cash and cash equivalents	19	2,244	703	2,055	668
Total current assets		42,092	29,104	41,372	29,922
TOTAL ASSETS		1,132,928	964,665	1,131,394	964,765
EQUITY AND LIABILITIES					
Equity					
Share capital	23	467,500	467,500	467,500	467,500
Treasury shares	23	(368)	-	(368)	-
Legal reserves	23	23,375	23,375	23,375	23,375
Retained earnings		192,376	183,244	192,258	183,750
Total shareholders equity		682,883	674,119	682,765	674,625
Liabilities					
Non-current liabilities					
Loans and borrowings	21	280,370	187,495	280,370	187,495
Trade and other payables	20	-	21	-	21
Total non-current liabilities		280,370	187,516	280,370	187,516
Current liabilities					
Loans and borrowings	21	114,453	57,023	114,453	57,023
Trade and other payables	20	53,969	45,387	52,553	44,981
Provisions	22	1,253	620	1,253	620
Total current liabilities		169,675	103,030	168,259	102,624
Total liabilities		450,045	290,546	448,629	290,140
TOTAL EQUITY AND LIABILITIES		1,132,928	964,665	1,131,394	964,765

The notes set out on pages 8 to 30 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

Consolidated Group	Share capital	Treasury shares	Legal reserves	Retained earnings	Total
In HRK thousand					
Balance at 1 January 2005	467,500	-	23,375	164,569	655,444
Dividend for 2004 (Note 12)	-	-	-	(24,777)	(24,777)
Profit for the year (recognised income)	-	-	-	43,452	43,452
Balance at 31 December 2005	467,500	-	23,375	183,244	674,119
Dividend for 2005 (Note 12)	-	-	-	(24,777)	(24,777)
Purchase of own shares (Note 23)	-	(368)	-	-	(368)
Profit for the year (recognised income)	-	-	-	33,909	33,909
Balance at 31 December 2006	467,500	(368)	23,375	192,376	682,883

Parent Company

	Share capital	Treasury shares	Legal reserves	Retained earnings	Total
In HRK thousand					
Balance at 1 January 2005	467,500	-	23,375	165,163	656,038
Dividend for 2004 (Note 12)	-	-	-	(24,777)	(24,777)
Profit for the year (recognised income)	-	-	-	43,364	43,364
Balance at 31 December 2005	467,500	-	23,375	183,750	674,625
Dividend for 2005 (Note 12)	-	-	-	(24,777)	(24,777)
Purchase of own shares (Note 23)	-	(368)	-	-	(368)
Profit for the year (recognised income)	-	-	-	33,285	33,285
Balance at 31 December 2006	467,500	(368)	23,375	192,258	682,765

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006**

In HRK thousand	Note	Consolidated Group		Parent Company	
		2006	2005	2006	2005
<i>Cash flow from operating activities:</i>					
Profit before tax		43,524	49,747	42,670	49,594
<i>Adjustment for:</i>					
Depreciation		37,458	36,804	37,365	36,723
Amortisation		405	534	403	535
Write off of property, plant and equipment		200	1,245	196	1,246
Write off of miscellaneous inventory		6,407	6,068	6,378	6,055
Profit on sale of property, plant and equipment		-	(902)	-	(902)
Impairment loss on receivables		282	325	106	325
Recovery of impaired receivables		(31)	(224)	(31)	(224)
Change in provision		633	(719)	633	(719)
Fair value gains on financial assets		(317)	(719)	(317)	(719)
Dividend income		(128)	(113)	(128)	(113)
Interest income		(184)	(184)	(183)	(183)
Interest expense		12,300	9,319	12,299	9,319
Foreign exchange gains		(1,443)	(7,456)	(1,443)	(7,456)
Operating profit before working capital changes		99,106	93,725	97,948	93,481
Change in trade and other receivables		783	(112)	2,257	(23)
Change in trade and other payables		5,062	5,847	4,203	5,744
Change in inventories		(353)	34	(354)	33
Cash generated from operations		104,598	99,494	104,054	99,235
Interest paid		(11,479)	(8,958)	(11,478)	(8,958)
Income tax paid		(79)	(44)	-	-
Cash flow from operating activities		93,040	90,492	92,576	90,277
<i>Cash flow from investing activities</i>					
Acquisition of property, plant and equipment		(199,943)	(113,399)	(199,788)	(113,019)
Acquisition of intangible assets		(493)	(125)	(453)	(126)
Acquisition of miscellaneous inventory		(8,354)	(5,085)	(8,238)	(5,001)
Interest received		184	184	183	183
Dividends received		128	113	128	113
Acquisition of other investments		(9,808)	(100)	(9,808)	(100)
Acquisition of treasury shares		(368)	-	(368)	-
Proceeds from sale of property, plant and equipment		-	1,911	-	1,911
Proceeds from sale of investments		-	69	-	69
Cash flow from investing activities		(218,654)	(116,432)	(218,344)	(115,970)
<i>Cash flow from financing activities</i>					
Proceeds from loans and borrowings		260,210	180,334	260,210	180,334
Repayment of loans and borrowings		(108,462)	(130,731)	(108,462)	(130,731)
Dividends paid		(24,593)	(24,733)	(24,593)	(24,733)
Cash flow from financing activities		127,155	24,870	127,155	24,870
Net increase/(decrease) in cash and cash equivalents		1,541	(1,070)	1,387	(823)
Cash and cash equivalents at the beginning of the year		703	1,773	668	1,491
Cash and cash equivalents at the end of the year	19	2,244	703	2,055	668

