ISTRATURIST UMAG d.d.

ANNUAL REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2016

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Istraturist Umag d.d.
Annual Report

The Company's Management Board presents the audited financial statements of the Company for the year 2016. This report includes a financial and operating review and the audited financial statements of the Company.

Description and review of operations

Istraturist Umag d.d. (Istraturist) is a Croatian company with a 50-year long tradition in the tourist industry. The Company manages 15 accommodation facilities located in north-western Istria, mostly in Umag, capable to host more than 23 thousand guests daily. Apart from that, the Company manages hospitality, restaurant, sports and recreation facilities for tourist purposes.

Since 1990 the Company has been the proud holder of the ATP tournament license, one of the chief sports and tourist events in Croatia.

The Company is the sole founder of ISTRA D.M.C. d.o.o. in charge of organising the above mentioned Tournament, which was held for the 27th consecutive year in 2016. The Tournament is held with the continued support of partners and sponsors.

Since 1998, Sol Melia Hrvatska d.o.o., the Croatian subsidiary of Melia Hotels International, one of the leading hotel companies in the world managing more than 350 hotels in 30 countries, has been the Company's partner in managing business facilities and sale, marketing and operational functions. The Service Contract with Sol Melia Hrvatska d.o.o. was mutually terminated on 31 December 2015, and as of 01 January 2016 the Company has concluded a Franchising Contract with Melia Hotels International.

The Company is one of the members of the North-West Istria Tourist Cluster, in existence since 2011, whose aim is development of the destination through five strategic products – bicycling, gourmet, tennis, soccer, and wellness. Promoting the offer and facilities in the destination, raising the quality of the infrastructure and creating and organizing sports, cultural and entertainment events as part of the joint marketing plan of its stakeholders, the North-West Istria Cluster stimulates arrivals and overnight stays in the pre-season thus extending the tourist season of the destination.

Since November 2014 Plava laguna d.d. is the Company's majority shareholder.

Operating results

In 2016, an increase in all operational indicators was recorded. Business volume growth, increase in average prices and operational efficiency were achieved.

There were 2.02 million overnight stays, representing a growth of 1.3% over the previous year. The increase in business volume is the result of the increase in overnight stays in hotels and apartments.

The total operating income of the Istraturist Group amounted to HRK 463.6 million, which is by 1.36% or HRK 6.4 million less compared to the previous year due to decrease of revenues outside core business. Namely, in early 2016, the Company has successfully terminated the contract for the provision of laundry services to third parties in order to improve services for its own needs.

Operating expenses of the Istraturist Group amounted to HRK 358.30 million, and compared to 2015 are lower by HRK 45.1 million or 11.18%. Reduction in operating costs is primarily due to lower cost of raw materials and materials, and redefining the contractual relationship with Sol Melia Hrvatska d.o.o.

Operating results (continued)

Other gains / (losses) - net amounted to HRK 3.08 million and relate to recorded fair value through derivative financial instruments (IRSwap and CCIRSwap) contracted for the purpose of interest rate and currency risk management.

Operating profit amounted to HRK 102.26 million, which is an increase of 20.1% or HRK 17.1 million compared to the same period of the previous year.

Net finance costs amounted to HRK 2.79 million, and are lower by HRK 26.01 million compared to the previous year due to lower recorded negative exchange rate differences on long-term loans and lower interest expenses due to debt reduction.

Profit before tax for the reporting period amounted to HRK 99.47 million, which is an increase of 76.5% or HRK 43.1 million compared to the previous year.

Income tax includes a liability of HRK 1.3 million, and reduction in deferred tax assets of HRK 20.4 million. In the previous year, the Company recorded tax revenues of HRK 29.5 million

The net profit of the Istraturist Group amounted to HRK 77.8 million, which is a decrease of 8.34% compared to 2015.

Assets

As at 31 December 2016, the total assets of the Istraturist Group amounted to HRK 1,393.3 million, which is a reduction of 1.23% compared to 31 December 2015. The balance of shareholders' equity is HRK 1,058 million and it increased compared to 2015 as a result of the net profit for the year reported in the amount of HRK 77.8 million.

The total liabilities of the Istraturist Group amount to HRK 335 million, which is by HRK 95 million or 22.9% less than at the prior-year end due to a decrease in total borrowings.

Risk exposure

Foreign exchange and interest rate risk are the most significant risks to which the Group is exposed, as they arise from foreign revenue and long-term borrowings denominated in euros and Swiss francs. The Company hedges this risk exposure using available hedging instruments.

Corporate social responsibility

In performing the registered activities and with the aim to act in the interest of its shareholders, the Company seeks to follow the applicable Code of Corporate Governance of The Zagreb Stock Exchange, which is not legally binding for the Company. In addition, the Company acts in its business operations in accordance with the Corporate Social Responsibility Index of the Croatian Chamber of Commerce, for which it was awarded in 2014.

The Company has an Internal Control Division, and, pursuant to the Companies Act, the Company's Supervisory Board is authorised to engage experts to perform internal supervision at the Company.

The information about major shareholders is disclosed in Note 19 of the annual financial statements, with an annotation that there are no restricted voting rights at the Company.

The members of the Company's Management Board are appointed by the Supervisory Board for a maximum term of 5 years, with the possibility of reappointment. The Management Board may consist of minimum 1 up to maximum 5 members.

The General Assembly, which consists of all the Company's shareholders and represents the highest-ranked body in the corporate governance, elects 4 (four) members of the Supervisory Board whose mandate is 4 years and who can be re-elected, whereas the workers are entitled to appoint 1 (one) member to represent them on the Supervisory Board The Company's Articles of Association may be amended as stipulated in the provisions of the Companies Act. The Management and Supervisory Board members may acquire the shares of the Company in accordance with the applicable provisions of the Companies Act and internal decisions.

Governance structure

Pursuant to the Companies Act, the Company has its Supervisory Board and its Management Board, both acting as separate bodies. The members of the Management and Supervisory Boards have the obligation to perform their duties with the due diligence of prudent businessmen and in compliance with applicable regulations, the interests of the Company, its shareholders, employees and creditors.

The General Assembly decides on key issues (profit utilisation, selection of Supervisory Board members, adoption of Articles of Association, adoption of financial statements, discharge of the Management and Supervisory Boards, listing and de-listing shares on the regulated market, status changes).

Report on relationships with related parties

In December 2016, the Company concluded with Plava laguna d.d. as the controlling company within the meaning of Art. 475 of the Companies Act a short-term loan agreement with a currency clause with the principal amounting to EUR 5 million for settling regular operating expenses.

Significant business events after the end of the financial year

There are no significant business events after 31 December 2016 that should be disclosed.

Research and development and environmental protection

In 2016 the Company was not engaged in any research activities.

There is a separate organisational unit at the Company in charge for environmental issues and adoption of appropriate internal environmental policies and procedures. The Company also makes sure that its business partners (mostly suppliers) adhere to the current environmental policy.

Acquisition of own shares

The Company did not acquire any own shares in 2016.

Subsidiaries

The Company did not establish any branches.

Human Resources

As at 31 December 2016, the Istraturist Group had a total of 630 employees, out of which 395 workers were employed in permanent employment. During the period of the most intense activity (May / September) 1,059 seasonal workers were employed. The annual average number of employees based on the working hours at the Group was 1,063 people.

Ronald Korotaj
Director

26 April 2016
Jadranska 66
52470 Umag
Croatia

ISTRATURIST UMAG
hoteljerstvo, turizam
i turistička agencija, d.d. 2/12

Istraturist Umag d.d.
Responsibility for the financial statements

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that consolidated and separate financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS), in order to give a true and fair view of the financial position and operating results of the company Istraturist Umag d.d. and the Istraturist Group (the Company and the Group) for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company and the Group have adequate resources to continue as a going concern for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated and separate financial statements.

In preparing consolidated and separate financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated and separate financial statements; and
- the consolidated and separate financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and must also ensure that they comply with the Croatian Accounting Act. The Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The issuance of the Annual Management Report and the financial statements was approved by the Management Board on 26 April 2017.

The Management Board and the Supervisory Board forwarded these financial statements to the Company's General Assembly for approval. The date of the General Assembly will be determined in the call to attend the General Assembly which will be published on the internet pages of Commercial Court register and biz.istraturist.hr.

Management Board:
Ronald Korotaj, Director

Istraturist Umag d.d.
Jadranska 66
52470 Umag
Croatia

ISTRATURIST UMAG
hoteljerstvo, turizam
i turistička agencija, d.d. 2/12

26 April 2017

Independent Auditor's Report

to the Shareholders and Management Board of Istraturist Umag d.d.

