ARENA TURIST

ANNUAL REPORT

2008

Company ID on 31 December 2008

Name of the Company:	Arenaturist d.d.
Activity:	Providing services in tourism and catering
Address:	Smareglina ulica 3, 52 100 Pula
Telephone:	+385 52 223 811
Fax:	+385 52 215 263
E-mail:	uprava@arenaturist.hr
Website:	www.arenaturist.hr
Company Registration number (MB):	03203263
Identification number of the subject (MBS):	040022901 Commercial Court in Pazin
Company's share capital:	HRK 43.650.000,00
Number of shares:	2,182,500 of registered shares
Nominal value of share:	20.00 kuna
Company ownership structure:	W2005/Dvadeset osam d.o.o. 74.15%, Victoria Fund 2.53%, Croatian Privatization Fund 1.95%, others 21.36%, treasury shares 0.01%
Dealing in shares:	Shares of Arenaturist (ARNT-R-A) were listed in the quotation of Public joint stock companies in the Zagreb Stock Exchange on 30 June 2003
Transfer accounts:	HYPO 2500009-1101006652
	ZABA 2360000-1101213690
	PBZ 2340009-1110087149
Executive Directors:	Dr.sc. Igor Štoković, Milena Perković, Reuel Slonim, Kurt Kuen
President of Management Board:	Boris Ivesha
Number of employees:	394

Arenaturist d.d.

Annual report 2008

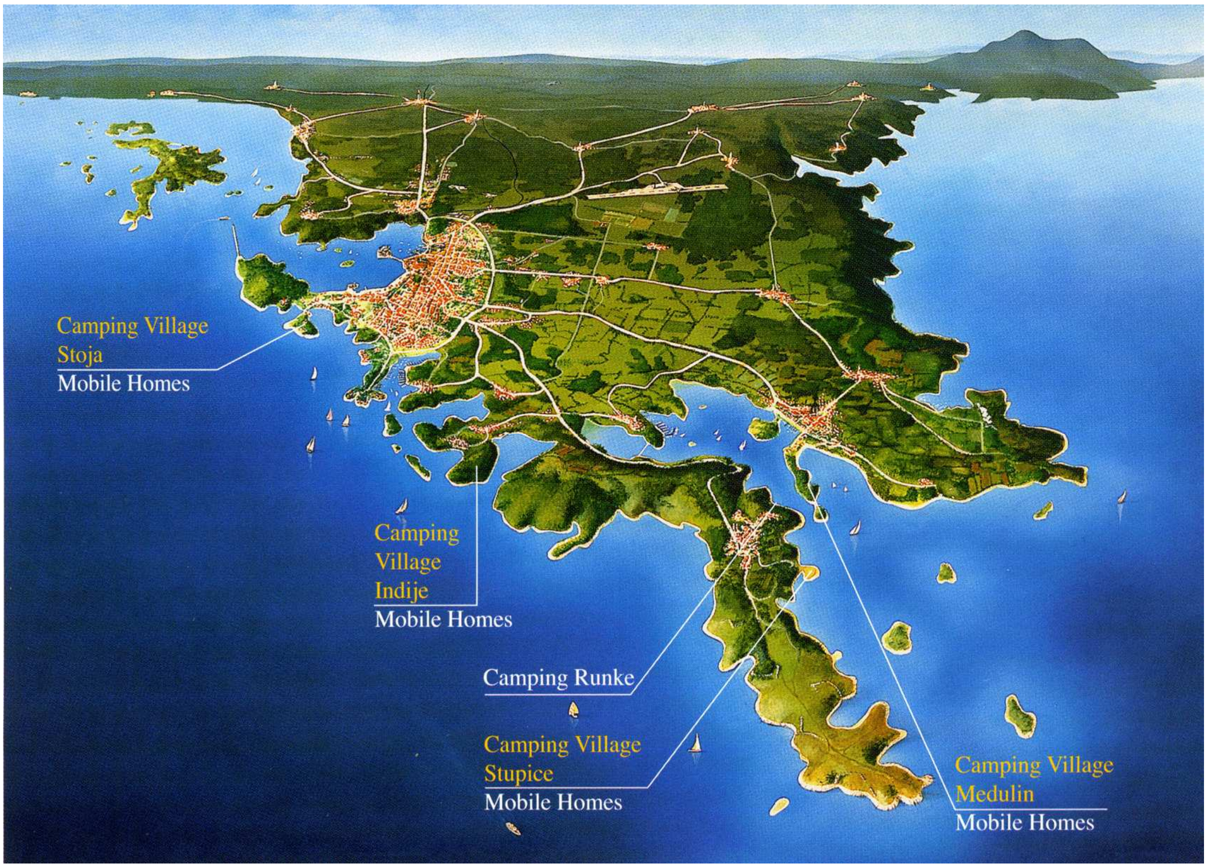
Contents

COMPANY'S ANNUAL REPORT

Company profile

Location and accommodation units


Hotel Riviera
Splendid Pula Resort
Horizont Pula Resort
Hotel Brioni
Brioni Resort
Hotel Park
Park Resort
Verudela Beach
& Villa Resort
Hotel Histria
Hotel Palma
Punta Verudela Resort
Hotel Belvedere
Ai Pini Medulin Resort
Hotel Holiday
Hotel Medulin


Camping Village
Stoja
Mobile Homes
Camping
Village
Indije
Mobile Homes
Camping Runke
Camping Village
Stupice
Mobile Homes
Camping Village
Medulin
Mobile Homes

Arenaturist d.d. from Pula (Company) is one of the biggest leading hotel companies in Croatia that manages its business in the south of the Istrian peninsula, and it has been present in the tourist market for over 30 years.

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

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 transformation of the socially-owned enterprise Arenaturist – Poduzeće za ugostiteljstvo i turizam, po.

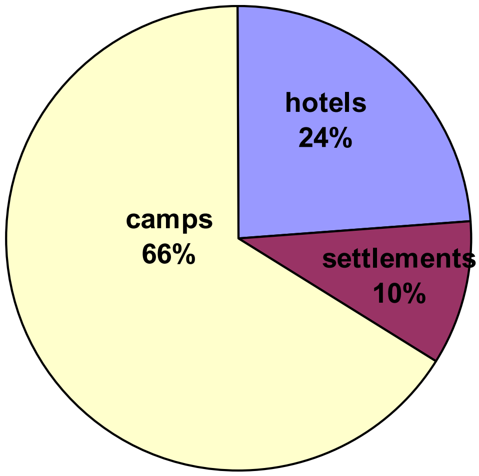
In 1994, the Company was transformed from a state-owned company into a joint stock company and registered at the Commercial Court in Rijeka, under the laws of the Republic of Croatia and by approval of the Croatian Privatization Fund.

According to the ownership structure as of 31 December 2008, W 2005/ Dvadeset Osam 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 4,394 shareholders own the remaining 23.89% of the Company’s shares.

Accommodation capacities

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.

Share of type of accommodation in total accommodation capacities



Camps are dominant in the overall accommodation offer with the share of 66%, and the remaining 34% is shared by hotels and apartment settlements.

Results of Company's business operations

➢ 2008 – year of changes

Business activities of Arenaturist in the very demanding year 2008 marked by significant changes that occurred in our Company and by dynamic business terms in the tourist industry were realized within the plan. Considering all circumstances in which our business activities were performed, we can be content with our business results and with the fact that our business activities are still stable, with a tendency of growth.

Overnights

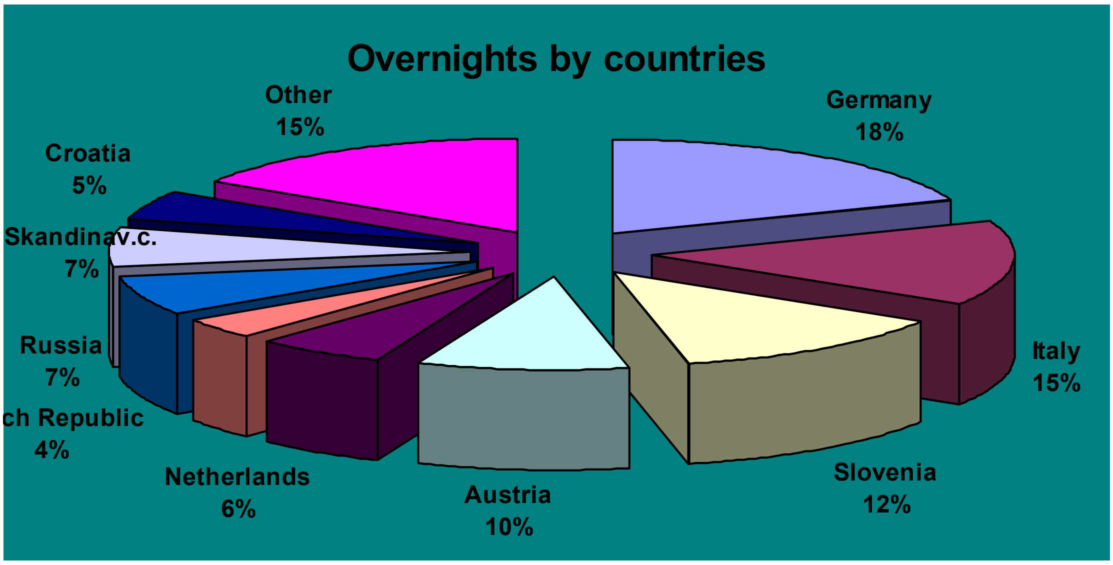
In the year 2008, Arenaturist realized 1,176,442 overnights, which represents a 4% fall in relation to the previous year. The number of overnights in fixed structure capacities dropped by 7% in relation to the previous year. The number of overnights in the camps is at the same level as the previous year. The main reason for the fall in the number of overnights was unfavourable schedule of holidays in preseason months.

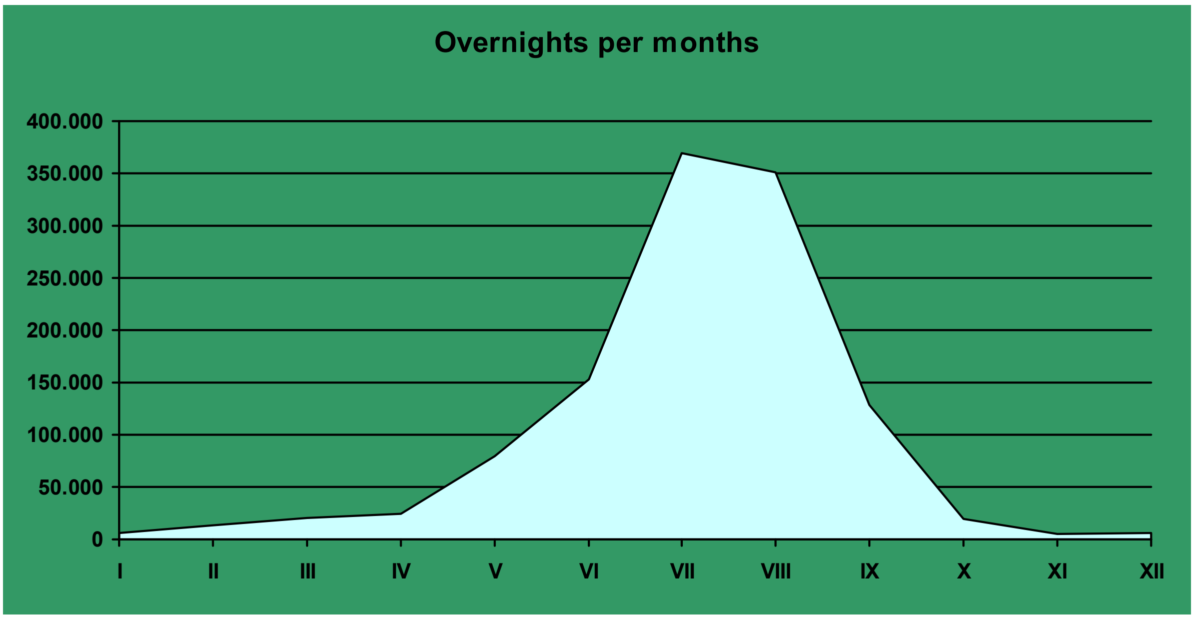
Overnights by type of accommodation

	Number of overnights					Occupancy days*		
	2007	%	2008	%	08/07	2007	2008	08/07
Hotels	400,561	33	374,023	32	93	139	135	97
Resorts	212,185	17	188,922	16	89	103	90	87
Camps	613,650	50	613,497	52	100	49	49	100
Arenaturist	1,226,396	100	1,176,442	100	96	77	74	96

*Occupancy days have been calculated on annual level

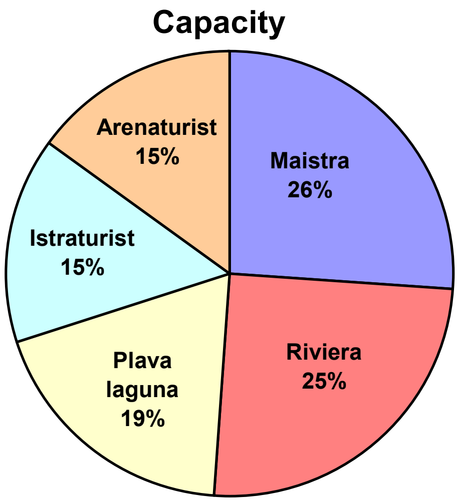
Foreign guests achieved 95% of total overnights. The rank of countries where guests are coming from has not changed much, although in the absolute amount, we can notice a fall of Austrian, German and Italian guests and the increase of Danish, Swedish and Polish guests.

