



ARENA[®]
TURIST

2007

ANNUAL
REPORT

Arenaturist d.d.
Annual report 2007

Contents

<i>Company profile</i>	<i>1</i>
<i>Management Board's Report</i>	<i>6</i>
<i>Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements</i>	<i>14</i>
<i>Independent Auditors' Report to the shareholders Arenaturist d.d., Pula</i>	<i>15</i>
<i>Arenaturist income statement</i>	<i>17</i>
<i>Arenaturist balance sheet.....</i>	<i>18</i>
<i>Arenaturist statement of cash flows.....</i>	<i>19</i>
<i>Arenaturist statement of changes in equity.....</i>	<i>21</i>
<i>Notes to the financial statements</i>	<i>22</i>

Company profile

Location of Business & Accommodation Units





Arenaturist is one of the biggest leading hotel companies in Croatia which manages a business in the south of the peninsula Istria and it has been present on the tourist market for over 30 years.

Arenaturist tourist facilities are located in prestigious locations in Pula, Medulin, Premantura and Banjole, beautiful tourist centers of exceptional natural and cultural-historical value.

The accommodation capacities of the Company consist of seven hotels with 1,458 rooms, two apartment settlements with 616 units and five camps with 3,927 units, which represent total accommodation potential of over 16,000 guests per day.

History and incorporation

Arenaturist d.d. (the Company) is a joint stock company headquartered in Pula, Republic of Croatia with thirty-four years of continuous operation. The Company is registered for tourism and catering, and trade.

The Company was founded as a result of the privatization of the enterprise Arenaturist – Poduzeće za ugostiteljstvo i turizam, po.

In 1994, the Company was transformed from a state-owned company into a joint stock company and registered at the Commercial Court in Rijeka, under the laws of the Republic of Croatia and by approval of the Croatian Privatisation Fund.

According to the ownership structure as at 31 December 2007, W 2005/ Dvadeset Osm d.o.o. holds 74.15% of the shares. The Croatian Privatization Fund owns 1.95% of the Company's shares, treasury shares amount to 0.01% and other 4,458 shareholders own the remaining 23.89% of the Company's shares.

Supervisory Board & Management Board

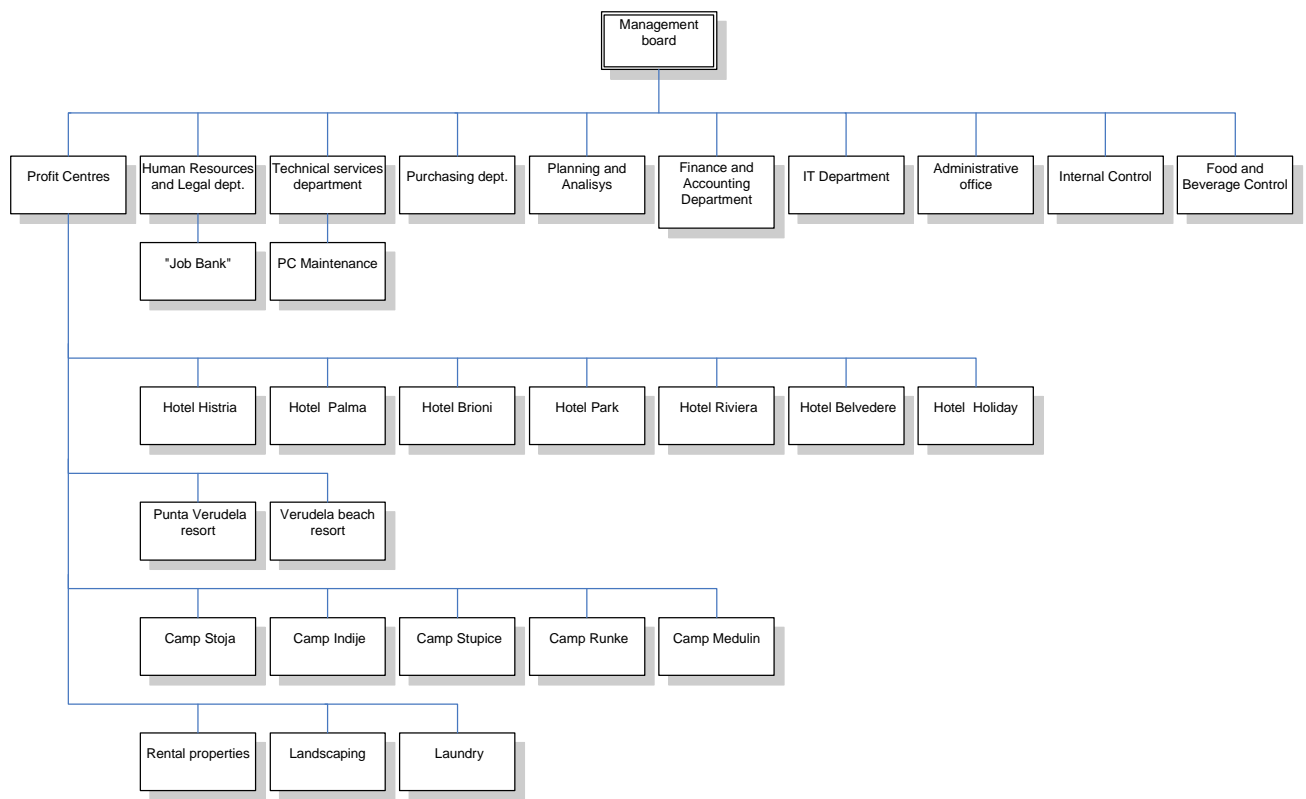
Supervisory Board until 9th October	
Angelo Padovan	President of SB
Vlasta Cukon	Deputy President of SB
Dario Matošević	Member
Milan Naperotić	Member
Damir Lučić	Member and employees' representative
Eugenio Piovesana	Member
Paola Piovesana	Member
Cisella Zanchetta	Member
Stefano Moro	Member

Supervisory Board (actual)		
Kamaldeep Manaktala	President of SB	Appointed on 9 October 2007
Vlasta Cukon	Deputy President of SB	Appointed on 29 June 2004
Dario Matošević	Member	Appointed on 29 June 2004
Milan Naperotić	Member	Appointed on 29 June 2004
Damir Lučić	Member and employees' representative	Appointed on 9 Novem. 2004
Heather Allsop	Member	Appointed on 9 October 2007
Gerardus Nicolaas Meijssen	Member	Appointed on 9 October 2007
Caroline Vermij	Member	Appointed on 9 October 2007
Marcus Hubertus Gertrudis Vennekens	Member	Appointed on 9 October 2007

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Management Board		
Igor Štoković	President of MB	Appointed on 29 June 2004
Milena Perković	Member	Appointed on 29 June 2004

Company's organizational scheme



Company executives

Management team	
Corporate departments	
Vlasta Cukon	Human Resources and Legal Affairs Department Manager
Dino Buršić	Property Operations and Maintenance Manager
Boris Petrić	IT Manager
Damir Veizović	Planning and Analysis Manager
Mirjana Antonja	Accounting Manager
Ljiljana Mladinić	Financial Operations & Treasury Manager
Mirjana Žalac	Purchasing Manager
Luciano Moškarda	Internal Control Manager
Profit centers	
Josip Rojnić	Director of group PC Hotel Histria and Hotel Palma
Ivan Teković	Director of group PC Hotel Brioni and Hotel Park
Roberto Hrelja	Director of PC Hotel Belvedere
Nataša Prošić	Director of PC Hotel Holiday
Rinaldo Bičić	Director of group PC Punta Verudela and Verudela beach Resort
Sonja Brocca-Nastić	Director of group PC Camp Stoja, Camp Indije, Camp Stupice and Camp Runke
Saša Simić	Director of PC Camp Medulin
Dean Žufić	Director of PC Rental properties

Management Board's Report

Overnights

Business activities of Arenaturist in the year 2007 were stabile and realized within a plan, continuing the positive business trend . Although the year was very dynamic and demanding, with all the additional efforts of our employees and our knowledge we have reached good business results.

