



**Ilirija d.d.**  
**INFORMATION MEMORANDUM**

of issuance of new shares of the company Ilirija d.d. for the purpose of financing the business development ("Memorandum")



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Date of issue of this information memorandum is 22<sup>nd</sup> September 2016

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## 1. DECISION ON AN INCREASE IN SHARE CAPITAL

Management Board and Supervisory Board of Ilirija d.d. („Ilirija“, „Company“ or „Issuer“) propose to the General Assembly of the Company scheduled for 24<sup>th</sup> October 2016 to pass the Decision on an increase in the share capital by means of contributions in cash and the issuance of shares and by making amendments to the Articles of Association ( "Decision on an increase in share capital"), namely, by issuing new ordinary shares by means of public offering by contributions in cash thereby excluding the pre-emptive rights of the existing shareholders to subscribe for new shares, except for the pre-emptive right of the shareholder - Allianz ZB d.o.o., the company for compulsory pension fund management with the registered office in Zagreb, Heinzelova 70/VI, Tax No. OIB: 58384724129, and on behalf of pension funds managed by it in accordance with Article 308, paragraph 4 of the Companies' Act (hereinafter referred to as ZTD), since this shareholder meets the condition referred to in Article 351, paragraph 1, section 1 of the Capital Market Act (qualified investor).

The increase in share capital of the Company will be carried out by payment in cash by issuing a maximum of 27,400 (twenty-seven thousand four hundred) new bearer ordinary shares with a nominal amount of HRK 580.00 (five hundred eighty) each ("New Shares").

The amount for which the new shares are issued ranges from HRK 1,250.00 (one thousand two hundred and fifty) to HRK 1,500.00 (one thousand five hundred) per one new share ("Price Range"). Upon completion of the subscription, the Company will, subject to the prior consent to be obtained from the Supervisory Board, determine, but solely within the specified range, the final amount for which the New shares are issued ("Final Amount"). In accordance with Article 304, paragraph 3 of the Companies' Act, the new shares will not be issued below this minimum amount.

Potential investors may not pay the amount which is less than the HRK equivalent amount of EUR 100,000.00 (one hundred thousand) per investor for subscribed New shares, but the Management Board is authorized to determine a higher minimum amount of investment by its decision.

Subscription for new shares will be carried out through the public offering by subscription and payment in two rounds. In the first round in duration of 14 (fourteen) days from the date of effectiveness of the Decision on an increase in the share capital, the right to subscribe for new shares is only vested in the shareholder Allianz ZB d.o.o., namely, the number of New shares that equals to its portion in the share capital of the Company as of the date of passing the Decision on an increase in the share capital (Article 308, paragraph 1 of the Companies' Act). The Management Board of the Company is authorized to close the first round for the subscription of new shares before the end of fourteen days' deadline if (1) Allianz ZB d.o.o. has fully exercised its pre-emptive right before the end of that deadline, or (2) if that shareholder notifies the Management Board about waiving its pre-emptive right. In the second round lasting for three business days after the publication of a public call for subscription of New shares, the right to subscription will be vested in all Subscribers - legal persons who at the time of subscription and payment for New shares must meet the condition under Article 351, paragraph 1, section 1 of the Capital Market Act (qualified investors). The deadline for the payment for the New shares lasts for 3 (three) business days running from the date of subscription (signing of Subscription Form). Except if the subscription and payment for New shares are completely performed prior to the end of the above mentioned deadline, the Management Board of the Company is empowered to terminate the issuance not waiting for the expiry of the above indicated deadlines.

The final amount of an increase in share capital shall depend on how the issue will be successful or on a number of New shares to be subscribed and paid for. The issue of New shares shall be considered to be successfully completed if minimum 26.030 (twenty-six thousand thirty) New shares is subscribed and paid for within the deadlines specified for subscription and payment. Should the offering of New shares be successfully carried out, the share capital of the Company will increase from the amount of HRK

159,085,880.00 (one hundred fifty-nine million eighty-five thousand eight hundred eighty) by the amount of up to HRK 15,892,000.00 (fifteen million eight hundred ninety-two thousands) to the amount of up to HRK 174,977,880.00 (one hundred seventy-four million nine hundred seventy-seven thousand eight hundred and eighty) by issuing up to 27.400 (twenty-seven thousand four hundred) new bearer ordinary shares, in a dematerialized form, in the nominal amount of HRK 580.00 (five hundred eighty) each.

The New shares will be issued in dematerialized form, in the form of an electronic record in the computer system of the CDCC, with the designation assigned by the CDCC. Each share entitles to one vote in the General Assembly of the Company. The shares are bearer shares and entitle shareholders to all rights stipulated by the Law and Articles of Association as of the date of registration of an increase in the share capital in the court register. The new shares shall be listed for trading on to the Official Market of Zagreb Stock Exchange Inc., in accordance with the applicable regulations. The new Company's shares will be traded on the Official market after their listing.

Investment in New shares involves risks. Before investing in New shares, the investors should get an insight into them and take into account the relevant factors set out in section 14 of the Information Memorandum entitled ("Risks").

## 1.1. INFORMATION ON A SECURITIES

The subject of public offering and listing on the Official Market of Zagreb Stock Exchange Inc. is a maximum of 27.400 (twenty-seven thousand four hundred) New ordinary shares of the Issuer, designated as ILRA-R-A and ISIN (International Securities Identification Number) HRILRARA0009. The shares are denominated in HRK.

In the public offering of New shares, the Issuer will use the exception to the obligation to publish a prospectus pursuant to Article 351, paragraph 1, sections 1 and 3 of the Capital Market Act (Official Gazette 88/2008, 146/2008, 74/2009, 54/2013, 159/13, hereinafter referred to as "ZTK"), since the offering of new shares will be addressed solely to qualified investors that meet the requirements in accordance with Article 351, paragraph 1, section 1 of the ZTK, that for the subscribed New shares may not pay the amount which is less than the HRK equivalent amount of EUR 100,000.00 (one hundred thousand) per investor for each separate offering.

## 1.2. OFFERING CONDITIONS

<b>Name:</b>	Issuance of new shares of the company Ilirija d.d.
<b>Nominal amount of the issue:</b>	Maximum HRK 15,892,000.00
<b>Nominal amount of one share:</b>	HRK 580.00
<b>Currency of payment and disbursement:</b>	HRK
<b>Designation:</b>	ILRA-R-A
<b>ISIN:</b>	HRILRARA0009
<b>Price of issue:</b>	Range from HRK 1,250.00 to HRK 1,500.00
<b>Expenses:</b>	The issuer estimates that all expenses related to the issuing/offering of Shares, including, but not limited to the costs of issuing agent for the service of conducting the offering of Shares, the costs of legal advisors, the costs of financial advisors, the costs of

	independent auditors, the costs of HANFA, the costs of CDCC, Zagreb Stock Exchange and other financial expenses will range from 1% to a maximum of 1.5% of the totally collected monetary funds from the recapitalization.
<b>Rights:</b>	<p>According to the provisions of the Companies' Act, the New shares shall entitle to the same rights after being registered with the court register of the competent Commercial Court as the Existing shares of the Issuer (designation: ILRA-R-A).</p> <p>All Issuer's Shares (designation: ILRA-R-A) pursuant to the Companies' Act (Article 167 of the Companies' Act), entitle to the following rights:</p> <ol style="list-style-type: none"> <li>1. voting right at the Company's General Assembly;</li> <li>2. right to payment of a portion of the Company's profit (dividend);</li> <li>3. right to payment of the remaining liquidation or bankruptcy estate of the Company.</li> <li>4. The pre-emptive right as well as the right to redemption and the issue of conversion is not governed by the Articles of Association, so that the same issues are resolved on a case-by-case basis in accordance with the regulations that govern the same issues.</li> </ol>
<b>Limitations:</b>	There are no limitations to the transfer of the Shares.

### 1.3. NOTES

The Issuer accepts the liability for the accuracy and completeness of this Memorandum or the information contained therein. According to the information that the issuer has available, its belief and knowledge, the information in the Memorandum represents a true and complete account of its assets, including, but not limited to the rights and obligations, profits and losses, its financial position as well as the rights and obligations arising out of or relating to the Issuer's shares. According to the Issuer's knowledge, none of the facts that could affect the accuracy and/or completeness of this Memorandum are left out, including, but not limited to the information that could significantly affect making the decision on investment in Issuer's shares and the risks associated therewith.

The Issuing Agent ERSTE & STEIERMÄRKISCHE BANK d.d. and the legal advisor BOGDANOVIĆ, DOLIČKI & PARTNERS, Law Office, are neither liable nor do they guarantee to the Issuer or any other third persons (investors, subscribers, shareholders etc.) for the performance of the Issuer's obligations regarding the New shares nor for the accuracy and contents of the Information memorandum or the completeness of the data contained in the Information memorandum.

Only the information contained in this Memorandum is relevant to making the decision on an investment in the Issuer's shares. Each potential investor must make a decision on an investment in the Issuer's Shares on the basis of its own assessment of the Issuer and conditions of the offering of the New shares. By the time of publication, the Issuer has not authorized any natural and/or legal person to provide information relating to the Issuer's Shares. The Issuer neither gives any explicit or implicit confirmation about the authenticity of the information or statements given without authorization, nor consent to their giving, nor does it take responsibility for any damage that may be caused to the investors in connection therewith.

Accuracy and completeness of the information contained in this Information Memorandum has been determined according to the status as of the date of this Information Memorandum, unless some other day is explicitly indicated in the Information Memorandum. The Issuer points out that the information contained in

this Information Memorandum relating to the Issuer's business operations, its financial position and operating results, may change after the date of this Information Memorandum.

The law applicable to the information Memorandum is the Croatian Law in whole, with the exclusion of the conflict of law rules of the international private law. The disputes that would relate to the Issuer's New shares, including the disputes relating to issues of validity of their issue, as well as their legal effects arising therefrom shall be subject to the jurisdiction of the competent courts in the Republic of Croatia.

The language of the Information Memorandum is the Croatian language, provided that the Issuer shall also publicize a translation of the document into English. In case of any doubt about the interpretation of certain provisions and the allegations in the Information Memorandum, the Croatian version shall prevail.