The notes set out on pages 8 to 30 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 1 – GENERAL INFORMATION

Istraturist Umag d.d. is a joint stock company registered and domiciled in Umag, Croatia. These financial statements present together the consolidated Group and unconsolidated parent Company.

The Istraturist Group (“Group”) comprises Istraturist Umag (the “Parent Company” or “Company”), a joint stock company for catering and tourism 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 2006 is disclosed in note 26. The Company shares are listed on primary listing of Zagreb Stock Exchange.

NOTE 2 – BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The financial statements were approved by the Management Board on 2 March 2007.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value.

c) Functional and presentation currency

These financial statements are presented in the Croatian currency, Kuna (HRK), which is also the functional currency, rounded to the nearest thousand. The exchange rate as at 31 December 2006 was HRK 7.3451 to EUR 1 (2005: HRK 7.3756).

d) Going concern

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 Group and Company are in the process of negotiations with the banks, relating to refinancing of existing loans. Further, the majority shareholder and its related parties are also major creditors of the Group and the Company (as disclosed in note 21).

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group and the Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group or the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's or the Company's contractual rights to the cash flows from the financial assets expire or if the Group or the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group or the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's or the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's and the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(p).

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group or the Company manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

ii) Derivative financial instruments

The Group and the Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value.

e) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

f) Property, plant and equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses as per note 3(h). Cost includes all direct costs attributable to bringing the asset to working condition for its intended use, including the proportion of the related borrowing costs for property, plant and equipment incurred during the period of their construction.

Borrowing costs in relation to borrowings, that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset, net of any interest earned on those borrowings. Qualifying assets are assets which take a substantial period of time to get ready for their intended use or sale.

Depreciation is calculated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The average estimated useful lives are as follows:

	2006	2005
Buildings	35 years	35 years
Plant and equipment	4 – 20 years	4 – 20 years

Freehold land and assets under construction are not depreciated since they have indefinite useful lives.

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 Company 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.

The Group and the Company reviewed the estimated useful lives of plant and equipment. Following this review, the estimated useful lives of certain groups of assets were changed by management. The estimated effect of this change is given in note 13 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Intangible assets

Intangible assets comprise software and are presented at cost less accumulated amortisation and impairment losses. Amortisation is charged to income statement on a straight line basis over the estimated useful life. The estimated useful life is 5 years.

h) Impairment of the assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's and the Company's non-financial assets, other than, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

i) 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.

j) Inventories

Inventories of raw materials and consumable goods are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Inventories are valued based on purchase price, using the weighted average costs principle.

Small miscellaneous inventory is stated at cost less accumulated depreciation and impairment as per note 3(h). Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of inventories.

The estimated useful lives of small miscellaneous inventory is as follows:

	2006	2005
Glassware and cutlery	2 years	2 years
Porcelain, kitchen appliances and linens	3 years	3 years
Curtains and blankets	5 years	5 years
Other small inventory	5 years	5 years

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

k) Employee entitlements

(i) Defined contribution pension funds contributions

Obligations for defined contributions to pension funds are recognised as an expense in the income statement when incurred.

(ii) Bonus plans

A liability for employee benefits is recognised in provisions based on the Group’s and Company’s formal plan and when past practice has created a valid expectation by the Management Board/key employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus plans are expected to be settled within 12 months of the balance sheet date and are measured at the amounts expected to be paid when they are settled.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group and the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Taxation

Corporate income taxes are computed on the basis of reported income under Croatian laws and regulations.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

m) Dividend distribution

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

n) Provisions

A provision is recognised when the Group or the Company has a present legal or constructive obligation as a result of a past event, 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group or the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

o) Revenue recognition

Revenue from services is recognised in the period in which services are provided in proportion to the stage of completion of the transaction at the balance sheet date. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership are transferred to the buyer. Revenues are stated net of taxes, discounts and volume rebates. Provisions for rebates to customers are recognised in the same period that the related sales are recorded, based on contract terms.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Financing income and expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss.

Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's or Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

q) Segment reporting

A segment is a distinguishable component of the Group or the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's and the Company's current operation is in the segment of tourism (business segment) and its operations, and the majority of its assets are located in Croatia (geographical segment). Hence, segment reporting is not considered relevant.

r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these financial statements.

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to Company's financial instruments and share capital.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Company's 2007 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 4 – SALES REVENUE

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Income from sale to domestic guests	75,443	63,106	66,042	56,361
Income from sale to foreign guests	234,244	221,244	233,852	220,557
	309,687	284,350	299,894	276,918

NOTE 5 – OTHER OPERATING INCOME

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Income from sale of property, plant and equipment (i)	-	3,327	-	3,327
Rental income	6,545	3,948	6,455	3,982
Sponsorships	1,525	1,369	-	46
Sale of materials	1,501	1,397	1,501	1,397
Insurance recoveries	774	532	774	532
Recovery of impairment loss and income from prior years	31	1,261	31	999
Release of provisions	74	506	74	506
Other income	3,257	181	3,110	252
	13,707	12,521	11,945	11,041

(i) There was no sale of property, plant and equipment in 2006 (2005: HRK 1,044 thousand). Corresponding carrying amount of assets sold is disclosed in note 8 (Other operating expenses).

NOTE 6 – RAW MATERIALS, CONSUMABLES AND SERVICES USED

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Raw materials and consumables				
Raw materials and consumables	44,710	38,552	44,114	38,098
Energy, water and telephone	20,997	18,438	20,951	18,363
Spare parts and miscellaneous inventory	6,294	5,937	6,265	5,927
	72,001	62,927	71,330	62,388
External services				
Services of Sol Melia	18,927	17,036	18,927	17,036
Maintenance services	7,253	5,938	6,861	5,758
ATP services (tennis tournament)	4,068	3,483	-	-
Utility services	3,758	3,020	3,758	3,020
Advertising and promotion	2,443	2,380	2,348	2,335
Entertainment and music services	6,570	5,034	5,807	4,832
Other services	11,969	11,651	8,924	8,987
	54,988	48,542	46,625	41,968
	126,989	111,469	117,955	104,356

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 6 – RAW MATERIALS, CONSUMABLES AND SERVICES USED (CONTINUED)

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

NOTE 7 – PERSONNEL EXPENSES

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Gross salaries	70,994	62,040	70,458	61,564
Other employee expenses	15,748	12,841	15,294	12,481
	86,742	74,881	85,752	74,045

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

During 2006, the average number of employees in the Istraturist Group was 842 (2005: 775 employees), and in the Company there were 839 employees (2005: 769 employees),

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Personnel expenses include of defined pension contributions paid or payable into obligatory pension plans	11,698	10,429	11,613	10,353

Contributions are calculated as a percentage of employee's gross salaries (Gross II).

NOTE 8 – OTHER OPERATING EXPENSES

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Utility rates and taxes	8,166	6,785	8,156	6,777
Promotions and travel	2,749	2,515	2,389	2,118
Net book value of property, plant and equipment written of / sold	199	2,283	187	2,283
Insurance premiums	2,499	2,267	2,495	2,264
Subscriptions and membership fees	1,634	1,507	1,633	1,481
Bank service charges	2,086	1,641	2,065	1,616
Impairment losses on receivables	332	334	157	153
Increase in provisions	707	98	707	98
Other	1,818	1,892	1,839	1,823
	20,190	19,322	19,628	18,613

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 9 – NET FINANCIAL EXPENSES

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Interest income	318	184	316	183
Dividend income	128	113	128	113
Income from equity instruments at fair value through profit and loss	954	722	954	722
Foreign exchange gain	9,786	14,811	9,763	14,760
Net income from financial instruments	458	-	458	-
Financial income	11,644	15,830	11,619	15,778
Interest expense	12,300	9,319	12,299	9,319
Foreign exchange loss	7,419	6,978	7,375	6,905
Net loss from sale of financial instruments	11	3,647	11	3,647
Financial expense	19,730	19,944	19,685	19,871
Net financial expenses	(8,086)	(4,114)	(8,066)	(4,093)

NOTE 10 – INCOME TAX EXPENSE

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Current tax expense	(299)	(65)	(69)	-
Deferred tax expense (note 15)	(9,316)	(6,230)	(9,316)	(6,230)
Income tax expense	(9,615)	(6,295)	(9,385)	(6,230)