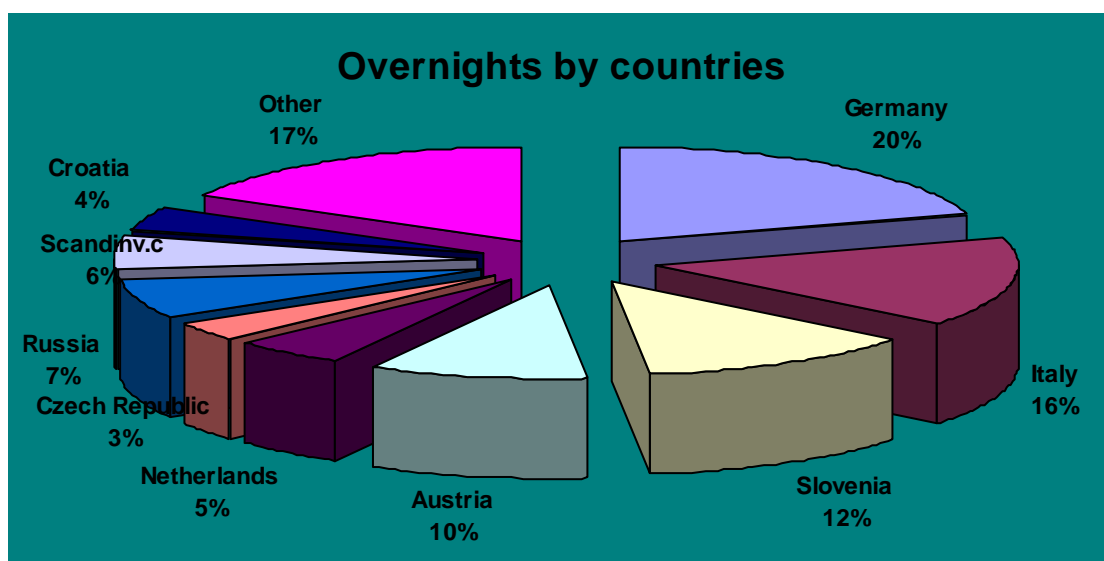
In the year 2007 Arenaturist achieved 1,226,396 overnights which is the same level as the last year. The number of overnights in fixed structure capacities is increased for 3.2% compared to the last year. The number of overnights in the camps has decreased for 4.5% compared to the last year. The main reason for that decrease is the fact that the proprietary status of our tourist land hasn't been solved yet, so we are unable to invest more in the improvement of their quality.

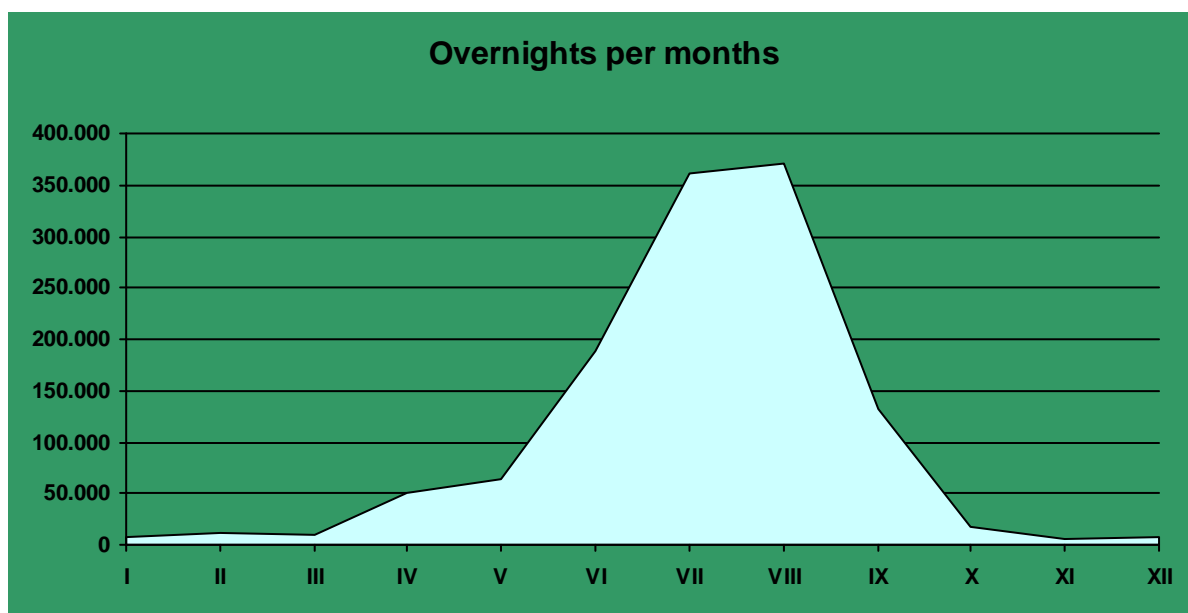
Overnights by products

	Number of Overnights					Occupancy days*		
	2006.	%	2007.	%	07/06	2006.	2007.	07/06
Hotels	388.240	31	400.561	33	103	136	139	102
Resorts	205.754	17	212.185	17	103	94	103	110
Camps	642.778	52	613.650	50	95	51	49	96
Arenaturist	1.236.772	100	1.226.396	100	99	76	77	101

*occupancy days have been calculated on annual level

Foreign guests achieved 96% of total overnights. The rang list of countries from where the guests are coming hasn't changed much, although in the absolute amount we have the notable decrease of Dutch and German guests and the increase of Austrian, Russian and British guests (the last two due to the low-cost flights).





Financial operating review

Despite decreased number of overnights, the Company ended the business year with HRK 160.7 million of room and board revenue, which is an increase of 8.8% compared to the previous year. More than half of these revenues, or HRK 87.2 million, Arenaturist has realized in the hotels which make 24% of the accommodation capacities. The increase of the number of overnights for 3.2% and the increase of average prices in the hotels for 7.4%, and in the apartment settlements for 13.9% resulted in the increase of the revenue in the fixed structure capacities for 12%. Despite the decreased number of overnights, due to the increase of the average prices, the camps realized HRK 46.9 million, which is 1.2% more than the previous year.

Revenues by products

	Room and Board Revenues (u HRK thousand)					Average net rate per overnight		
	2006.	%	2007.	%	07/06	2006.	2007.	07/06
Hotels	78.746	54	87.233	54	111	202,83	217,78	107
Resorts	22.659	15	26.611	17	117	110,13	125,42	114
Camps	46.366	31	46.902	29	101	72,13	76,43	106
Arenaturist	147.771	100	160.746	100	109	119,48	131,07	110

In the year 2007 the Company's total revenues amounted to HRK 191.4 million, representing a 6.4% growth. G.O.P. is higher for 10% compared to the previous year, while EBITDA is higher for 11% and amounts to HRK 53.3 million. The net profit amounts to HRK 3.6 million.

The operating revive of the Company in the following text is presented according to the Uniform System of Accounts for Lodging Industry (USALI) which enables a control and management of operating result by each department.

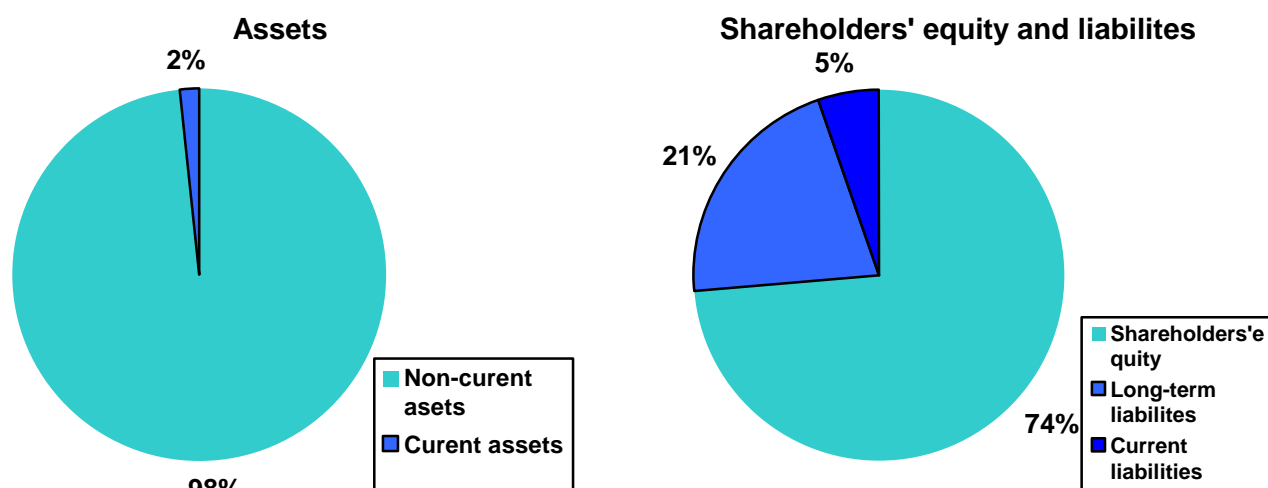
Income statement according to the USALI (HRK thousand)

	2006	% u OR	2007	% u OR	07/06
REVENUES					
Hotels room revenues	66.414	38	74.486	39	112
Resorts room revenues	21.203	12	24.413	13	115
Camps accommodation revenues	46.366	26	46.902	25	101
Total room revenues	133.983	76	145.801	77	109
Food & Beverage revenues	26.872	15	28.951	15	108
Other revenues	14.374	8	14.621	8	102
Total Operating revenues	175.229	100	189.373	100	108
COSTS					
Direct department expenses	(51.898)	30	(56.921)	30	110
Unallocated costs	(67.212)	38	(70.760)	37	105
Operating costs	(119.110)	68	(127.681)	67	107
Gross operating profit (GOP)	56.119	32	61.692	33	110
Depreciation & Amortization	(14.999)	9	(36.262)	19	242
Interest expenses	(16.028)	9	(15.136)	8	94
Other Fixed costs	(8.058)	5	(8.387)	4	104
Total Fixed costs	(39.085)	22	(59.785)	32	153
EBITDA	48.061	27	53.305	28	111
Net Financial revenues	3.948	2	1.712	1	43
Gross profit	20.982	12	3.619	2	17
Income tax	-		(45)		
Net profit	20.982	12	3.574	2	17
Earnings per share (in HRK)	9,61		1,64		

Compared to the previous year, the achieved net profit is lower for 83%, due to the increased cost of depreciation and amortization of 183% , because of the increase of depreciation rates for property, plant and equipment. Also for the first time due the IAS 19 the amount of HRK 5.9 million has been put aside as the provisions for the liabilities for the employee benefits.