#### 1.4. COMPANY BACKGROUND / PERSONS ACTING AS ISSUING AGENTS

1. ERSTE&STEIERMÄRKISCHE BANK d.d. with registered office in Rijeka, Jadranski Trg 3/a, entered in the court register of the Commercial Court in Rijeka under the registration number of the company to be incorporated (MBS) 040001037, Tax no. OIB: 23057039320, is the issuing agent in charge of providing services of conducting the offering or sale of the New Shares. The Issuing Agent does not own the Issuer's shares.

2. Legal advisor: BOGDANOVIĆ, DOLIČKI & PARTNERS, law office with registered office in Zagreb, Miramarska cesta 24, entered in the court register of the Commercial Court in Zagreb, Registration Company Number MBS: 1289969, Tax no. OIB: 77213973640 (hereinafter referred to as: "Law Office"). In making preparation for the issuance of the New shares of the company Ilirija d.d., the Law Office provided the legal advising services and due diligence services and will also participate in the process of issuance of the New Shares (recapitalization) of the Company.

3. REVICON d.o.o., with registered office in Zadar, Ruđera Boškovića 4, entered in the court register of the Commercial Court in Zadar, Tax No. OIB: 31008688672, audited the annual consolidated financial statements of the Issuer for the years 2014 and 2015.

#### 1.5. PRESENTATION OF FINANCIAL AND OTHER DATA

The Memorandum includes:

1. Audited Financial Statements of the Issuer for the year 2015,
2. Financial statements of the Issuer for the period from 01st Jan. 2016 to 30th June 2016

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and in accordance with the Croatian Accounting Act. The financial statements give a true and fair view of the financial position of the Company, operating results and cash flows of the Company in accordance with International Financial Reporting Standards.

Internal quarterly, or monthly financial statements prepared by the Company's Management Board, not yet publicly available, have been used with the accompanied financial statements. The Memorandum therefore contains a true and comprehensive view of operating results and position of the Company as at 31<sup>st</sup> August, 2016.

Potential investors shall when deciding on investing in the Issuer's Shares assess the Issuer's business performance, the terms of the offering as well as the financial information contained in the Memorandum on their own.

## 2. SUMMARY

The company Ilirija d.d. was founded in 1957 with registered office in Biograd na Moru and is one of the few tourism companies with a 59-year tradition of operating in the tourism market. According to the financial and physical results of operations, it is ranked among 15 leading tourism companies in the Adriatic Sea, which represents the backbone of the development of Croatian tourism, while in Dalmatia it is one of the 7 largest tourism companies. The Company is the holder of the overall economic and tourism development of the Biograd Riviera and accounts for even 47% of total overnight stays in Biograd na Moru. The main subject of this Memorandum is the recapitalization and purchase of the real property of the Commercial shopping center City Galleria in Zadar.



## City Galleria Zadar

Ilirija d.d.	City Galleria
<ul style="list-style-type: none"> <li>✓ Among some 15 major companies in the tourism sector in Croatia</li> <li>✓ Presence in all three main tourism sectors: <b>hotel sector, nautics and camping</b> <ul style="list-style-type: none"> <li>- 5 hotels &amp; Villa Primorje (449 accommodation units)</li> <li>- Marina Kornati - <b>the third largest marina in Croatia</b> (705 berths)</li> <li>- Camp Park Soline (1,130 accommodation units)</li> <li>- Destination management company</li> </ul> </li> <li>✓ Revenues at the level of 128m HRK (2015)</li> <li>✓ EBITDA at the level of 37,8m HRK (margin 29,7%)           <ul style="list-style-type: none"> <li>Adapted EBITDA 39,6m HRK (margin 30,93%)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ Excellent location in the wider center of the City of Zadar (the only shopping center in the wider city center)</li> <li>✓ One of the two largest shopping centers in Zadar with more than 28.500 m<sup>2</sup> gross area, on a total of 6 levels(2 garage and 4 sale levels)</li> <li>✓ 9.639m<sup>2</sup> net leasable premises</li> <li>✓ Occupancy of the Center approx. 97%</li> <li>✓ Renowed brands: Muller, Spar, CineStar, Gym's4You, Adidas, CCC and many others</li> </ul> <div style="text-align: center; margin-top: 20px;">      </div>

### ABOUT ILIRIJA

The Company Ilirija d.d. is one of the few Croatian tourism companies whose product successfully integrates all the key segments of the Adriatic Mediterranean tourism offer i.e.: **hotel industry, nautics, camping and destination management**. Its business is based on providing services by using its capacities (hotel, nautic, camping) providing at the same time additional amenities and services, thus creating high-quality, integrated and complementary tourism product in the domestic and international tourism market, introduced under the brand Ilirija Travel. The business operations of the company is based on the principles of corporate social responsibility as an integral part of its corporate value.

The Company achieves continuous growth in revenues and profitability. In 2014, the company achieved a growth in revenues of 4.6% with EBITDA profit margin of 27.3%, while in 2015 operating revenues increased by 4.4% with EBITDA profit margin of 29.7%.

Ilirija d.d. completed a recapitalization in October 2015 by Allianz ZB d.o.o. the company for compulsory pension fund management, in the total amount of 21.8 million HRK, with an aim to optimize the financial position of the company. Following the successful recapitalization in 2015, the Company has reduced total debt to banks by a total of 39 million HRK, thereby significantly reducing financial expenses of the Company, whereby the Company laid the foundations for the realization of further rationalization of operations and significant savings by applying an active policy of cost management.

Further to the foregoing, in the first 8 months of 2016, the total operating and extraordinary expenses of the Company (before depreciation) decreased by 8.3% or 4.9 million HRK compared to the same period last year, maintaining approximately the same amount of operating revenues. In the first 8 months of 2016, EBITDA increased by 8.7% or 4.0 million HRK.

The operational plan of Ilirija for the year 2016 forecasts the total revenues in the amount of 132 million HRK and EBITDA in the amount of 46.1 million HRK (EBITDA margin in the amount of 34.8%). The results accomplished in the first eight months of 2016 indicate the reality of the accomplishment of the business plan for 2016 (the details of the business plan are shown in section 8.3. Business expectations/Company Development Plan).

In 2017 and in the period after that, the company Ilirija d.d. is planning further consolidation of the revenues and expenses and improvement of the operating and financial performance.

#### INVESTMENT OPPORTUNITY – CITY GALLERIA



The Company Ilirija d.d. has recognized the high quality investment opportunity where it is buying a very operational Commercial shopping center in Zadar - CITY GALLERIA at the reasonable price. The occupancy of the center is continuously growing, as well as its recognizability in the local market.

The commercial shopping center City Galleria had by the end of the year 2015 an average occupancy rate of 76.21%, while from January to the end of August 2016 the occupancy was 89.23% on the average. The current occupancy rate is 97.11% (the impact of the opening of shops Muller and CCC in the center).

Due to the increase in the above occupancy in the fiscal year 2017, the plan envisages a total revenue of 11.9 million HRK (an increase by 33.8% compared to the year 2016) and EBITDA in the amount of 6.3 million HRK (an increase by 68.1% as compared to the year 2016). According to the plan of growth of the operating results, the planned EBITDA for the period from 2017 to 2025 amounts to 8.4 million HRK on an annual basis on the average (over 1 million EUR).



In addition to the strong operational effects, with the acquisition of the Commercial shopping center City Galleria, the company Ilirija d.d. achieves synergistic effects on the cost level, additional stability of the cash flow by inflows in off-season, and dispersion of risk. Ilirija d.d. has so far confirmed the ability to manage different types of assets in the tourism sector and believes to continue such management in this business segment equally well.

The acquisition of the Commercial shopping center City Galleria is an investment of 10.4 million EUR (78 million HRK), which financing is envisaged through recapitalization (in the amount of 5 million EUR) and bank loan (in the remaining amount of EUR 5.4 million EUR up to a maximum amount of 6 million EUR).

The planned consolidated EBITDA of the company (Ilirija d.d. + Commercial shopping center City Galleria) in 2017 amounts to 55 million HRK, with a margin above 37%, which will bring Ilirija d.d. to the top of the profitability in this sector.

HRK 000	Cash flow projection			2016	2017	2018	2019	2020	2021	
	ILIRIJA + CITY GALLERIA	2013	2014	2015	plan	plan	plan	plan	plan	
Revenue	ILIRIJA	117.320	122.874	128.147	132.250	136.562	141.082	145.835	150.851	156.167
	+ CITY GALLERIA					11.912	12.702	13.886	14.898	15.624
	Total	117.320	122.874	128.147	132.250	148.474	153.784	159.721	165.749	171.791
	rate of increase (%)			4,7%	4,3%	3,2%	12,3%	3,6%	3,9%	3,8%
EBITDA	ILIRIJA	32.848	33.211	37.767	46.087	48.675	51.438	54.398	57.585	61.036
	+ CITY GALLERIA					6.277	6.898	7.819	8.654	9.222
	EBITDA	32.848	33.211	37.767	46.087	54.952	58.336	62.217	66.239	70.258
	EBITDA margin (%)	28,0%	27,0%	29,5%	34,8%	37,0%	37,9%	39,0%	40,0%	40,9%
	rate of increase (%)			1,1%	13,7%	22,0%	19,2%	6,2%	6,7%	6,5%
Depreciation	ILIRIJA	(6.385)	(7.470)	(8.226)	(8.220)	(8.384)	(8.552)	(8.723)	(8.897)	(9.075)
	+ CITY GALLERIA					(1.405)	(1.405)	(1.405)	(1.405)	(1.405)
	Total				(8.220)	(9.789)	(9.957)	(10.128)	(10.302)	(10.480)
Cash flow	EBIT,consolidated	26.463	25.741	29.541	37.867	45.163	48.379	52.089	55.937	59.778
	Corporate income tax	(1.827)	(1.892)	(3.977)	(7.573)	(9.033)	(9.676)	(10.418)	(11.187)	(11.956)
	Operative profit after tax (NOPAT)	24.636	23.849	25.564	30.294	36.130	38.703	41.671	44.750	47.822
		6.385	7.470	8.226	8.220	9.789	9.957	10.128	10.302	10.480
	Gross cash flow	31.021	31.319	33.790	38.514	45.919	48.660	51.799	55.052	58.302

Table 2-1 Consolidated projection of the cash flow ILIRIJA + CITY GALLERIA (Source: ILIRIJA d.d.)