Our opinion

In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the financial position of Istraturist Umag d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2016, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

What we have audited

Separate and consolidated financial statements of the Company and the Group which comprise of:

- Separate and consolidated statements of financial position as at 31 December, 2016;
- Separate and consolidated statements of comprehensive income for the year then ended;
- Separate and consolidated statements of changes in equity for the year then ended;
- Separate and consolidated statements of cash flows for the year then ended; and
- The notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Emphasis of matter

We draw attention to Note 24 to the separate and consolidated balance sheet, which describes the uncertainty related to the outcome of the procedures that are conducted between Nova Ljubljanska Banka d.d. and Istraturist Umag d.d.. Our opinion is not qualified in respect of this matter.

We draw attention to Note 5 to these separate and consolidated financial statements that describes the Company's contingencies with respect to ownership of land not evaluated in the transformation and privatisation process. Problems with respect to land ownership disputes are common for the majority of tourism companies in the Republic of Croatia. Their resolution is expected in the future upon completion of the process of obtaining concessions and establishing ownership rights in accordance with and pursuant to the provisions of the Law on Tourist and Other Construction Land, not evaluated in the transformation and privatisation process, which entered into force on 1 August 2010. Our opinion was not qualified in this respect.

Other information

Management is responsible for the other information. The other information comprises the Annual Report of the Company and the Group, which includes the Management Report, but does not include the separate and consolidated financial statements and our auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Management Report.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent

auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that could be identified during our audit.

PricewaterhouseCoopers d.o.o.
Ulica kneza Ljudevita Posavskog 31, Zagreb
27 April 2017

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Istraturist Umag d.d.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

in thousands of HRK	Note	Istraturist Umag Group 2016	Istraturist Umag Group 2015	Istraturist Umag d.d. 2016	Istraturist Umag d.d. 2015
Sales	6	457.377	465.923	438.057	449.246
Other income		6.266	4.109	5.574	3.664
Cost of materials and services	7	(138.016)	(170.096)	(128.803)	(162.155)
Staff costs	8	(121.750)	(120.750)	(120.854)	(119.767)
Depreciation and amortisation	13,14	(65.496)	(66.111)	(62.452)	(63.048)
Other operating expenses	9	(33.041)	(46.454)	(31.955)	(45.820)
Other (losses)/gains – net	10	(3.079)	18.533	(3.079)	18.533
Operating profit		**102.261**	**85.154**	**96.488**	**80.653**
Finance income		6.398	521	6.491	1.043
Finance costs		(9.186)	(29.324)	(8.750)	(28.723)
Net finance costs	11	**(2.788)**	**(28.803)**	**(2.259)**	**(27.680)**
Profit before tax		**99.473**	**56.351**	**94.229**	**52.973**
Income tax	12	(21.658)	28.548	(20.386)	29.550
Profit for the year		**77.815**	**84.899**	**73.843**	**82.523**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**77.815**	**84.899**	**73.843**	**82.523**

Istraturist Umag d.d.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2016

		Istraturist Umag Group		Istraturist Umag d.d.	
in thousands of HRK	**Note**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
ASSETS					
Non-current assets					
Property, plant and equipment	13	1.278.839	1.304.246	1.261.341	1.283.896
Intangible assets	14	6.002	6.564	5.910	6.454
Loans and deposits		59	90	509	2.221
Investments in subsidiary		-	-	37	37
Deferred tax assets	15	11.889	32.275	11.697	32.083
Total non-current assets		**1.296.789**	**1.343.175**	**1.279.494**	**1.324.691**
Current assets					
Inventories		1.687	1.869	1.582	1.862
Trade and other receivables	17	14.787	6.194	14.143	5.630
Loans and deposits	16	26.236	34.838	27.890	37.381
Financial assets	18	39.324	15.457	39.324	15.457
Cash and cash equivalents		14.448	9.100	12.510	8.786
Total current assets		**96.482**	**67.458**	**95.449**	**69.116**
TOTAL ASSETS		**1.393.271**	**1.410.633**	**1.374.943**	**1.393.807**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Share capital					
Share capital	19	467.500	467.500	467.500	467.500
Legal reserves	19	23.375	23.375	23.375	23.375
Retained earnings		567.386	489.571	558.569	484.726
Total shareholders' equity		**1.058.261**	**980.446**	**1.049.444**	**975.601**
Liabilities					
Non-current liabilities					
Borrowings	20	169.815	271.995	167.244	265.667
Total non-current liabilities		**169.815**	**271.995**	**167.244**	**265.667**
Current liabilities					
Borrowings	20	101.937	93.446	98.254	89.909
Trade and other payables	21	60.593	63.425	57.870	61.309
Income tax payable		534	-	-	-
Provisions		2.131	1.321	2.131	1.321
Total current liabilities		**165.195**	**158.192**	**158.255**	**152.539**
Total liabilities		**335.010**	**430.187**	**325.499**	**418.206**
TOTAL EQUITY AND LIABILITIES		**1.393.271**	**1.410.633**	**1.374.943**	**1.393.807**

Istraturist Umag d.d.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

in thousands of HRK	Share capital	Legal reserves	Retained earnings	Total
Group				
At 1 January 2015	**467.500**	**23.375**	**404,672**	**895,547**
Profit for the year	-	-	84,899	84,899
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	84,899	84,899
At 31 December 2015	**467,500**	**23,375**	**489,571**	**980,446**
Profit for the year	-	-	77,815	77,815
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	77,815	77,815
At 31 December 2016	**467,500**	**23,375**	**567,386**	**1,058,261**

in thousands of HRK	Share capital	Legal reserves	Retained earnings	Total
Parent company				
At 1 January 2015	**467,500**	**23,375**	**402,203**	**893,078**
Profit for the year	-	-	82,523	82,523
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	82,523	82,523
At 31 December 2015	**467,500**	**23,375**	**484,726**	**975,601**
Profit for the year	-	-	73,843	73,843
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	73,843	73,843
At 31 December 2016	**467,500**	**23,375**	**558,569**	**1,049,444**

Istraturist Umag d.d.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

in thousands of HRK	Note	Istraturist Umag Group 2016	2015	Company Istraturist Umag d.d. 2016	2015
Cash flow from operating activities:					
Profit before tax		99.473	56.351	94.229	52.973
Adjustments for:					
Depreciation and amortisation	13, 14	65.496	66.111	62.452	63.048
Net carrying amount of sold and retired non-current assets and gains on sold non-current assets		4.617	933	4.907	928
Finance costs - net	11	2.788	28.803	2.259	27.680
Other gains/(losses) – net	10	3.079	(18.533)	3.079	(18.533)
Impairment of receivables	17	589	171	584	171
Income from collected receivables previously written off	17	(14)	(32)	(14)	(32)
Provisions		810	300	810	300
		176.838	**134.104**	**168.306**	**126.535**
Changes:					
Trade and other receivables		(9.161)	2.414	(9.078)	2.426
Trade and other payables		(2.861)	13.611	(3.445)	13.531
Inventories		152	36	(44)	36
Cash generated from operations		**164.968**	**150.165**	**155.739**	**142.528**
Income tax		(738)	(1.047)	-	-
Interest paid		(7.790)	(12.478)	(7.377)	(11.858)
Cash flow from operating activities		**156.440**	**136.640**	**148.362**	**130.670**
Investing activities:					
Purchase of property, plant and equipment	13	(43.222)	(30.979)	(43.045)	(30.937)
Purchase of intangible assets	14	(838)	(663)	(837)	(548)
Interest received		2.399	426	2.662	948
Deposits collected/(given)		9.021	(20.849)	9.021	(20.849)
Loans (collected)/given		(388)	20	2.182	2.703
(Expenditure)/proceeeds from financial assets trading		(26.997)	7.322	(26.997)	7.322
Net cash used in investing activities		**(60.025)**	**(44.723)**	**(57.014)**	**(41.361)**
Cash flow from financing activities					
Repayment of borrowings		(91.067)	(89.899)	(87.624)	(86.940)
Net cash inflow from financing activities		**(91.067)**	**(89.899)**	**(87.624)**	**(86.940)**
Net increase/(decrease) in cash and cash equivalents		5.348	2.018	3.724	2.369
Cash and cash equivalents at beginning of period		9.100	7.082	8.786	6.417
Cash and cash equivalents at end of period		**14.448**	**9.100**	**12.510**	**8.786**

NOTE 1 – GENERAL INFORMATION

The Istraturist Group (the Group) comprises Istraturist Umag d.d. (parent company or the Company), a public limited liability company registered for tourist agency services, engineering, construction and use of sport facilities, whose operations are mainly centred on organising the annual ATP tennis tournament in Umag and the accompanying entertainment events. The Company is the sole founder of ISTRA D.M.C. d.o.o.