The following table presents the reconciliation of profit tax calculated at the applicable tax rate 20% (2005:20%):

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Profit before tax	43,524	49,747	42,670	49,594
Profit tax expense at 20% (2005:20 %)	(8,705)	(9,949)	(8,534)	(9,919)
Non deductible costs	(1,013)	(817)	(954)	(782)
Non taxable income	103	25	103	25
Recognition of deferred tax assets from previously unrecognised temporary differences	-	4,446	-	4,446
Income tax expense	(9,615)	(6,295)	(9,385)	(6,230)
Effective tax rate	22%	13%	22%	13%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 11 – EARNINGS PER SHARE

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

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Profit after tax	33,909	43,452	33,285	43,364
Number of shares issued (in thousands)	4,675	4,675	4,675	4,675
Earnings per share (in HRK)	7.25	9.29	7.12	9.28

NOTE 12 – PROPOSED DIVIDEND

Management board proposed dividend payment for the year 2006 in the amount of HRK 4,56 per share, which will be paid out after General Assembly Meeting and approval in the total amount of HRK 21,318 thousand.

At the annual Shareholder assembly held during 2006, the shareholders approved a dividend in respect of 2005 of HRK 5.30 per share, totaling HRK 24,777 thousand (2005: 24,777 thousand). The majority of the dividend was paid out on 1 September 2006.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Consolidated Group

2005	Property, plant and equipment				Intangible assets
In HRK thousand	Land and buildings	Computers, equipment and vehicles	Assets under construction	Total tangible assets	Software
Cost or deemed cost					
Balance at 1 January 2005	955,080	206,895	1,055	1,163,030	4,780
Additions	-	-	119,167	119,167	125
Transfer	9,818	(9,818)	-	-	-
Transfer from assets under construction	99,516	13,044	(112,560)	-	-
Write-off and disposal	(1,861)	(12,413)	-	(14,274)	-
Balance at 31 December 2005	1,062,553	197,708	7,662	1,267,923	4,905
Depreciation and impairment losses					
Balance at 1 January 2005	215,087	134,291	-	349,378	3,203
Transfer	3,241	(3,241)	-	-	-
Disposals	(841)	(12,097)	-	(12,938)	-
Impairment	918	-	-	918	-
Depreciation charge for the year	22,559	14,245	-	36,804	534
Balance at 31 December 2005	240,964	133,198	-	374,162	3,737
Carrying amount					
At 1 January 2005	739,993	72,604	1,055	813,652	1,577
At 31 December 2005	821,589	64,510	7,662	893,761	1,168

2006	Property, plant and equipment				Intangible assets
In HRK thousand	Land and buildings	Computers, equipment and vehicles	Assets under construction	Total tangible assets	Software
Cost or deemed cost					
Balance at 1 January 2006	1,062,553	197,708	7,662	1,267,923	4,905
Additions	-	-	202,217	202,217	493
Transfer	964	(964)	-	-	-
Transfer from assets under construction	187,810	21,921	(209,731)	-	-
Write-off	(9)	(13,283)	-	(13,292)	-
Balance at 31 December 2006	1,251,318	205,382	148	1,456,848	5,398
Depreciation and impairment losses					
Balance at 1 January 2006	240,964	133,198	-	374,162	3,737
Transfer	585	(585)	-	-	-
Disposals	(9)	(13,083)	-	(13,092)	-
Impairment	-	-	-	-	-
Depreciation charge for the year	26,170	11,288	-	37,458	405
Balance at 31 December 2006	267,710	130,818	-	398,528	4,142
Carrying amount					
At 1 January 2006	821,589	64,510	7,662	893,761	1,168
At 31 December 2006	983,608	74,564	148	1,058,320	1,256

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 13 – PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (continued)