Note: Assumed corporate income tax rate amounts to 20%.

The Company Ilirija d.d. has demonstrated ability to meet operational plans, desire and willingness to consolidate the costs and increase profitability, and increase investment activity aimed at increasing of the capacities and financial strength of the Company. In addition, Ilirija d.d. recognizes new investment opportunities which would further strengthen its market position, stabilize the cash flows and further disperse the operational risk - acquisition of the Commercial shopping center City Galleria.

WHY SHOULD THE INVESTMENT BE MADE?



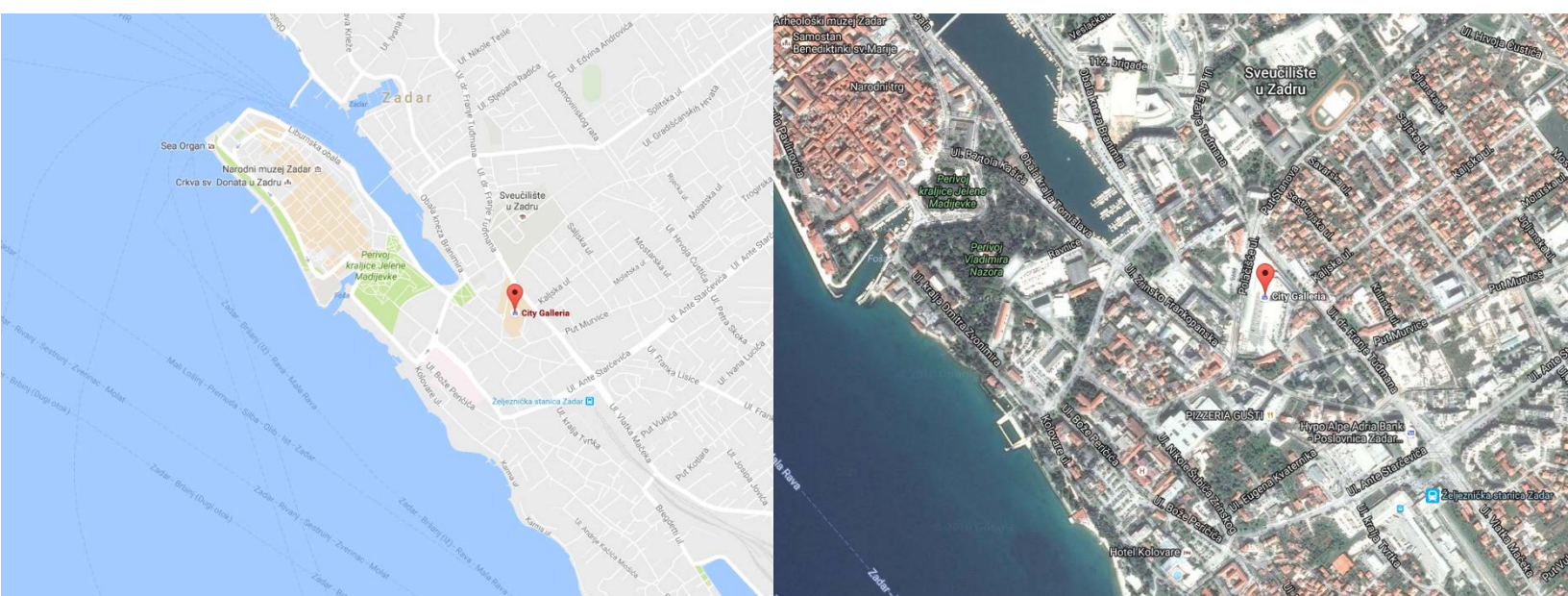
Ilirija d.d.	City Galleria
<ul style="list-style-type: none"> <li>✓ Planned growth of EBITDA in 2016 by 15%</li> <li>✓ Continuously growing revenues and profitability</li> <li>✓ Successfully finished recapitalization in 2015 by Allianz ZB d.o.o. company for compulsory management fund management</li> <li>✓ Decrease in total debts owed to banks in 2015 by 39 million HRK or by 38%</li> <li>✓ Efficient cost management policy (decline in costs by 8,3% in the first eight months of 2016)</li> <li>✓ Expected growth of EBITDA margin till 2021</li> <li>✓ Regular distribution of dividends (HRK 15-HRK18 per share) - in the last eight years</li> <li>✓ Average share price increased by 113% in the last two years</li> <li>✓ Over 20 identified development projects (beyond the business plan projections)</li> <li>✓ Increase in value of the company by activating non-operating assets (land plots surface area of 10-12 hectares on highly attractive locations)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Attractive location of the shopping center (the only shopping center in the wider center of the City of Zadar)</li> <li>✓ Bying the real property without assuming the obligations</li> <li>✓ Acceptable price of the transaction</li> <li>✓ Long-term contracts signed with attractive key lessees-occupancy 97%</li> <li>✓ Expected increase in lease prices after the expiry of the existing contracts</li> <li>✓ Planned considerable growth in profitability in 2017 and in the years to come (according to valid contracts)</li> <li>✓ Expected EBITDA in the future period (2016-2025)</li> <li>✓ Possibility of cost synergies with the company Ilirija d.d. (maintenance and management of the building)</li> <li>✓ Impact on reduction of seasonality of operations</li> <li>✓ Expected growth in spending and macroeconomic indicators in the Republic of Croatia</li> </ul>

### 3. TARGET INVESTMENT - COMMERCIAL SHOPPING CENTER CITY GALLERIA IN ZADAR

In accordance with the recapitalization plan, the company Ilirija d.d. is planning to perform the acquisition (buying) of the Commercial shopping center City Galleria. The Commercial shopping center City Galleria is located in the immediate vicinity from the Zadar city center.

#### LOCATION

The Commercial shopping center City Galleria is located in the Zadar County, located in the central part of the Adriatic coast, which is one of the largest counties in the Republic of Croatia. The favorable geographic location enabled the town of Zadar to develop as an important intersection between the northern and southern part of Croatia and Europe. The Highway "Dalmatina" connecting Zagreb and Split is the most important link between the city of Zadar and other cities. Zadar is also accessible through the old coastal road and railway. The Zadar airport is located in Zemunik, 14 km away from the city of Zadar and is very important for the development of the tourist potential of the county and connects the county with the rest of Europe through regular flight routes to destinations such as London, Dublin, Vienna, Stuttgart, Cologne, Frankfurt, Bratislava, Stockholm, etc. Zadar is also well connected to the surrounding islands, and has a direct ferry link with Italy.

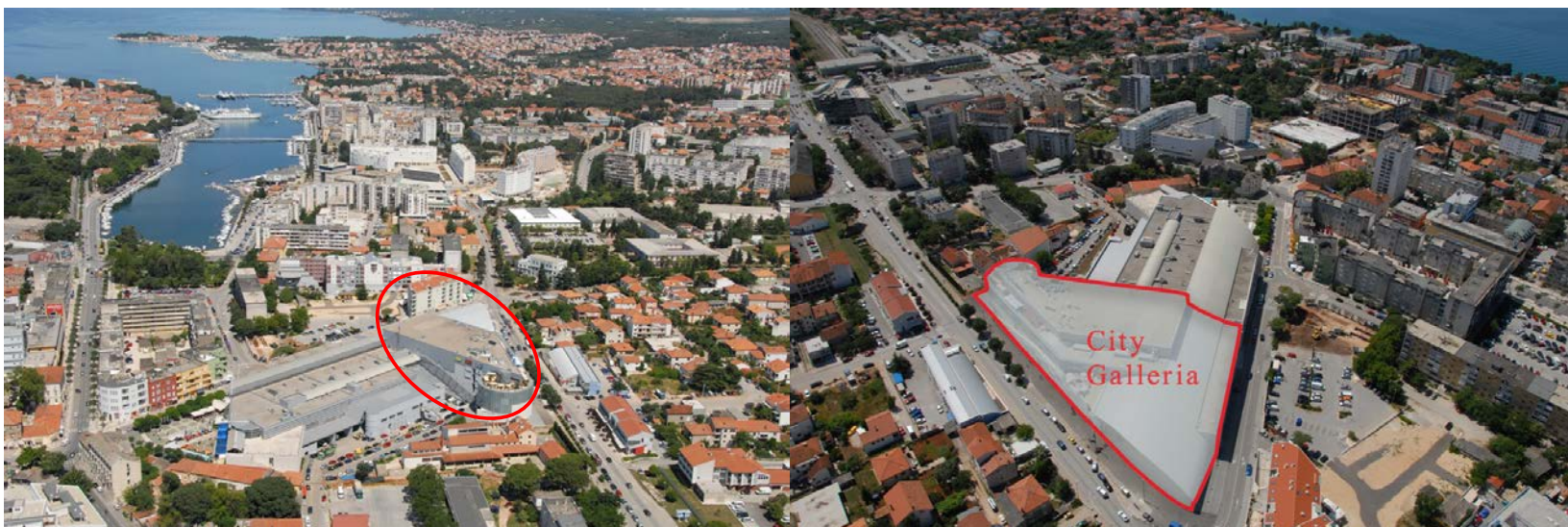


The Commercial shopping center City Galleria has a highly favorable location. It is located near the very center of the city of Zadar, at the junction of the old city part, the Peninsula and the new areas. It is located only 10 minutes walking distance from the city center and bus and railway stations, the Center is easily accessible to a large number of residents of the city and county, as well as to foreign visitors. The Center is surrounded by one of the city's major roads - dr. Franjo Tuđman street, Zrinski-Frankopan street and Polačišće street. This whole area has grown into a new central city zone with a significant number of new commercial and residential buildings and large residential construction projects for new buildings that are currently in progress; such as construction of a new residential and commercial complex at the former location of the Zadar Bread Factory, near the city center. It is important to note that the Commercial shopping center City Galleria is located close to the university campus of the City of Zadar and even three secondary

schools, where City Galleria is the place where a large number of University students and secondary school students hang out and do shopping.

The center is easily accessible from all parts of the city via the city network of public bus transportation, and at a distance of only 20 minutes walking distance it can be accessed by more than half of the total population of the city of Zadar. The location of the Commercial shopping center City Galleria is visible to most of the city residents as well as foreign visitors, since one of the main city roads passes by the Centre itself.