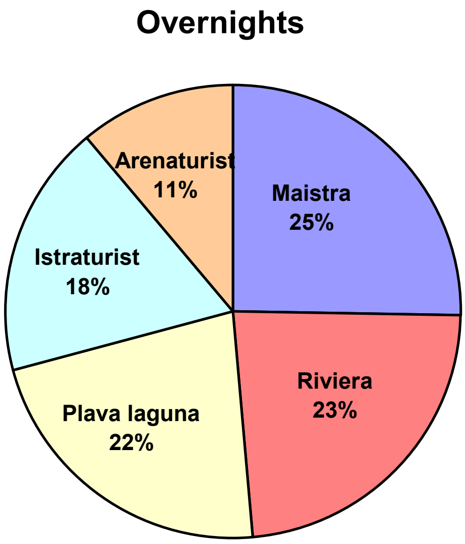




The Overview of capacities and overnights compared to other bigger tourist companies in Istria for the year 2008

Company	Capacity		Overnights	
	No. beds	%		%
Maistra, Rovinj	28.494	26	2.617.001	25
Riviera, Poreč	27.196	25	2.420.362	23
Plava laguna, Poreč	21.278	19	2.319.262	22
Istraturist, Novigrad	16.655	15	1.889.317	18
Arenaturist, Pula	16.782	15	1.176.442	11
Total	**110.405**	**100**	**10.422.384**	**100**





Financial operating review

Despite the fall in the number of overnights, the Company ended the business year with HRK 167.1 million of room and board revenue, which is an increase of 4% in relation to the previous year. More than half of these revenues or HRK 91.2 million was realized by Arenaturist in the hotels that make up 24% of accommodation capacities. The increase of average prices in hotels by 12% and by 11% in the apartment settlements caused an increase in the revenues in the fixed structure capacities by 3%. Due to the increase of average prices, the camps realized HRK 49.5 million, which is 6% more than the previous year.

Revenues by products

	Room and Board Revenues (in HRK thousand)					Average net rate per overnight		
	2007	%	2008	%	08/07	2007	2008	08/07
Hotels	87,233	54	91,198	54	105	217,78	243,78	112
Resorts	26,611	17	26,415	16	99	125,42	139,82	111
Camps	46,902	29	49,535	30	106	76,43	80,74	106
Arenaturist	160,746	100	167,148	100	104	131,07	142,06	108

In the year 2008, the Company's total revenues amounted to HRK 198.3 million, representing a 5% growth. G.O.P. is higher by 10% in relation to the previous year. Earnings Before Taxes, Interest, Depreciation and Amortization (EBTIDA) fell by 13% in relation to the previous year due to expenses of development and restructuring, expenses incurred by the conflict with the Municipality of Medulin pertaining to the land in the camps and payment of management fee to the company Park Plaza Hotels.

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

Income statement according to the USALI standard (HRK thousand)

	2007	% in OR	2008	% in OR	08/07
REVENUES					
Hotels room revenues	74,486	39	78,884	40	106
Resorts room revenues	24,413	13	24,540	12	101
Camps accommodation revenues	46,902	25	49,535	25	106
Total accommodation revenues	**145,801**	**77**	**152,959**	**77**	**105**
Food&Beverage revenues	28,852	15	28,436	14	99
Leases and other revenues	14,720	8	16,886	9	115
Total operating revenues	**189,373**	**100**	**198,281**	**100**	**105**
COSTS					
Direct costs of Food&Beverages	(16,288)	9	(17,241)	9	106
Costs of labour	(63,409)	33	(64,148)	32	101
Other operating costs	(47,984)	25	(49,284)	25	103
Total operating costs	**(127,681)**	**67**	**(130,673)**	**66**	**102**
Gross operating profit (GOP)	**61,692**	**33**	**67,608**	**34**	**110**
Fixed costs	(8,387)	4	(8,414)	4	100
Management fee	-	-	(5,711)	3	-
Development and restructuring costs	-	-	(3,921)	2	-
Court conflict costs	-	-	(3,108)	2	-
EBITDA	**53,305**	**28**	**46,454**	**23**	**87**
Interest expenses	(15,136)	8	(14,904)	8	98
Other financial revenues/costs-net	1,712	1	(2,622)	1	-
Depreciation & Amortization	(36,262)	19	(35,700)	18	98
Revenues / (Loss) before taxation	**3,619**	**2**	**(-6,772)**	**-**	**-**

In the year 2008, the Company realized loss before taxation amounting to HRK 6.8 million. In addition to the above stated expenses, considerable influence on loss was caused by foreign exchange loss amounting to HRK 2.6 million.

Risk exposure and risk management

The Company's activities expose it to a variety of financial risks, including the currency risk, the interest rate risk, the credit risk and the liquidity risk. The Company monitors all these risks and makes efforts at reducing their potential effect on the financial exposure of the Company. The Company does not use derivative financial instruments for active protection against exposure to the financial risk.

Currency risk

The Company operates internationally and it is exposed to the currency risk resulting from changes in the exchange rates, predominantly linked to EUR and CHF. The currency risk is a result of future commercial transactions and recognized property and liabilities. Most revenues from sales abroad and long-term loans are expressed in EUR and CHF. Changes in the exchange rates of these currencies and HRK may affect future performance results and money flows.

Credit risk

The Company does not have a significant credit risk concentration. The credit risk results from cash, trade receivables and short-term receivables. Company's sales policies make sure that the sale is performed with customers with appropriate credit history. In other words, Company's sales policies provide for advance payment of sales to customers, both in cash and through credit cards. The credit risk of the Company is limited considering that the Company does not have loans receivable. The Management Board controls recoverability of receivables through weekly reports with itemized state of accounts receivable. Adjusted value for short-term receivables is performed when there are objective proofs that the Company will not be able to collect all its receivables in conformity with negotiated terms. The Company implements policies that limit the level of exposure to the credit risk to any financial institution. Money transactions are only performed through high quality Croatian banks. The Company has only short-term liquid instruments with maturity up to three months.

Interest rate risk

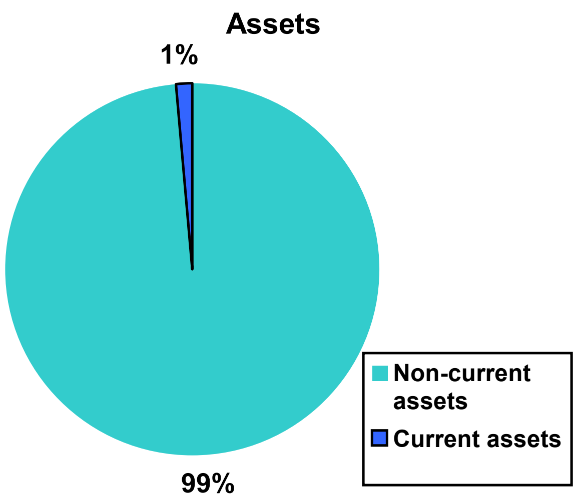
Interest rate risk of the Company is a result of loans. Loans approved at variable rates expose the Company to interest rate risk of cash flow. Loans approved at fixed rates expose the Company to the fair value interest rate risk. The Company does not use derivative instruments for active protection against exposure to interest rate risk of cash flow and to fair value interest rate risk.

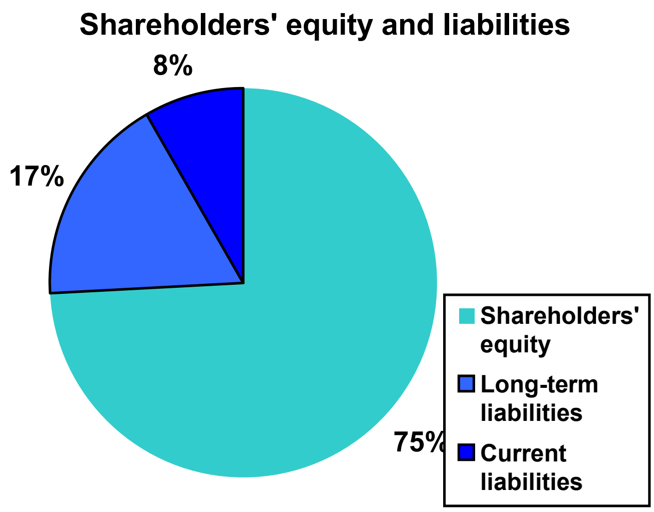
Liquidity risk

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 the ability to settle all obligations. The Company’s objective is to maintain flexible financing by keeping the agreed credit lines available. The Management Board daily monitors the level of available sources of cash through reports on state of cash assets and liabilities.

Financial highlights 2008

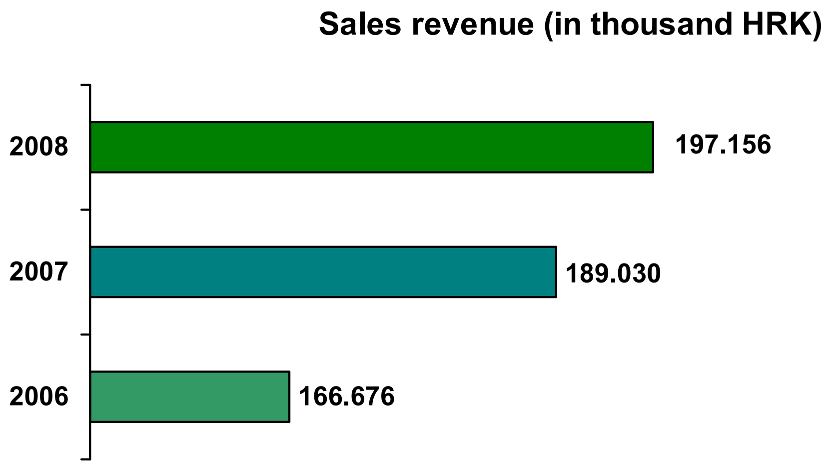
Balance sheet





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

in thousand HRK	2006	2007	2008
Sales revenue	166,676	189,030	197,156
GOP	56,119	61,692	67,608
% GOP in Sales revenue	33,7	32,6	34,3
EBITDA	48,061	53,305	46,454
Profit/(Loss) for the year before taxation	20,982	3,619	(6,772)



Events 2008

- The Company started collaboration with the company Park Plaza Hotels for a 20-year period in the field of management, development, standardization of services and strategic marketing.

Park Plaza Hotels

Park Plaza Hotels is a joint stock company with quotation in the AIM Stock Exchange in London. The Company owns, manages or franchises 39 hotels with over 7,300 rooms located in Europe, Middle East and North Africa. Strategic partnership with Carlson Hotels Worldwide, one of the top world travel and hotel companies will make it possible for Arenaturist to access this large reservation, distribution and marketing system.

The Company manages hotels under two brands:

1. **Park Plaza Hotels & Resorts brand** (part of Carlson Hotels Worldwide group) in which the Company has exclusive rights for the entire hotel service in 56 countries. Hotels are ideally located in business and cultural centre of cities where they are situated.

2. **Art'otel** is a unique brand entirely owned by the Company. Art'otels are destinations with the so-called lifestyle hotels where modern interiors fuse with contemporary art.

Park Plaza Hotels is headquartered in Amsterdam, and it has regional offices in London, Amsterdam and Berlin.

- The General Assembly of Arenaturist shareholders passed the decision about decrease of Company's share capital from HRK 654,750,000.00 by HRK 611,100,000.00 to HRK 43,650,000.00. Decrease of the Company’s share capital has been performed by decreasing the nominal value of ordinary Company shares from HRK 300.00 to HRK20.00.

- The Regional Court in Pula passed the ruling whereby the Municipality of Medulin has been registered as the owner of tourist land in camps in its territory managed by Arenaturist. The Company continues with appropriate legal action at higher courts, in expectation of the Tourist Land Act.

- The Company subsidiaries Mažurana d.o.o., Zagreb and Ulika d.o.o., Zagreb were established. In the year 2008, the subsidiaries did not perform business activities.

- Regular General Assembly of the Arenaturist shareholders was held at which it was decided, among other things, to pass to the so-called Anglo-Saxon model of management, whereby the past two Company management bodies- the Management Board and the Supervisory Board are replaced by a single body- the Management Board.

- Projects of the future look of accommodation capacities of Arenaturist designed by London based architects Scott Brownrigg were presented, with planned investments of EUR 150 to 200 million over the following three to five-year period.