Parent Company

2005	Property, plant and equipment				Intangible assets
In HRK thousand	Land and buildings	Computers, equipment and vehicles	Assets under construction	Total tangible assets	Software
Cost or deemed cost					
Balance at 1 January 2005	955,080	206,335	1,055	1,162,470	4,780
Additions	-	-	118,787	118,787	126
Transfer	9,818	(9,818)	-	-	-
Transfer from assets under construction	99,516	12,663	(112,179)	-	-
Disposals and write offs	(1,861)	(12,415)	-	(14,276)	-
Balance at 31 December 2005	1,062,553	196,765	7,663	1,266,981	4,906
Depreciation and impairment					
Balance at 01 January 2005	215,087	134,185	-	349,272	3,203
Impairment	918	-	-	918	-
Disposals	(842)	(12,096)	-	(12,938)	-
Transfer	3,241	(3,241)	-	-	-
Depreciation charge for the year	22,560	14,163	-	36,723	535
Balance at 31 December 2005	240,964	133,011	-	373,975	3,738
Carrying amount					
At 1 January 2005	739,993	72,150	1,055	813,198	1,577
At 31 December 2005	821,589	63,754	7,663	893,006	1,168
2006	Property, plant and equipment				Intangible assets
In HRK thousand	Land and buildings	Computers, equipment and vehicles	Assets under construction	Total tangible assets	Software
Cost or deemed cost					
Balance at 1 January 2006	1,062,553	196,765	7,663	1,266,981	4,906
Additions	-	-	202,062	202,062	453
Transfer	964	(964)	-	-	-
Transfer from assets under construction	187,785	21,792	(209,577)	-	-
Write off	(10)	(13,277)	-	(13,287)	-
Balance at 31 December 2006	1,251,292	204,316	148	1,455,756	5,359
Depreciation and impairment					
Balance at 01 January 2006	240,964	133,011	-	373,975	3,738
Transfer	-	-	-	-	-
Write offs	(10)	(13,081)	-	(13,091)	-
Impairment	585	(585)	-	-	-
Depreciation charge for the year	26,170	11,195	-	37,365	403
Balance at 31 December 2006	267,709	130,540	-	398,249	4,141
Carrying amount					
At 1 January 2006	821,589	63,754	7,663	893,006	1,168
At 31 December 2006	983,583	73,776	148	1,057,507	1,218

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 13 – PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (continued)

Assets under construction relate to the new construction project of the part of Stella Maris. Completion of the project is expected during 2007.

As at 31 December 2006, buildings owned by the Group and Company with a carrying value of HRK 542,162 thousands (2005: HRK 357,564 thousands) were secured against loans as disclosed in note 21 – Loans and borrowings.

Borrowing costs amounting to HRK 2,444 thousand (2005: HRK 1,130 thousand) have been capitalised during 2006 and included in the value of buildings. The borrowing costs comprise interest and other expenses of financing construction work performed on the tourism properties. The capitalisation rate is 2.65% (2004: 5.58%).

In 2005, the Group and Company recorded impairment for assets not in use. In the 2006, the Company started with reconstructions of Stella Maris. Part of the assets which will not be used any more as a result of reconstruction is written off, the Company has not recognized any additional impairment in 2006 (2005: impairment of assets HRK 918 thousand).

The Company reviewed the estimated useful lives of plant and equipment. Following this review, the estimated useful lives of certain groups of assets were changed by management. The estimated effect of this change is that the depreciation charge for 2006 is HRK 1,368 thousand lower than it would have been had depreciation been charged on the basis of the previous estimated useful lives.

NOTE 14 – NON-CURRENT LOANS AND RECEIVABLES

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Non-current loans to employees	471	531	471	531
Current portion of long term receivables (Note 17)	(72)	(76)	(72)	(76)
Total non-current loans and receivables	399	455	399	455

Loans to employees are granted for the purchase of residential apartments and are repayable over 10 to 32 years at an interest rate of 1% to 4% per annum and educational loans repayable over 2-5 years at an interest rate of 4% per annum.

NOTE 15 – DEFERRED TAX ASSETS

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	Consolidated Group			Parent Company		
	Depreciation differences	Tax losses	Total	Depreciation differences	Tax losses	Total
Balance at 1 January 2006	38,105	2,072	40,177	38,105	2,072	40,177
Decrease of deferred tax in the income statement	(7,244)	(2,072)	(9,316)	(7,244)	(2,072)	(9,316)
Balance at 31 December 2006	30,861	-	30,861	30,861	-	30,861

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 16 – INVENTORIES

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Raw material and consumables	987	760	987	759
Goods for resale	138	12	138	12
Miscellaneous inventory	13,925	11,978	13,755	11,895
	15,050	12,750	14,880	12,666

NOTE 17 – TRADE AND OTHER RECEIVABLES

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Domestic trade receivables	8,766	11,020	7,478	9,210
Receivables from related parties (Note 26)	75	48	75	48
Foreign trade receivables	2,621	2,770	2,621	2,770
Provision for impairment of receivables	(4,011)	(5,202)	(3,836)	(5,202)
Net trade receivables	7,451	8,636	6,338	6,826
VAT receivables	2,571	3,790	2,556	3,715
Receivables from employees	68	49	67	40
Receivables for advances given	450	144	449	144
Receivables for insurance claims	26	63	26	63
Other receivables	1,813	1,449	1,812	1,404
Other receivables from related companies (Note 26)	10	12	10	12
Total other receivables	4,938	5,507	4,920	5,378
Total trade and other receivables	12,389	14,143	11,258	12,204