According to the laws of the Republic of Croatia and with the approval of the Croatian Privatisation Fund, the Parent Company was transformed from state ownership into a public limited liability company in 1994. Both the Parent Company and its subsidiary are registered at the Commercial Court in Pazin. The Company's registered office is in Umag, Jadranska 66.

As at 31 December 2016 and 2015, the major shareholder of the Company is Plava laguna d.d., Poreč.

The Company's Management Board consists of Ronald Korotaj, who, in his capacity as the director, solely and independently represents the Company and manages its operations.

The Company's Supervisory Board consisted of 4 (four) members during 2016 who were chosen by the General Assembly: Davor Luksic Lederer, President; Neven Staver, Vice President; Patricio Tomas Balmaceda Tafra, Member; José Ignacio Bulnes León, Member and one member-worker's representative (Tomislav Sokač).

The Audit Committee is an auxiliary body of the Supervisory Board. During 2016, its members were as follows: Davor Luksic Lederer, President, Danira Rančić, Member, Suzana Kocijančić, Member.

NOTE 2 – BASIS OF PREPARATION

The consolidated and separate financial statements of the Group and the Company are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, by applying the historical cost method, except for financial assets at fair value through profit or loss and derivative financial liabilities carried at fair value. Other financial assets and liabilities, and non-monetary assets and liabilities, are stated at amortised or historical cost, less impairment, where appropriate.

In the consolidated statements, the subsidiary - which is the Company in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - has been fully consolidated.

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU (IFRS) requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Group's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

Despite the fact that current liabilities exceed current assets, the Management Board considers that the going-concern assumption remains appropriate and that there are no liquidity risks for the Group because short-term loans fall due in the second half/third quarter of the year, i.e. in the period when cash from the summer season is expected to flow in.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these separate and consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

a) Consolidation

The enclosed consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company, i.e. its subsidiaries, including structured entities. Control is achieved if:

- the Company has power over the entity;
- the Company has exposure, or rights, to variable returns from involvement with the entity; and
- the Company has the ability due to its power to affect the amount of its returns.

The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an entity, it has power over the entity when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the entity unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an entity are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by investors, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous General Assemblies.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and consolidated statement of other comprehensive income from the effective date of acquiring control or up to the date of losing control of the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent company (Company) and to non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to owners of non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, the financial statements of the subsidiaries have been reclassified to comply with the accounting policies of other Group entities.

All assets, liabilities, equity components, income and expenses as well as cash flows from intra-group transactions are eliminated in full on consolidation.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

b) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Croatian kuna (HRK), which is the Company and the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses relating to borrowings and cash and cash equivalents are presented in the income statement within net finance costs.

c) Financial instruments

(i) Non-derivative financial instruments

The Group recognises loans, receivables and deposits at the date on which they arise. All other financial assets (including assets at fair value through profit or loss) are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset.

The Group derecognises a financial asset when its rights to receive cash flows from the investments have expired or when the rights to receive cash flows from the investments have been substantially transferred along with all risks and rewards of ownership. Any rights in a transferred financial asset arisen or held by the Group are disclosed as a separate asset or liability. Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position (balance sheet) when the Group has a legally enforceable right to offset these amounts and the intention to settle on a net basis or simultaneously realise the asset and settle the liability. The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables.

(ii) Derivative financial instruments

Derivative financial instruments include forward and swap contracts (floating-to-fixed interest rate swaps) denominated in foreign currencies. Derivative financial instruments are recognised in the balance sheet at their fair value. Fair values are obtained from quoted market prices or pricing models as appropriate. All derivatives are carried as assets in the balance sheet when fair value is positive and as liabilities when fair value is negative. These derivatives do not qualify for hedge accounting and are therefore treated as derivatives held for trading. Gains and losses arising from the forecast transaction are recognised in profit or loss in the period in which the effect of the forecast transaction is reflected in profit or loss.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

c) Financial instruments *(continued)*

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised at fair value plus all direct transaction costs. Loans and receivables are subsequently measured at amortised cost, determined using the effective interest method, less any impairment. Loans and receivables consist of trade and other receivables and loans and deposits.

(iv) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are classified as held for trading or are designated at FVTPL on initial recognition. Assets are classified as at fair value through profit or loss only if the Group and the Company manage those assets and decide on their purchase or sale on the basis of their fair values in accordance with the Group's risk management or investment strategies. On initial recognition, direct transaction costs are recognised in profit or loss. Financial assets at fair value through profit or loss are measured at fair value, with any fair value changes, including dividends, reported in profit or loss.

(v) Other liabilities

Other liabilities consist of non-derivative financial instruments measured at amortised cost using the effective interest rate method.

d) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of a self-constructed asset includes cost of material, direct labour and other costs linked to bringing the asset into working condition, as well as dismantling, removal and site restoration costs and capitalised borrowing costs.

Where certain parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent expenditure

Subsequent expenditure in respect of an already recognised item of property, plant and equipment is added to its carrying amount when it is probable that future economic benefits beyond the originally assessed performance of the asset will flow to the Company and the amount of the cost can be measured reliably. Regular maintenance costs in respect of property plant and equipment are recognised in profit or loss as they arise.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets under construction are not depreciated. The estimated useful lives as follows:

Buildings	35 years
Plant and equipment	4 - 20 years

Depreciation methods and useful lives, as well as residual values are reassessed annually.

e) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation of intangible assets is provided using the straight-line basis over the estimated useful life of 5 years.

f) Impairment of assets

Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and depreciation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets are reviewed for possible indications of impairment at each reporting date.

Financial assets

A financial asset is impaired only if there is objective evidence of impairment as a result of one or more events with a negative impact on the estimated future cash flows of the asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

g) Inventories

Inventories in business books are carried at the lower of cost, determined on the basis of weighted average cost, and net realisable value. Cost includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition, less any discounts and rebates. Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and the estimated costs necessary to carry out the sale.

Slow-moving inventories are written down and charged to expenses.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

h) Cash and cash equivalents

Cash and cash equivalents comprise cash on accounts with banks and similar institutions and cash on hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

i) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on the straight-line basis over the term of the relevant lease. Initial indirect costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance lease are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

j) Share capital

Share capital consists of ordinary shares which are registered in the system of the Central Depository and Clearing Company as non-materialised securities ISTT-R-A. Transaction costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable transaction costs (net of income taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled or reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs and the related income tax effects, is included in equity attributable to the Company’s equity holders.

k) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in gain or loss in the period in which they arise.

n) Current and deferred income tax

The current income tax charge is calculated at a rate of 20% according to Croatian laws and regulations. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions, where appropriate, on the basis of amounts expected to be paid to the Tax Administration.

If material, deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are measured using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

o) Employee benefits

(i) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group does not have any other pension scheme and, consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(iii) Short-term employee benefits

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Group recognises obligations for long-service benefits and accumulated absences based on unused vacation days outstanding at the reporting date for seasonal staff, i.e. at 31 December for permanent staff, as well as for rescheduled work time outstanding at the reporting date.

p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions for future operating losses are not recognised.

Where there are a number of similar obligations, the likelihood that an outflow will be required in their settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

q) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in hotels and apartments, campsites and restaurants of the Group. Revenue is reported at amounts less any discount and value-added tax and subsequent to eliminations for intra-Group sales.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below.

(i) Sales of services

The Group sells hotel accommodation and tourist services based on concluded contracts. Revenue from hotel and tourist services is recognised in the period when the services are provided.

Hotel accommodation and tourist service revenue with the contract deliveries up to 12 months comprise mainly contracts concluded with travel agencies and tour operators. Service revenue is determined on the basis of prescribed tariff rates (mostly for individual guests paying in cash or by credit cards).

If circumstances arise that may change the original estimate of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in an increase or decrease in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to revision become known to the Management Board.

(ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

r) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's General Assembly of Shareholders.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

s) Adoption of new and amended international standards

(a) New and amended standards adopted by the Company:

The European Union has adopted new and amended standards for the reporting periods commencing 1 January 2016, but they do have an impact on the Company's current period or previous periods and probably will not have an impact on future periods.