The central location of the Commercial shopping center City Galleria distinguishes it from the competitive centers on the market, and provides a guarantee that no additional large commercial projects will be built at a similar location.



## POPULATION

The Zadar county is composed of 6 cities and 28 municipalities with a total population of 170,000, as recorded in the population census of 2011. Following the cities of Split and Rijeka, Zadar is the third largest coastal city in Croatia and the fifth largest city in the country. According to the latest census, the city of Zadar has 75,062 inhabitants, which accounts for 44.15% of the total number of inhabitants of the county. Together with the neighboring settlements and the inhabitants of the surrounding islands, the target population of visitors to our center is roughly 100,000 inhabitants, while this figure will manifold increase during the summer season.



## ABOUT THE COMMERCIAL SHOPPING CENTER CITY GALLERIA

The Commercial shopping center City Galleria has been designed and finished as the second phase of the shopping center in Zadar, that is Zadar Shopping Center Phase II, according to the conceptual design of the renowned Croatian architect Nikola Bašić. The first phase of the project was completed and opened to the public in 2001 with a large number of sales units spread over the area of more than 17,000 m<sup>2</sup>. The second phase of the project - Commercial shopping center City Galleria, which is the subject of the purchase, was completed and opened to the public in October 2008 with a total area of more than 28,500 m<sup>2</sup> spread over six floors and is owned by the company Trgovinski centar Zadar - Faza 2 d.o.o. , Murvička 1, Zadar, Tax No. OIB: 70447395541 (hereinafter: Commercial shopping center City Galleria)



The gross area of the Commercial shopping center City Galleria consists of associated underground garages with total area of 10,972 m<sup>2</sup>, 10,679.80 m<sup>2</sup> of net leasable area (of which 9,639.30 m<sup>2</sup> relates to the surface area of premises in the Center, and 1,040.50 m<sup>2</sup> to the surface area of the respective terraces of premises), and ancillary rooms and corridors.

There are following facilities in the Center itself: an underground car garage with over 400 parking spaces on two floors, opened and closed market, supermarket, specialized food and beverage shop, fashion clothing, footwear and sporting equipment shops, children's shops, restaurants, wellness and beauty center and 6 multiplex movie theaters.

The offer of the Commercial shopping center City Galleria is conceptually divided by floors, so the ground floor of the center is conceived as a space with a mixed offering of food and services; the first floor is designed as a fashion floor with the supply of clothing, footwear, fashion accessories stores and perfumery/drug store; the second floor is created as a floor for fun and recreation with an offer of restaurants, entertainment and sports services; while the third floor of the Centre is intended for providing services offering a variety of

beauty and spa services. In the center there are many reputable lessees such as Cinestar, Muller, SPAR, Zagrebačka Banka, CCC shoes&bags, Gyms4You, Adidas, Nike&Converse, Timberland, Ghetaldus, Algoritam MK, Vindija, etc.



The unique features of the Commercial shopping center City Galleria have been also recognized at the international level when in 2010 at the award ceremony *'International Property Award'*, the most prestigious international competition in the real estate business, the Commercial shopping center City Galleria Zadar received the prestigious five-star award in the category of *"Best Retail Development"*.



Thanks to its unique concept and variety of available amenities, the Commercial shopping center City Galleria, established itself as the place where daily living of citizens takes place and which can meet most of their daily needs. Cooperating with the local community, the Center has established itself as a venue for various charity events, promotional activities of medical and educational nature, sports and recreation activities of local clubs and associations, and entertainment programs for children aiming to contribute to the improvement of the quality of life of all visitors.



High-quality way of construction allows flexibility in creating business establishments, whereby the center can very easily and relatively quickly adapt to changes and new requirements of the market. The choice of materials in the construction was in line not only the commercial but also the aesthetic guidelines to fit the building into the existing architecture of the City and so it has become one of the main features of the city perspective.

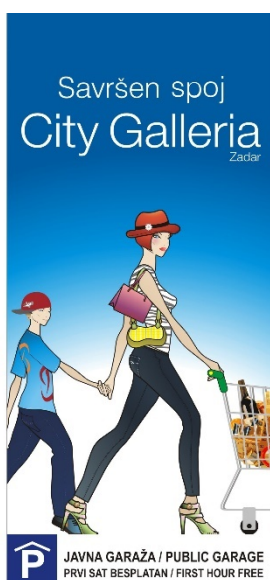
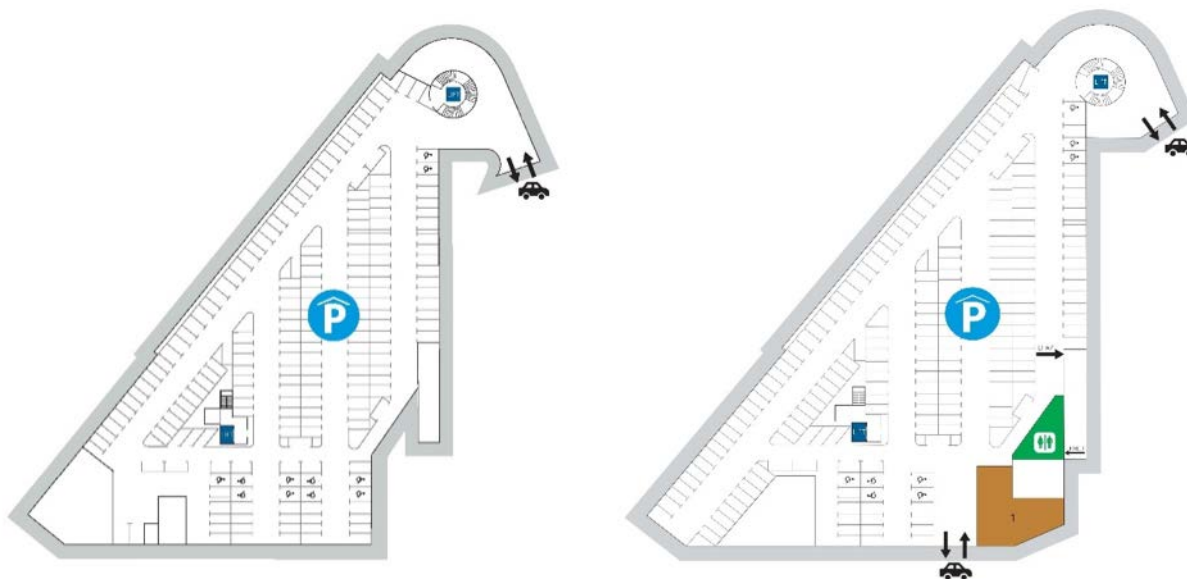


LEVEL - 2 and LEVEL - 1

As part of the Commercial shopping center City Galleria, at levels -2 and -1, there is an underground garage with over 400 parking spaces, which with its area meets the needs of visitors to the Centre. An underground garage is open to visitors 24 hours a day, and the safety inside the garage is monitored by surveillance cameras in the presence of the operator on duty who is on duty during all business works of the garage.

LEVEL - 2

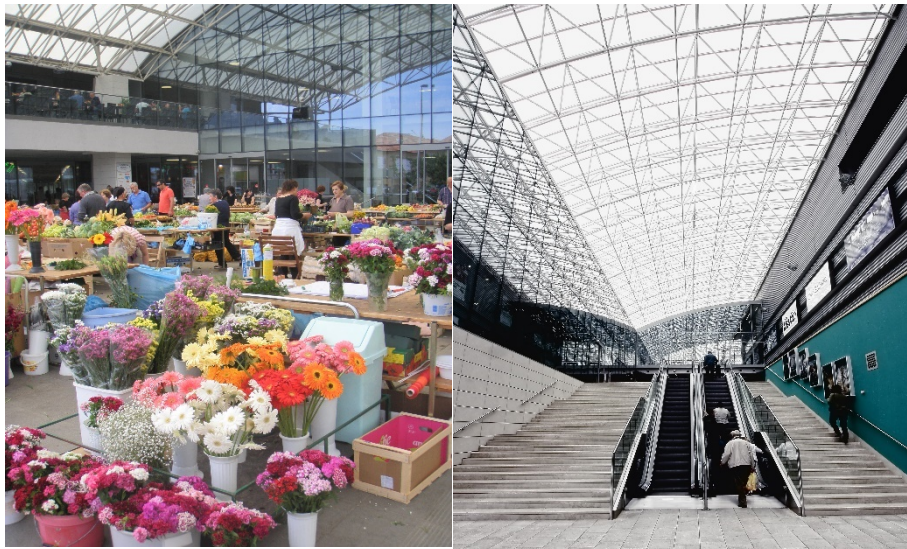
LEVEL - 1





**LEVEL 0 and LEVEL 1**

The ground floor of the Commercial shopping center City Galleria, designated as Level 0 offers a wide range of services with a large number of service facilities, fashion stores, and bookstores, food stores and a large supermarket as well as large outdoor city marketplace, located in the covered square of the Centre. Such an offer represents a departure from the offer of traditional shopping centers and enables the Commercial shopping center City Galleria to highlight and offer other incentives to visitors to come more often and spend their free time at the Centre.



On the first level of the Commercial shopping center City Galleria, designated as Level 1, there are the facilities that represent a standard offer of shopping centers and are related to the fashion and fashion accessories, footwear, sports equipment stores, restaurants, and drugstores/perfumery stores.