NOTE 18 – FINANCIAL ASSETS

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Financial assets at fair value through profit or loss				
Equity securities	11,557	1,432	11,557	1,432
Other loans and receivables				
Current portion of loans and receivables	852	76	1,622	2,952
	12,409	1,508	13,179	4,384

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 19 – CASH AND CASH EQUIVALENTS

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Giro accounts	1,017	318	930	315
Foreign currency accounts	1,086	225	984	194
Cash in hand	141	160	141	159
	2,244	703	2,055	668

NOTE 20 – TRADE AND OTHER PAYABLES

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Non current liabilities				
Other employee entitlements (i)	-	21	-	21
Total non-current liabilities	-	21	-	21
Current liabilities				
Trade payables	38,290	33,117	37,264	32,867
Liabilities towards related parties (Note 26)	9	6	9	6
Other employee entitlements (i)	8,125	6,429	8,039	6,325
Liability for net salary	2,509	2,228	2,486	2,209
Liability for tax and contributions	1,660	1,446	1,641	1,430
Liability for advances	943	1,074	943	1,068
Liabilities for dividends	671	487	671	487
Other liabilities	1,762	600	1,500	589
Total current liabilities	53,969	45,387	52,553	44,981

(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 2006

NOTE 21 – LOANS AND BORROWINGS

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Current				
Related parties (Note 26):				
<i>Zagrebačka Banka Group</i>				
Zagrebačka Banka d.d., Zagreb	70,000	28,350	70,000	28,350
<i>UniCredito Italiano Group</i>				
UniBanka a.s., Bratislava	8,206	8,517	8,206	8,517
Bulbank AD, Sofija	16,798	16,868	16,798	16,868
UniCredit Romania	3,168	3,288	3,168	3,288
<i>Other non related parties</i>				
HBOR DT-2/05	7,548	-	7,548	-
HBOR DT-4/05	8,733	-	8,733	-
Total current loans	114,453	57,023	114,453	57,023
Non-current				
Related parties (Note 26):				
<i>UniCredito Italiano Group</i>				
UniBanka a.s., Bratislava	24,261	33,697	24,261	33,697
Bulbank AD, Sofija	67,163	84,311	67,163	84,311
UniCredit Romania	12,667	16,435	12,667	16,435
<i>Other non related parties</i>				
HBOR DT-2/05	45,285	53,052	45,285	53,052
HBOR DT-4/05	130,994	-	130,994	-
Total non-current loans	280,370	187,495	280,370	187,495
Total loans and borrowings	394,823	244,518	394,823	244,518

Loans and borrowings include amounts secured against property in the amount of HRK 542,162 thousand (2005: HRK 357,564 thousand). Refer to note 13 – Property, plant and equipment and intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 21 – LOANS AND BORROWINGS (CONTINUED)

In HRK thousand		Total 2006	Repayment period			
Creditor	Interest rate		1 year or less	1-2 years	2-5 years	More than 5 years
UniBanka, a.s., Bratislava, in CHF	3 month Libor for CHF +1.8%-1.5% margin	32,467	8,206	8,206	16,055	-
Bulbank AD, Sofia, in EUR	3 month Libor for EUR +1.8%-1.5% margin	83,961	16,798	16,798	50,365	-
HBOR, in HRK DT-2/05	4%, Fixed	15,835	3,168	3,168	9,499	-
HBOR, in HRK DT-4/05	2% -4%, Fixed	52,833	7,548	7,548	22,644	15,093
UniCredit Romania, in CHF	3 month Libor for CHF +1.8% margin	139,727	8,733	17,466	52,398	61,130
Zagrebacka banka d.d., in HRK, commercial papers	RS + 1.5% margin	70,000	70,000	-	-	-
Total loans and borrowings:		394,823	114,453	53,186	150,961	76,223

Revolving loans interest rates are based on the Croatian referent rate (RS) which represents the weighted average yield value for State treasury notes.

At 31 December 2006, the Company had unused revolving credit line facilities at Zagrebačka banka d.d., Zagreb totalling HRK 31.1 million (2005: unused HRK 2.8 million).

The carrying amounts of loans and borrowings, in the opinion of management, do not differ significantly from their fair values at 31 December 2006.

NOTE 22 – PROVISIONS

Provisions for court cases

In HRK thousand	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Balance at 1 January 2006	620	1,339	620	1,339
Additional provisions	707	98	707	98
Unused amounts reversed	(74)	(506)	(74)	(506)
Used during the year	-	(311)	-	(311)
Balance at 31 December 2006	1,253	620	1,253	620

The provision represents certain legal claims brought against the Group and the Company. The provision charge is recognised in the profit or loss. Management believe, based on legal advice, that the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided for at 31 December 2006.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 23 – SHARE CAPITAL AND RESERVES

Issued share capital comprises 4,674,995 ordinary shares (2005: 4,674,995 ordinary shares). The nominal value of each share is HRK 100 (2005: HRK 100). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

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.