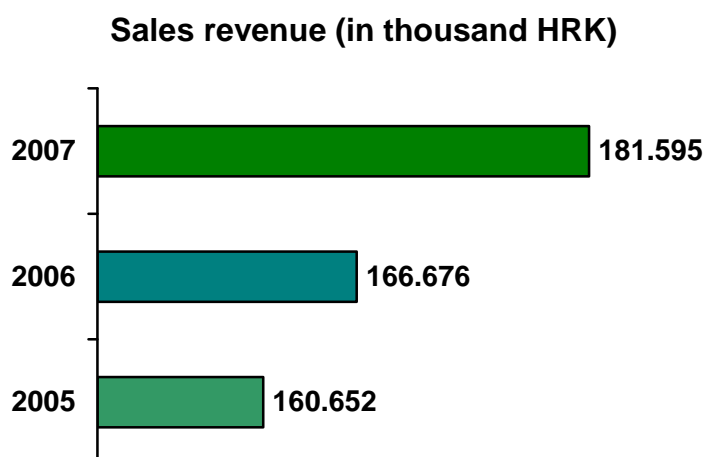
Financial highlights 2007

Balance sheet

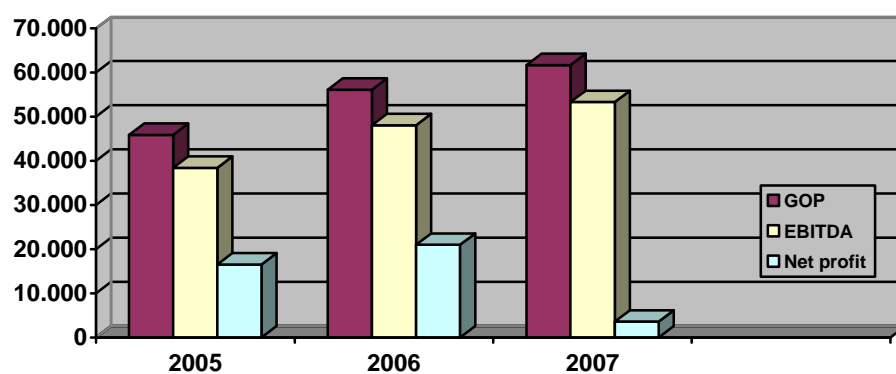


Sales revenue, gross operating profit (GOP), earnings which exclude interests, taxes, depreciation and amortization (EBITDA) and net profit for the year

in thousand HRK	2005	2006	2007
Sales revenue	160,652	166,676	181,595
GOP	45,865	56,119	61,692
EBITDA	38,429	48,061	53,305
Net profit for the year	16,524	20,982	3,574



GOP, EBITDA and net profit for the year



Employees

In the tourist business human resources are one of the most important factors for reaching a high level of catering. Therefore for such good business results in 2007 the contribution of each and every employee was very significant.

Employee structure:

- 360 permanent employees as of December 31, 2007
- 12 permanent employees left the Company during 2007
- 300 seasonal employees is the maximum number of them in the peak of the season
- Gender ratio (female vs. male): 56% : 44%
- Average age: 48

Structure of permanent employees by qualification is:

Qualification	Number of employees
Elementary school	57
High school	216
Post secondary education	68
College degree	19

Employees by age:

Age group	Number of employees
Under 40	40
40-49	138
50-54	119
55 and over	63

Average monthly net salary for 40 hour a week was HRK 5,470.15 – an increase of 5% compared to 2006.

Overtime hours of permanent employees are cumulated and converted into days off during winter months. Total balance of accrued and not paid hours on December 31st 2007 was 53 972 hours.

Outsourcing

Cleaning of apartments and camps is outsourced to cleaning service companies which employ up to 130 additional employees during season.

Ownership structure, share price and turnover

Obviously the year 2007 was marked by the change of the ownership structure of the Company. The firm W2005/Dvadeset Osam d.o.o., Zagreb, which is a part of the American financial group Goldman Sachs bought in July 2007 from the former majority owners of Arenaturist 1,407,742 shares, which represents 64.5% of share capital. After the public offer in October the firm W2005/Dvadeset Osam d.o.o., Zagreb, increased its share in the ownership to 74.15 of share capital.

As of December 31, 2007 the share capital of the joint stock company Arenaturist amounted to HRK 654,750,000 divided into 2,182,500 ordinary registered (series A) shares, each one carrying one vote at the General Shareholders' Assembly. At the end of 2007 the total number of treasury shares was 169 (0.01% of the share capital).

The list of Arenaturist's major shareholders as of December 31, 2007

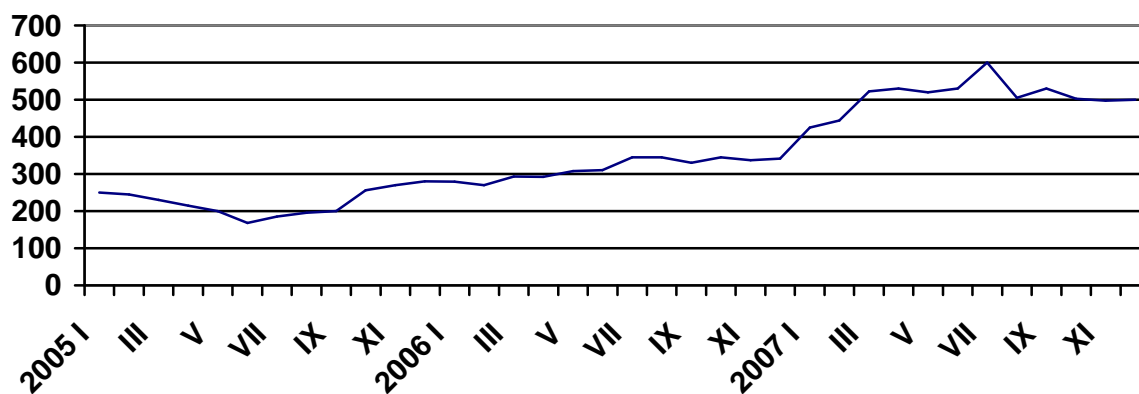
	No. of shares	Percentage of capital
W 2005 / Dvadeset Osam d.o.o.	1,618,263	74.15
HPB d.d. / KD Investments – Victoria Fund	55,255	2.53
Croatian Privatization Fund	42,593	1.95
Societe Generale-Splitska banka d.d. / Skandinaviska Enskilda Banken, Swedish residents	31,242	1.43
Zagrebačka banka d.d. / Bank Austria Creditanstalt AG	26,260	1.20
Podravska banka d.d. / M 21 - Italy	18,168	0.83
Dinova – Diona d.o.o.	11,273	0.52
Societe Generale-Splitska banka d.d. / custody account	5,670	0.26
Hypo Alpe-Adria-Bank d.d. / Gianpaolo de Lucca	4,493	0.21

The shares of Arenaturist (ARNT-R-A) were listed in the quotation of public joint stock companies in the Zagreb Stock Exchange on July 30, 2003. The shares were also traded on the free market of the Varaždin Stock Exchange. In March 2007, the process of merging of the Varaždin and Zagreb Stock Exchange was completed, so the Croatian capital market gained a single central point for share trading.

During 2007 over 250 thousand shares were traded with the total turnover of HRK 125.3 million. Market capitalization was HRK 1,091.3 million, which is a 47% increase compared to the previous year.

Share price and turnover	2005	2006	2007
Highest (HRK)	285	251	335
Lowest (HRK)	121	360	679
Last – end of year (HRK)	280	341	500
Turnover (in mil.HRK)	67.1	112.1	125.3

Average monthly price movement 2005-2007 (in HRK)



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 Company and of the results of its 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 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 judgments 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 Company will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the business situation of the Company together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements which will be presented to the General Assembly of Shareholders.

The financial statements set out on pages 17 to 43 were authorized by the Management Board on 25 February 2008 for issue to the Supervisory Board and are signed below.

President
of the Management Board:
Igor Štoković



Member
of the Management Board:
Milena Perković



Independent Auditors' Report to the shareholders Arenaturist d.d., Pula

We have audited the consolidated financial statements of the company "Arenaturist" d.d., Pula, set out on pages 2 to 28, which comprise the balance sheet as at 31 December 2007, and the related statements of income, changes in shareholder's equity and cash flows for the year then ended, together with a summary of significant accounting policies and other explanatory notes.