**LEVEL 0**



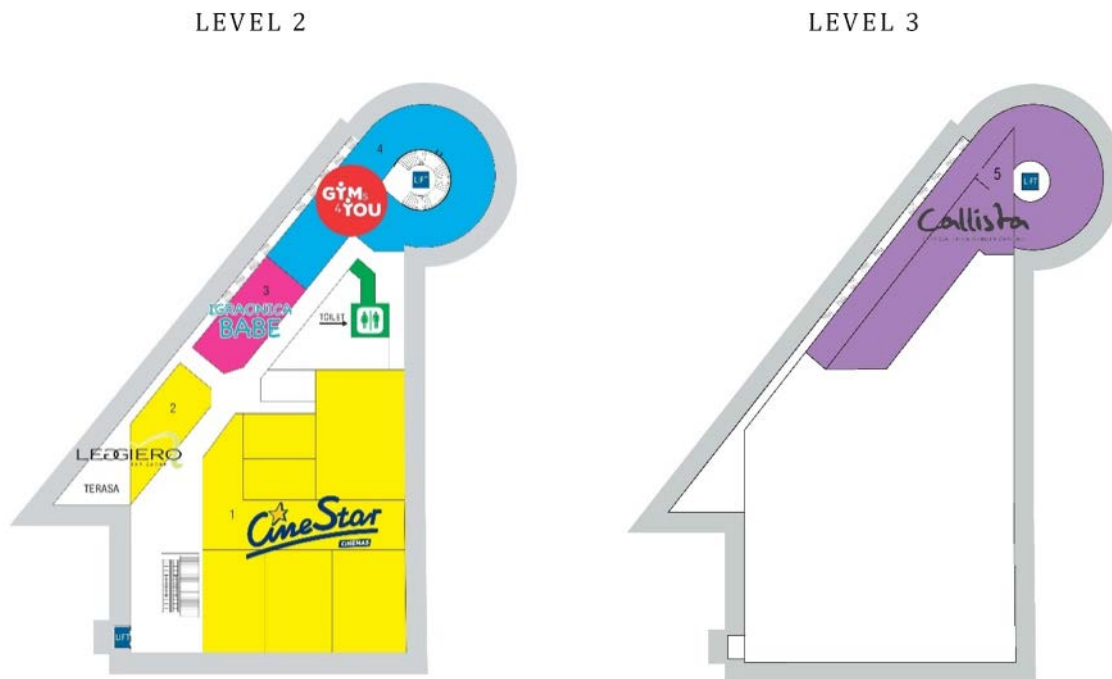
**LEVEL 1**



## LEVEL 2 and LEVEL 3

On the second and third floor of the Commercial shopping center City Galleria, designated as Level 2 and Level 3, there are facilities designed for entertainment, care and recreation for visitors. The lessee of Blitz-Cinestar also represents the first and the only multiplex cinema in the city of Zadar, which attracts a large number of visitors to the city and county, while allowing the Commercial shopping center City Galleria to be the only place in the city that offers this kind of content and to distinguish itself from the competitive centers. Other facilities in the second Level are complementary to the purpose of entertainment and recreation, where in addition to the restaurants and playroom for children this autumn the offer will also include a gym chain Gym's4You, which again represents a departure from the usual commercial offer.

The third level of the Commercial shopping center City Galleria, as a separate zone, offers visitors a service of beauty salon and care with a separate access to the floor. The access to this facility is possible only by an elevator directly from the Center or the street entrance, ensuring thus the desired privacy to the users of the treatment.



The unique features of the Commercial shopping center City Galleria, which distinguish it from the rest of the market can be summarized in a few features, such as; very attractive location within the city's pedestrian zone that provides great visibility of the building; accommodation of the town marketplace with accompanying food facilities in the Centre; and offer the first and only multiplex cinema in the city of Zadar.

## DESCRIPTION OF THE SUBJECT OF TRANSACTION

The subject of the sale (transaction) is the real properties in Zadar, that is the following real properties: **cadastral land plot 4922**, land designation: commercial building with surface area of 6781 m<sup>2</sup> and yard with surface area of 473 m<sup>2</sup>, with total surface area of 7254 m<sup>2</sup>, entered in the **land registry file 12355 cadastral municipality Zadar** and the real properties: **cadastral land plot 4913/1, 4914/1, 4915, 4916, 4918, 4919, 4920/2, 4920/3, 4924/1, 4924/3 and 4972/2**, with total surface area of 1401 m<sup>2</sup>, entered in the **land registry file 13524 of the cadastral municipality Zadar**, which real properties are actually included in the Commercial shopping center City Galleria in Zadar with accompanied land plot, equipment and inventory, all free from mortgage, pledge or any other encumbrances.

The Agreement of Purchase and Sale of Real Properties shall be concluded between the sellers: company „Trgovinski centar Zadar – Faza 2“ d.o.o., with registered office in Zadar, Murvička 1, tax No. OIB: 70447395541, that is entered as an owner (for all) above indicated real properties on which the Commercial shopping center City Galleria is built and the buyer: Ilirija d.d. for hospitality and tourism, Tina Ujevića 7, Biograd na Moru.

## FINANCIAL DATA – COMMERCIAL SHOPPING CENTER CITY GALLERIA

In the last few operating years (2013 to 2015) the Commercial shopping center City Galleria records a decline in operating revenues (from 10.1 million HRK in 2013 to 9.3 million HRK) and expenditures (from 5.6 million HRK in 2013 to 5.4 million HRK in 2015) with occupancy rates ranging from 73 to 76%. Considering the occupancy rate, the operating profit of the Center amounted to 4.5 million HRK in 2013 and 4.0 million HRK in 2015.

The Commercial shopping center City Galleria achieved in late 2015 the average occupancy of 76.21%, and in early 2016 a great improvement in the operations was accomplished when the lease agreements were signed with the Muller and CCC brands. The average occupancy of the Commercial shopping center of City Galleria in the first eight months of 2016 is 89.23%, while the current occupancy is as high as 97.11%.

Profit center of ILIRIJA d.d. - City Galleria Zadar			2017	2018	2019	2020	2021
			plan	plan	plan	plan	plan
Basic data	Total net disposable area	m <sup>2</sup>	9.639	9.639	9.639	9.639	9.639
	Average rental price (rented area)	EUR/m <sup>2</sup>	10,0	10,9	12,0	12,9	13,5
	Occupancy rate, average	%	97,3%	97,8%	98,0%	98,0%	98,0%
Revenues	Rental income	HRK 000	8.446	9.235	10.176	10.939	11.486
	Total operating income	HRK 000	11.912	12.702	13.886	14.898	15.624
Operating expenses	Recoverable expenses	HRK 000	(3.860)	(3.937)	(4.016)	(4.097)	(4.180)
	Non-recoverable expenses	HRK 000	(882)	(896)	(914)	(933)	(952)
	Net contribution of garage	HRK 000	(73)	(78)	(80)	(82)	(83)
	Total operating expenses	HRK 000	(4.815)	(4.911)	(5.010)	(5.112)	(5.215)
Net rental income	Net rental income	HRK 000	7.097	7.791	8.876	9.786	10.409
Other expenses	Management & letting fee	HRK 000	(821)	(892)	(1.056)	(1.133)	(1.187)
Net operating income	Net operating income	HRK 000	6.276	6.899	7.820	8.653	9.222

*Table 3-1 Projections of the Commercial shopping center City Galleria from 2017 to 2021 (Source: ILIRIJA d.d.)*

Considering the above increase in occupancy and currently valid agreements in the fiscal year 2017, the plan envisages ad total revenue of 11.9 million HRK and EBITDA in the amount of 6.3 million HRK. The table above shows the operational plan for the Commercial shopping center City Galleria for the period from 2017

to 2021. Other revenues not listed in Table refer to recoverable costs that are transferred to the lessee (the so-called "Service charges").

In addition to the strong operational effects, with the acquisition of the Commercial shopping center City Galleria, the company Ilirija achieves synergistic effects at the cost level, additional stability of the cash flow by inflows in off-season, and dispersion of risk. The synergies of the company Ilirija d.d and Commercial shopping center City Galleria are expected in the field of maintenance of facilities and management of garage and business centers. Ilirija has so far confirmed the ability to manage different types of assets in the tourism sector and believes to continue such management in this business segment equally well.

The acquisition of the Commercial shopping center City Galleria is an investment of 10.4 million EUR (78 million HRK), which financing is envisaged through recapitalization (in the amount of 5 million EUR) and bank loan (in the remaining amount of up to a maximum amount of 6 million EUR).

#### PLANNED FINANCING CONDITIONS

The following conditions of the purchase of the real property of the Commercial shopping center City Galleria are envisaged:

Offered price:	EUR 10,400,000.00
Recapitalization	EUR 5,000,000.00
Long-term loan (commercial bank of the issuer)	up to EUR 6,000,000.00
<b>TOTAL INVESTMENT:</b>	<b>EUR 10,400,000.00</b>

The long-term loan conditions of the commercial bank as per the offer are the following:

<b>Loan amount:</b>	up to EUR 6,000,000.00
<b>Repayment term:</b>	15 years
<b>Interests:</b>	According to the market lending conditions
<b>Purpose:</b>	For buying the building of the shopping center in Zadar – City Galleria
<b>One-off charge:</b>	Up to maximum 0.50% of the granted loan amount
<b>Interest computation and payment:</b>	on a monthly basis

## 4. INFORMATION ON ISSUER – ILIRIJA D.D.

### 4.1. BASIC INFORMATION ON THE ISSUER

Name: Ilirija d.d., public limited company for hospitality and tourism  
Short corporate name: Ilirija d.d.  
Registered office: Tina Ujevića 7, Biograd na Moru  
Share capital: HRK 159,085,880  
Year of establishment: 1957  
Court registry No. 060032302  
Company reg. number: 3311953  
OIB Company ident. Tax No. 05951496767

### 4.2. HISTORY AND DEVELOPMENT OF THE ISSUER

ILIRIJA d.d. has been operating in the Croatian tourism market over 59 years, established in 1957, with registered office in Biograd na Moru. Today is one of the rare tourism companies which includes in its business operations four segments of tourism: hotels, nautics, camping and destination management company/DMC Ilirija Travel.

Today ILIRIJA d.d. is, according to the financial and physical operating results, ranked among the 15 leading tourist companies in the Adriatic, which represent the backbone of the development of Croatian tourism, while in Dalmatia, it is one of the 7 largest tourism companies. The Company is the holder of the overall economic and tourism development of the Biograd Riviera, while in Zadar County it is one of the 3 leading tourism companies and major company of its tourism development. The tourist facilities of ILIRIJA d.d. in 2015 realized a total of 614,360 overnight stays, not including the overnight stays at Villa Donat Hotel in Sv. Filip i Jakov, which accounts for more than 46.86% of the total overnight stays in the city of Biograd na Moru. In particular, the Company has a major portion in the organized tourist overnight stays, not including overnight stays in private accommodation and summer houses, whereby overnight stays in the establishments of ILIRIJA d.d. accounts for 65.6% of organized tourism economy of the city. ILIRIJA d.d. encompasses the Kornati marina, the third largest marina in the country with a total of 705 berths, which according to the realized business results and the entire offer represents the backbone of the development of nautical tourism and nautical activities not only the company, but the Zadar County and the Croatian tourism in general. Over 6,000 guests a day stay in the establishments of ILIRIJA d.d. in the peak season.