(b) New standards and interpretations not yet adopted:

Certain new standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted Company. None of these is expected to have a significant effect on the Company's financial statements, except for the following standards:

- *IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

The Management Board believes that these amendments will not have any significant impact on its financial statements. The Management Board plans to adopt the standard on its effective date and when endorsed by the European Union.

- *IFRS 15 Revenue from contracts with customers and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Management Board believes that these amendments will not have any significant impact on its financial statements. The Management Board plans to adopt the standard on its effective date and when endorsed by the European Union.

- *IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)*

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Management Board believes that these amendments will not have any significant impact on its financial statements.

NOTE 4 – FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group does not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Group's management.

The accounting policies are applied to financial instruments as follows:

in thousands of HRK	**Istraturist Umag Group**		**Istraturist Umag d.d.**	
	2016	**2015**	**2016**	**2015**
Assets				
Loans and receivables:				
Trade and other receivables	3.433	3.383	2.833	3.009
Loans and deposits	26.295	34.928	28.399	39.602
Cash and cash equivalents	14.448	9.100	12.510	8.786
Financial assets at fair value through profit or loss				
Shares and interests	1.783	1.663	1.783	1.663
Investment funds	31.584	4.501	31.584	4.501
Derivative financial instruments	5.957	9.293	5.957	9.293
Total	**83.500**	**62.868**	**83.066**	**66.854**
Liabilities				
At amortised cost				
Borrowings	271.752	365.441	265.498	355.576
Trade and other payables	39.518	44.022	37.342	42.046
Total	**311.270**	**409.463**	**302.840**	**397.622**

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR and CHF. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Foreign sales are mostly denominated in euros, and long-term debt is denominated in euros and Swiss francs. Therefore, movements in exchange rates between the Swiss franc and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flows.

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)

As at 31 December 2016 and 2015, the currency structure of the Group and the Company's financial instruments within the scope of IAS 39 is as follows:

The Group

in thousands of HRK	**EUR**	**HRK**	**Other**	**Total**
2016:				
Assets				
Loans and receivables:				
Trade and other receivables	1,167	2,254	12	3,433
Loans and deposits	26,040	255	-	26,295
Cash and cash equivalents	5,446	8,732	270	14,448
Financial assets at fair value through profit or loss				
Shares and interests	-	1,783	-	1,783
Investment funds	-	31,584	-	31,584
Derivative instruments	-	-	5,957	5,957
Total	**32,653**	**44,608**	**6,239**	**83,500**
Liabilities				
At amortised cost				
Borrowings	173,276	30,230	68,246	271,752
Trade and other payables	18,268	21,225	25	39,518
Total	**191,544**	**51,455**	**68,271**	**311,270**
2015:				
Assets				
Loans and receivables:				
Trade and other receivables	1,500	1,871	12	3,383
Loans and deposits	34,926	2	-	34,928
Cash and cash equivalents	4,014	5,078	8	9,100
Financial assets at fair value through profit or loss				
Shares and interests	-	1,663	-	1,663
Investment funds	-	4,501	-	4,501
Derivative instruments	-	-	9,293	9,293
Total	**40,440**	**13,115**	**9,313**	**62,868**
Liabilities				
At amortised cost				
Borrowings	192,682	36,000	136,759	365,441
Trade and other payables	22,201	21,821	-	44,022
Total	**214,883**	**57,821**	**136,759**	**409,463**

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)

The Company:

in thousands of HRK	**EUR**	**HRK**	**Other**	**Total**
2016:				
Assets				
Loans and receivables:				
Trade and other receivables	1,180	1,653	-	2,833
Loans and deposits	28,147	252	-	28,399
Cash and cash equivalents	5,378	6,929	203	12,510
Financial assets at fair value through profit or loss				
Shares and interests	-	1,783	-	1,783
Investment funds		31,584	-	31,584
Derivative instruments	-	-	5,957	5,957
Total	**34,705**	**42,201**	**6,160**	**83,066**
Liabilities				
At amortised cost				
Borrowings	167,022	30,230	68,246	265,498
Trade and other payables	17,974	19,368	-	37,342
Total	**184,996**	**49,598**	**68,246**	**302,840**
2015:				
Assets				
Loans and receivables:				
Trade and other receivables	1,431	1,566	12	3,009
Loans and deposits	38,732	870	-	39,602
Cash and cash equivalents	3,962	4,818	6	8,786
Financial assets at fair value through profit or loss				
Shares and interests	-	1,663	-	1,663
Investment funds		4,501	-	4,501
Derivative instruments	-	-	9,293	9,293
Total	**44,125**	**13,418**	**9,311**	**66,854**
Liabilities				
At amortised cost				
Borrowings	182,817	36,000	136,759	355,576
Trade and other payables	22,071	19,975	-	42,046
Total	**204,888**	**55,975**	**136,759**	**397,622**

For the purpose of managing interest rate risk, on 30 October 2014 an EUR/CHF currency interest rate swap was entered into for the remaining outstanding principal amount of the loans of the UniCredit Group contracted in CHF at 3m LIBOR for CHF + 1.5% interest margin, where the 3m LIBOR is fixed at 1.78% through which the initially contracted cash flows in CHF are transferred into EUR-denominated cash flows at a fixed interest rate of 4.7 % until the expiry of the loan (2017).

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)

As at 31 December 2016, if the EUR had weakened/strengthened by 1% against the HRK, with all other variables held constant, the net profit for the reporting period of the Company would have been HRK 1,202 thousand *(2015: HRK 1,286 thousand)* higher/lower, and of the Group would have been HRK 1,271 thousand *(2015: HRK 1,396 thousand)* higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of EUR-denominated long-term debt.

As at 31 December 2016, the change in the CHF exchange rate against the HRK would not have had any effect on the profit for the period due to the contracted EUR/CHF currency interest rate swap.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets other than short-term cash deposits at variable rates (Note 16), the Group's revenue and cash flows from operating activities are not significantly exposed to fluctuations in market interest rates.

Interest rates on interest-bearing assets and liabilities were as follows:

in thousands of HRK	**Istraturist Umag Group**		**Istraturist Umag d.d.**	
	2016	**2015**	**2016**	**2015**
Assets				
Loans and receivables:				
Loans and deposits	0,01%-4%	0.15% - 4%	0,01%-4%	0.15% - 4%
Cash and cash equivalents	0,01%	0.01% to 0,15%	0,01%	0.01% to 0,15%
Liabilities				
At amortised cost				
Borrowings	3m LIBOR for CHF +1.5% to 6m EURIBOR +3.55%, 3% and 4%	3m LIBOR for CHF +1.5% to 6m EURIBOR +3.55%, 3% and 4%	3m LIBOR for CHF +1.5% to 6m EURIBOR +3.55% , 3% and 4%	3m LIBOR for CHF +1.5% to 6m EURIBOR +3.55% , 3% and 4%
Finance lease liabilities	3m EURIBOR +5.295%	3m EURIBOR +5.295%		

The Group’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. For the purpose of managing interest rate risk, in March 2009, the Group entered into a derivative hedging instrument – an IRSwap (floating-to-fixed interest rate swap, 3m LIBOR for CHF at a fixed rate of 1.78% p.a.) over the entire period of the loan, i.e. until 2017. On 30 October 2014, an EUR/CHF cross-currency interest rate swap was entered into, with a fixed interest rate of 4.7% p.a. for the remaining outstanding principal amount of the loans until their expiry, i.e. 2017. In addition, the cash flows under those loans were pegged to the euro.

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)

(ii) Cash flow and fair value interest rate risk *(continued)*

Interest rate risk sensitivity analysis

The following sensitivity analyses are based on the exposures to price risk arising at the end of the reporting period from derivative and non-derivative instruments. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the profit of the Company for the year ended 31 December 2016 would have been lower/higher by HRK 1,062 thousand (2015: lower/higher by HRK 1,422 thousand), while the profit of the Group would have been lower/higher by HRK 1,087 thousand (2015: lower/higher by HRK 1,462 thousand) mainly attributable to the exposure of the Company and the Group to variable-rate borrowings.

Interest-rate swaps

By having entered into IRSwaps, the Group has committed to exchange the difference between the fixed interest rate and the variable interest rate calculated based on the underlying contractual amount of the principal. Such contracts enable the Group to mitigate the risk arising from floating rates that affects the value of the fixed-debt issued and the exposures to cash flows under variable-rate debt. The fair values of the IRSwaps at the end of the reporting period is determined, by discounting future cash flows using period-end curves and the credit risk incorporated in the underlying contract. The average interest rate is based on the balances outstanding at the end of the reporting period.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the interest payments on debt affect profit or loss.