- **Events after the balance sheet date**
  At the Company General Assembly held on 30 May 2008, the General Assembly passed the Decision about regular decrease of the Company's share capital by decreasing the nominal amount of shares with the objective of returning a part of the capital to shareholders. Due to changes in the international and the Croatian financial market, it was not possible to pay the shareholders and hence it has become impossible to realize the objective of decreasing the Company's share capital. The Company General Assembly at its session held on 24 February 2009 passed the Decision about changes and amendments to the Decision about decrease of the capital whereby the entire amount of decrease of the share capital of HRK 611,100 thousand shall be distributed to the Company reserves.

Structure of Company's management and organization

Management Board and Executive Directors

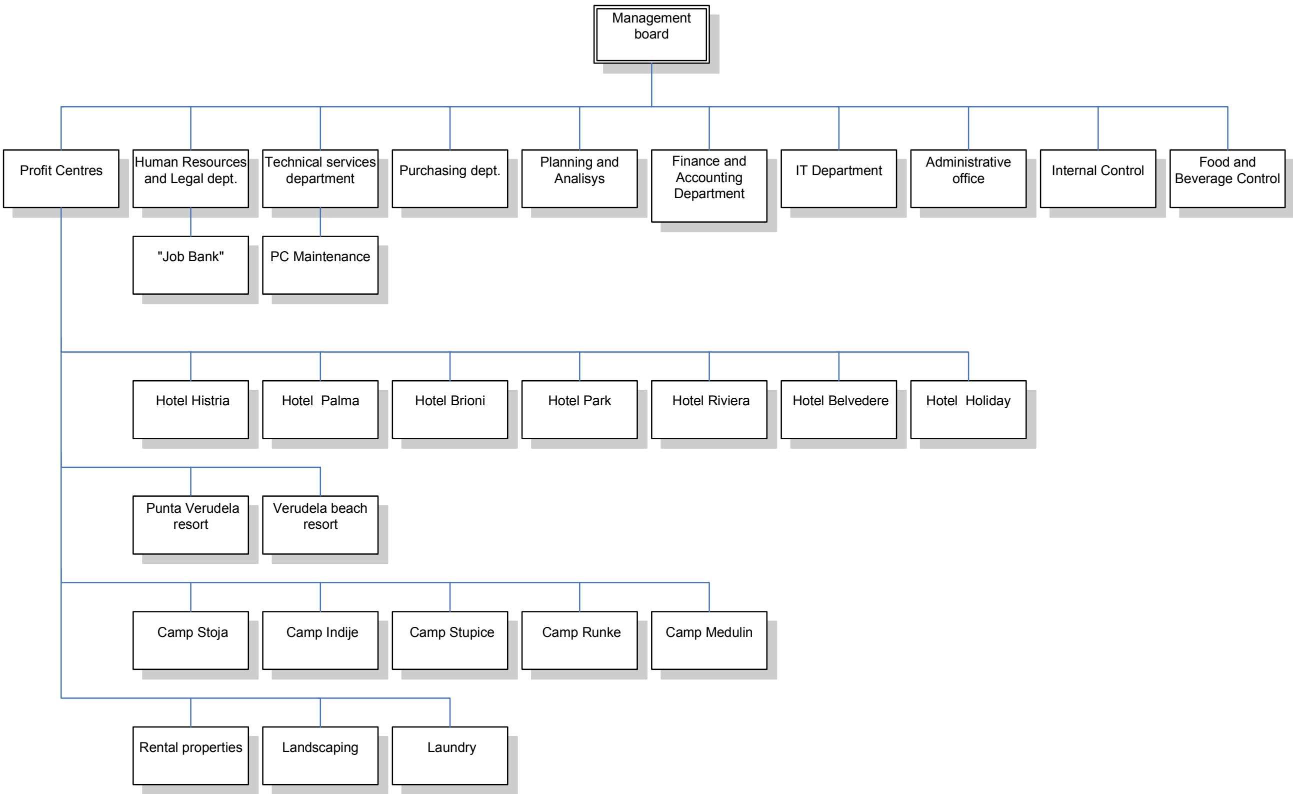
Supervisory Board by 29 July	
Kamaldeep Manaktala	President
Vlasta Cukon	Deputy President
Dario Matošević	member
Milan Naperotić	member
Damir Lučić	member and employees' representative
Heather Allsop	member
Gerardus Nicolaas Meijssen	member
Caroline Vermij	member
Marcus Hubertus Gertrudis Vennekens	member

Management Board		
Boris Ivesha	President	Appointed on 29 July 2008
Kamaldeep Manaktala	Deputy President	Appointed on 29 July 2008
Patrick Tribolet	Deputy President	Appointed on 29 July 2008
Chen Moravsky	member	Appointed on 29 July 2008
Erik Honing	member	Appointed on 29 July 2008
Damir Lučić	member and employees representative	Appointed on 25 July 2008
Marielle Stijger	member	Appointed on 29 July 2008
Gerardus Nicolaas Meijssen	member	Appointed on 29 July 2008
Šime Vidulin	member	Appointed on 29 July 2008
Marcus Hubertus Gertrudis Vennekens	member	Appointed on 29 July 2008
Predrag Stojčević	member	Appointed on 29 July 2008

Management Board by 18 September		
Igor Štoković	President	Appointed on 29 June 2004
Milena Perković	member	Appointed on 29 June 2004

Executive Directors		
Igor Štoković	Chief Executive Officer	Appointed on 19 September
Milena Perković	Executive Director	Appointed on 19 September
Reuel Slonim	Executive Director	Appointed on 19 September
Kurt Kuen	Executive Director	Appointed on 19 September

Company's organizational scheme



Structure of management

Company executives	
Corporate departments	
Vlasta Cukon	Human Resources Manager
Dino Buršić	Property Operations and Maintenance Manager
Damir Batarelo	Director of Food & Beverages
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 centres	
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

Employees

In the tourist business, human resources are one of the most important factors in reaching a high level of catering. Therefore, such good business results in 2008 were realized owing to the contribution of each and every employee.

In collaboration with the Ministry of Tourism, in the year 2008 the Company concluded eleven scholarship contracts with students schooled for the skills in short supply such as cook or waiter, and we intend to continue such practice in the future.

Employee structure:

- 370 permanent employees as of 31 December 2008
- 4 employees left the Company in 2008
- 14 newly employed
- 225 maximum number of seasonal employees in the peak of the season
- Gender ratio (female vs. male): 56% : 44%
- Apartment and camp cleaning services are performed by cleaning service companies employing approximately 130 seasonal employees.

Structure of permanent employees by qualification is:

Qualification	Number of employees
Elementary school	58
High school	225
Post secondary education	68
College degree	19

Employees by age:

Age group	Number of employees
under 40	34
40-49	137
50-54	114
55 and over	85

Average monthly net salary for a 40 hour a week was HRK 5,844.51- an increase of 6.8% in relation to the previous year.

Overtime hours of permanent employees are cumulated and converted into days off during winter months. Total balance of accrued and not paid hours on 31 December 2008 was 47,838 hours.

Expected future development of the Company

Owing to seasonal character of our business activities, world crisis that began in the autumn of 2008 did not reflect significantly on our last year's business operations. In other words, in the year 2008 we maintained our financial stability, workplaces and market position.

However, the year 2009 will be the year in which the tourist industry will feel stronger effects of crisis due to the high coefficient of elasticity of demand. Recession in economies in the emission markets and fall in the standard of living of potential tourists may cause a considerable decrease in the number of guests and the respective fall of income.

In our estimate of business risks in the year 2009, we expect that the business year 2009 shall be characterized by:

- lower number of overnights and fall of revenue
- pressure to reduce prices of our services
- negative influence of a strong Croatian kuna
- slowdown of investments due to serious imbalance in the financial market.

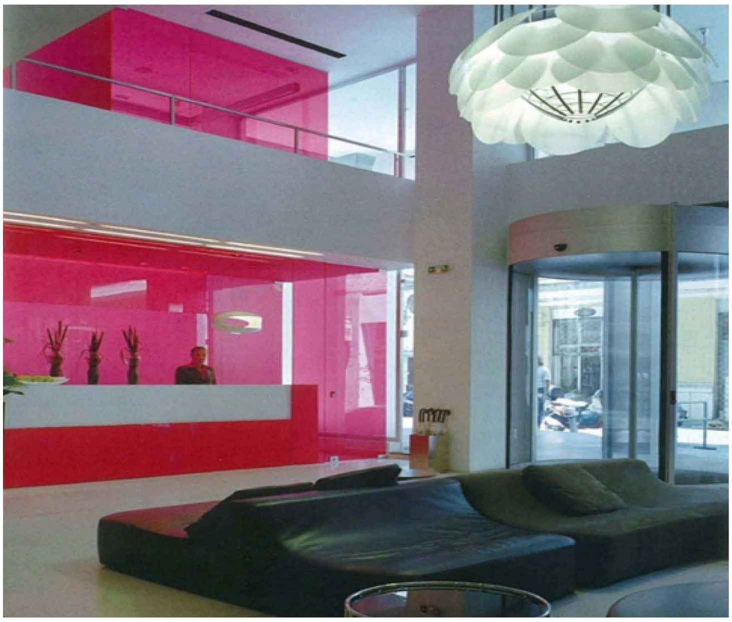
In spite of the fact that the current crisis obstructs long-term planning, in collaboration with Park Plaza Hotels, Arenaturist made the investment programme of EUR 150 to 200 million. The investment programme includes increasing quality level in all Arenaturist facilities and camps, which will eventually produce multiple economic benefits for the local communities of Pula and Medulin. This large investment with new marketing activities shall attract even more guests from the existing and from new tourist markets and become the centre of international conventions and conferences.

In the year 2009, we will continue performing activities related to modernization of portfolio in conformity with standards of the company Park Plaza Hotels launched in the mid-2008. We have continued designing the new look of facilities, and Hotels Histria and Palma shall get the so-called model rooms for that purpose that will guide the future remodelling of these hotels.

According to the investment programme, we will first remodel Hotel Histria from October 2010 to July 2011, with planned remodelling expenses of EUR 15-20 million.

After the investment, Histria will become a 4-star hotel characterized by top services and by:

- modern, spacious and functional guest accommodation areas



- 235 comfortable accommodation units

- congress halls
- casino and night club
- wellness and spa centre
- top gastronomic offer in the restaurant, tavern and yacht bar.

Ownership structure, share price and turnover

The year 2008 was not marked by significant changes in the ownership structure.

As of 31 December 2008, the share capital of Arenaturist amounted to HRK 43,650,000 divided into 2,182,500 ordinary registered (series A) shares. Each share carries one vote at the General Shareholders' Assembly. The total number of treasury shares at the end of 2008 was 169 (0.01% of the share capital).

The list of Arenaturist's major shareholders as of 31 December 2008:

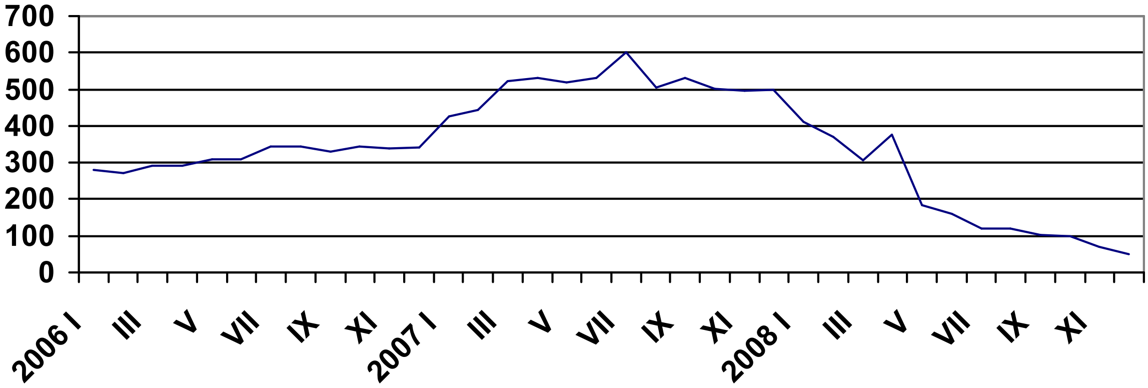
	No. of shares	Percentage of capital
W 2005 / Dvadeset Osam d.o.o.	1,618,263	74.15
HPB d.d ./ KD Investments – Victoria Fund	55,255	2.53
Croatian Privatization Fund	42,606	1.95
Societe Generale-Splitska banka d.d. / Skandinaviska Enskilda Banken, Swedish residents	40,087	1.84
Zagrebačka banka d.d. / Unicredit Bank Austria AG	30,139	1.38
Ezio Piovesana	11,844	0.54
Dinova – Diona d.o.o.	11,273	0.52
Raiffeisenbank Austria d.d. / custody accounts	8,473	0.39
Societe Generale-Splitska banka d.d. / custody accounts	5,193	0.24
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 30 June 2003.

In 2008, over 46 thousand shares were traded with the total turnover of HRK 14.1 million. Market capitalization amounted to HRK 109.1 million, a 90% fall in relation to the previous year.