Responsibility of the Management for the Financial Statements

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

Responsibility of the Auditor

Our responsibility is to express an opinion on the financial statements set out below, based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the consolidated 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 Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for qualified opinion

As disclosed in Note 2.4. to the financial statements, the Company applied for many years, mainly because of the seasonal nature of the Company's business, and in accordance with the accounting policies adopted, reduced depreciation rates for intangible assets, property, plant and equipment. In our opinion, the depreciation charged as described was applied until the end of 2006 and could not recover the cost of intangible assets, property, plant and equipment over their useful lives in accordance with International Accounting Standards 16 and 38. As a result and because of the effects accumulated over the years resulting from the application of the above-mentioned accounting policy, as well as in absence of new fair valuation of intangible assets, property, plant and equipment, we could not estimate whether those assets are fairly presented.

Qualified opinion

In our opinion, except for the fact discussed in the paragraph "Basis for qualified opinion" above, the financial statements present fairly, in all material respects, the financial position of Arenaturist d.d., Pula as of 31 December 2007, and the results of its operations, changes in shareholder's equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards as translated and approved in the Republic of Croatia, and professional practice.

Certified Auditor:

Sonja Košara



A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

Pula, 25th February 2008

Arenaturist income statement

for the year ended 31 December 2007

(in HRK thousands)	Notes	2007	2006
Operating income			
Sales	3	181,595	166,676
Other operating income	4	8,200	9,086
Total operating income		189,795	175,762
Operating expenses			
Cost of material and services	5	(58,792)	(57,354)
Staff costs	6	(59,707)	(53,242)
Provisions for risks and charges	23	(1,722)	-
Depreciation and amortization	11,12	(34,217)	(12,093)
Other operating expenses	7	(17,892)	(19,248)
Total operating expenses		(172,330)	(141,937)
Profit from operations		17,465	33,825
Net finance cost	8	(13,846)	(12,843)
Profit before taxation		3,619	20,982
Income tax expense	9	(45)	-
Net profit for the year		3,574	20,982
Earnings per share (in HRK)	10	1.64	9.61

Arenaturist balance sheet

as at 31 December 2007

(in HRK thousands)	Notes	2007	2006
ASSETS			
Non-current assets			
Intangible assets	11	3,672	5,568
Property, plant and equipment	12	967,288	988,066
Investments	13	429	152
Long-term receivables	14	175	176
Deferred tax assets	15	898	-
		972,462	993,962
Current assets			
Inventories	16	3,758	3,792
Trade receivables	17	5,691	3,631
Other current assets	18	1,326	2,706
Cash and cash equivalents	19	4,823	1,471
		15,598	11,600
Total assets		988,060	1,005,562
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	20	654,750	654,750
Legal reserves		1,950	901
Treasury shares		(51)	-
Other reserves		30,386	30,001
Retained earnings		41,260	38,112
Total shareholders' equity		728,295	723,764
Long-term liabilities			
Long-term loans	21	196,951	214,347
Other long-term liabilities	22	1,924	-
Long-term provisions	23	8,238	6,516
		207,113	220,863
Current liabilities			
Current portion of long-term debt	21	31,726	40,771
Short-term borrowings	24	3,663	4,385
Trade payables	25	8,190	10,479
Accrued and other liabilities	26	7,100	3,998
Advances received		1,973	1,302
		52,652	60,935
Total liabilities		259,765	281,798
Total shareholders' equity and liabilities		988,060	1,005,562

Arenaturist statement of cash flows

for the year ended 31 December 2007

(in HRK thousands)	2007.	2006.
Cash flow from operating activities:		
Profit before tax	3,574	20,982
Adjustment for:		
Depreciation	32,940	11,560
Amortization	1,277	533
Write off of property, plant and equipment	178	486
Write off of miscellaneous inventory	2,175	3,009
Loss on sale of property, plant and equipment	-	347
Impairment loss on receivables	230	488
Recovery of impaired receivables	(136)	(413)
Impairment gain on liabilities	-	13
Increase in other long-term liabilities and long-term provisions	3,646	-
Fair value gains on financial assets available for sale	(334)	-
Dividend income	(2)	-
Interest income	(122)	(86)
Interest expense	15,312	16,028
Foreign exchange (gains)/losses	(1,569)	(3,533)
Correction of retained earnings based on the Findings of Tax Authorities Inspection	275	-
Correction of opening balances for the property, plant and equipment	-	(9)
Operating profit before working capital changes	57,444	49,405
Increase/ (Decrease) of trade and other receivables	(680)	3,208
Decrease /(Increase) of trade and other payables	1,484	2,829
Decrease in inventories	34	2,333
Cash generated from operations	58,282	57,775
Interest paid	(16,486)	(20,909)
Cash flow from operating activities	41,796	36,866
Cash flow from investing activities		
Acquisition of property, plant and equipment	(11,422)	(3,572)
Acquisition of intangible assets	(303)	(125)
Acquisition of miscellaneous inventory	(2,019)	(954)
Dividends received	2	-
Acquisition of long term receivables	1	(176)
Proceeds from sale of property, plant and equipment	4	578
Cash flow from investing activities	(13,737)	(4,249)

Cash flow from financing activities		
Proceeds from loans and borrowings	35,036	22,348
Repayment of loans and borrowings	<u>(59,743)</u>	<u>(54,838)</u>
<i>Cash flow from financing activities</i>	<u>(24,707)</u>	<u>(32,490)</u>
Net increase in cash and cash equivalents	<u>3,352</u>	<u>127</u>
Cash and cash equivalents at the beginning of the year	<u>1,471</u>	<u>1,344</u>
Cash and cash equivalents at the end of the year	<u>4,823</u>	<u>1,471</u>

Arenaturist statement of changes in equity

for the year ended 31 December 2007

(in HRK thousands)	Notes	Share capital	Legal reserves	Treasury shares	Other reserves	Revaluation reserve	Retained earnings/ (accumulated losses)	Total
At 31 December 2005		654,750	75	-	30,001	-	17,956	702,782
Allocation of 2005 profit		-	826	-	-	-	(826)	-
Profit for 2006		-	-	-	-	-	20,982	20,982
At 31 December 2006		654,750	901	-	30,001	-	38,112	723,764
Adjustment of opening balance		-	-	(51)	51	-	-	-
Effect of value adjustment of financial assets	13	-	-	-	-	334	-	334
Allocation of 2006 profit	20	-	1,049	-	-	-	(1,049)	-
Deferred tax credited to profit (Note 15)	20	-	-	-	-	-	898	898
Adjustment of retained earnings	20	-	-	-	-	-	(275)	(275)
Profit for 2007		-	-	-	-	-	3,574	3,574
At 31 December 2007		654,750	1,950	(51)	30,052	334	41,260	728,295

Notes to the financial statements

1. GENERAL INFORMATION

ARENATURIST is a joint stock company headquartered in Pula, Republic of Croatia. The Company is registered for tourism and catering, and trade.

In 1994, the Company was transformed from a state-owned company into a joint stock company and registered at the Commercial Court in Rijeka, under the laws of the Republic of Croatia and by approval of the Croatian Privatisation Fund.

During 2007, upon the acquisition of the controlling package of Arenaturist d.d., Pula by W2005/Dvadeset Osam d.o.o. Zagreb, the latter became the majority shareholder of the Company.

The ownership structure of the Company as of 31 December 2007 is set out in Note 19 below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the principal accounting policies applied in the preparation of these financial statements. The accounting policies have been applied consistently to all the periods covered by the financial statements, except as stated otherwise.

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the Croatian Financial Reporting Standard Board of the Republic of Croatia.

The financial statements of the Company are presented in the Croatian kuna (HRK), which is also the functional currency, rounded to the nearest thousand.

The financial statements of the Company have been prepared using the historical cost convention, except for non-current assets acquired prior to 31 December 1993, which are carried at revalued amounts, and financial assets, which are measured at fair value if quoted on an active market.

The presentation of the financial statements in accordance with International Financial Reporting Standards requires the use of certain key accounting estimates. Also, the management is required to use judgment in the process of applying the accounting policies of the Company.

2.2. Foreign currencies

Foreign currency transactions are converted to Croatian kuna at the middle exchange rate of the Croatian National Bank at the transaction date. Monetary items resulting from foreign currency transactions are translated to the reporting currency using the middle exchange rate of the Croatian National Bank at the date of payment or at the balance sheet date. Gains and losses on the settlement and conversion of those transactions and of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.3. Intangible assets

Intangible assets comprise investments in technical documentation and software licences and are carried at cost. The cost is amortised over the useful lives of the assets over a period of 4 to 10 years...

2.4. Property, plant and equipment

Items of property, plant and equipment are carried at historical cost less accumulated depreciation, except for assets acquired prior to 31 December 1993, which are carried at revalued cost less revalued accumulated depreciation.