(b) Credit risk

Credit risk arises from cash, time deposits and trade receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, i.e. the Group's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers, i.e. natural persons). The provisions for impairment of trade, loan and other receivables have been made based on credit risk assessment. The Management Board monitors the collectability of receivables through weekly reports on individual balances of receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. The Group has policies that limit the amount of credit risk exposure to any financial institution. Cash transactions are carried out through high quality Croatian banks. The Group has only short-term highly liquid instruments with maturity periods of three months or less.

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)

The maximum exposure to credit risk at the reporting date arises from financial assets classified as loans and receivables as follows:

in thousands of HRK	**Istraturist Umag Group**		**Istraturist Umag d.d.**	
	2016	**2015**	**2016**	**2015**
Trade and other receivables	3,433	3,383	2,833	3,009
Loans and deposits	26,295	34,928	28,399	39,602
Cash and cash equivalents	14,448	9,100	12,510	8,786
Total	**44,176**	**47,411**	**43,742**	**51,397**

The credit quality of the Group's financial assets:

in thousands of HRK	**Trade and other receivables**	**Loans and deposits**	**Cash and cash equivalents**	**Total**
2016:				
Neither past due nor impaired	1,277	26,295	14,448	42,020
Past due but not impaired	2,156	-	-	2,156
Impaired	843	-	-	843
Impairment	(843)	-	-	(843)
Total	**3,433**	**26,295**	**14,448**	**44,176**
2015:				
Neither past due nor impaired	1,004	34,928	9,100	45,032
Past due but not impaired	2,379	-	-	2,379
Impaired	598	-	-	598
Impairment	(598)	-	-	(598)
Total	**3,383**	**34,928**	**9,100**	**47,411**

The credit quality of the Company's financial assets:

in thousands of HRK	**Trade and other receivables**	**Loans and deposits**	**Cash and cash equivalents**	**Total**
2016:				
Neither past due nor impaired	1,186	28,399	12,510	42,095
Past due but not impaired	1,647	-	-	1,647
Impaired	788	-	-	788
Impairment	(788)	-	-	(788)
Total	**2,833**	**28,399**	**12,510**	**43,742**
2015:				
Neither past due nor impaired	900	39,602	8,786	49,288
Past due but not impaired	2,109	-	-	2,109
Impaired	598	-	-	598
Impairment	(598)	-	-	(598)
Total	**3,009**	**39,602**	**8,786**	**51,397**

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)

The ageing analysis of trade receivables past due but not impaired is as follows:

	Istraturist Umag Group		Istraturist Umag d.d.	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Up to one month	534	594	519	580
One to three months	663	560	628	406
Three months to one year	899	708	440	679
Over one year	60	517	60	444
Total	**2,156**	**2,379**	**1,647**	**2,109**

The Group's and the Company's receivables are partially secured by a mortgage over property and promissory notes.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available. The Management Board monitors available cash resources based on reports on the balance of cash and liabilities on a daily basis.

The table below analyses the Group's and the Company's financial liabilities at the reporting date according to contracted maturities. The amounts stated below represent undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

in thousands of HRK	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Group:					
At 31 December 2016					
Trade and other payables	39.518	-	-	-	39.518
Borrowings	109.417	35.914	90.595	63.087	299.013
Total	**148.935**	**35.914**	**90.595**	**63.087**	**338.531**
At 31 December 2015					
Trade and other payables	44.022	-	-	-	44.022
Borrowings	107.348	110.503	101.864	89.836	409.551
Total	**151.370**	**110.503**	**101.864**	**89.836**	**453.573**
Company:					
At 31 December 2016					
Trade and other payables	37.342	-	-	-	37.342
Borrowings	105.506	33.643	90.229	63.087	292.465
Total	**142.848**	**33.643**	**90.229**	**63.087**	**329.807**
At 31 December 2015					
Trade and other payables	42.046	-	-	-	42.046
Borrowings	103.385	106.539	99.193	89.836	398.953
Total	**145.431**	**106.539**	**99.193**	**89.836**	**440.999**

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)

As at 31 December 2016, current liabilities of the Group and the Company exceed their current assets. A significant portion of the current liabilities is due in September 2017, following the closure of the tourist season during which the Group and the Company generate the majority of the cash inflows.

(d) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the owner and to maintain an optimal capital structure to reduce the cost of capital.

	Istraturist Umag Group		**Istraturist Umag d.d.**	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Gearing ratio				
Gearing ratio at end of reporting period:				
Debt (i)	271.752	365.441	265.498	355.576
Cash on hand and bank account balances	(14.448)	(9.100)	(12.510)	(8.786)
Net debt	257.304	356.341	252.988	346.790
Principal (ii)	1.058.261	980.446	1.049.444	975.601
Net debt-to-equity ratio	24,31%	36,34%	24,11%	35,55%

(i) Debt is defined as long- and short-term borrowings (excluding derivatives and financial guarantee contracts).

(ii) Equity includes all capital and reserves of the Company that are managed as capital.

(e) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for determining the fair value of financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying amounts of trade receivables less impairment, trade payables and bank deposits are assumed to approximate their fair values.

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Assets measured at fair value are distributed to different level as defined in IFRS 7, as follows:

	Istraturist Umag Group		**Istraturist Umag d.d.**	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Level 1	33,367	6,164	33,367	6,164
Level 2	5,957	9,293	5,957	9,293
Total	39,324	15,457	39,324	15,457

Trade and other receivables and trade and other payables are carried at nominal amounts less any impairment losses and approximate their fair values due to the short-term nature of those receivables and liabilities.

The fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The fair values of financial assets and financial liabilities classified into Level 2 of the fair value hierarchy were determined using the generally accepted pricing models and based on discounted cash flow analyses, with the most significant inputs being the discount rate and the credit risk of counterparties.

NOTE 5 – CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under existing circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated useful life and impairment of property, plant and equipment

By using a certain asset, the Group uses the economic benefits contained in this asset, which diminish more intensely with economic and technological ageing. Consequently, in the process of determining the useful life of an asset, in addition to assessing the expected physical utilisation, it is necessary to consider the changes in demand on the tourist market, which will cause a faster economic obsolescence as well as a more intense development of new technologies. Current business operations in the hotel industry impose the need for more frequent investments, and this circumstance contributes to the fact that the useful life of an asset is decreasing.

The useful life of 35 years for buildings was assessed as appropriate for the purpose of smooth operation, in accordance with the opinion of the technical and service divisions of the Group. The useful lives of equipment and other assets have also been reassessed as disclosed in Note 3(d). The useful lives will periodically be revised to reflect any changes in circumstances since the previous assessment. Changes in estimate, if any, will be reflected prospectively in a revised depreciation charge over the remaining, revised useful life.

If the useful lives of property had been 10% longer, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment of the Company would have been HRK 3,418 thousand higher, and of the Group HRK 3,625 thousand higher (2015: Company HRK 3,363 thousand, Group HRK 3,569 thousand higher).

If the useful lives of property had been 10% shorter, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment of the Company would have been HRK 4,177 thousand lower, and of the Group HRK 4,430 thousand lower (2015: Company HRK 4,110 thousand, Group HRK 4,362 thousand lower).

(b) Land ownership

The issues surrounding title to land are a common challenge for the majority of tourist companies in Croatia. On 1 August 2010, the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures for submitting requests for concessions and other prescribed requests. In the period since the adoption of legal regulations, in the procedures initiated, and in line with requirements of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land, etc. Up to 31 December 2016, the Company settled all liabilities arising from the invoices received, issued by governing authorities on the basis of the provisions of the Regulations.