#### CHRONOLOGICAL OVERVIEW OF THE COMPANY

**Year 1957** | The Company was incorporated and domiciled in Biograd na Moru, where it operates today, although the beginnings of the company date back to 1936 when the first hotel called ILIRIJA in Biograd na Moru was built. These are also the first beginnings of organized tourism not only in Biograd but also in the entire Biograd Riviera, by which the Company becomes the pioneer and the leader of all tourism activities in the Biograd region.

**1969 – 1972** | The construction of new hotel facilities (Hotel Kornati \*\*\*\* and Hotel Adriatic \*\*\*), the overall reconstruction and construction of hotels Ilirija\*\*\*\* and building an annex to the hotel Villa Donat \*\*\*\* / \*\*\* in Sv. Filip i Jakov.

**Year 1976** | Start of construction of the first nautical tourism port in Croatia, according to the first building permit in the Republic of Croatia for the construction of the first nautical port issued by the former Municipality of Biograd na Moru, number: UP/I-03-4-318/1977 as of 10th March 1977, Hotel harbor Ilirija-

Kornati, situated in Biograd na Moru, with a total of 100 berths and the purchase the first charter fleet of 40 vessels, by which the Company became a pioneer of the nautical tourism development.

**Year 1986** | Extended nautical capacities of the Company by constructing the nautical tourism Port Marina Kornati, located in Biograd na Moru, with total port area (aquatorium) of 131.600 m<sup>2</sup> with a total capacity of 705 berths on land and sea. Today, Marina Kornati is among the Top 3 Croatian marinas according to the number of berths, technical equipment, quality of service, cleanliness and neatness.

**Year 1988** | The construction of Tennis center, located in a pinewood Soline right next to the old town center Biograd na Moru (400m from the hotel, 150m from the main beach), on an area of 48.000 m<sup>2</sup> with 20 tennis courts (14 clay and 6 color-set tennis courts).

**Year 1988** | The construction of Aquatic Center, that is, a beach facility as a part of a unique, technological and functional unit of the existing hotel capacities that is basically an Olympic outdoor swimming pool with many additional amenities as a supplement to the existing and basic hotel amenities. Built as a swimming, beach and sports, entertainment and hospitality and catering facility with bleachers with the capacity of 4,000 seats and a terrace of 1,000 m<sup>2</sup>, whereby it is a center for holding almost all sports, entertaining and dance events in the City Biograd na Moru.

**Year 1991** | By merger the campsite “Soline”, located in Biograd na Moru, later renamed into the camp “Park Soline”, by which the Company in its operations in addition to hotel management and nautics also included camping as the third segment of its tourism offer.

**Year 1993** | The Croatian Privatisation Fund, makes a decision on the transformation of HTP Ilirija into a joint stock company.

**Year 1999** | The Company was privatized and is in major ownership of the company Arsenal Holdings d.o.o. from Zadar, which is in major ownership of Mr. Davor Tudorović.

**Year 1999** | The Company starts boat show organized as Spring Open Days, mainly intended for companies that operate in the marina, as the first such event in North Dalmatia.

Wishing for Biograd na Moru, to win the top boat event considering its status of the city as a cradle of nautical tourism, at which all sectors of the boating and charter business will be presented in a short period, the Open Days grew into a boat event - Biograd Boat Show.

**Since 2004** Biograd Boat Show is organized as the first autumn boat show in Croatia.

**1999 – 2016** | During this period, that is, by 30th June 2016, the Company has invested HRK 362,959,046.64 in construction, reconstruction, extension, building annexes, renovation and adaptation of accommodation facilities and establishments of the Company in order to enhance the quality, improve the overall service and standards in all sectors of the Company, develop new products, improve and increase the categorization of the accommodation facilities and nautical capacities, expand hospitality facilities with an aim to create a high-quality, recognizable and competitive tourism product and enhance the quality of the offer of the destination itself, which resulted in a significant growth of the total revenues and newly created value in the mentioned period in the amount of HRK 587,178,878.88.

**Year 2002** | The National Audit Office carried out the audit of transformation and privatization of ILIRIJA d.d. and issued an unqualified opinion on the transformation and privatization in full, with an emphasis that the process was carried out in accordance with the legislation and that no irregularities were determined that would affect the legal implementation of the process of transformation and privatization.

**Year 2003** | The Company's shares were listed on the Zagreb Stock Exchange in the quotation of public joint stock companies.

**Year 2005** | As part of the Company's business system, the multimedia center Arsenal in Zadar, built in the 17th century at the time of the Venetian Republic, following the completion of the revitalization and renewal according to the concept of "indoor town square," began conducting business activities.

**Year 2009** | The Company's shares are listed on the Regular Zagreb of the Stock Exchange, since the quotation of public joint stock companies was cancelled.

**Year 2014** | The market was presented the event yacht "Nada" floating convention center with multifunctional purposes 36m in length and a capacity to accommodate 180 persons.

**Year 2014** | As a part of the Company's business system, the first Croatian diffuse hotel Ražnjevića dvori AD 1307 was opened.

**Year 2015** | Renovated Villa Primorje\*\*\*\*, built in the second half of the 19th century, luxuriously decorated and equipped in line with the latest standards for facilities of its kind and category, has its own restaurant that offers the possibility of organizing a number of events.

**Year 2015** | Recapitalization of the company by Allianz ZB d.o.o., the company for mandatory pension fund management, with headquarters in Zagreb, which has acquired 10% equity share in the ownership of the company.

**Year 2015** | The company's shares are transferred from the Regular market to the Official market of the Zagreb Stock Exchange which will contribute to even greater transparency and openness of the company to all of its stakeholders, particularly investors, both domestic and international capital markets.

### 4.3. ISSUER'S CONTACT INFORMATION

Address: Tina Ujevića 7, Biograd na Moru  
Ph. +385/23/383-165  
Fax. +385/23/383-008  
web: [www.ilirijabiograd.com](http://www.ilirijabiograd.com)

#### COMMUNICATION WITH THE PUBLIC

e-mail: [jasminak@ilirijabiograd.com](mailto:jasminak@ilirijabiograd.com) (Management Board's Office)

e-mail: [branimirg@ilirijabiograd.com](mailto:branimirg@ilirijabiograd.com) (Legal Department)

### 4.4. RESPONSIBLE PERSONS

The Company Ilirija d.d. and its responsible persons confirm that this Information memorandum contains all relevant information related to Ilirija d.d. as an issuer and the shares that are the subject of issue, that the information is true and accurate in all material aspects, that all opinions and intentions in the Information Memorandum are presented accurately and that there are no other facts, the omission of which would make any statement in the Information Memorandum materially inadequate or that would lead to erroneous conclusions. Accordingly, the Issuer accepts the responsibility for the information contained in this Information Memorandum. The structure of managing the company Ilirija d.d. has been established by the

Memorandum of Association, while the duties, responsibilities and powers of the Management Board and the Supervisory Board are governed by the Companies' Act and the Articles of Association of Ilirija d.d.

#### 4.5. COMPANY MANAGEMENT BOARD

Goran Ražnjević, President of the Management Board represents the company solely and independently

#### 4.6. SUPERVISORY BOARD MEMBERS

Goran Medić, President of the Supervisory Board  
David Anthony Tudorović, Deputy President of the Supervisory Board  
Davor Tudorović, Member of the Supervisory Board  
Siniša Petrović, Member of the Supervisory Board  
Darko Prebežac, Member of the Supervisory Board

#### 4.7. COMPANY'S SUBSIDIARIES

The Company has two subsidiaries in 100% ownership:  
ILIRIJA GRAĐENJE d.o.o.  
ILIRIJA NAUTIKA d.o.o.  
(not active in business)

#### 4.8. AFFILIATED COMPANIES

Arsenal Holdings d.o.o., Perivoj Gospe od Zdravlja 1, Zadar, Company Tax Number - OIB: 59794687464, holds 178.629 shares in the Company, which accounts for 65.13% of the shares in the share capital of the Company, and the same number of votes in the Shareholders' Assembly. The parent company Arsenal Holdings d.o.o. is registered with the Commercial Court in Zadar, Company Reg.No. MBS: 060014554; share capital HRK 21,027,500.00 paid in whole. The major owner of the company Arsenal Holdings d.o.o. is Mr. Davor Tudorović with 75.25% shares in its share capital, who also holds 4.36% shares in the share capital of the company Ilirija d.d.

#### 4.9. ORGANIZATIONAL STRUCTURE

The Management Board is composed on one member appointed by the Supervisory Board for the term of five years. The Management Board of the Company represents the company solely and independently and runs the business operations according to the Articles of Association of the Company and legal regulations.

The company has been managed by Mr. Goran Ražnjević since 2000, who is the only member of the Management Board together with the associates that are mostly local staff from the city of Biograd n/M and its surrounding areas, which represents a unique and a successful model of managing the tourism companies in Croatia.

The top management of ILIRIJA d.d. includes 12 persons with special powers and responsibilities where youth and experience are combined. In ILIRIJA d.d. employees, as the key asset essential to the success of the



company, are assigned to positions that best suit their abilities, where they by their knowledge, skills, enthusiasm and commitment contribute to further development and growth of the company.

The organization scheme of Ilirija d.d. is attached below according to its departments and offices.