Historical cost includes costs directly attributable to bringing an asset in a condition for its intended use.

Subsequent improvements are capitalized or, if required, recognized as a separate asset only if future economic benefits will flow to the Company and if the cost of such asset can be measured reliably. All other improvements and maintenance costs are recognized in the income statement in the period in which they arise.

Fittings and equipment are classified as non-current assets if their individual useful lives are over one year and individual cost exceeds HRK 2,000.

Depreciation of property, plant and equipment commences when the assets are put in use and is provided on a straight-line basis so as to allocate the cost of an asset over its estimated useful life. Depreciation is providing for each asset until it's written-off or to its residual value, if material. Under the Management Board Decision of 20 January 2007, the depreciation rates for property, plant and equipment were increased as a result of the review of the expected useful lives of the assets in accordance with the provisions contained in the International Accounting Standard 16. Based on the provisions of the Standard, the need was identified to change the depreciation method, resulting in a change of the underlying accounting estimate and an adjustment of the depreciation amount for the current and future periods.

The depreciation rates were set as follows:

Buildings	1.67 – 4.00%
Plant and equipment	12.50 – 25.00%
Other equipment	10.00%

Assets under construction and land, which are considered to have an infinite useful life, are not depreciated.

Gains and losses on disposal of assets are determined by comparing the income and the carrying amounts of assets and are captured under "Other net gains/losses" in the income statement.

2.5. Leased assets

Assets leased out under operating lease are included in the balance sheet under "Property, plant and equipment." They are depreciated on a straight-line basis over their estimated useful lives as other property and equipment. Rental income is recognised over the period of the underlying lease term.

2.6. Investments

The investments of the Company comprise financial assets included in non-current assets and consist of equity investments, which are initially carried at cost. If an investment is quoted on an active market, it is remeasured by reference to the current bid price and any difference on remeasurement is recognised in equity (unrealised gains), and is treated as financial asset available for sale. At each balance sheet date, the Company reviews its investments to determine if there is an indication that the investments might be impaired. On disposal or impairment, the accumulated fair value adjustments recognised in equity are recognised in the income statement.

2.7. Inventories

Inventories of raw material and supplies are carried at the lower of cost or net realisable value. The balance and cost of inventories are determined using the average purchase cost. Small inventory is written off in a period of five years from the date on which it is put in use.

2.8. Trade receivables

Trade and other receivables are initially carried at fair value and are subsequently measured at cost less any impairment losses. Bad and doubtful receivables are brought to competent court and provided against.

2.9. Cash and cash equivalents

For the purposes of the balance sheet and cash flow statement, cash and cash equivalents comprise cash in hand and balances with banks, as well as other high liquid instruments with maturities of up to three months.

2.10. Borrowings

Borrowings are initially carried at fair value of cash received. In future periods, they are carried at amortised cost. All differences between receipts and redemption value are recognised in the income statement over the period of the borrowing.

2.11. Employee benefits

(a) Retirement benefits

In the normal course of business, the Company makes contributions on behalf of its employees who are members of mandatory pension funds, in accordance with applicable law. The mandatory pension contributions to the funds are included in the salary cost when they are calculated. The Company has no obligation to provide any post-retirement benefits to its employees.

b) Termination benefits

Obligations in respect of employment termination are recognised when the Company terminates employment prior to the normal retirement date or on the basis of the decision of an employee to accept voluntary termination in exchange for a benefit. The Company recognises the termination benefit obligations when it demonstrably committed to a termination by means of a detailed formal plan for the termination without any realistic possibility of withdrawal or it provides termination benefits as a result of an offer made in order to encourage voluntary redundancy.

c) Other long-term employee benefits

Other long-term employee benefits include jubilee-awards and termination benefits which fall due more than 12 months after the balance sheet date. The defined benefits are measured at the present value of estimated future cash-flows using a discount rate that is similar to the interest rate on government bonds.

2.12. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be measured reliably.

Provisions are determined at the present value of costs expected to be incurred to settle an obligation that reflects the current market assessment of the time value of money and risks specific to the obligation.

2.13. Revenue recognition

Revenue comprises the fair value of completed and billed services in the course of ordinary business. Revenue is stated at invoiced amounts net of value-added tax and any recognised discounts.

2.14. Financial income and financial expense

Financial income comprises accrued interest on loans using the effective interest method and foreign exchange gains. Dividend income is recognised in the income statement at the balance sheet date, when the dividend is received.

Financial expenses comprise accrued interest on borrowings using the effective interest method, foreign exchange losses, impairment losses and losses on disposal of financial assets.

They are included in the income statement as net finance income/cost.

2.15. Income tax

Income tax is determined by reference to reported income in accordance with Croatian laws and regulations.

Income tax or tax loss consists of current and deferred taxes. Income tax is presented in the income statement.

Current tax represents the expected tax liability assessed on the taxable profit for the year using the tax rate enacted at the balance sheet date and any adjustments to the tax liability from prior periods.

Deferred taxes are determined using the balance sheet liability method, taking into account the 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 is based on the expected realization or settlement of the carrying amounts of assets and liabilities, determined using the tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which those assets could be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be used.

2.16. Dividend distribution

Liabilities in respect of dividends payable to the shareholders of the Company are recognised in the financial statements in the period in which they are approved by the General Meeting of Shareholders.

2.17. Comparative information

Where necessary, comparative information has been reclassified to conform to the changes in the current year's presentation. Previously, the Company presented interest income and expense and foreign exchange gains and losses as gains or losses on remeasurement of the fair value of financial assets which were included in net financial income/cost. Their inclusion beyond the extent of the profit from operations provides a more realistic and objective presentation of the financial statements.

The following reclassifications have been made:

- Interest income in the amount of HRK 374 thousand has been reclassified from net financial income and disclosed in Note 4 – Other operating income;
- Net foreign exchange gains in the amount of HRK 390 thousand from operations have been reclassified from net financial income and disclosed in Note 4 – Other operating income.
- Sales of property, plant and equipment are carried at net amounts. They were reclassified from other income and disclosed in Note 7 - Other operating expenses in the net amount of HRK 347 thousand.

3. SALES

(in HRK thousands)	2007	2006
Sales revenue – services	180,137	166,674
Sales revenue – services provided to related companies (Note 29)	1,456	-
Merchandise sales	<u>2</u>	<u>2</u>
	<u>181,595</u>	<u>166,676</u>

4. OTHER OPERATING INCOME

(in HRK thousands)	2007	2006
Operating lease revenue (Note 29)	7,120	7,007
Reversal of impairment losses on receivables from prior years (subsequent collections)	136	413
Income from discounts	92	103
Sales – small inventory (Note 29)	11	-
Other	<u>841</u>	<u>1,563</u>
	<u>8,200</u>	<u>9,086</u>

5. COST OF MATERIAL AND SERVICES

(in HRK thousands)	2007	2006
Raw material and consumables		
Raw material	20,283	19,061
Energy	8,106	8,635
Small inventory	2,044	2,904
Cost of goods sold	<u>1</u>	<u>1</u>
	<u>30,434</u>	<u>30,601</u>
External services		
Telephone, postage and transport	817	930
Maintenance and repairs	5,783	5,656
Rental costs	331	141
Marketing and promotion (Notes 29)	6,149	6,219
Municipal services, waste removal, water, security services and similar	12,793	12,537
Other (Note 29)	<u>2,485</u>	<u>1,270</u>
	<u>28,358</u>	<u>26,753</u>
	<u>58,792</u>	<u>57,354</u>

6. STAFF COSTS

(in HRK thousands)	2007	2006
Salaries (net)	34,833	32,926
Taxes and contributions on and from salaries /i/	16,080	15,200
Other staff costs /ii/	4,306	5,116
Accrued commitments to employees /iii/	4,488	-
	<u>59,707</u>	<u>53,242</u>

During 2007 the average number of staff employed by the Company was 464 (2006: 465).

/i/ Taxes and contributions on and from salaries are included in defined pension contributions to mandatory pension funds in Croatia. They are determined at a percentage of the gross salary.

/ii/ Other staff costs comprise allowances, commutation allowance, termination benefits, jubilee awards and supports.

/iii/ For the purposes of a more realistic presentation of the costs, included in the staff cost have been obligations to employees arising from unpaid overtime hours and unused vacation accrual for the current year.

The separate fund of overtime hours arises from term of “working time disposal”, which is regulated in the Collective Agreement of Arenaturist d.d., and represents the accumulated overtime hours (beyond the 40 hours weekly) as well as unutilized hours of vacation during the touristic season, and generally used as days-off , once the touristic season is finished.

The Company maintains numerically records of overtime work and the balance of overtime hours is shown in the calculation of individual salaries each month. The value of overtime hours is determined in the mentioned Collective Agreement as a basic hourly rate of each employee, increased for individual passed work.

Total balance of overtime hours as of 31 December 2006 amounted to 40.368,7 hours and it has been used and paid until the end of April 2007, and presented in the income statement as staff cost with the appropriate taxes and contributions included.