Share price and turnover	**2006**	**2007**	**2008**
Highest (HRK)	360	679	509
Lowest (HRK)	251	335	50
Last – end of year (HRK)	341	500	50
Turnover (in mil.HRK)	**112.1**	**125.3**	**14.1**

Average monthly share price movement 2006-2008 (in HRK)



Responsibilities of the Executive Directors and the Management Board for the preparation and approval of annual financial reports

The Executive Directors are required to prepare financial statements for each financial year giving 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 are also responsible for keeping proper accounting records to enable the preparation of such financial statements at any time. Company's Executive Directors have general responsibility to take steps aimed at safeguarding the assets of the Company and preventing and detecting frauds and other irregularities.

Company's Executive Directors are responsible for selecting suitable accounting policies to be applied consistently, to make judgments and estimates that are reasonable and prudent, and to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue its business.

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

The financial statements set out on pages 24 to 68 were authorized by the Company's Executive Directors on 29 June 2009 for issue to the Management Board, which is confirmed by below signatures.

Chairman of the Executive Directors:

Igor Štoković

Member of the Executive Directors:

Milena Perković

Reuel Israel Gavriel Slonim

Kurt Kuen

Arenaturist income statement

for the year that ended on 31 December 2008

(in HRK thousands)	Notes	2008	2007 (restated)
OPERATING INCOME		**198,683**	**190,019**
Sales	6	196,940	188,755
Other operating income	7	1,743	1,264
OPERATING EXPENSES		**(189,724)**	**(172,695)**
Cost of material	8	(68,729)	(62,358)
Staff costs	9	(56,988)	(53,477)
Depreciation and amortization	10	(35,655)	(36,222)
Other expenses	11	(17,760)	(15,932)
Provisions	12	(6,467)	(3,645)
Other operating expenses		(4,125)	(1,060)
FINANCE INCOME		**471**	**1,376**
Interests, foreign exchange changes, dividends and similar income from related party transactions	14	4	0
Interests, foreign exchange changes, dividends and similar income from unrelated party transactions	14	441	1,357
Other finance income	14	26	19
FINANCE COST		**(16,203)**	**(15,081)**
Interests, foreign exchange changes, dividends and similar income from related party transactions	15	(3,265)	(1,404)
Interests, foreign exchange changes, dividends and similar income from unrelated party transactions	15	(12,938)	(13,677)
TOTAL INCOME		**199,155**	**191,395**
TOTAL COST		**(205,927)**	**(187,776)**
PROFIT BEFORE TAXATION		**(6,772)**	**3,619**
Income tax expense	16	(280)	(45)
(LOSS) / PROFIT		**(7,052)**	**3,574**
Income tax credit	16	1.469	898
(LOSS) / PROFIT FOR THE YEAR		**(5,583)**	**4,472**
Earning per share (in HRK)	17	**(2,56)**	**2,05**

Arenaturist balance sheet
as of 31 December 2008

(in HRK thousands)	Notes	2008	2007
ASSETS			
Non-current assets		**961,538**	**975,410**
Intangible assets	18	31,721	33,181
Property, plant and equipment	19	926,934	940,729
Long-term receivables	20	517	603
Deferred tax assets	21	2,367	898
Current assets		**11,920**	**12,650**
Inventories	22	694	861
Trade receivables	23	9,593	6,966
Cash and cash equivalents	24	1,633	4,823
Prepaid expenses and accrued income	25	**263**	**0**
TOTAL ASSETS		**973,721**	**988,060**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity		**722,419**	**728,295**
Share capital	26	43,650	654,750
Reserves from profit	27	643,230	31,952
Revaluation reserve	27	41	334
Retained earnings	27	42,550	37,685
Income of business year	27	(7,052)	3,574
Provisions	28	**19,826**	**12,807**
Long-term liabilities	29	**159,549**	**192,588**
Short-term borrowings	30	**71,802**	**54,275**
Deferred payment of liabilities and advances received	30	**125**	**95**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**973,721**	**988,060**

Arenaturist statement of cash flows

for the year that ended on 31 December 2008

(in HRK thousands)	Notes	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	32	(6,772)	3,619
Depreciation	32	35,655	36,222
Increase in short-term liabilities	32	419	1,484
Decrease in inventories	32	168	34
Other increase in cash flows	32	27,222	19,810
Total increase in cash flows from operations	32	**56,692**	**61,169**
Increase of short-term receivables	32	2,628	680
Other decrease in cash flows	32	18,293	18,361
Total decrease in cash flows from operations	32	**20,921**	**19,041**
CASH GENERATED FROM OPERATIONS	32	**35,771**	**42,128**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from property, plant and equipment	32	2	5
Sale of intangible assets	32	4	0
Dividends received	32	0	2
Other proceeds from investment activities	32	293	2
Cash flow from investing activities	32	**299**	**9**
Acquisition of property, plant and equipment	32	20,657	13,745
Acquisition of intangible assets	32	40	0
Other cash costs from investing activities	32	168	334
Total cash cost from investing activities	32	**20,865**	**14,079**
NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	32	**20,566**	**14,070**
CASH FLOW FROM FINANCING ACTIVITIES			
Cash proceeds from loan and borrowing	32	2,558	31,630
Total cash proceeds from financing activities	32	**2,558**	**31,630**
Cash expenses for loan repayment and bonds	32	20,953	56,336
Total cash expenses from financing activities	32	**20,953**	**56,336**
NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	32	**18,395**	**24,706**
Total (decrease) / increase of cash flows	32	(3,190)	3,352
Cash and cash equivalents at the beginning of the year	32	**4,823**	**1,471**
Cash and cash equivalents at the end of the year	32	**1,633**	**4,823**

Arenaturist statement of changes in equity

for the year that ended on 31 December 2008

(in HRK thousands)	Notes	2008	2007
Share capital	26	43,650	654,750
Reserves from profit	26, 27	643,230	31,952
Retained earnings	27	40,183	36,788
Profit for the current year		(7,052)	3,574
Revaluation of financial assets available for sale	28	41	334
Total capital and reserves		**720,052**	**727,398**
Current and deferred taxes (part)	27	2,367	898
Total capital increase		**2,367**	**898**

Notes to the financial statements

NOTE 1 – GENERAL INFORMATION ABOUT THE COMPANY

ARENATURIST is a joint stock company with registered headquarters in Pula, Republic of Croatia.

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 number 040022901 under the laws of the Republic of Croatia and by approval of the Croatian Privatization 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 company Arenaturist d.d. is headquartered in Pula, Smareglina 3, Republic of Croatia.
On 31 December 2008, the Company shares were listed in the quotation of Public joint stock companies in the Zagreb Stock Exchange
The Company is registered for performing the following activities:

- tourism – hotels and restaurants and tourist operations abroad
- wholesale trade and trade agency, except motor vehicles and motorcycle trade, agency and representation in foreign trade of merchandise and services, retail trade except motor vehicles and motorcycle trade
- travel agency and tour operator activities
- renting own real estate
- promotion
- other entertainment and recreation activities
- exchange activities
- laundry and dry-cleaning textiles and fur products
- cultivation of vegetables, flowers, decorative plants and plant material, except collecting wild mushrooms
- data processing, development and management of databases
- accounting and bookkeeping activities, market research and polling
- architecture and engineering activities and related technical counselling
- maritime and coastal transportation of travellers, other road transportation of travellers
- rental of vessels, rental of other means of transportation
- activity related to sport arenas and stadiums, other sports activities, except marinas
- body care activities
- trailer custody
- rental of objects for personal care and household
- company management
- business and management counselling

Under the Decision of the General Assembly of 29 July 2008, provisions of the Statute have been modified with the objective of implementing monistic system in sections relating to business subject, representation of the Company, Company bodies, the General Assembly, annual statements of accounts and use of profit, changes and amendments to the Statute and passing and final provisions.
Following the change of the Statute, the Company has the Management Board with eleven members.

The President of the Management Board is:
Boris Ernst Ivesha – citizen of Israel with residence in London, England

Company's Executive Directors are:
Igor Štoković from the Republic of Croatia – Chief Executive Officer
Milena Perković from the Republic of Croatia – Executive Director
Reuel Israel Gavriel Slonim from the Republic of Israel – Executive Director
Kurt Kuen from the Republic of Austria – Executive Director

NOTE 2 – BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the Accounting Act (NN 109/07) and International Financial Reporting Standards (IFRS) published by the Croatian Financial Reporting Standard Board of the Republic of Croatia in Narodne novine (NN), the official gazette of the Republic of Croatia.

Structure and contents of presented financial statements is in accordance with provisions of the International Accounting Standard 1.
Financial instruments have been reclassified pursuant to requirements of the Rulebook on structure and content of financial statements (NN 38/08) and annexed at the end of the present Notes.
Financial statements were approved by the Executive Directors on 24 April 2009.
Financial statements have been expressed in accordance with historical cost convention.
Financial statements have been presented in the Croatian kuna (HRK), which is also the functional currency of the Company.

Foreign currency transactions are converted to the functional currency at the middle exchange rate of the Croatian National Bank on the transaction date. Gains and losses on the settlement and conversion of those transactions and of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign exchange loss and gain in relation to borrowings and cash and cash equivalents are carried in the income statement as financial revenue and costs.
All other foreign exchange loss and gain is carried in the income statement as other income and expense.

Preparation of financial statements in conformity with the IFRS requires that the Company makes judgements, estimates and assumptions that affect the implementation of policies and amounts published for property, liabilities, income and costs. Actual results may differ from such estimates.

Estimates and related assumptions are continuously controlled. The effect of adjusted estimate is recognized in the period in which the estimate has been adjusted and in subsequent periods if the adjustment effects the subsequent period.

Estimates made by the Management Board in the implementation of accounting policies with considerable effect on amounts reported in financial statements are stated in Note 3.9. Key assumptions for the future used as basis of significant estimates and other key sources of uncertainty, including considerable risk of material and significant adjustments in the following year are also stated in Note 4.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Company's financial statements have been prepared in conformity with international standards of financial statements. They were prepared using the method of historical cost and adjusted following the revaluation of financial assets available for sale.

Financial statements have been prepared on a going concern basis.

The below review lists significant accounting policies adopted for the preparation of these financial statements.

3.1. Intangible assets

Intangible assets comprise investments in technical documentation (research projects), investments in borrowed facilities and value of software licences. Intangible assets are stated following the purchasing cost, and costs are amortised over the useful lives of assets. Investments in borrowed facilities refer to the value of investment in Hotel Riviera owned and used by Arenaturist d.d., but not recognized as the share capital of the Company in 1994 by the Croatian Privatization Fund.

Useful life of assets is determined by the type of intangible asset and it amounts as follows:

Technical documentation 10 years
Software licences 4 years
Investments in borrowed facilities 60 years

3.2. Property, plant and equipment

Items of property, plant and equipment are carried at historical cost or at estimated amount less accumulated depreciation and value of property. Historical cost comprises all direct costs related to putting the asset in working order for the intended need, including part of cost of debt for property, plant and equipment in the period of construction.

Subsequent expenses are recognized as a separate asset only if future economic benefits will flow to the Company. All other expenses are regarded as costs in the income statement in the period in which they arise.

Depreciation is providing for each asset until it is written off or to its residual value if material. Residual value of property is the estimated amount that the Company would instantly receive from sales of property less estimated sales cost in the event that property reached write-off state expected at the end of life of property. Residual value of property equals zero if the Company expects to use it until it is written off. Residual value of property and useful life are reviewed on each balance sheet date and adjusted if necessary.

In the event that the book value of property is higher than estimated recoverable amount, the difference is written off to the recoverable amount.

Revenue and loss incurred by sale are determined by comparing income and book value of assets and they are included in the income statement and disclosed as other (loss)/gain-net.

Impaired value is annually assessed for property with limitless life that is not depreciated. Property that is depreciated is assessed due to impaired value when events or changed circumstances indicate that book value is perhaps not irrecoverable. Loss from impaired value is recognized as difference between book value of property and its recoverable amount. Recoverable amount is fair value of the higher of assets less cost of sale or value of property in use. For the needs of estimate of impaired value, property is grouped at the lowest level so that cash flow can be determined separately.

3.3. Financial assets

The Company classifies its financial assets in categories: loans and receivables and financial assets available for sale. The classification depends on the purpose for which the financial assets have been acquired. The Management classifies financial assets at initial recognition and estimates the classification on each statement date.

Loans and receivables are non-derivative financial assets with fixed or determinable payment without quotation on active market. It is carried as part of current assets, except for property with maturity over 12 months after the balance sheet date. Such property is classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Financial assets available for sale are non-derivative assets stated in this category or not classified as loans and receivables. It is included in non-current assets, except if the Management intends to sell the investment within 12 months from the balance sheet date. Financial assets available for sale are carried at fair value.

Measuring and recognition of financial assets is performed so that all acquired and sold financial assets are recognized on the date of transaction, or the date on which the Company is obliged to acquire or sell the asset- Investments are initially recognized at fair value plus transaction cost for the entire financial asset. Investments are no longer recognized when they expire or when rights to receive cash flows from investments are transferred or when the Company transfers all significant risks and benefits of ownership. Financial assets available for sale are subsequently carried at fair value. Loans and receivables are carried at depreciated cost using the method of effective interest rate.