During the year 2006 the Company and the Group has paid out bonuses to management. Bonuses were granted in monetary amount but were paid out in shares. Due to the payment of bonuses in shares, Company purchased own shares and HRK 368 thousand remained in the Group and the Company ownership.

NOTE 24 – FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group and the Company is exposed to various financial risks that are related to foreign currency, interest rates, credit and liquidity risk. The Group and the Company monitors these risks and seeks to minimise their potential effect on the Group's or the Company'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 (EUR). Income from domestic sales is realised in Croatian kuna (HRK). Long-term loans mainly comprise loans in Euro (EUR) and Swiss francs (CHF). Foreign currency risk is present due to possible changes in the exchange rates of foreign currencies. The Group and the Company is also exposed to interest rate risk as loans are agreed at floating rates.

Derivative financial instruments are entered into for the purpose of hedging the Group's or the Company's exposure to foreign exchange and interest rate risk.

(ii) Credit risk

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

Concentration of credit risk from receivables is limited due to the large number of customers. Management believes that there are no additional credit risks that might require an increase in provisions for impairment for 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 the form of credit lines.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 25 – CONTINGENCIES

Legal cases

Prior to 1991, the Company owed approximately DEM 31 million (equivalent of approximately EUR 16 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 this receivable against its liabilities of the same amount towards the Ljubljanska banka d.d., Ljubljana.

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 first instance Court in Slovenia brought decisions in favour of Ljubljanska banka d.d. and Nova Ljubljanska banka d.d., upon which the Company lodged an appeal.

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 first instance Court 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.

After the ruling of the Supreme Court of Slovenia, the mentioned cases were returned to the first instance Court for a retrial. These cases are still pending.

In order to protect its legitimate claims, the Company has commenced a number of court proceedings against Ljubljanska banka d.d. and Nova Ljubljanska banka d.d. in front of the Commercial Court in Rijeka and the Municipality Court in Buje in order to determine that the claims of Ljubljanska banka d.d. and Nova Ljubljanska banka d.d. against the Company does not exist, as well as the legal succession between Ljubljanska banka d.d. and Nova Ljubljanska banka d.d. This should stop the recognition and possible execution of the Slovenian court decision, if damaging for the Company.

In the case the outcome of the court proceedings is not in favour of the Company, the Company's Management Board believes that the issue will be ultimately settled through negotiations between the Government of the Republic of Slovenia and the Government of the Republic of Croatia related to the issue of foreign currency deposits of Croatian citizens with the banks with their seat in the Republic of Slovenia.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 25 – CONTINGENCIES (continued)

Ownership of land and buildings

Land and buildings recognized in the share capital of the Company are determined by the Resolution on the Real Estate included in Share Capital issued by the Croatian Privatization Fund on 31 January 1996. In order to protect ownership interests, the Company has commenced administrative, land registry and other court proceedings for inscription of the right of ownership over the real estate which was not included in the share capital according to the above Resolution, as well over the part of real estate which surface was only partly evaluated. The base for mentioned proceedings is a principle of unity of real estate and the principle of technological unity as interpreted from Article 367 to 369 of the Law on Ownership and Article 47 of the Law on Privatization.

The financial statements have been compiled under the assumption of the complete Court registration of ownership of land and buildings which upon privatisation were included in the equity of Istraturist Umag d.d.

NOTE 26 – RELATED PARTY TRANSACTIONS

- a) The Istraturist Umag Group is controlled by Zagrebačka Banka d.d., Zagreb by their 71.8% shareholding. The remaining 28.2% is owned by various individuals and legal entities. The ultimate parent company is UniCredito Italiano S.p.A..