NOTE 6 – SALES

	Istraturist Umag Group		Istraturist Umag d.d.	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Accomodation	298.533	300.129	299.058	300.839
Food and beverages	92.466	93.298	92.660	93.532
Other sales	66.378	72.496	46.339	54.875
Total	**457.377**	**465.923**	**438.057**	**449.246**

NOTE 7 – COST OF MATERIALS AND SERVICES

	Istraturist Umag Group		Istraturist Umag d.d.	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Raw materials and supplies				
Raw materials and supplies used	44.273	47.798	43.361	47.225
Energy and water used	25.512	29.225	25.512	29.225
	69.785	**77.023**	**68.873**	**76.450**
External services				
Management fee /i/	-	31.831	-	31.831
Franchise costs	8.303	-	8.303	-
Advertising and marketing costs	9.394	11.496	8.034	9.223
Maintenance services	11.398	9.975	10.708	9.385
Intellectual services	7.163	7.037	1.898	2.280
ATP services (tennis tournament)	4.687	4.597	-	-
Utility services	5.697	5.686	5.691	5.686
Student employment agency and similar external costs	4.250	4.013	2.777	2.865
Entertainment and music services	3.005	3.167	2.939	3.099
Rent	4.296	5.181	10.352	11.845
Security services	2.878	2.177	2.456	1.933
Other services	7.160	7.913	6.772	7.558
	68.231	**93.073**	**59.930**	**85.705**
Total	**138.016**	**170.096**	**128.803**	**162.155**

/i/ Management services disclosed in the above note relate to accrued management service fees for business facilities and sale, marketing and operational services which Sol Melia Hrvatska d.o.o. provided to the Company based on a Service Contract which was terminated on 31 December 2015. Starting from 1 January 2016, the cooperation with Melia Hotels International, the group whose member is Sol Melia Hrvatska d.o.o., was continued through a franchise agreement for which the Company was charged with a fee of HRK 8,303 thousand.

NOTE 8 – STAFF COSTS

	Istraturist Umag Group		**Istraturist Umag d.d.**	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Net salaries	70.069	69.288	69.593	68.778
Pension insurance contributions	19.433	19.117	19.287	18.964
Health insurance contributions	14.095	13.994	13.987	13.880
Other contributions, tax and surtax	9.700	9.216	9.585	9.098
Other staff costs	8.453	9.135	8.402	9.047
Total	**121.750**	**120.750**	**120.854**	**119.767**

Other staff costs comprise transport expenses, jubilee awards and other fees. As at 31 December 2016, the number of employees in the Istraturist Group was 630 *(2015: 621 employees*), and in the Company there were 626 employees *(2015: 617 employees)*.

NOTE 9 – OTHER OPERATING EXPENSES

	Istraturist Umag Group		**Istraturist Umag d.d.**	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Utility fees and contributions	20.018	19.724	19.941	19.643
Damages for termination of management agreement (Note 7)	-	17.179	-	17.179
Insurance premiums	2.148	2.133	2.073	2.055
Entertainment and travel	2.390	2.496	1.847	2.134
Other	8.485	4.922	8.094	4.809
Total	**33.041**	**46.454**	**31.955**	**45.820**

NOTE 10 – OTHER (LOSSES)/GAINS – NET

	Istraturist Umag Group		**Istraturist Umag d.d.**	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Change in fair value of derivatives	(3.336)	18.355	(3.336)	18.355
Change in fair value of other financial assets	206	142	206	142
Other	51	36	51	36
Total	**(3.079)**	**18.533**	**(3.079)**	**18.533**

NOTE 11 – NET FINANCE COSTS

	Istraturist Umag Group		Istraturist Umag d.d.	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Finance income				
Interest income on deposits and loans	50	250	312	772
Interest income from derivatives	2.328	178	2.328	178
Foreign exchange gains - net	3.989		3.821	-
Other finance income	31	93	30	93
Total finance income	6.398	521	6.491	1.043
Finance costs				
Interest expense and fees for loans	(9.157)	(11.909)	(8.744)	(11.289)
Foreign exchange losses - net	-	(17.393)	-	(17.427)
Other expenses	(29)	(22)	(6)	(7)
Total finance costs	(9.186)	(29.324)	(8.750)	(28.723)
Finance costs - net	**(2.788)**	**(28.803)**	**(2.259)**	**(27.680)**

NOTE 12 – INCOME TAX

	Istraturist Umag Group		Istraturist Umag d.d.	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Current tax charge	(1.272)	(1.002)	-	-
Deferred tax (expense)/income	(20.386)	29.550	(20.386)	29.550
Tax income/(expense)	**(21.658)**	**28.548**	**(20.386)**	**29.550**

The following table presents the reconciliation of income tax calculated at the applicable tax rate of 20% *(2015: 20%):*

	Grupa Istraturist Umag		Istraturist Umag d.d.	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Profit before tax	99.473	56.351	94.229	52.973
Income tax expense at 20%	(19.895)	(11.270)	(18.846)	(10.595)
Non–deductible costs	(1.882)	(1.403)	(1.659)	(474)
Non-taxable income	119	715	119	113
Tax incentive	-	40.506	-	40.506
Tax income/(expense)	**(21.658)**	**28.548**	**(20.386)**	**29.550**
Effective tax rate	-22%	51%	-22%	56%

The Company uses tax incentives in line with the Act on Investment Promotion and Enhancement of the Investment Environment in the total amount of HRK 65,119 thousand; the used incentive amount at the reporting date was HRK 55,955 thousand, of which HRK 20,386 thousand was used in 2016. The unused incentive amount is HRK 9,164 thousand and it can be used by 2023. As at 31 December 2016 and 2015, the Company recognised deferred tax assets in the total amount of the remaining incentive (Note 15).

In accordance with regulations of the Republic of Croatia, the Tax Administration may at any time inspect the Company's books and records and may impose additional tax liabilities and penalties. The statute of limitations for the right of tax authorities to determine the tax liability is prescribed by Art. 94 – 96 of the General Tax Act. The Company’s Management Board is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT – Group

in thousands of HRK	Land and buildings	Plant and equipment	Assets under construction	**Total property, plant and equipment**
Cost				
At 1 January 2015	1.819.363	283.277	1.674	2.104.314
Additions	-	-	30.979	30.979
Disposals and write-offs	-	(6.901)	-	(6.901)
Transfer	23.644	5.994	(29.638)	-
At 31 December 2015	**1.843.007**	**282.370**	**3.015**	**2.128.392**
At 1 January 2016	1.843.007	282.370	3.015	2.128.392
Additions	-	-	43.222	43.222
Disposals and write-offs	(8.089)	(15.735)	-	(23.824)
Transfer	22.629	7.855	(30.484)	-
At 31 December 2016	**1.857.547**	**274.490**	**15.753**	**2.147.790**
Depreciation				
At 1 January 2015	565.941	199.899	-	765.840
Charge for the year	49.072	15.580	-	64.652
Disposals and write-offs	-	(6.346)	-	(6.346)
At 31 December 2015	**615.013**	**209.133**	**-**	**824.146**
At 1 January 2016	615.013	209.133	-	824.146
Charge for the year	49.841	14.264	-	64.105
Disposals and write-offs	(5.264)	(14.036)	-	(19.300)
At 31 December 2016	**659.590**	**209.361**	**-**	**868.951**
Carrying amount				
At 31 December 2015	**1.227.994**	**73.237**	**3.015**	**1.304.246**
At 31 December 2016	**1.197.957**	**65.129**	**15.753**	**1.278.839**

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT – Company

in thousands of HRK	Land and buildings	Plant and equipment	Assets under construction	**Total property, plant and equipment**
Cost				
At 1 January 2015	1.791.400	280.707	1.674	2.073.781
Additions	-	-	30.937	30.937
Disposals and write-offs	-	(6.892)	-	(6.892)
Transfer	23.616	5.980	(29.596)	-
At 31 December 2015	**1.815.016**	**279.795**	**3.015**	**2.097.826**
At 1 January 2016	1.815.016	279.795	3.015	2.097.826
Additions	-	-	43.045	43.045
Disposals and write-offs	(8.089)	(15.712)	-	(23.801)
Transfer	22.591	7.719	(30.310)	-
At 31 December 2016	**1.829.518**	**271.802**	**15.750**	**2.117.070**
Depreciation				
At 1 January 2015	560.125	198.543	-	758.668
Charge for the year	46.235	15.369	-	61.604
Disposals and write-offs	-	(6.342)	-	(6.342)
At 31 December 2015	**606.360**	**207.570**	**-**	**813.930**
At 1 January 2016	606.360	207.570	-	813.930
Charge for the year	46.995	14.084	-	61.079
Disposals and write-offs	(5.264)	(14.016)	-	(19.280)
At 31 December 2016	**648.091**	**207.638**	**-**	**855.729**
Carrying amount				
At 31 December 2015	**1.208.656**	**72.225**	**3.015**	**1.283.896**
At 31 December 2016	**1.181.427**	**64.164**	**15.750**	**1.261.341**

As at 31 December 2016, plant and equipment include equipment in the net carrying amount of HRK 11,467 thousand (2015: HRK 13,185 thousand) under finances leases (Note 20).