In changes of fair value of monetary securities denominated in foreign currency and classified as available for sale foreign exchange loss and gain is analysed as a result of changes of depreciated cost of securities and other changes of book value of securities. Differences in conversion are recognized in the income statement, and other changes of book value are recognized in the share capital. Changes in fair value of other monetary securities available for sale and non-monetary securities available for sale are recognized in the share capital.

In the event of sale or decrease of value of securities available for sale, accrued adjustment of fair value recognized in the share capital is included in the income statement as profit and loss from investment in securities.

Interest on securities available for sale calculated by using the method of effective interest rate is carried in the income statement as other income.

Dividends on securities available for sale are carried in the Dividends on securities in the income statement as other income following the establishment of right to payment of dividend.

Fair value of investments listed in the quotation in the stock exchange is based on current prices of offer. If the market is not active for a particular financial asset (as well as for securities that are not quoted), the Company determines fair value by value assessment techniques that take into consideration recent transactions under regular trade terms, comparison with other similar instruments, analyses of discounted cash flow, models of option evaluation, with maximum use of information in the market and minimum reliance on information coming from the business subject itself.

On each balance sheet date, the Company estimates whether there are objective proofs about impaired value of financial assets or groups of financial assets. In the event of capital securities available for sale, considerable or long-term impairment of fair value of securities below acquisition value is considered an indicator of impaired value of securities. If there are such proofs for financial assets available for sale, accrued loss measured as difference from acquisition cost and current fair value, less impairment loss of the financial asset previously recognized in the income statement is no longer recognized in the share capital, and it is recognized in the income statement. Impairment loss recognized in the income statement as capital instruments is not withdrawn from the income statement.

3.4. Leases

The Company leases particular property, plant and equipment. Leases of property, plant and equipment in which the Company carries all risks and benefits of ownership are classified as financial lease. Financial leases are capitalized at the beginning of the lease at the lower of the fair value of leased real estate or the current value of minimum lease compensation. Each lease payment is classified as liabilities and financial cost to get the constant rate on the remaining financial state. Belonging liabilities for lease less financial costs are included in long-term liabilities.

Interest component of financial expense is carried in the income statement over lease period to get the constant interest rate on the remaining part of liabilities for each period. Property, plant and equipment acquired under financial lease are depreciated in a shorter period than the useful life or lease duration.

Leases in which the Company does not take a significant share of ownership risks and benefits are classified as operating leases. Payments based on operating leases are carried in the income statement on a straight-line basis over the lease period. Property leased out as business lease is included in the balance sheet in the item “property, plant and equipment.” Property is depreciated on a straight-line basis as other similar property. Lease revenue is recognized in the relative period over lease period.

3.5. Inventories

Inventories of raw materials and supplies are carried at the lower of cost or net realisable value. The cost is determined using the weighted average price method. Net realisable value is estimate of sales price in the regular course of business operations less variable sales expense. Small inventory and tools are written off in the period of one year from the date on which they were put to use.

3.6. Trade receivables

Trade receivables are initially carried at fair value and are subsequently measured at depreciated cost using the method of effective interest rate less adjusted value. Adjusted value of trade receivables is performed when there are objective proofs that the Company will not be able to collect all its receivables in accordance with agreed terms. Considerable financial difficulties of the debtor, probability of debtor's bankruptcy and failure to perform payments are considered indicators of impaired value of trade receivables. The amount of adjustments of value is determined as difference between book value and recoverable amount of receivables, and it represents current value of cash inflows measured using the method of effective interest rate.

Amounts of adjustments of value of trade receivables are carried in the income statement as other business expense. Subsequently paid amounts of adjustments of value of trade receivables are carried in the income statement as other business revenue.

3.7. Cash and cash equivalents

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.

3.8. Share capital

Share capital consists of ordinary shares. Income stated in the capital on the occasion of issuing new shares is carried less belonging transaction cost and income tax. Paid compensation for acquired own shares, including all directly belonging transaction costs (less income tax) reduce shareholders' capital that can be ascribed to Company shareholders until the withdrawal of shares, their reissue or sale. When such shares are later sold or reissued, each received compensation less all directly belonging transaction costs as well as effects of income tax is included in the capital that can be ascribed to the Company.

3.9. Borrowings

Borrowings are initially carried at fair value, less transaction cost. In future periods, they are carried at amortized cost. All differences between receipts (less transaction cost) and redemption value are recognized in the income statement over the period of the borrowing, using the method of effective interest rate. The Company does not capitalize borrowing expenses.

Compensations paid on the occasion of negotiating loans are recognized as loan transaction cost to the extent in which it is probable that one part of the loan or the entire loan shall be withdrawn. In this event, the compensation is postponed until withdrawal. In the event that it is probable that one part of the loan or the entire loan is withdrawn, the compensation is capitalized as advance payment for liquidity services and depreciated over the duration of the respective loan period.

Borrowings are classified as short-term liabilities, except in the event that the Company has the absolute right to postpone the settlement of liability for at least 12 months after the balance sheet date.

3.10. Current and deferred income tax

In conformity with valid Croatian regulations, current income tax is calculated at the rate of 20%.

Deferred taxes are determined using the balance sheet liability method, taking into account temporary differences between the carrying amounts of assets and liabilities and their book value for financial reporting purposes. However, deferred taxes shall not be recognized if they result from initial recognition of property or liabilities in the transaction that is not business merger and that does not affect accounting profit or taxable revenue (tax loss) at the time of transaction.

Deferred tax assets and liabilities are measured by tax rates expected to be applied in the period when the assets will be compensated or liability settled, based on tax rates and tax laws in effect or partially in effect on the balance sheet date.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those assets could be utilized.

3.11. Employee benefits

Retirement benefits and other benefits after retirement are calculated in the following manner:

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

Obligations in respect of employment termination (termination benefits) are recognized 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 recognizes 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. Termination benefits which fall due more than 12 months after the balance sheet date are measured at the present value.

As far as short-term employees' earnings are considered, the Company recognizes provisions for bonuses under a contractual obligation or past practice based on which the obligation has occurred. Furthermore, the Company recognizes liabilities for jubilee-awards and for accrued leave compensation based on unused days of vacations on the balance sheet date as well as based on hours realized in the redistribution of work schedule that remained unused before the date of the balance sheet.

3.12. Accounts payable

Accounts payable are initially carried at fair value, and they are carried after depreciated cost in future periods using the effective interest rate method.

3.13. Provisions

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

If there are similar liabilities, probability that their settlement shall require cash outflow is determined by considering the category of liability as a whole. Provisions are recognized even if the probability of cash outflows in relation to any item in the same category of liabilities is low.

Provisions are determined at the present value of costs expected to be incurred to settle and obligation using discount rate before tax that reflects the current market assessment of the time value of money and risks specific to the obligation. The amount of provisions is increased in each period in order to reflect past time. The increase is carried as interest expense.

3.14. Revenue recognition

Revenue comprises the fair value of received compensation or receivable for billed services in hotels and apartments, camps and restaurants in the course of ordinary business.
Revenue is stated at amounts reduced by agency fees and value-added tax.

The Company recognizes revenue when the amount of revenue may be measured reliably, when the Company will have future economic benefits and when specific criteria for all Company activities described below are fulfilled.

Revenue from services may be classified as revenue from performed hotel-tourist services recognized in the period when services were performed and revenue from fixed price contracts for general services recognized in the period in which the services were performed on a straight-line basis over the period of duration of the contract with tourist agencies and tour operators.

Interest income is recognized on a time proportional basis using the effective interest rate method. If the value of receivables is impaired, the Company impairs book value of receivables to its recoverable value, which represents estimated value of expected cash inflows measured at the original effective interest rate of instruments. Interest income whose collection is questionable is recognized using the effective original interest rate method.

3.15. Earnings per share

Earnings per share are calculated by dividing the profit or loss belonging to shareholders by average weighted number of ordinary shares issued throughout the year.

3.16 Value-added tax

Tax administration requires the settlement of VAT on a net basis. VAT resulting from sale and acquisition is carried in the balance sheet on a net basis. In the event of reduction of receivables by adjustment of value, impairment loss is carried as gross amount of receivables including VAT.

3.17. Comparative information

Particular items in the income statement and balance sheet for the year 2007 have been reclassified to conform to changes in the current year's presentation.

Part of other costs of employees has been reclassified from – Other operating cost and disclosed as Employee benefits

- Part of other revenue such as revenue from leases, sale of material and other services has been reclassified from Other revenue and disclosed as Sale income

- Small inventory with useful life over one year has been reclassified from inventories and disclosed as property, plant and equipment. Depreciation of small inventory with useful life over one year has been reclassified from the Note Material and service cost and disclosed as Amortization. Cash flow for the year 2007 has been readjusted in conformity with these reclassifications.

- Provisions for termination benefits and jubilee awards have been reclassified from accounts payable and other liabilities and disclosed as provisions

NOTE 4 – FINANCIAL RISK MANAGEMENT

4.1. Factors of financial risk

Activities performed by the Company expose it to various financial risks, to market risk (that comprises currency risk, cash flow interest risk and interest rate fair value risk, as well as price risk), credit risk and liquidity risk. The Company does not have a formal programme of risk management. The entire risk management is performed by the Company's Management Board.

Market risk comprises:

Currency risk The Company operates internationally and it is exposed to currency risk resulting from changes in foreign exchange rates, predominantly linked to EUR and CHF. Currency risk is a result of future commercial transactions and recognized property and liabilities. Most revenues from sales abroad and long-term loans are denominated in EUR and CHF. Changes in the exchange rates of EUR, CHF and HRK may affect future performance results and money flows. The Company does not have set objectives and policies of currency risk management.

Interest rate risk Considering the fact that the Company does not have significant property that generates interest income, Company income and cash flow from operating activities do not significantly depend on interest rate changes. Interest rate risk of the Company is a result of loans. Loans approved at variable rates expose the Company to cash flow interest risk. Loans approved at fixed rates expose the Company to interest rate fair value risk. The Company does not use derivative instruments for active protection against exposure to cash flow interest risk and to interest rate fair value risk.

Interest rate fair value risk The Company is not considerably exposed to interest rate fair value risk because it does not have substantial interest bearing financial instruments at fair value. The Company does not have set objectives and policies of interest risk management.

Risk of investment in securities The Company owns property securities and it is exposed to risk of change of price of property securities with quotation in the stock exchange classified as financial assets available for sale. The Company invests in securities with quotation in the Zagreb Stock Exchange. The Company is not exposed to risk of change of price of merchandise.

Credit risk

The Company does not have significant credit risk concentration. The credit risk results from cash, trade receivables and short-term receivables. Company's sales policies make sure that the sale is performed with customers with appropriate credit history. In other words, Company's sales policies provide for advance payment of sales to customers, both in cash and through credit cards (for individual customers). Credit risk of the Company is limited considering that the Company does not have loans receivable. In other words, provisions for impaired value of short-term receivables and other receivables are made based on credit risk estimate. The Management Board controls recoverability of receivables through weekly reports with itemized state of accounts receivable. Adjusted value for short-term receivables is performed when there are objective proofs that the Company will not be able to collect all its receivables in conformity with negotiated terms. Value of all short-term receivables and other receivables is reduced to the level that can be returned. The Company implements policies that limit the level of exposure to credit risk to any financial institution. Money transactions are only performed through high quality Croatian banks. The Company has only short-term liquid instruments with maturity up to three months.

Liquidity risk

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 the ability to settle all liabilities. The Company’s objective is maintaining flexible financing by keeping the agreed credit lines available. The Management Board daily monitors the level of available sources of cash through reports on state of cash assets and liabilities.

4.2. Share capital management

Company's objectives for share capital management refer to preservation of the Company's ability to continue its business operations on a going concern basis in order to enable the return of investments to the owner and to keep the optimal structure of share capital to reduce the expenses of the capital. The Company takes steps aimed at keeping the amount of share capital that cannot be lower than HRK 200,000.00 for joint stock companies under the Companies Act. The Company does not have particular objectives or procedures for share capital management. The share capital set out in financial statements herein is considered the Company's share capital.

4.3. Fair value estimate

Fair value is the amount at which the property could be exchanged or at which a liability could be settled between informed and interested parties acting in the best interest.

Fair value investments available for sale are estimated based on their market value on the balance sheet date.
The principal financial instruments of the Company that are not evaluated at fair values are short-term receivables, other receivables, accounts payable, liabilities for received loans, and other liabilities. Carrying amount of current financial assets approximates their fair value due to short-term maturity of these financial instruments. For the needs of publication, fair value of long-term borrowings is estimated by measuring future contractual cash flows based on current market interest rate available to the Company for similar financial instruments.

NOTE 5 – KEY ACCOUNTING ESTIMATES

Estimates are continuously evaluated based on experience and other factors, including expectation of future events considered acceptable under current circumstances. The Company makes estimates and creates assumptions for the future. Resulting accounting estimates only rarely correspond to the actual results.

Estimates and assumptions that could cause considerable risk of adjustment of carrying amounts of property and liabilities in the following financial year refer to:

1. **Estimate of useful life of property, plant and equipment**

   Using an asset, the Company spends economic benefits inherent in the particular asset that become decreased more intensely as a result of economic and technological ageing. For this reason, determination of useful life of an asset has to take into consideration changes of demand in the tourist market that may cause faster economic obsoleteness and faster development of new technologies. In this sense, contemporary business in hotel industry imposes the need to perform more frequent investments, which implies a reduction of useful life of assets.