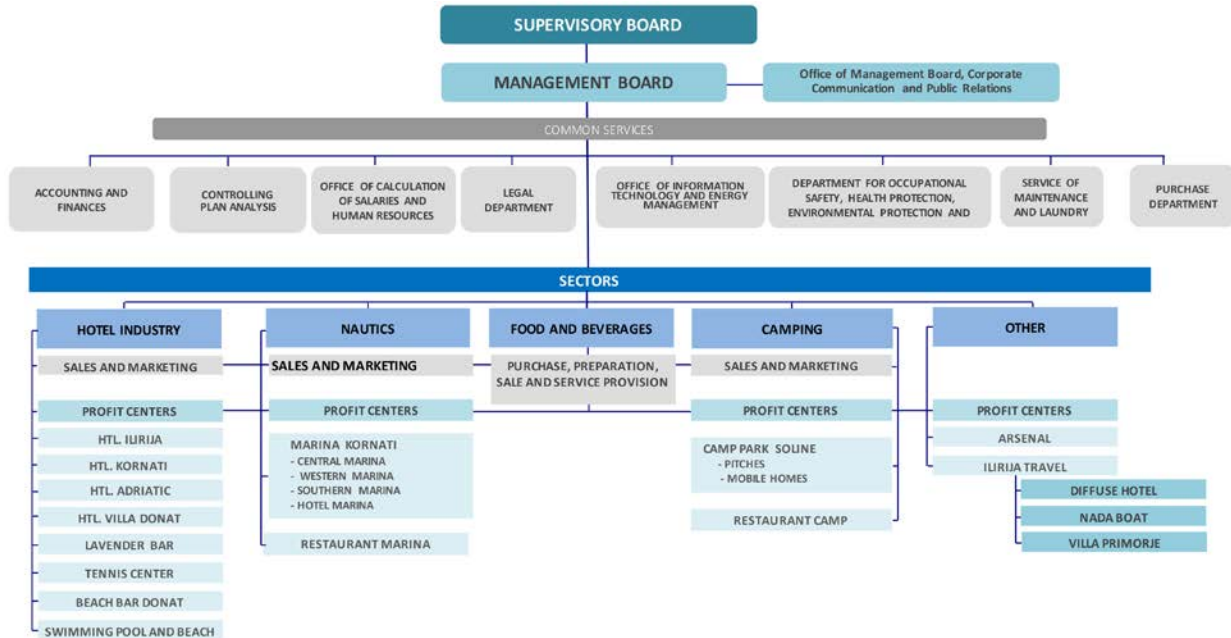


Table 4-1 Organizational structure of Ilirija d.d. (Source: ILIRIJA d.d.)

#### 4.10. HUMAN RESOURCES

As at 31/12/2015 the Company had 189 employees, while the average number of employees based on working hours at the level of the year is 304. In 2015, in addition to 180 full-time employees, due to seasonality of the business operations, the Company hired over 220 seasonal employees, or a total of 400 employees. If we include other companies with business cooperation agreements concluded that perform nautical activity in Marina Kornati, Ilirija d.d. provides jobs for over 800 employees during the season.

The total number of permanently employed and seasonal employees as at 31/8/2016 is 391 or 351 as at 19<sup>th</sup> September 2016.

## 5. MAJOR SHAREHOLDERS

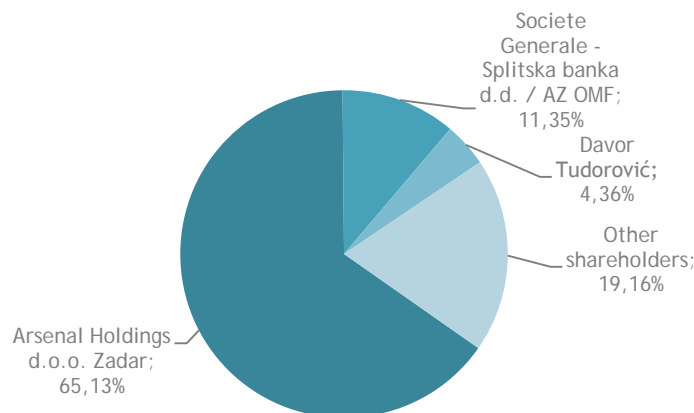
The Company was privatized in late 1999 and is in major ownership of Mr. Davor Tudorović, the Croatian emigrant from Australia, who originates from Nevidani from the island of Pašman. Formal and legal majority owner is the company „Arsenal Holdings“ d.o.o. from Zadar in major ownership of Mr. Davor Tudorović with a share of 65.13% in share capital of the company Ilirija d.d. whereas Mr. Davor Tudorović himself disposes of a share of 4.36% share capital or holds the controlling interest of 190,597 shares which equals the cumulative share of 69.49% in the share capital of the Company. Mr. David Tudorović takes care of the business in Croatia instead of his father Mr. Davor Tudorović.

The second major shareholder is (2) Allianz ZB d.o.o. company for the management of compulsory pension funds with a share of 11.35% in the share capital and (3) other minor shareholders with a share of 19.16% in share capital.

Overview of the ten major shareholders of the Company as at 31/8/2016:

Owners - shareholders	Number of shares	Share in %
Arsenal Holdings d.o.o. Zadar	178.629	65,13%
Goran Ražnjević	25.317	9,23%
Societe Generale - Splitska banka d.d. / AZ OMF B category	21.603	7,88%
Davor Tudorović	11.968	4,36%
Societe Generale - Splitska banka d.d. / AZ OMF A category	9.529	3,47%
CERP / Republic of Croatia	9.275	3,38%
Goran Medić	5.000	1,82%
Zoran Bogdanović	3.227	1,18%
Dražen Hrkač	891	0,32%
Ilirija d.d. (1/1)	859	0,31%
Other shareholders	7.988	2,92%
<b>TOTAL</b>	<b>274.286</b>	<b>100%</b>

Table 5-1 Ownership structure as at 31/08/2016 (Source: CCDC)



Graph 5-1 Ownership structure as at 31/08/2016 (Source: CCDC)

## 6. TRADING IN THE CAPITAL MARKET

In 2015, the shares of ILIRIJA d.d. were continuously traded in on the regulated market capital of Zagreb Stock Exchange where a total turnover increased by 3.67% compared to the year 2014, while the average share price was HRK 891.77 which is an increase of 49.14% compared to the previous financial year. In 2015, the share reached the highest single price in the amount of HRK 1,100.00 per share. Comparing the most recent share price in 2015 realized in the amount of HRK 1,000.00, the share increased by 33.3% compared to the latest share price in 2014 which was HRK 750.00. The market capitalization as of 30/12/2015 amounted to HRK 274,286,000.00 as compared to 2014 when the market capitalization amounted to HRK 187,039,500.00 which is a rise by 46.65%

In the period from 01st January to 31st August 2016 a total of 7,159 shares of the Company was traded in, which compared to the same period in the previous fiscal year, when a total of 1,408 shares was traded in, makes for a growth in physical share turnover by 408.45%. In the first eight months a total turnover in the amount of HRK 8,185,790.15 was realized compared to the same period in 2015 when a turnover was realized in the amount of HRK 1,162.888 which is an increase by 603.92%. An average price per share in the amount of HRK 1,143.43 was realized, which compared to the same period in 2015, when the average share price amounted to HRK 825.91, is an increase by 38.44%.

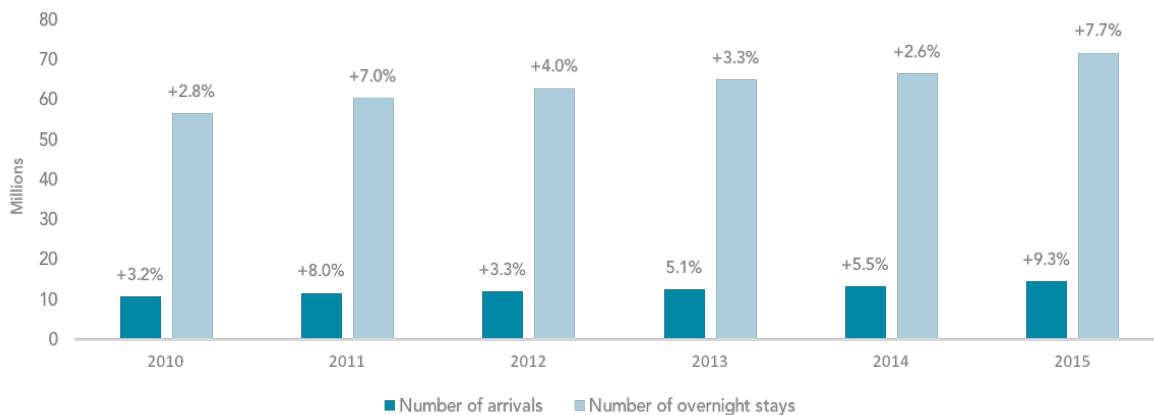
(amounts in HRK)	I-VIII 2016	I-VIII 2015	I-VIII 2014	% change I-VIII 2016/2015
Total turnover	8.185.790,15	1.162.888,00	2.902.748,26	603,92%
Average share price	1.143,43	825,91	536,25	38,44%
Average turnover per transaction	81.857,90	10.668,70	26.388,62	667,27%
Highest price for the period	1.250,00	929,94	720,00	34,42%
Last share price	1.102,01	895,00	720,00	23,13%
Market capitalization	302.265.914,86	223.200.470,00	179.557.920,00	35,42%

*Table 6-1 Comparison of trading in shares on the Zagreb Stock Exchange (Source: Zagreb Stock Exchange)*

As at 12<sup>th</sup> September 2016 the share price at the Zagreb Stock Exchange was HRK 1,290.00.

## 7. OVERVIEW OF THE TOURISM SECTOR

Tourism in Croatia has experienced another record year judging by the number of arrivals (+ 9%) and the number of overnight stays (+ 7%). In 2015, Croatia was visited by a total of 14.3 million tourists, of whom 12.6 million foreign and 1.7 million local tourists. The growth of the total overnight stays in 2015 was lower than the growth of the number of tourists. A total of 71.6 million overnight stays was realized, of which the number of overnight stays by local tourists was 5.7 million or 8.0% (a growth of 11.3%), while the number of overnight stays by foreign tourists was 65.9 million or 92.0% ( a growth of 7.4%). The average number of days of stay in 2015 was approximately 5 days.



Graph 7-1 Comparison of a number of overnight stays and a number of arrivals from 2010-2015 (Source: Ministry of tourism of RoC)

The highest number of tourists was realized in hotels (37.7%) where the arrival of 5.4 million tourists (a growth of 7.1%) was recorded, that realized a total of 17.5 million overnight stays (a growth of 5.5%). It is followed by the private accommodation recording 4.1. million tourists (a growth of 15.6%) and realized 26.7 million overnight stays (a growth of 11.9%) and camps with 2.6 million tourists (a growth of 5.0%) and 17.2 million overnight stays ( a growth of 3.9%).