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (*continued*)

Loan collateral

As at 31 December 2016, property owned by the Group and the Company with a net carrying amount of HRK 596,166 thousand (*2015: HRK 617,133 thousand*) were mortgaged as a guarantee for credit repayment, as disclosed in note 20 – Borrowings.

Leases

The net carrying value of property, plant and equipment of the Company leased out under operating leases is as follows:

in thousands of HRK	**2016**	**2015**
Cost	30.395	32.471
Accumulated depreciation at 1 January	(15.220)	(17.251)
Charge for the year	(812)	(832)
Net carrying amount	**14.363**	**14.388**

The operating lease relates to the lease of shops, restaurants and other facilities in campsites and hotels.

Future payments under operating lease

The future minimum lease payments receivable under operating leases are as follows:

in thousands of HRK	**2016**	**2015**
Up to 1 year	10.615	10.709
From 2 to 5 years	21.576	21.635
Over 5 years	-	-
Total	**32.191**	**32.344**

All lease agreements are renewable. They do not include any purchase option.

NOTE 14 – INTANGIBLE ASSETS

in thousands of HRK	**Istraturist Umag Group**	**Istraturist Umag d.d.**
Cost		
At 1 January 2015	17,119	17,049
Additions	663	548
At 31 December 2015	**17,782**	**17,597**
Additions	838	837
Disposals	(10)	(10)
At 31 December 2016	**18,610**	**18,424**
Amortisation		
At 1 January 2015	9,759	9,699
Charge for the year	1,459	1,444
At 31 December 2015	**11,218**	**11,143**
Charge for the year	1,391	1,373
Disposals	(1)	(2)
At 31 December 2016	**12,608**	**12,514**
Carrying amount		
At 31 December 2015	**6,564**	**6,454**
At 31 December 2016	**6,002**	**5,910**

NOTE 15 – DEFERRED TAX ASSETS

Deferred tax assets arise from tax incentives and temporary differences on financial instruments. The current tax legislation does not limit the timing of the deferred tax assets in respect of temporary differences. Tax losses expire after 5 years.

Istraturist Umag Group			
in thousands of HRK	Tax incentives	Financial instruments	**Total**
At 1 January 2015	**-**	**2.725**	**2.725**
Increase recognised in profit or loss	29.550	-	29.550
At 31 December 2015	**29.550**	**2.725**	**32.275**
Increase recognised in profit or loss	(20.386)	-	(20.386)
At 31 December 2016	**9.164**	**2.725**	**11.889**
Parent company	Tax incentives	Financial instruments	**Total**
in thousands of HRK			
At 1 January 2015	**-**	**2.533**	**2.533**
Increase recognised in profit or loss	29.550	-	29.550
At 31 December 2015	**29.550**	**2.533**	**32.083**
Decrease recognised in profit or loss	(20.386)	-	(20.386)
At 31 December 2016	**9.164**	**2.533**	**11.697**

NOTE 16 – LOANS AND DEPOSITS

	Istraturist Umag Group		**Istraturist Umag d.d.**	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Bank deposits	25.787	34.808	25.787	34.808
Loans to subsidiary	-	-	1.738	2.543
Other loans	449	30	365	30
Total	**26.236**	**34.838**	**27.890**	**37.381**

NOTE 17 – TRADE AND OTHER RECEIVABLES

in thousands of HRK	Istraturist Umag Group 2016	Istraturist Umag Group 2015	Istraturist Umag d.d. 2016	Istraturist Umag d.d. 2015
Domestic trade receivables	3.032	2.736	2.377	2.190
Foreign trade receivables	1.229	1.450	1.229	1.381
Provision for impairment	(843)	(840)	(788)	(599)
Net trade receivables	3.418	3.346	2.818	2.972
Other receivables - interest	15	37	15	37
	3.433	3.383	2.833	3.009
VAT prepayments	1.230	179	1.190	150
Advances	8.647	1.030	8.647	1.020
Other receivables	1.477	1.602	1.473	1.451
Total	**14.787**	**6.194**	**14.143**	**5.630**

Movements in the provision for impairment of trade and other receivables are as follows:

in thousands of HRK	Istraturist Umag Group 2016	Istraturist Umag Group 2015	Istraturist Umag d.d. 2016	Istraturist Umag d.d. 2015
At 1 January	840	1.918	599	1.677
Additions	589	161	584	161
Write-off	(572)	(1.207)	(381)	(1.207)
Decrease due to collection of receivables	(14)	(32)	(14)	(32)
At 31 December	**843**	**840**	**788**	**599**

NOTE 18 – FINANCIAL ASSETS

in thousands of HRK	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets through profit or loss				
- listed shares	1.783	1.783	1.663	1.663
- investments in investment fund	31.584	31.584	4.501	4.501
- financial derivatives (Note 22)	5.957	5.957	9.293	9.293
Total	**39.324**	**39.324**	**15.457**	**15.457**

NOTE 19 – SHARE CAPITAL AND RESERVES

The issued share capital comprises 4,674,995 ordinary shares (*2015: 4,674,995 ordinary shares*). The nominal value of each share is HRK 100 (*2015: HRK 100*). Ordinary shareholders are entitled to receive dividends if and when decided so by the General Assembly. Each share entitles to one vote in the General Assembly.

Legal reserves were formed by the owner allocating 5% of the prior years' profits until such time the allocated funds reached 5% of the total equity, at which point, according to the law, the obligation to make such transfers ceases. The legal reserve funds are excluded from profits distributable to the shareholders.

The equity holders of the Company at 31 December 2016 and 2015 were as follows:

In thousands of HRK	**Istraturist Umag d.d.**					
	31 December 2016			**31 December 2015**		
	Number of shares	**Nominal value**	**Ownership % (ordinary shares)**	**Number of shares**	**Nominal value**	**Ownership % (ordinary shares)**
Plava laguna d.d.	4,349,400	434,940	93.04	4,349,400	434,940	93.04
PBZ/Custody account	79,785	7,979	1.70	-	-	-
CERP / Republic of Croatia	31,135	3,114	0.67	31,135	3,114	0.67
Small shareholder	214,675	21,467	4.59	294,460	29,446	6.29
Total	**4,674,995**	**467,500**	**100.00**	**4,674,995**	**467,500**	**100.00**

NOTE 20 – BORROWINGS

in thousands of HRK	**Istraturist Umag Group** 2016	2015	**Istraturist Umag d.d.** 2016	2015
Long-term borrowings				
Bank borrowings	167.244	265.668	167.244	265.667
Finance lease	2.571	6.327	-	-
Total long-term borrowings	**169.815**	**271.995**	**167.244**	**265.667**
Current liabilities				
Current portion of long-term bank borrowings	96.670	89.692	96.670	89.692
Current portion of finance lease liabilities	3.683	3.537	-	-
Interest payable	1.584	217	1.584	217
Total short-term borrowings	**101.937**	**93.446**	**98.254**	**89.909**
Total repayment of borrowings	**271.752**	**365.441**	**265.498**	**355.576**

All the borrowings are secured by mortgage on property in the total amount of HRK 596,166 thousand (*2015: HRK 617,133 thousand*). See Note 13 – Property, plant and equipment.

The carrying amounts of short-term borrowings approximate their fair value.

Long-term borrowings mature as follows:

in thousands of HRK	**Istraturist Umag Group** 2016	2015	**Istraturist Umag d.d.** 2016	2015
From one to two years	30.558	100.677	28.349	96.953
From two to five years	80.277	88.339	79.915	85.735
Over five years	58.980	82.979	58.980	82.979
Total	**169.815**	**271.995**	**167.244**	**265.667**

NOTE 21 – TRADE AND OTHER PAYABLES

in thousands of HRK	**Istraturist Umag Group** 2016	2015	**Istraturist Umag d.d.** 2016	2015
Trade payables	39.518	44.022	37.342	42.046
Net salaries	9.390	8.900	9.353	8.822
Tax and contributions from and on salaries	5.263	4.699	4.756	4.641
Prepayments	6.045	5.557	6.045	5.553
Other liabilities	377	247	374	247
Total	**60.593**	**63.425**	**57.870**	**61.309**

NOTE 22 – DERIVATIVE FINANCIAL INSTRUMENTS

Istraturist Umag d.d. funded its capital projects using long-term loans granted by HBOR and the UniCredit Group. In May 2008, the total loan debt owed to the UniCredit Group was rescheduled over 10 years (until 2017), repayable in CHF at a variable interest rate (3m LIBOR for CHF +1.5% interest margin).