Useful life of building facilities from 25 to 60 years is estimated appropriate for undisturbed business operations in conformity with opinions of technical department. Useful life is also reassessed for equipment and other assets with useful life from 4 to 10 years.
Useful life will be periodically reassessed with the objective of making estimates as to whether there are any circumstances for the change of estimate in relation to the previously determined estimate. Changes in the estimate, if any, will be stated in future periods as adjusted depreciation costs of the remaining adjusted useful life.

2. **Estimate of land ownership**

Problems pertaining to land ownership are usual for most tourist companies in the Republic of Croatia, and their resolution is expected following the definition and passing of the Tourist Land Act.

3. **Effect of financial crisis**

Current global liquidity crisis that started in the mid-2007 among other things caused a lower level of financing of capital market, a lower level of liquidity in the banking sector, occasionally even higher inter-bank rates and very high instability in the stock exchanges. Overall effects of the current financial crisis cannot be foreseen and there is no total defence against them.

Such circumstances may affect the ability of the Company to receive new borrowings and to refinance the existing borrowings under terms similar to those applied in earlier transactions. Company clients may be affected by low liquidity situation, which may in turn affect their ability to settle their outstanding liabilities. Increasingly worse circumstances of business operations for debtors may also affect forecasts of cash flows made by the Management and the forecast of decrease of financial and non-financial assets.

The Management cannot reliably estimate effects that the financial situation of the Company would suffer from any additional worsening of liquidity of financial markets and from higher instability on currency and capital markets. The Management maintains that it takes all steps aimed at keeping feasibility and growth of Company business operations under current circumstances.

NOTE 6 – SALES

Accounting policy of recognizing sales income is described in Note 3.14. The Company carries business income and cost by type of services it provides in two basic segments: catering and tourism and other business segments. Other business segments comprise a la carte services, laundry services, rental fees and other services it has performed in conformity with its registered activity. All sales are performed with customers in the Republic of Croatia.

In the structure of incomes, sales make up 98.89% of total income. In relation to the year 2007, the year 2008 witnessed a 4.34% increase in sales. Through its majority shareholder, Arenaturist d.d. is a related company to Arenaturist Hoteli d.o.o., Arenaturist Turistička naselja d.o.o. and Arenaturist Zlatne Stijene d.o.o., so that based on related customers, sales are stated as follows:

SALES

(in HRK thousands)	2008	2007
Sales revenue-services	190,409	186,071
Sales revenue- services provided to related companies	6,531	2,684
Total sales	**196,940**	**188,755**

NOTE 7 – OTHER OPERATING INCOME

In the year 2008, other operating income comprises 0.88% of total income of the Company. In relation to the year 2007, they are up by 38%. The structure of other operating income is the following:

OTHER OPERATING INCOME

(in HRK thousands)	2008	2007
Income from court decisions	569	-
Income from claims write-off	134	1
Income from dividends		
Income from reimbursement	260	71
Collections of past claims write-off	16	136
Sales of assets	3	-
Income from used services-payment in kind	17	41
Positive differences in foreign exchange rates	402	646
Allowance for cash	100	92
Apartments	199	248
Other	43	29
	1,743	**1,264**

NOTE 8- COST OF MATERIAL

Operating cost of material in the year 2008 accounts for 33.38% total costs, or 38.37% of operating cost. In relation to the year 2007, it is up by 10.22%. The structure of cost of material in the below stated years is as follows:

COST OF MATERIAL AND SERVICES

(in HRK thousands)	2008	2007
Raw material		
Raw material	21,186	20,283
Energy	9,982	8,106
Consumables	1	1
Small inventory	45	39
	31,214	**28,429**
External services		
Telephone, postage and transport	845	817
Maintenance and repairs	5,150	5,783
Lease costs	333	331
Marketing and promotion	6,404	6,149
Municipal services, waste removal, water, security services and similar	16,189	15,261
Hygiene inspections	97	87
Student practical training	84	79
Student scholarships	26	-
Intellectual services	4,626	979
Insurance premiums	1,793	2,130
Banking services and commission for bank.serv. and credit card operations	1,943	2,296
Car wash	25	16
	37,515	**33,928**

In relation to the year 2007, cost of material and services marked a 9.80% increase, of which cost of material and services marked a 4.46% increase, energy cost is up by 23.15% and small inventory cost is up by 15.39%.

In terms of services, the cost of intellectual service marked a 372.53% increase. Such large increase of cost of intellectual services relates to consulting services and project design, all of which is related to costs of the process of restructuring that the Company goes through. Beside intellectual services, a more substantial increase of cost refers to cost of municipal and similar services that increased by 6.08%, telephone cost by 3.43%, and marketing by 4.15%.

Reduction of cost was marked by maintenance services that are down by 10.94%, security services down by 15.82% and banking services and commissions for credit card transactions down by 15.37%.

NOTE 9 – STAFF COSTS

Staff costs participate in the structure of total cost with 27.68%. In relation to the year 2007, they are up by 6.57%. The average number of employees in the year 2008 was 453, and in the year 2007 it was 454. The Company policy in relation to staff costs is described in Note 3.11. Structure of staff costs is the following:

STAFF COSTS (in HRK thousands)	2008	2007
Salaries (net)	32,935	31,265
Taxes and contribution from salaries	15,690	14,364
Contributions on salaries	8,363	7,848
Other staff costs		
	56,988	**53,477**

NOTE 10 – AMORTIZATION COSTS

Amortization costs participate in the structure of total cost with 17.32%. The below table represents amortization by groups of assets:

AMORTIZATION COSTS (in HRK thousands)	2008	2007
Amortization of intangible property	2,157	2,087
Amortization of building facilities	22,321	28,035
Amortization of plant and equipment	9,213	3,946
Amortization of tools and means of transportation	352	149
Amortization of other material property-small inventory	1,612	2,005
	35,655	**36,222**

NOTE 11 – OTHER EXPENSES

In the year 2008, other expenses made up 8.63% of total cost. In relation to the year 2007, they marked an 11.47% increase. Structure of other expenses is presented below:

OTHER EXPENSES (in HRK thousands)	**2008**	**2007**
Other expenses of employees	5,948	6,606
Artistic and entertainment services	1,619	1,465
Entertainment	620	509
Company tax	25	25
Municipal fees	2,852	2,642
Water protection fee	2,382	2,286
Fee for use of maritime demesne	127	236
Ecology fees	67	48
Contributions and memberships depending on operating results	821	794
Membership fees	209	293
Magazines, professional literature and seminars	101	139
HRT subscription charge	842	799
Court fees	133	90
Court expenses	2,001	-
Other expenses	13	-
	17,760	**15,932**

The structure of other expenses of employees is as follows:

OTHER EXPENSES OF EMPLOYEES (in HRK thousands)	**2008**	**2007**
Per diems, accommodation and transport for business trips	253	127
Commutation allowance	1,815	1,536
Contracts of service	2,302	2,143
Employee support	172	167
Gifts for children	77	83
Jubilee awards	21	229
Annual awards and vacation bonus	1,039	1,033
Benefits in kind	160	159
Termination compensations	109	1,129
	5,948	**6,606**

NOTE 12 – PROVISIONS

In conformity with accounting policies (See Note 3.11 and 3.13), in the year 2008, the Company made provisions whose structure is represented below:

PROVISIONS (in HRK thousands)	2008	2007
Provisions for terminations-short-term	-	401
Provisions for initiated legal action		1,320
Provisions for termination benefits-long-term	281	530
Provisions for jubilee awards	475	1,394
Provisions for management expenses of Park Plaza Hotels	5,711	-
Total provisions	**6,467**	**3,645**

Provision expenses make up 3.14% total expenses. In relation to the year 2007, they marked a 177.43% increase, and the structure of provisions also changed. In the year 2007, provisions were carried for termination bonuses due to business-conditioned dismissals, for initiated legal action against the company Pula Herculanea d.o.o. and the family Profanter, and long-term provisions for retirement bonuses and payment of jubilee-awards to employees. To our knowledge, there were no dismissals of employees in the year 2008, there were no legal actions, so that assets were reserved only for jubilee awards and termination bonuses for regular retirement. In addition to these, it has been made known that the majority shareholder of the Company and the Company Park Plaza Hotels from the Kingdom of Netherlands intend to restructure the Company and include it in the chain of Park Plaza hotels, together with the plan to include the facilities of the Company in their system of sales after the restructuring. To the Company's knowledge, the agreement also represents a liability of the Company towards the company Park Plaza Hotels that will imply a greater outflow of cash, so that the Company reserved assets that will leave the Company.

NOTE 13 – OTHER OPERATING EXPENSES

Other operating expenses make up 2.01% of total expenses for the year 2008 and they increased in relation to the year 2007 by 389.22%. Their structure is shown in the following table:

OTHER OPERATING EXPENSES (in HRK thousands)	2008	2007
Default interests	950	115
Negative differences in foreign exchange rates	2,180	250
Indemnity to customers and employees	107	74
Disposal and write-off of permanent property	157	183
Disposal and write-off of small inventory	97	134
Write-off of contested claims	186	230
Subsequently determined expenses of previous years	448	74
Total	**4,125**	**1,060**

The largest increase of expenses refers to default interests- 826.09%, negative differences in foreign exchange rates 872.00% and subsequently determined expenses of previous years 605.41%. As far as subsequently determined expenses of previous years are concerned, their structure is as follows:

Subsequently determined expenses of previous years (in HRK thousands)	2008	2007
Foreign customers with doubtful debt	343	1
Domestic customers with doubtful claim	65	27
Subsequent approvals to customers	12	29
Accounts payable	28	17
	448	**74**

NOTE 14 – FINANCIAL INCOME

Financial income in the year 2008 participates in total income with 0.24% and it fell in relation to the year 2007 by 65.73%. Its structure is presented below:

FINANCIAL INCOME (in HRK thousands)	2008	2007
Interests, differences in foreign exchange rates of dividend and similar income from relations with related companies	4	-
Dividend income	-	2
Differences in foreign exchange rates from relations with unrelated companies-for borrowings	406	1233
Interest income	35	122
Other financial income	26	19
	471	**1,376**

Differences in foreign exchange rates make up 86.20% of financial income, and they incurred as a result of revaluation of borrowings with exchange clause in CHF.

NOTE 15 – FINANCIAL EXPENSES

Financial expenses in the year 2008 make up 7.87% of total expenses and they have increased in relation to the year 2007 by 7.44%. The structure of financial expenses is presented in the following table:

FINANCIAL EXPENSES (in HRK thousands)	2008	2007
Expenses from interests on loans to related entrepreneurs	3,265	1,404
Interests on credits and loans from unrelated entrepreneurs	11,623	13,617
Differences in foreign exchange rates – from borrowings	1,315	60
	16,203	**15,081**

NOTE 16 – INCOME TAX

INCOME TAX (in HRK thousands)	2008	2007
Current tax	(280)	(45)
Deferred tax	1,469	898
Total	**1,189**	**853**

Income tax of the Company before tax differs from theoretical amount that would be calculated at tax rate of 20% as follows:

INCOME TAX

in HRK thousands	2008	2007
Profit before tax	(6,772)	3,619
Effect of 20% IT on loss/profit	(1,354)	724
Effect of tax disallowable expenses-permanent differences	180	97
Effect of tax disallowable expenses-temporary differences	2,022	898
Effect of non-taxable profit	(15)	(13)
Effect of tax allowable income-temporary differences	(553)	
Tax losses brought forward		(1,660)
Recognition of deferred tax property	1,469	898
Net income tax	1,189	853
Effective tax rate	17,56%	22,74%
Tax rate	20,00%	20,00%
Income tax of current year	280	45
Prepaid tax	(34)	-
Liability of income tax	**246**	**45**

In conformity with regulations of the Republic of Croatia, Tax Administration may examine Company ledgers and records at any time in the 3-year period following the expiration of the year in which tax liability was stated and it can introduce additional tax liabilities and fines. The Company's Management Board is not aware of any circumstances that may lead to potential considerable liabilities.

The loss of the FY 2008 is decreased by the FY 2008 income of the deferred tax asset in the amount of HRK 1,469 thousand. Recognition of deferred taxation is base on the provisions made for the costs non recognized as a cost in FY 2008 for the tax income point of view. The structure of these costs is as follow:

Deferred income tax assets – provisions for the Park Plaza fees	**1,142**
Deferred income tax assets – provisions for the Wolf Theiss	**185**
Deferred tax assets – provisions for fund of overtime hours	544
Exempt tax assets – provisions for fund of overtime hours	-513
Change	**31**
Deferred tax assets – provisions for termination benefits	56
Exempt tax assets – provisions for termination benefits	-2
Change	**54**
Deferred tax assets – provisions for jubilee awards	95
Exempt tax assets – provisions for jubilee awards	-38
Change	**57**
Total change on tax assets	**1,469**

NOTE 17 – EARNINGS PER SHARE

Basic earnings per share are determined by dividing the profit/loss for the year by weighted average number of ordinary shares issued throughout the year, less ordinary shares acquired by the Company traded as own shares.