Total balance of overtime hours as of 31 December 2007 amounts to 53.972 hours, and will be used and paid in the year 2008.

Based on the average hourly rate of HRK 47.51 the costs have been increased by HRK 2,564 thousand, with a parallel increase in the contractual commitments to employees (Note 26).

Furthermore, the accrued costs for other long-term employee benefits include termination benefits and jubilee-awards which totally amounts to HRK 1,924 thousands (Note 22).

7. OTHER OPERATING EXPENSES

(in HRK thousands)	2007	2006
Non-manufacturing services	743	885
Municipal and other fees /i/	5,186	4,912
Other contributions	316	298
Net book value of disposed properties, plant and equipment (Note 12)	182	1,180
Artistic and entertainment services	1,465	1,569
Insurance	2,130	2,345
Bank charges, payment transaction charges and membership fees	3,068	2,405
Fees to the Supervisory Board and Management Board members	1,924	2,045
Fees under one-off service contracts	218	220
Entertainment	509	586
Donations and sponsorships	402	248
Impairment losses on receivables	230	488
HRT subscription charges	799	762
Damages	74	191
Other /ii/	646	1,114
	17,892	19,248

/i/ Included in the presented amount is a contribution for the municipal land in the amount of HRK 2,642 thousand, water protection fee in the amount of HRK 2,285 thousand, and the fee for the use of maritime demesne in the amount of HRK 236 thousand.

/ii/ Other expenses include professional literature, seminars, annual awards, benefits in kind and the net book value of retired small inventory on the year-end count.

8. net FINANCIAL INCOME/(COST)

(in HRK thousands)	2007	2006
Financial income		
Foreign exchange gains	1,233	3,143
Dividend income	2	-
	1,235	3,143
Financial expenses		
Interest expense (Note 29)	(15,021)	(15,986)
Foreign exchange losses	(60)	-
Total financial expense	(15,081)	(15,986)
Net financial expense	(13,846)	(12,843)

9. **INCOME TAX**

The reconciliation between the accounting profit and taxable profit is provided in the table below:

(in HRK thousands)	2007	2006
Profit before tax	3,619	20,982
Effect of tax disallowable expenses – permanent differences	484	761
Effect of tax disallowable expenses – temporary differences	4.488	-
Effect of non-taxable profit	<u>(67)</u>	<u>(86)</u>
 Taxable profit for the year	 <u>8,524</u>	 <u>21,657</u>
 Tax losses brought forward	 (8,300)	 (31,628)
Tax base	224	-
Tax rate	20,00%	20,00%
 Income tax for the year	 <u>45</u>	 <u>-</u>
 Tax loss carryforward	 <u>-</u>	 <u>(9,971)</u>

10. **EARNINGS PER SHARE**

Earnings per share in the amount of HRK 1.64 (2006: HRK 9.61) have been determined on the basis of the Company's net profit in the amount of HRK 3,574 thousand (2006: HRK 20,982 thousand) and 2 182 331 ordinary shares (2006: HRK 2 182 331).

11. INTANGIBLE ASSETS

(in HRK thousands)	Technical documentation	Licences	Total
<i>Cost</i>			
At 31 December 2005	13,541	5,916	19,457
Additions	53	72	125
Disposals, retirements, other	-	(28)	(28)
At 31 December 2006	13,594	5,960	19,554
Transfer to property, plant and equipment	(1,622)	-	(1,622)
Additions	275	28	303
Disposals, retirements, other	(4,080)	-	(4,080)
At 31 December 2007	8,167	5,988	14,155
Accumulated amortisation			
At 31 December 2005	10,421	3,060	13,481
Amortisation charge for the year	293	240	533
Disposals, retirements, other	-	(28)	(28)
At 31 December 2006	10,714	3,272	13,986
Transfer to property, plant and equipment	(700)	-	(700)
Amortisation charge for the year	313	964	1,277
Disposals, retirements, other	(4,080)	-	(4,080)
At 31 December 2007	6,247	4,236	10,483
Net book value			
At 31 December 2007	1,920	1,752	3,672

12. PROPERTY, PLANT AND EQUIPMENT

(in HRK thousands)	Land and buildings	Plant and equipment	Assets under construction	Total
Cost				
At 31 December 2005	1,263,323	132,358	129	1,395,810
Adjustment of the opening balance	-	34	-	34
Additions	-	-	3,572	3,572
Transfer from tangible assets under construction	1,631	773	(2,404)	-
Disposals, retirements, other	(347)	(4,127)	-	(4,474)
At 31 December 2006	1,264,607	129,038	1,297	1,394,942
Transfers from intangible assets	1,620	2	-	1,622
Additions	92	8	11,322	11,422
Transfers from tangible assets under construction	8,333	4,286	(12,619)	-
Disposals, retirements, other	(95)	(1,464)	-	(1,559)
At 31 December 2007	1,274,557	131,870	-	1,406,427
Accumulated depreciation				
At 31 December 2005	329,980	68,374	-	398,354
Adjustment of the opening balance	-	25	-	25
Depreciation charge for the year	8,038	3,522	-	11,560
Disposals, retirements, other	(193)	(2,870)	-	(3,063)
At 31 December 2006	337,825	69,051	-	406,876
Transfer from intangible assets	699	1	-	700
Depreciation charge for the year	23,240	9,700	-	32,940
Disposals, retirements, other	(95)	(1,282)	-	(1,377)
At 31 December 2007	361,669	77,470	-	439,139
Carrying amount				
At 31 December 2007	912,888	54,400	-	967,288

The Company agreed to the registration of mortgage on property in the amount of HRK 559,076 thousand (2006: HRK 500,549 thousand) for the long-term and short-term loans received.

The total value of land amounts to HRK 191,226,382. During 2007, a transfer in the subledger was made of cadastral plots to the related facilities, with 96,565 sq. m. of a total area of 374,969 sq.m. relates to landscaped areas and parks in the territory of Medulin.

For several years, mainly because of the seasonal nature of business and problems arising over the post war years, the Company applied reduced depreciation rates, which ranged from 0.40 to 3.14 % for buildings and 1.57 to 6.30 % for plant and equipment. In the opinion of the auditor, the depreciation charged using the above-mentioned rates could not recover the cost of tangible and intangible assets over their useful lives. Accordingly, a qualified opinion was issued in prior years. Namely, in the absence of appraisal of tangible and intangible assets it was and still is not possible to determine whether they are fairly presented in the balance sheet. As a result of application of new rates, the entire write-down of property, plant and equipment in 2007 amounts to HRK 32,940 thousand, which is three times the amount recorded in the prior year.

13. INVESTMENTS

(in HRK thousands)	2007	2006
Equity investments		
- ARENATURIST ZLATNE STIJENE d.o.o., Pula	1	1
- PRIVREDNA BANKA D.D., Zagreb /i/	388	54
- ISTARSKA RAZVOJNA AGENCIJA d.o.o., Poreč	40	40
	<u>429</u>	<u>95</u>
Other investments /ii/	<u>-</u>	<u>57</u>
	<u>429</u>	<u>152</u>

/i/ In accordance with the adopted accounting policy, equity investments are carried at market bid prices. The effects of the increase in the value are presented within equity as unrealised gains.

/ii/ Based on the management's estimate, other investments were impaired, with a corresponding charge to the expenses for the period.

14. LONG-TERM RECEIVABLES

(in HRK thousands)	2007	2006
PBZ LEASING d.o.o. Zagreb /i/	<u>175</u>	<u>176</u>
	<u>175</u>	<u>176</u>

/i/ The amount presented relates to the down-payment made in December 2006 under the concluded operating lease agreements for a period of five years. The down-payments were contracted and paid under a currency clause, and were recalculated using the middle exchange rate for Euro in effect on the balance sheet date.

15. deferred tax assets

(u tisućama kuna)	2007.	2006.
Deferred cover of the income-tax /i/	898	-
	898	-

/i/ Temporary differences between the accounting profit and taxable profit aroused from tax disallowable provisions for employee benefits (termination benefits and jubilee-awards – Note 22) and accrued commitments to employees (Note 26).

16. inventories

Inventories comprise the following:

(in HRK thousands)	2007	2006
Raw material	426	579
Small inventory	3,323	3,120
Merchandise	9	10
Prepayments for merchandise	-	83
	3,758	3,792

17. TRADE RECEIVABLES

(in HRK thousands)	2007	2006
Domestic trade receivables	5,484	5,537
Receivables from related companies (Note 29)	176	-
Foreign trade receivables	4,051	2,052
Provisions for bad and doubtful receivables	(4,020)	(3,958)
	5,691	3,631

According to the applicable accounting policy described in Note 2.8, a provision is made only for outstanding receivables brought to court. Based on the ageing and creditworthiness analysis of debtors, most of the receivables outstanding for more than a year have been provided against, in accordance with International Accounting Standard 39.