The ownership structure of the company Istraturist Umag d.d. as at 31 December 2006 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. ZATVORENI INVESTICIJSKI FOND	8.77%
3. SOCIETE GENERALE-SPLITSKA BANKA D.D. / ZBIRNI RAČUN SKANDINAVSKA ENSKILDA BANKEN, ŠVEDSKI REZIDENTI	2.47%
4. HRVATSKI FOND ZA PRIVATIZACIJU	1.75%
5. PBZ D.D./CN LTD.	1.46%
6. SOCIETE GENERALE-SPLITSKA BANKA D.D. / RAIFFEISEN MIROVINSKO DRUŠTVO ZA UPRAVLJANJE OBVEZNIM MIROVINSKIM FONDOM D.O.O. ZA RAIFFEISEN OBVEZNI MIROVINSKI FOND	0.82%
7. SOCIETE GENERALE-SPLITSKA BANKA D.D. / RAIFFEISEN MIROVINSKO DRUŠTVO ZA UPRAVLJANJE DOBORVOLJNIM MIROVINSKIM FONDOM D.O.O. ZA RAIFFEISEN DOBROVOLJNI MIROVINSKI FOND	0.49%
8. MEĐIMURSKA BANKA DD ČAKOVEC	0.45%
9. RAIFFEISENBANK AUSTRIA DD ZAGREB / RBA	0.34%
10. OSTALI DIONIČARI	11.65%
	100.00%

The ownership structure of the company Istraturist Umag d.d. as at 31 December 2005 according to the Central Deposit Agency is as follows:

1. ZAGREBAČKA BANKA D.D.	71.80%
2. PBZ D.D./KAPITALNI FOND D.D. ZATVORENI INVESTICIJSKI FOND	8.77%
3. HVB SPLITSKA BANKA D.D./ZBIRNI RN. ZA SKAN. ENSK. BANK., ŠVED. REZIDENTI	2.41%
4. HRVATSKI FOND ZA PRIVATIZACIJU	1.75%
5. PBZ D.D./CN LTD.	1.40%
6. MEĐIMURSKA BANKA D.D. ČAKOVEC	0.45%
7. HVB SPLITSKA BANKA D.D./ZBIRNI RN. ZA BANK AUSTRIA CREDITANSTALT AG	0.43%
8. PBZ D.D./NLB/HANSABANK CLIENTS ACCOUNT	0.39%
9. PBZ D.D./SKRBNIČKI ZBIRNI RAČUN KLIJENTA	0.20%
10. OSTALI DIONIČARI	12.40%
	100.00%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 26 – RELATED PARTY TRANSACTIONS (continued)

b) Subsidiaries of the Company

	Country of registration	Share of ownership	
		2006	2005
Istra Golf Umag d.o.o.	Croatia	100%	100%

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

c) The nature of transactions between related parties and the Group comprises financing and banking services.

a. During the year, the following transactions with the Zagrebačka Banka Group were included in the income statement:

In HRK thousand	2006	2005
Zagrebačka banka d.d. Zagreb		
Interest income	136	40
Income from financial instruments	283	1,390
Other income	1,186	302
Interest expense	727	757
Fee expense	1,157	371
Unicredit Zagrebačka banka, Mostar		
Interest expense	-	474

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

In HRK thousand	2006	2005
Interest expense		
UniBanka a.s. Bratislava	1,205	1,704
Bulbank AD, Sofija	4,446	5,148
UniCredit Romania	592	281
	6,243	7,133
Fee expense		
UniBanka a.s., Bratislava	50	51
Bulbank AD, Sofija	117	484
UniCredit Romania	23	91
	190	626

On 31 December 2006 the Company had receivables from operating activities towards the group of HRK 85 thousand (2005: HRK 60 thousand), and total liabilities arising from loans and other liabilities of HRK 202,272 thousand (2005: HRK 194,472 thousand).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 26 – RELATED PARTY TRANSACTIONS (continued)

d) Key management compensation

In HRK '000	Consolidated Group		Parent Company	
	2006	2005	2006	2005
Key management compensation	8,376	6,894	8,052	6,639

Key management includes the Management Board, department and executive directors. Key management comprises 19 persons (2005: 23 persons).

NOTE 27 – ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation

Income tax

Tax calculations are performed based on the Company's interpretation of current tax laws and regulations. These calculations which support the tax return may be subjected to review and approval by the local tax authorities.

Trade receivable impairment

Trade receivables have been estimated on each balance sheet date (and monthly) and are impaired according to an estimate of the probability to collect amounts. Each customer is evaluated separately based on its status (for example, customer is blocked and is a cash only customer, legal procedures have commenced), the ageing of the amount due, stage of legal case (short-legal procedure or regular legal procedure), security of payment (e.g. bill of exchange).

Management Bonuses

Each manager has a range of goals: financial goals; qualitative goals and goals for the development of organisation including projects. For 2006, the total amount of management bonuses amounted to HRK 2,959 thousand.

(b) Critical accounting judgments in applying accounting principles

Management believes there were no material judgment matters to report, except provisions for legal claims as disclosed in Note 22.

NOTE 28 - CAPITAL COMMITMENTS

As at 31 December 2006, the Company entered in contracts totalling HRK 2.0 million with various suppliers for renovation and construction work in 2007, mainly related to the construction of the apartment's village Stella Maris.