	2008	**2007**
Profit/loss for the year in HRK thousands	(5,583)	4,472
Average weighted number of ordinary shares (basic)	2,182,331	2,182,331
Earnings per share (in kuna)	**(2,56)**	**2,05**

BALANCE SHEET

NON-CURRENT ASSETS

NOTE 18 – INTANGIBLE ASSETS

Non-current intangible assets comprise investments in technical documentation, licences and investments in borrowed facilities. Investments in borrowed facilities refer to the value of investment over many years in Hotel Riviera owned by Arenaturist d.d., and investments in the system of its business operations, but not recognized as the share capital of the Company by the Croatian Privatization Fund in the process of privatization. Intangible assets make up 3.26% of the total property of the Company. Trends of intangible assets are represented in the following table:

INTANGIBLE ASSETS

(in HRK thousands)	Technical documentation	Licences and other rights	Intang. assets under construction	Total
Cost				
At 31 December 2006	13,545	57,013	49	70,607
Increase	274	28	-	302
Disposals, retirements, other	(4,080)	-	-	(4,080)
Transfer to property, plant and equipment	(1,621)	-	-	(1,621)
At 31 December 2007	8.118	57,041	49	65,208
Increase	-	-	697	697
Transfer from property, plant and equipment under construction	299	8	(307)	-
Disposals, retirements, other	-	(64)	-	(64)
At 31 December 2008	**8,417**	**56,985**	**439**	**65,841**
Adjustment of value				
At 31 December 2006	10,714	23,949	-	34,663
Amortization	313	1,832	-	2,145
Disposals, retirements, other	(4,080)	-	-	(4,080)
Transfer to property, plant and equipment	(700)	-	-	(700)
At 31 December 2007	**6,247**	**25,781**	**-**	**32,028**
Amortization	342	1,814		2,156
Disposals, retirements, other	-	(64)	-	(64)
At 31 December 2008	**6,589**	**27,531**	**-**	**34,120**
Net book value				
At 31 December 2008	**1,828**	**29,454**	**439**	**31,721**

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment make up 95.20% of the total property of the Company. Their trends are shown in the table below:

PROPERTY, PLANT AND EQUIPMENT

(in HRK thousands)	Land and facilities	Plant equipment and small inventory	Material assets under construction	Advances for material assets	Total
Cost					
At 31 December 2006	**1,213,554**	**150,776**	**1,297**	**-**	**1,365,627**
Transfer from property, plant and equipment under construction	1,622	-	-		-
Increase	-	2,044	11,322	-	13,366
Transfer from property, plant and equipment under construction	8,424	4,195	(12,619)	-	-
Disposals, retirements, other	(96)	(2,867)		-	(2,963)
At 31 December 2007	**1,223,504**	**154,148**	**-**	**-**	**1,377,652**
Increase		1,678	18,086	1,269	21,033
Transfer from property, plant and equipment under construction	7,408	1,825	(9,233)	(1,089)	(1,089)
Disposals, retirements, other	(19)	(4,018)	-	-	(4,018)
At 31 December2008	**1,230,893**	**153,633**	**8,853**	**180**	**1,393,578**
Adjustment of value					
At 31 December 2006	**317,149**	**87,689**	**-**	**-**	**404,838**
Transfer from intangible assets	700		-	-	700
Amortization	22,372	11,705	-	-	34,077
Disposals, retirements, other	(96)	(-2,595)	-	-	(2,691)
At 31 December 2007	**340,125**	**96,799**	**-**	**-**	**436,924**
Amortization	22,320	11,176	-	-	33,496
Disposals, retirements, other	(19)	(3,776)	-	-	(3,795)
At 31 December2008	**362,426**	**104,199**	**-**	**-**	**466,625**
Net book value					
At 31 December2008	**868,467**	**49,434**	**8,853**	**180**	**926,934**

The Company issued the right of lien of HRK 506,292 thousand (in the year 2007, the amount was HRK 559,076 thousand) relating to bank borrowings,

Net book value of property, plant and equipment of the Company given to operative lease is as follows:

Net book value of leased property

(in HRK thousands)	**2008**	**2007**
Cost	181,236	181,573
Accrued amortization at 1 January	(88,376)	(85,605)
Amortization for the year	(2,897)	(2,985)
Net book value	**89,963**	**92,983**

Operative lease refers to the lease of stores and restaurants or business premises and equipment. Lease income in the year 2008 amounted to HRK 8,615 thousand, and in the year 2007 it amounted to HRK 7,120 thousand.

In the years 2008 and 2007, there was no unplanned lease income carried in the income statement. All lease contracts are renewable and the existing lessees have the right of first renewal of lease contract at market price. There is no purchasing option.

Assumed obligations from operating lease where the Company is the lesser. Future income from operating lease is the following:

Future income from operating lease (in HRK thousands)	**2008**	**2007**
Up to1 year	3,880	2,412
From 2 to 5 years	1,093	1,235
Over 5 years	2,649	2,624
Total	**7,622**	**6,271**

NOTE 20 –LONG-TERM FINANCIAL ASSETS

Long-term financial assets of the Company make up 0.05% of fixed assets and it comprises investments into subsidiaries and financial assets available for sale:

LONG-TERM FINANCIAL ASSETS (in HRK thousands)	**2008**	**2007**
Investments in subsidiaries	40	1
Investments in securities	135	427
Given deposits	342	175
Total	**517**	**603**

Investments in subsidiaries refer to the establishment of the Companies Mažurana d.o.o. Zagreb and Ulika d.o.o. Zagreb. The amount of HRK 20,000.00 has been invested in each company. The companies were established on 17 June 2008, and they did not have any activity in the year 2008.

Investments in securities refer to investments in shares of Privredna banka Zagreb amounting to HRK 95 thousand and the equity of Istrian Development Tourist Agency (IRTA) amounting to HRK 40 thousand. Shares of PBZ are listed in the quotation in the stock exchange, and the investment in IRTA is not listed in the quotation in the stock exchange.

Issued deposits refer to deposits for guarantee of payment of suppliers of the operative leasing for the use of vehicles. Under the contracts, finances have been deposited for the term of 5 years, the term of validity of leasing contracts.

NOTE 21 – DEFERRED TAX ASSETS

Deferred tax assets and liabilities are reduced to net value in the event when there is legal right to the clearance of the current tax assets and current tax liabilities, and when deferred tax assets refer to income taxes levied by the same tax authority or to a different tax subject where there is net base intention. Deferred tax assets make up 0.24% of assets, and their structure and clearance amounts are as follows:

DEFERRED TAX ASSETS
(in HRK thousands)

	2008	**2007**
Tax effect of provisions-accrued hours	544	513
Tax effect of provisions-termination benefits	161	106
Tax effect of provisions –jubilee awards	335	279
Tax effect of provisions-Park Plaza	1,142	-
Tax effect of provisions consultations for Wolf Theiss	185	-
Deferred coverage of income tax	**2,367**	**898**

Temporary differences between the accounting profit and taxable profit arose out of tax disallowable provisions for employee benefits (termination bonuses and jubilee awards), and accrued commitments to employees resulting from accrued hours as a consequence of redistribution of working time, management fees and unbilled services related to the cost of counselling about the Company restructuring.

NOTE 22 - INVENTORIES

Inventories comprise 0.07% of fixed assets, and their structure is as follows:

INVENTORIES

(in HRK thousands)	**2008**	**2007**
Raw material	624	761
Small inventory	10	38
Merchandise	6	9
Prepayments for merchandise	54	53
	694	**861**

Cost of inventories is recognized as expense described in Note 8 – Cost of material and services.

NOTE 23 - RECEIVABLES

Trade receivables refer to receivables with maturity up to one year. They make up 0.98% of fixed assets. They comprise trade receivables and other short-term receivables. The structure of receivables is presented below:

TRADE RECEIVABLES (in HRK thousands)	**2008**	**2007**
Domestic trade receivables	7,721	5,484
Receivables from related companies	187	176
Foreign trade receivables	3,622	4,051
Provisions for bad and doubtful receivables	(4,195)	(4,020)
	7,335	**5,691**

Receivables from related companies refer to invoices to companies related to Arenaturist d.d. through its majority shareholder W2005/Dvadeset Osam d.o.o., namely Arenaturist Hoteli d.o.o., Arenaturist Turistička naselja d.o.o. and Arenaturist Zlatne Stijene d.o.o. Receivables from related companies refer to invoiced lease services, administrative services, landscaping services, maintenance of facilities, workforce hire and similar. The total amount of trade receivables refers to outstanding receivables of HRK 1,455 thousand and due receivables of HRK 5,880 thousand. Reduction of value of claim takes place when it becomes obvious that it will not be possible to collect the entire or part of the claim. Based on suing the customer, the Company Management Board has carried out adjustment of value of trade receivables in previous period amounting to HRK 4,195 thousand. The ageing structure of trade receivables is presented below:

Ageing structure of trade receivables (in HRK thousands)	**2008**
Outstanding receivables	1,455
Due:	5,880
Up to 30 days	310
30 to 60 days	361
60 to 90 days	1,511
over 90 days	3,223
Total	**7,335**

Structure of other receivables is presented in the following table:

OTHER SHORT-TERM RECEIVABLES (in HRK thousands)	2008	2007
Receivables from employees for cash advance for business trips	107	108
Receivables for overpaid VAT	1,480	831
Receivables from the state and other institutions	238	84
Other receivables	433	250
	2,258	**1,273**

NOTE 24 – CASH ON THE ACCOUNT AND CASH IN HAND

Cash on the account and cash in hand comprises 0.17% of fixed assets. The structure of position of cash on the account and cash in hand at 31 December was the following:

CASH AND CASH EQUIVALENTS (in HRK thousands)	2008	2007
Transfer accounts	118	2,982
Foreign accounts	936	1,104
Cash in hand	579	737
	1,633	**4,823**

Assets on foreign accounts are converted in HRK applying the middle exchange rate of the Croatian National Bank of 31 December.

NOTE 25 – PREPAID EXPENSES AND ACCRUED REVENUE

Prepaid expenses and accrued revenue make up 0.03% of fixed assets. Their structure is the following:

PREPAID EXPENSES AND ACCRUED REVENUE

(in HRK thousands)	2008	2007
Prepaid expenses		
PRICEWATERHOUSECOOPERS	138	-
NARODNE NOVINE	1	-
HUH	5	-
VERLAG	1	-
BUSINESS HR	2	-
HRVATSKA ZAJEDNICA RAČUNOVOĐA	1	-
ANTERA d.o.o.	1	-
	149	-
Uninvoiced income	**114**	**-**
	263	**-**

NOTE 26 – CAPITAL AND RESERVES

At 31 December, ownership structure of the share capital was as follows:

Ownership structure of the share capital (number of shares)	**2008**	**2007**
W2005/Dvadeset Osam d.o.o.	1,618,263	1,618,263
HPB d,d./KD Investments-Victoria Fund	55,255	55,255
Croatian Privatization Fund	42,606	42,593
SG-SB d.d./Joint account Skandinavska Esklida Banken	40,087	31,242
ZABA d.d. Joint account Unicredit Bank Austria AG	30,139	26,260
Podravska banka d.d.-Joint account		22,113
Piovesana Ezio	11,844	
Dinova Diona d.o.o.	11,273	11,273
RBA Banka d.d. (custody account)	8,473	
SG-SB d.d.-joint account-dom. investors	5,193	5,670
Hypo-Alpe-Adria Bank d.d./ Gianpaolo de Lucca	4,493	4,493
Own shares	169	169
Other	354,705	365,169
Total	**2,182,500**	**2,182,500**

As of 31 December 2007, the share capital of the Company amounted to HRK 654,750 thousand and it consisted of 2,182,500 pieces of ordinary shares with nominal value of HRK 300. All issued shares have been entirely paid.

In compliance with the Decision of the General Assembly of 30 May 2008, the Company decreased the shareholders capital from HRK 654.750 thousand by HRK 611.100 thousand to HRK 43.650 thousand with the objective of “returning part of the capital of the Company to shareholders within legal period of time (6-month period from 06 August 2008), when the Company will have sufficient available assets for redistribution.” Considering the fact that the Company, despite intense efforts in finding foreign and domestic sources of finances, did not manage to secure finances, the majority shareholder initiated the procedure for the convocation of the meeting of the Assembly at which the decrease shall be allocated to other reserves, since it is evident that the requirement of disposing of sufficient assets for the return of part to shareholders within legal period of time will not be fulfilled. The meeting of the Assembly was held on 24 February 2009, which was published in Narodne novine on 16 January 2009.

Decrease of the shareholders capital was performed by decreasing the nominal amount of ordinary shares of the Company from HRK 300,00 to HRK 20.00. At 31 December 2008, the shareholders capital of the Company after the registration of decrease amounts to HRK 43,650 thousand and it is divided in 2,182,500 ordinary shares at nominal amount of HRK 20.00 kuna.

The share capital comprises 4.48% of total shareholders’ equity and liabilities of the Company.