18. OTHER CURRENT ASSETS

(in HRK thousands)	2007	2006
Prepayments made	53	129
VAT receivable	904	2,045
Amounts due from employees	108	110
Amounts due from state institutions	261	422
	1,326	2,706

19. CASH AND CASH EQUIVALENTS

(in HRK thousands)	2007	2006
Current account balance	2,982	63
Foreign account balance	1,104	545
Cash in hand	737	863
	<u>4,823</u>	<u>1,471</u>

20. CAPITAL AND RESERVES

At 31 December 2007, the share capital of the Company consists of 2 182 331 ordinary shares, with a nominal value of HRK 300 per share, and of 169 treasury shares.

Under Croatian law, a legal reserve is formed out of 5 % of profits of the year until such time that the total reserve balance, together with capital gains, reaches 5 % of the Company's share capital. The legal reserves represent undistributable reserves. Other reserves consist of other reserves based on equity adjustments from prior periods (undistributable), reserves for own shares and a revaluation reserve (unrealised gains/losses).

Based on the Decision issued in the General Shareholders' Meeting of 7 July 2007, the 2006 profit in the amount of HRK 20,981,873 was allocated as follows: 5% of the profit in the amount of HRK 1,049,094 was transferred to legal reserves, whereas the remaining HRK 19,932,779 were allocated to retained earnings.

At 31 December 2007, the Company reported a revaluation reserve in the amount of HRK 333,975, formed out of the value adjustment of quoted equity investments (unrealised gains).

Increase in profit in the amount of HRK 897,618 represent the effects from unrecognised temporary differences arisen from income-tax calculation for the year 2007. We remark that until the year 2006 the Company hasn't had taxable profit and didn't presented deferred tax assets for the unused tax losses brought forward (Note 15).

During 2007, based on the Report on the Findings of the Inspection over the calculation and payment of taxes and other public levies in the period 1 January 2004 – 31 December 2006, the difference pertaining to understated and underpaid value-added tax of HRK 275,096 was charged to retained earnings.

At 31 December 2007 the ownership structure according to the notification of the Central Depository Agency was as follows:

- W 2005/ DVADESET OSAM D.O.O. Zagreb	74.15%
- HPB D.D./ KD Investment - Victoria Fond	2.53%
- HRVATSKI FOND ZA PRIVATIZACIJU, Zagreb	1.95%
- SG – Splitska banka d.d. / Omnibus account for SKANDINAVSKA ENSKILDA BANKEN	1.43%
- ZAGREBAČKA BANKA d.d. / Omnibus account for BANK AUSTRIA CREDITANSTALT AG	1.20%
- PODRAVSKA BANKA d.d. / Omnibus account, Italian resident	1.01%
- DINOVA – DIONA d.o.o.	0.52%
- SG – Splitska banka d.d. / Omnibus account – domestic investors	0.26%
- HYPO ALPE-ADRIA BANK d.d. / Omnibus account, Italian resident	0.21%
- Treasury shares	0.01%
- Other shareholders	16.73%
	<u>100.00%</u>

21. LONG-TERM DEBT

Long-term borrowings are as follows:

(in HRK thousands)	Interest rate applied	2007	2006
Foreign lenders			
- Bank borrowings			
Hypo Alpe-Adria-Bank AG International, Klagenfurt			
EUR 2,914,364	7.25%	11,475	15,092
CHF 2.500.000	5.75%	5,749	7,923
CHF 2.700.000	5.75%	6,631	9,169
EUR 4.000.000	6.25%	25,185	28,200
EUR 2.600.000 /i/	6.25%	19,045	-
- Other borrowings			
Pinamar Holding, S.A. Luxembourg /ii/	4.89%	-	40,700
TACANA S.A. Luxembourg /iii//	5.00%	-	14,690
GRANITO S.A. Luxembourg /iii/	5.00%	-	3,672
Total foreign borrowings		68,085	126,791

(in HRK thousands)	Interest rate applied	2007	2006
Domestic lenders:			
- Bank borrowings			
Zagrebačka banka d.d., Zagreb	7.73%	31,393	41,972
Zagrebačka banka d.d., Zagreb	7.73%	9,795	13,095
Zagrebačka banka d.d., Zagreb	7.73%	1,768	3,545
Zagrebačka banka d.d., Zagreb	7.73%	9,418	12,592
Privredna banka d.d., Zagreb	7.286%	25,740	30,503
Privredna banka d.d., Zagreb	6.536%	10,465	13,116
Hypo Alpe Adria bank d.d., Zagreb	7.00%	5,813	7,658
- Borrowings from related companies			
W 2005/ Dvadeset Osam d.o.o., Zagreb /ii/	4.89%	40,706	-
W 2005/ Dvadeset Osam d.o.o., Zagreb /iii/	5.00%	25,494	-
- Finance lease			
Hypo-Leasing Kroatien d.o.o. Zagreb – finance lease	8.00%	-	5,846
Total domestic borrowings		160,592	128,327
Total long-term debt		228,677	255,118
Current portion		31,726	40,771
Long-term portion		196,951	214,347

The interest rates applied represent the actual interest rate used in the most recent interest calculation performed in 2007.

- /i/ In May 2007, a long-term foreign loan agreement was concluded between Arenaturist d.d. Pula and Hypo-Alpe-Adria-bank International AG, Klagenfurt, Austria, for a loan of EUR 2,600,000, earmarked for investments in various hotel facilities. The contracted loan period expires on 1 April 2018, and the interest rate is 3-month EURIBOR + a margin of 1.25%. The repayment of the loan is secured by a bank guarantee of Hypo-Alpe-Adria-Bank d.d. Zagreb in the amount of the loan, i.e. EUR 2,600,000.
- /ii/ Based on the Agreement on Transfer (Assignment) of Loan, concluded between Pinamar Holding SA and W 2005/Dvadeset Osam d.o.o. Zagreb on 27 July 2007, Pinamar Holding SA Luxembourg transferred the loan to W 2005/Dvadeset Osam d.o.o. Zagreb at a price of EUR 5,588,486. By a review of the final provisions of the Agreement, specifically Article 5.1, a contract on a loan denominated in Croatian kuna was signed paralelly between W 2005/ Dvadeset Osam d.o.o. Zagreb and Arenaturist d.d. Pula in the amount of HRK 40,706,124, which was the equivalent of the price of EUR 5,588,486 at the middle exchange rate of the Croatian National Bank as of the date of conclusion of the Agreement.
- /iii/ Based on the Agreement on Transfer (Assignment) of Loan, concluded between Granito SA Luxembourg, Tacana SA Luxembourg and W 2005/Dvadeset Osam d.o.o. Zagreb on 27 July 2007, and by reference to the Agreement on Transfer (Assignment) of Loan between creditors, concluded on 2 October 2006, Granito SA transferred the loan to W 2005/Dvadeset Osam d.o.o. at a price of EUR 1,800,000, and Tacana SA transferred the loan to W 2005/Dvadeset Osam d.o.o. at a price of EUR 1,700,000. By a review of the final provisions of the Agreement, specifically Article 5.1, a contract on a loan denominated in Croatian kuna was signed paralelly between W 2005/ Dvadeset Osam d.o.o. Zagreb and Arenaturist d.d. Pula in the amount of HRK 25,493,745, which was the equivalent of the price of EUR 3,500,000 at the middle exchange rate of the Croatian National Bank as of the date of conclusion of the Agreement.

The repayment of the long-term loans has been secured by mortgage on property (see Note 12).

Long-term loans are analysed by currency as follows:

(in HRK thousands)	2007	2006
EUR	150,097	197,326
CHF	12,380	57,792
HRK	66,200	-
	<u>228,677</u>	<u>255,118</u>

Long-term loans with currency clause are included in the loans denominated in Croatian kuna.

The loans by type of interest are analysed as follows:

(in HRK thousands)	2007	2006
➤ At fixed interest rate	66,200	66,407
➤ At variable interest rate	162,477	188,711
	228,677	255,118

At 31 December 2007, interest payable on long-term debt amounts to HRK 2,641 thousand (2006: HRK 3,366 thousand) – Note 25.

The repayment schedule for the following five years is as follows:

(in HRK thousands)	
2008	31,726
2009	35,092
2010	35,826
2011	60,448
2012	13,586
Thereafter	51,999
	228,677

22. OTHER LONG-TERM LIABILITIES

(in HRK thousands)	2007	2006
Other long-term employee benefits /i/	1,924	-
	1,924	-

/i/ Included in the present amount, termination benefits amounts to HRK 530 thousands and jubilee-awards amounts to HRK 1,394 thousands. Accrual is performed basing on the calculation of a one-time basis termination benefits, which amounts to HRK 8,000 for each employee once retired. Jubilee-awards are calculated according to the Internal act of the Company, which regulates the obligation of jubilee-award withdraw for every 5 past working years for the Company, starting from 10 up to 40 years of the working internship (Note 6).

By determining the present value of the long-term employee benefits for a one-time basis termination benefits and jubilee-awards at the balance sheet date, it is used the discount rate of 5.75%, with the average employee turnover of 4.6%.