To protect its exposure to fluctuations in the cash flows arising from the interest rate risk on the financial liabilities (debt) agreed at variable rates, Istraturist concluded an interest-rate swap agreement in 2009, which expires on the expiry of the loan repayment period (2017), under which the cash flows at the floating rates is exchanged for cash flows at fixed rates.

On 30 October 2014, an EUR/CHF cross-currency interest rate swap was entered into for the remaining outstanding principal amount of the UniCredit loans, with the agreed interest rate of 3m LIBOR for CHF + 1.5% interest margin, and an interest rate swap at 3m LIBOR for CHF fixed at 1.78%, under which the euro-denominated cash flows are exchanged at a fixed rate of 4.7% until the expiry of the loans (2017).

Remaining maturity *in thousands of HRK*	From 0 to 1 years	From 1 to 5 years	More than 5 years	**Total nominal amount**	Fair value Assets
At 31 December 2016					
Cross-currency interest rate swap contracts	68.246	-	-	**68.246**	**5.957**

Remaining maturity *in thousands of HRK*	From 0 to 1 years	From 1 to 5 years	More than 5 years	**Total nominal amount**	Fair value Assets
At 31 December 2015					
Cross-currency interest rate swap contracts	68.479	68.478	-	**136.957**	**9.293**

NOTE 23 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or the parties are under common control or if it has significant influence on the other party when reaching financial or business decisions. As at 31 December 2015 and 31 December 2016, Plava laguna d.d. is the majority shareholder of the Company.

The Company considers ISTRA D.M.C. d.o.o., Plava laguna d.d. and its associates, the members of the Supervisory Board, Management Board and other senior management (jointly referred to as: key management) as its directly related parties.

Transactions with the subsidiary ISTRA D.M.C. d.o.o. are as follows:

in thousands of HRK	**2016**	**2015**
Sales of services	1.120	1.447
Purchase of services	(1.107)	(1.164)
Rental income	560	796
Rental costs	(8.664)	(8.929)
Interest income	262	523
Income from staff outsourcing	237	354
Receivables	2	-
Non-current liabilities	-	-
Current liabilities	-	-
Loans given		
At beginning of year	4.673	7.357
Increase	9.078	16.244
Decrease	(11.562)	(18.928)
At end of the year (Note 16)	**2.189**	**4.673**

Transactions with related party Plava laguna d.d. are as follows:

in thousands of HRK	**2016**	**2015**
Sales of services	19	1
Purchase of services	(242)	(88)
Revenue and expenses difference	**(223)**	**(87)**

Key management compensation

	Istraturist Umag Group		**Istraturist Umag d.d.**	
in thousands of HRK	**2016**	**2015**	**2016**	**2015**
Net	6.740	5.395	6.740	5.395
Pension insurance contributions	2.194	1.769	2.194	1.769
Health insurance contributions	1.750	1.425	1.750	1.425
Other contributions, tax and surtax	2.994	2.549	2.994	2.549
Total	**13.678**	**11.138**	**13.678**	**11.138**

The key management personnel of the Group consists of the Management Board, division directors and organisational unit directors (hotels, resorts, camp-sites). As at 31 December 2016, key management comprises 26 persons (*2015: 20 persons*).

NOTE 24 – LEGAL DISPUTES

In the early 1990s the Company entered into loan agreements and other financial arrangements with Ljubljanska banka d.d. in the amount of approximately DEM 31 million (approximately EUR 16 million), which it did not manage to repay due to problems in operations caused by the war.

In accordance with applicable legislation governing the resolution of deposits of Croatian citizens with banks registered outside of the Republic of Croatia, Zagrebačka banka d.d. kept a portion of its receivables from Ljubljanska banka d.d. in the amount of DEM 31 million, credited as 'old foreign currency savings' and sold it to its client Istraturist Umag d.d., Umag, obtaining in return a holding in the share capital of the Company. The Company offset the (purchased) receivable from Ljubljanska banka d.d. in the amount of DEM 31 million with its financial liabilities to Ljubljanska banka d.d. in the same amount.

In a special Constitutional Act adopted after the above offsetting, the Republic of Slovenia established Nova Ljubljanska banka d.d., transferring all of the claims, but not the liabilities, of Ljubljanska banka d.d., excluding in the transfer also liabilities of Ljubljanska banka towards Istraturist Umag d.d.

In the period between 1994 and 1998, Nova Ljubljanska banka d.d. brought two legal disputes against the Company before Slovenian courts demanding the repayment of the liability of DEM 31 million plus interest (cases Pg 16/2005 and Pg 117/05). Both disputes were finally decided in favour of Nova Ljubljanska Banka, which then initiated, before the Commercial Court in Pazin, a process for implementing the legal effects of those judgements in the Republic of Croatia in order to enforce the collection of the amount claimed from the Company. The Company appealed against both cases in full, disputing the allegations of Nova Ljubljanska Banka, noting that in one of the cases (where the Company expected the second acknowledgement process to be ruled in the same way) the acknowledgement was discontinued until the proceedings pending before the Commercial Court in Zagreb - Permanent Office Karlovac become final (see below). The key grounds for the Company's appeal are that:

i) enforcing the Slovenian judgements in the Republic of Croatia would be contrary to the legal system of the Republic of Croatia, not only because of the (illegal) accrual of interest, but also because of the disputed validity of the offsetting arrangement;
ii) there is a case in progress in the Republic of Croatia, in which the Company disputes the existence of the claims of Nova Ljubljanska Banka.

Nova Ljubljanska Banka initiated enforcement through courts not only in the Republic of Slovenia, but also in the Republic of Croatia: for the purpose of enforcing the collection of the claims under mortgage before the Municipal Court in Buje (Ovr 436/00); proceedings before the Commercial Court in Rijeka for the purpose of recovering the loan debt (P-89/10).

On the other hand, the Company, in protecting its rights claiming that the offsetting arrangement was fully legal and valid and therefore extinguished entirely all mutual claims and that transferring rights to a universal legal successor without any obligations being transferred simultaneously is not compliant with the Croatian legal system, requested from the Municipal Court in Buje to render the enforcement no. Ovr 436/00 illicit and declare the related rights arising from the lien (P-585/06 and P-246/03) null and void; and from the Commercial Court in Zagreb (earlier Karlovac Permanent Office) to determine that there are no rightful claims of Nova Ljubljanska Banka and Ljubljanska banka, its predecessor, from the Company on any legal grounds in connection with the financial contracts concluded between the Company's predecessor and Ljubljanska banka in the period 1989 - 1991 (P-3502/13).

NOTE 24 – LEGAL DISPUTES (continued)

In October 2014, the Supreme Court of the Republic of Croatia rejected the review on points of law of Nova Ljubljanska Banka in the process initiated upon the bank's motion to initiate enforcement before the Commercial Court in Rijeka (P - 89/10; see above) and confirmed all rulings of the lower-instance courts, having thus confirmed, as the highest appellate court of the Republic of Croatia, that the offsetting arrangement which the Company officially stated was fully valid and legal in the part of the loans covered by the judgement. This judgement has the effect of a legal precedent in relation to disputes initiated in the Republic of Croatia, which, according to the Company and it legal advisors, will play a significant role in the further developments, i.e. on the final decision in favour of the Company.

Although in February 2016 the Company received the findings and opinion of a court expert witness from which it is apparent that the Company failed to set all its liabilities to Ljubljanska Banka, i.e. Nova Ljubljanska Banka through the offsetting arrangement, in March 2017 based on its unenforceable verdict in case no P-3502/13, the Commercial Court in Zagreb partially rejected the Company's claim that aimed to establish that the Company did not have any liabilities towards Ljubljanska Banka, i.e. Nova Ljubljanska Banka. The Company filed an appeal against this verdict both due to serious procedural violations and violations of the material law by the first instance court, according to the Company assessment.

Although the Company considered that the practice of the European Court of Human Rights in Strasbourg (in particular the final verdict in the case ALIŠIĆ et al. vs. Serbia, Slovenia and Others - case no. 60642/2008), which undoubtedly determined the responsibility of Nova Ljubljanska Banka for not having transferred 'frozen foreign currency savings', would also affect the proceedings initiated by the Company before that court (cases Pg 16/2005 and P 585/06), that court ruled that the Company's claims were not permissible and thereby these proceedings before the European Court of Human Rights in Strasbourg were terminated.