NOTE 27 – RESERVES AND RETAINED EARNINGS

In the year 2008, reserves comprised 66.06% of total shareholders’ equity and liabilities of the Company. Their structure is presented below:

RESERVES **(in HRK thousands)**	**2008**	**2007**
Legal reserves	2,129	1,951
Reserves for own shares	3	51
Own shares and stakes	(3)	(51)
Other reserves	641,101	30,001
Revaluation reserves	41	334
	643,271	**32,286**

Under Croatian law, legal reserves are formed so that the Company is obliged to enter the 20th part of its annual earnings until such time that the reserve balance together with the capital gains reaches 5% of the Company's share capital. The reserves are undistributable. Based on the Decision of the Assembly of 29 July 2008, the Company allocated HRK 179 thousand from retained earnings to legal reserves (for the year 2006 in the year 2007, HRK 1,049 thousand was allocated). On 31 December 2008, legal reserves amounted to HRK 2,129 thousand or 4.88% of the shareholders' capital (in the year 2007, HRK 1,950 thousand or 0.3% of the capital). Other reserves consist of retained earnings from previous years amounting to HRK 30,001 thousand and reserves formed out of shareholders' capital amounting to HRK 611.100 thousand (in the year 2007, they amounted to HRK 30.001 thousand).

Revaluation reserves arose out of translation to fair value of financial assets available for sale (shares of Privredna banka Zagreb). In the year 2008, they amounted to HRK 41 thousand, and in the year 2007, they amounted to HRK 334 thousand.

Reserves for own shares on 31 December 2008 amounted to HRK 3 thousand, and in the year 2007, they amounted to HRK 51 thousand.

Retained earnings on 31 December 2008 comprised 3.65% of total shareholders' equity and liabilities of the Company, with the following structure:

RETAINED EARNINGS in HRK thousands	**2008**	**2007**
Retained earnings of previous years	40,183	36,788
Retained earnings –deferred payment of income tax	2.367	898
Los/Income for current year	-7,052	3,574
	35,498	**41,260**

NOTE 28 – PROVISIONS

Provisions make up 2.03% of total shareholders' equity and liabilities of the Company. The reasons why they arose are explained in Note 12. and 21. Structure of provisions is presented below:

PROVISIONS

(in HRK thousands)	2008	2007
Long-term provisions		
Provisions for compensation benefits	804	530
Provisions for jubilee awards	1,678	1,394
Provisions for court action against Pula Herculanea d.o.o. and the family Profanter	7,991	7,918
	10,473	**9,842**
Short-term provisions		
Provisions for termination bonuses due to business-conditioned dismissals	-	401
Provisions for employees salaries - accrued hours	2,719	2,564
Provisions for expenses of Park Plaza Hotels	5,711	-
Provisions for expenses of Wolf Thiess	923	-
	9,353	**2,965**
TOTAL PROVISIONS	**19,826**	**12,807**

NOTE 29 – LONG-TERM DEBT AND SHORT-TERM BORROWINGS

Long-term debt stated in the balance sheet at 31.12.2008 comprise 16.39% of total shareholders' equity and liabilities of the Company. It refers to borrowings from related companies and borrowings from banks with maturity over 12 months. Its structure is presented below:

LONG-TERM DEBT

Long-term debt to related companies

(in HRK thousands)	2008	2007
Loans W2005/Dvadeset Osam d.o.o.	66,200	66,200
Lenders of loan interests W2005/ Dvadeset Osam d.o.o.	1,555	
	67,755	**66,200**
Long-term debt for bank loans -repayment term over 12 months	**91,794**	**126,388**

Considering the fact that long-term debt refers to borrowings, beside the above long-term debt, the Company also has short-term borrowings with maturity under 12 months. At 31.12.2008, short-term borrowings comprised 5.84% of liabilities. Their structure is the following:

SHORT-TERM BORROWINGS (in HRK thousands)	**2008**	**2007**
Liabilities from bank loans	6,220	3,663
Liabilities from bank loans –maturity of long-term borrowings up to 12 months	50,640	36,089
	56,860	39,752
TOTAL AMOUNT OF BORROWINGS	**214,854**	**232,340**

All banks pledged their loaned assets by establishing a lien on the real estate at the net book value of HRK 506,292 thousand. Book value of borrowings is denominated in EUR and CHF. Effective interest rates on the balance sheet date were as follows:

BORROWINGS (in HRK thousands)	**2008**	**%**	**2007**	**%**
CHF	12,214	5.75%	12,380	5.75%
EUR	133,882	6.5-9%	153,760	4.89-8%
HRK	68,758	4.89-5%	66,200	4.89-5%
	214,854		**232,340**	

NOTE 30 – ACCOUNTS PAYABLE

At 31.12.2008, accounts payable comprised 7.37% of liabilities, and their structure is represented as follows:

ACCOUNTS PAYABLE (in HRK thousands)	**2008**	**2007**
Domestic accounts payable	4,839	4,401
Liabilities to related companies	2,753	3,748
Foreign accounts payable	1,358	0
Liabilities for uninvoiced merchandise	39	40
Total accounts payable	**8,989**	**8,189**

Accounts payables participate with 12.52% in the structure of short-term liabilities.
Liabilities to related companies primarily refer to providing marketing services and sale of accommodation, hiring workforce and interest on loans with maturity under 12 months.

Domestic accounts payable refer primarily for liabilities for raw materials and material, energy, communal services, interests on borrowings and other services necessary for regular business operation of the company, while liabilities for foreign suppliers refer to services of projects for the reconstruction of hotels and restructuring of the Company.

Schedule of payment to suppliers is presented below:

SCHEDULE OF PAYMENT TO SUPPLIERS

Due liabilities	**4,227**
Outstanding liabilities:	
up to 30 days	3,237
from 30 to 60 days	705
from 60 to 90 days	683
over 90 days	137
TOTAL:	**8,989**

Other accounts payable and deferred payment of liabilities are presented below:

OTHER ACCOUNTS PAYABLE AND DEFERRED PAYMENT OF LIABILITIES

(in HRK thousands)	2008	2007
Liabilities for borrowings with maturity under 12 months	56,860	39,752
Liabilities for received advances	1,108	1,973
Amounts due to employees-salaries	2,379	2,144
Taxes and contributions from and on salaries	1,687	1,666
Liabilities under service contracts	98	72
VAT payable	176	0
Income tax payable	246	45
Amounts due to governmental institutions	46	274
Other amounts due to employees	138	110
Other liabilities	75	50
Accrued expenses	125	95
	62,938	**46,181**

For liabilities for borrowings, see Note 29.

NOTE 31 – RELATIONS WITH RELATED COMPANIES

Companies are considered related if one company has the ability to control another company or is under joint control or it has significant influence on the other party in making financial or business decisions. Arenaturist d.d. Pula is controlled by W2005/Dvadeset Osam d.o.o. Zagreb, which holds 74.15% of the shares of Arenaturist d.d. The ultimate controlling parent is the company Goldman Sachs.

W2005/Dvadeset Devet d.o.o. Zagreb is parent company of subsidiaries: W2005/Dvadeset Osam d.o.o. Zagreb, Arenaturist Hoteli d.o.o. Pula, Arenaturist Turistička naselja d.o.o. Pula and Arenaturist Zlatne Stijene d.o.o. Pula.

Related companies within the Group W2005/Dvadeset Devet d.o.o. are: W2005/Dvadeset Osam d.o.o. Zagreb, Arenaturist d.d. Pula, Arenaturist Hoteli d.o.o. Pula, Arenaturist Turistička naselja d.o.o. Pula, Arenaturist Zlatne Stijene d.o.o. Pula, Ulika d.o.o. Zagreb and Mažurana d.o.o. Zagreb.

Arenaturist d.d. is parent company of subsidiaries Mažurana d.o.o. Zagreb and Ulika d.o.o. Zagreb. In the year 2008, subsidiaries did not perform any operating activity.
These are transactions that Arenaturist d.d. had with related companies:

TRANSACTIONS WITH RELATED COMPANIES (in HRK thousands)	**2008**	**2007**
1. SALES-SERVICES		
Arenaturist Hoteli d.o.o. Pula	3,094	3,022
Arenaturist Turistička naselja d.o.o. Pula	214	201
Arenaturist Zlatne Stijene d.o.o. Pula	3,223	3,262
Total	**6,531**	**6,485**
2.COSTS AND EXPENSES		
2.1.Advertising and sale of accommodation expenses		
Arenaturist Hoteli d.o.o. Pula	**6,401**	**6,139**
2.2.Other operating expenses		
Arenaturist Hoteli d.o.o. Pula	10	-
Arenaturist Turistička naselja d.o.o. Pula	-	3
Arenaturist Zlatne Stijene d.o.o. Pula	205	170
Total	**215**	**173**
2.3.Management fee		
Park Plaza Hotels	**5,711**	**-**
2.4.Interest expenses		
W2005/Dvadeset Osam d.o.o. Zagreb	**3,265**	**1,404**
3.SHARES IN RELATED COMPANIES		
Ulika d.o.o. Zagreb	20	-
Mažurana d.o.o. Zagreb	20	-
Total	**40**	**-**
	2008	**2007**
4.TRADE RECEIVABLES AND OTHER RECEIVABLES	.	
Arenaturist Hoteli d.o.o. Pula	175	146
Arenaturist Turistička naselja d.o.o. Pula	50	2
Arenaturist Zlatne Stijene d.o.o. Pula	84	28
Total	**309**	**176**

5.ACCOUNTS PAYABLE AND OTHER LIABILITIES		
W2005/Dvadeset Osam d.o.o. Zagreb	2,166	1,281
Arenaturist Hoteli d.o.o. Pula	2,101	2,444
Arenaturist Zlatne Stijene d.o.o. Pula	41	23
Provisions for management fee for Park Plaza	5,711	0
Total	**10,019**	**3,748**

6.BORROWINGS	2008	2007
W2005/Dvadeset Osam d.o.o. Zagreb	40,706	40,706
W2005/Dvadeset Osam d.o.o. Zagreb	25,494	25,494
Total	**66,200**	**66,200**

7.MANAGEMENT FEE		
Net salaries	1,334	1,452
Contributions for pension funds	395	432
Contributions for health insurance	378	386
Other contributions, tax and surtax	599	678
Total	**2,706**	**2,948**

NOTE 32 – STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS (in HRK thousands)	**2008**	**2007**
Cash flow from operating activities		
Profit before tax	(6,772)	3,619
Amortization of property, plant and equipment and intangible assets	35,655	36,222
Increase of trade receivables	(2,628)	(680)
Increase of accounts payable	419	1,484
Decrease of inventories	168	34
Amortization of small inventory	45	39
Write-off of property, plant and equipment	156	178
Write-off of small inventory	79	130
Income from land-court ruling	(569)	-
Impairment loss on receivables 736	186	230
Recovery of impaired receivables	(16)	(136)
Increase in short-term provisions	6,893	-
Gain from write-off of liabilities 782	134	-
Increase in long-term debt	1,555	-
Increase in uninvoiced income and paid expenses	(263)	-
Income from sale of stakes	(4)	-
Increase in long-term provisions	558	3,645
Increase in deferred tax assets	(1,469)	-
Differences in foreign exchange rates	1,778	(1,569)
Interest income	(35)	(122)
Interest cost	15,838	15,312
Paid interests	(15,657)	(16,486)
Correction of VAT based on order of Tax Authorities	-	275

Dividend income	-	(2)
Income tax	(280)	(45)
Cash generated from operations	**35,771**	**42,128**
Cash flow from investing activities		
Acquisition of property, plant and equipment	(20,657)	(13,745)
Income from sale of property, plant and equipment	2	5
Income from sale of financial assets	4	-
Dividends received	-	2
Decrease/increase of financial assets by fair values	293	(334)
Investments in related companies	(40)	-
Increase of caution deposit	(168)	2
Total cash flow from investing activities	**(20,566)**	**(14,070)**
Cash flow from financing activities		
Proceeds from loans	2,558	31,630
Repayment of loans	(20,953)	(56,336)
Total	**(18,395)**	**(24,706)**
Net decrease in cash flow	**3,190**	**3,35**
Cash and cash equivalents at the beginning of the year	**4,823**	**1,471**
Cash and cash equivalents at the end of the year	**1,633**	**4,823**

NOTE 33 – EVENTS AFTER THE BALANCE SHEET DATE

At the Company General Assembly held on 30 May 2008, the General Assembly passed the Decision about regular decrease of the Company's share capital by decreasing the nominal amount of shares with the objective of returning a part of the capital to shareholders. Due to changes in the international and the Croatian financial market, it was not possible to pay the shareholders and hence it has become impossible to realize the objective of decreasing the Company's share capital.
For this reason, W2005/Dvadeset Osam d.o.o. proposes the passing of the following Decision about changes and amendments to the Decision about decrease of the capital at the Company General Assembly to be held on 24 February 2009, to decrease the share capital with the objective of allocation into Company reserves of the entire amount of decrease of the Company share capital of HRK 611,100 thousand.

INDEPENDENT AUDITOR'S REPORT