23. LONG-TERM PROVISIONS

(in HRK thousands)	2007	2006
Litigation provision /i/	7,837	6,516
Provisions for termination bonuses /ii/	401	-
	8,238	6,516

/i/ The increase in provisions in 2007 resulted from the Decision of the management relating to a legal action involving Herculanea d.o.o. Pula, which is still pending, and for a new legal action (see Note 28 "Contingent Liabilities").

/ii/ Provisions for termination bonuses have been made pursuant to the Management Decision for the business-conditioned dismissals of the employees, in accordance with the applicable Croatian regulations.

24. SHORT-TERM BORROWINGS

Short-term borrowings are as follows:

(in HRK thousands)	Applied interest rate	2007	2006
Hypo Alpe-Adria bank d.d., Zagreb /i/	8% variable	-	4,385
Hypo Alpe-Adria bank d.d., Zagreb /i/	7.5% variable	3,663	-
		<u>3,663</u>	<u>4,385</u>

/i/ At 31 December 2007, the Company reported no liability in respect of the overdraft facility, which amounts to HRK 22,000 thousand (in 2006: HRK 17,615 thousand). The overdraft facility is based on the Annex 6 to the basic loan agreement from 2002, concluded on 18 April 2007, which expires on 30 June 2008. The repayment of the loan has been secured by lien on property, insurance policy registered in favor of the bank, a bill of exchange and a blank debenture note.

/ii/ In December 2007, a loan agreement between Arenaturist d.d. Pula and Hypo-Alpe-Adria-Bank d.d. Zagreb was concluded, with the loan amount equivalent to EUR 500,000, earmarked for the working capital purposes. The loan expires on 1 December 2008, and the interest rate is 3-month EURIBOR + 2.5 %. The repayment of the loan has been secured by blank bills of exchange and blank debenture notes.

25. TRADE PAYABLES

(in HRK thousands)	2007	2006
Domestic trade payables /i/	4,414	8,979
Liabilities to related companies (Note 29)	3,748	-
Foreign trade payables /i/	-	1,476
Liabilities for unbilled goods	27	24
	<u>8,190</u>	<u>10,479</u>

/i/ Included in the trade payables is accrued interest in the amount of HRK 2,641 thousand (2006: HRK 3,366 thousand), of which HRK 1,360 thousand in respect of domestic trade creditors (2006: HRK 2,898 thousand). Interest accrued with respect to related companies amounts to HRK 1,281 thousand.

26. ACCRUED AND OTHER LIABILITIES

(in HRK thousands)	2007	2006
VAT payable	234	6
Income tax payable	45	-
Amounts due to employees/salaries payable	2,144	2,045
Taxes and contributions from and on salary	1,665	1,411
Liabilities under one-off service contracts (gross)	182	246
Amounts due to government institutions	40	7
Other amounts due to employees	-	103
Accrued commitments to employees (Note 6)	2,564	-
Accrued expenses	176	169
Other accruals and liabilities	50	11
	7,100	3,998

27. FINANCIAL RISK MANAGEMENT

27.1. Financial risk factors

The Company's activities expose it to a variety of financial risks, including the currency risk, the interest rate risk and the liquidity risk which are managed by the Financial Department and the Management Board of the Company.

/i/ Currency risk and interest rate risk

Sales revenue is earned predominantly in Euro (EUR). Domestic sales revenue is in Croatian kuna. Most of the long-term and short-term loans are with currency clause, linked to EUR and CHF. The changes in the exchange rates for EUR and CHF affect the performance results of the Company. The Company is also exposed to interest rate risk as most of the loans are at variable rates.

/ii/ Credit risk

Financial assets that potentially expose the Company to the credit risk consist of cash, trade receivables and other short-term receivables. Trade receivables are reduced by an allowance for uncollectible amounts. The credit risk concentration is limited due to a large number of different customers.

In the opinion of the management, there is no additional credit risk that could affect the increase in the provisions for impairment of trade and other receivables.

/iii/ Liquidity risk

A prudent liquidity risk management implies maintaining sufficient levels of cash, ensuring availability of financial assets with an adequate amount by means of agreed credit lines and ability to settle all the obligations. The Finance Department monitors regularly the level of available sources of cash.

27.2. Fair value estimates

The carrying amounts of current assets (cash and trade receivables) and current liabilities (trade and other payables) approximate their fair value because of the short-term maturity of those assets and liabilities. Inventories are carried at the lower of cost or net realisable value.

We are not able to estimate whether the property, plant and equipment approximate their fair values because they can be expected to be overstated because a long-term application of low depreciation rates.

28. CONTINGENT LIABILITIES

The issue regarding the legal actions with the supplier „Pula - Herculanea“ d.o.o. Pula has been dealt with as a contingent liability in the financial statements of Arenaturist d.d. Pula from prior years. Based on the litigation, the management made a provision of HRK 6,516 thousand in 2005. During 2007, the Decision was made to increase the provisions by HRK 696 thousand (Note 23).

Furthermore, the Company has been sued on the grounds of joint and several liabilities by the family of a person deceased on the sea route in the Medulin territory. The management issued a decision to form a provision of HRK 625 thousand in this respect (Note 23).

Based on the review of legal actions involving the Company, another claim has been identified, initiated by the local self-government unit of the Town of Pula to establish the title to property on part of the real estate in the apartment village “Horizont” - Zlatne Stijene and the Municipality of Medulin to establish the title to property on campsites. The properties, except land, were contributed to the Company’s share capital and are used for the Company’s business. The amount claimed in 2002 by the Municipality of Medulin from Arenaturist d.d. amounts to HRK 20,300,000 based on the unjust enrichment on account of use of land. Given that this amount represents an estimate, we are not able to assess whether the claim is realistic until the final outcome of the litigation.

Based on our knowledge, there are no material contingencies pertaining to legal actions initiated against the Company by other legal or natural persons which could be quantified other than those specified above.

29. RELATED PARTY TRANSACTIONS

Arenaturist d.d. Pula is controlled by W 2005/Dvadeset Osam d.o.o. Zagreb, which holds 74.15 % shares. The ultimate controlling parent of W 2005/Dvadeset Osam d.o.o. Zagreb is the company W 2005/Dvadeset Devet d.o.o. Zagreb.

Set out below are transactions below Arenaturist d.d. Pula and W 2005/Dvadeset Osam d.o.o. and the Group W 2005/Dvadeset Devet Zagreb and its related companies in the period 1 August to including 31 December 2007.

a) In the period 1 August to including 31 December 2007, the following transactions between Arenaturist d.d. Pula and other related companies within the Group W 2005/Dvadeset devet d.o.o. Zagreb are disclosed.

(in HRK thousands)	W 2005/ Dvadeset Osam d.o.o.	AT - Hoteli d.o.o.	AT - Turistička naselja d.o.o.	AT - Zlatne stijene d.o.o.	Total
Sales:					
- Sales - services	-	420	49	366	835

(laundry; plants; food and drinks)					
- Loans reimbursed for loan workforce	-	453	-	-	453
- Accounting and AOP services	-	105	13	50	168
		978	62	416	1,456
Other operating income					
- Rental income	-	278	-	950	1,228
- Small inventory sales	-	-	2	-	2
		278	2	950	1,230
Total revenue	-	1,256	64	1,366	2,686
Operating expenses					
- Wage recharge services – loan workforce	-	-	-	57	57
- Advertising and promotion	-	2,558	-	-	2,558
	-	2,558	-	57	2,615
Other financial expenses					
Interest expense	1,404	-	-	-	1,404
Total expenses	1,404	2,558	-	57	4,019

b) At 31 December 2007, the following balances resulting from transactions between Arenaturist d.d. and the related companies within the Group W 2005/Dvadeset Devet d.o.o. Zagreb are included in the balance sheet of Arenaturist d.d.

(in HRK thousands)	2007
Trade receivables:	
- AT Hoteli Medulin d.o.o. Medulin	146
- AT Zlatne stijene d.o.o., Pula	28
- AT Turistička naselja d.o.o., Pula	2
	176
Trade payables:	
- W 2005/ Dvadeset osam d.o.o., Zagreb	1,281
- AT - Hoteli Medulin d.o.o., Medulin	2,444
- AT - Zlatne stijene d.o.o., Pula	23
	3,748

30. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Significant accounting estimates and sources of estimates

Income tax

The income tax calculation has been prepared on the basis of the current interpretation of applicable laws and regulations. The calculations serving as the basis for the income tax are subject to tax audit reviews by tax authorities.

Impairment of receivables

Receivables are assessed for impairment at each balance sheet date and during the year and reduced by the estimated amount of doubtful receivables. Each debtor is reviewed by reference to its status, the overdue receivables and the stage of the litigation if any.

b) Significant accounting judgments used in the application of accounting standards

In addition to the litigation provision, provision for termination bonuses and accrued commitments to employees as disclosed in Note 22, 23 and 26, the management is of the opinion that no other significant judgments should be disclosed in the financial statements.