Number of tourists and overnight stays by types of accommodation facilities in 2014/2015								
(data in 000)	OVERNIGHT STAYS		INDEX	%	NO. OF TOURISTS		INDEX	%
	2014	2015	15/14	2015	2014	2015	15/14	2015
Hotels and apart-hotels	16.619	17.539	105,5	24,5	5.043	5.403	107,1	37,7
Tourist resorts	2.622	2.901	110,6	4,1	420	481	114,5	3,4
Tourist apartments	1.382	1.318	95,4	1,8	217	207	95,4	1,4
Camps and camping sites	16.519	17.158	103,9	24,0	2.433	2.555	105,0	17,8
Private rooms	23.872	26.709	111,9	37,3	3.535	4.085	115,6	28,5
Health resorts	220	204	92,7	0,3	34	33	97,1	0,2
Leisure resorts	116	115	99,1	0,2	19	19	100,0	0,1
Hostels	692	801	115,8	1,1	285	334	117,2	2,3
Other	4.298	4.763	110,8	6,7	1.111	1.208	108,7	8,4
Non-categorized facilities	144	97	67,4	0,1	31	18	58,1	0,1
<b>TOTAL</b>	<b>66.484</b>	<b>71.605</b>	<b>107,7</b>	<b>100,0</b>	<b>13.128</b>	<b>14.343</b>	<b>109,3</b>	<b>100,0</b>

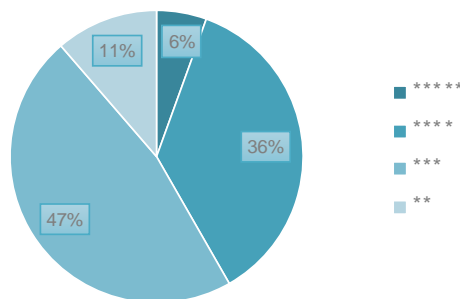
Table 7-1 Number of tourists and overnight stays according to the types of facilities in 2014 and 2015 (Source: Ministry of tourism of RoC)

Geographically, the greatest number of overnight stays were realized in the Istrian County (29.3% or 20.9 million overnight stays, which is a growth of 7.3%), followed by the Split-Dalmatia County (18.6% or 13.3 million overnight stays, which is a growth by 9.5%), Primorje-Gorski Kotar County (18.3% or 13 million overnight stays, which is a growth by 7%), Zadar County (10.9% or 7.8 million overnight stays, which is a growth by 8.8%), Dubrovnik-Neretva County (8.6% or 6.1 million overnight stays, which is a growth by 4.3%), and Šibenik-Knin County (6.7% or 4.8 million tourists, which is a growth by 5.9%).

On 31<sup>st</sup> December 2015, a total of 671 hotels with total accommodation capacity of 133,534 beds operated in the Republic of Croatia. Four-star hotels have the highest share in the total supply (40% of the accommodation capacities), followed by three-star hotels (39%), two-star hotels (12%), while five-star hotels have the lowest share of 9% (but also the highest rise compared to 2014 by 7.3%).

Number of hotels by categories (31/12/2015)					
CATEGORY	2014	2015	2014 in %	2015 in %	INDEX 2015./14.
*****	34	37	5	6	108,8
****	226	243	35	36	107,5
***	315	315	48	47	100,0
**	77	76	12	11	98,7
Total	652	671	100	100	102,9

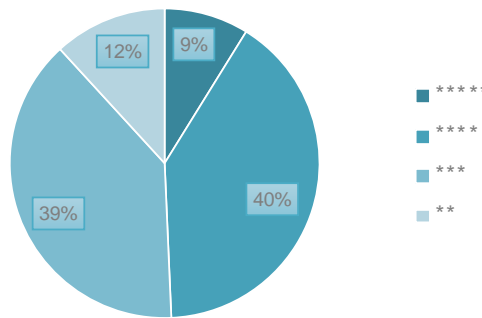
Table 7-2 Number of hotels by categories in 2014/2015 (Source: Ministry of tourism of RoC)



Graph 7-2 Shares in the number of hotels by categories in 2015 (Source: Ministry of tourism of RoC)

Accommodation capacities according to the hotel category (31/12/2015)					
CATEGORY	2014	2015	2014 in %	2015 in %	INDEX 2015./14.
*****	10.984	11.788	8,0	9,0	107,3
****	51.534	54.059	39,0	40,0	104,9
***	52.074	51.927	40,0	39,0	99,7
**	16.631	15.760	13,0	12,0	94,8
Total	131.223	133.534	100	100	101,8

Table 7-3 Accommodation capacities by hotel categories in 2014/2015 (Source: Ministry of tourism of RoC)



Graph 7-3 Shares of accommodation capacities by hotel categories in 2015 (Source: Ministry of tourism of RoC)

In the Zadar County (including Ilirija d.d.), there were 8,424 registered beds in hotels. In 2015, the number of accommodation facilities in the category of four-star hotels and five-star hotels was realized, while three-star hotels and two-star hotels recorded a decline in a number of accommodation facilities.

Seasonality of tourism in Croatia is generally considered high and its reduction is almost always mentioned as a strategic objective of the Croatian tourism. The most successful part of the tourist season refers to the summer months of July and August, which record several times better turnover than in other months and somewhat over 60% of total tourist overnight stays. They are followed by June and September which record a total of 24% share in the total number of overnight stays. In all remaining 8 months, only 14.1% of the total number of overnight stays is cumulatively achieved in the year.

The focus of tourist turnover on the "peak" summer months is most pronounced in the counties of Dalmatia, whereas the Dubrovnik region is an exception which must be clearly highlighted, which together with Zagreb and continental Croatia is at least relied on the turnover in peak season.

The City of Zagreb and continental destinations and destinations of the Dubrovnik-Neretva County also have the largest share in the post-season. At the same time, during the post-season the destinations in the Zadar County and Šibenik-Knin County are the least demanded destinations.

Overnight stays of tourists 2015 by months						
	OVERNIGHT STAYS OF TOURISTS (000)			STRUCTURE IN (%)		SHARE
	Total	Organized	Individual	Organized	Individual	(%)
January	362	126	237	34,7%	65,3%	0,5
February	369	154	214	41,9%	58,1%	0,5
March	678	360	318	53,1%	46,9%	0,9
April	1.750	997	752	57,0%	43,0%	2,4
May	3.981	2.018	1.963	50,7%	49,3%	5,6
June	8.742	3.400	5.342	38,9%	61,1%	12,2
July	20.373	5.779	14.594	28,4%	71,6%	28,5
August	23.732	6.401	17.331	27,0%	73,0%	33,1
September	8.669	3.525	5.144	40,7%	59,3%	12,1
October	1.963	1.127	837	57,4%	42,6%	2,7
November	512	212	300	41,4%	58,6%	0,7
December	474	178	296	37,5%	62,5%	0,7
<b>Total</b>	<b>71.604</b>	<b>24.276</b>	<b>47.328</b>	<b>33,9</b>	<b>66,1</b>	<b>100,0</b>

Table 7-4 Overnight stays in 2015 by months (Source: Ministry of tourism of RoC)

## OVERVIEW OF INVESTMENTS IN HTL SECTOR

Summer 2015 witnessed the opening of 25 new hotels along the Adriatic coast, mainly investments in the already existing facilities (the so-called "Brownfield" investments). The largest investment in the hotel industry sector in 2015 was the brownfield investment in the project "Dubrovnik Riviera Hotels".

In 2016, the opening of 40 new or newly renovated hotels, followed by several camps, tourist resorts and apart-hotels was announced. This is supported by the fact that the Croatian tourism is one of the most competitive and the most attractive economic industries in the Republic of Croatia. The constant growth of arrivals and overnight stays of tourists, the growth in tourist spending as well as the recognizability of Croatia as the destination at a global level, particularly in terms of safety, where it is experienced as a safe and stable country, make the Croatian tourism attractive to local and foreign investors, which is backed by the fact that some of the leading international tourism brands have been launched in the Croatian tourism market.

The largest market operators in the hotel industry sector are currently Valamar Riviera (owned by Austrian investment group EPIC), Maistra (owned by the Adris Group), and Plava Laguna with the hotel brands Istraturist, Adriatic Luxury Hotels and Plava Laguna (in major ownership of the Lukšić Group).

HTL sector is currently the most attractive sector for investors and builders because of continuous growth in the number of arrivals and the number of overnight stays in Croatia, available funding, and attractive brownfield investment opportunities offered mainly through the privatization of real properties from the state ownership.

## 8. OVERVIEW OF THE BUSINESS OPERATIONS – ILIRIJA D.D.

### 8.1. OVERVIEW OF ACTIVITIES BY SEGMENTS OF BUSINESS OPERATIONS

ILIRIJA d.d. is a public joint stock company registered for hospitality and tourism with registered office in Biograd na Moru, that has been active in the Croatian tourism market for already 59 years. The business operations of Ilirija d.d. is based on the principles of corporate social responsibility as an integral part its corporate values.

The Company is one of the few Croatian tourism companies whose product successfully integrates all the key segments of the Adriatic Mediterranean tourism offer, that is: **hotel industry, nautics, camping and destination management**.

Its business is based on providing services by using its capacities (hotel industry, nautics, camping) at the same time providing additional amenities and services, thus creating a high-quality integrated and complementary tourism product in the domestic and international tourism market, presented under the brand Ilirija Travel.

<b>Hotel industry</b>	<p><b>5 hotels and villas with a total of 449 accommodation units</b> and 929 beds:</p> <ul style="list-style-type: none"> <li>• <b>Hotel Ilirija</b>, Biograd n/M (****), 165 rooms i 337 beds</li> <li>• <b>Hotel Kornati</b>, Biograd n/M (****), 106 rooms, 216 beds</li> <li>• <b>Hotel Adriatic</b>, Biograd n/M (***) , 100 rooms and 210 beds</li> <li>• <b>Hotel Villa Donat</b>, Sv. Filip i Jakov (**/****), 72 rooms and 144 beds</li> <li>• <b>Diffuse Hotel Ražnjevića dvori</b>, Polača (****), newly opened facility with 3 apartmans and swimming pool, agrotourism, gastro events, etc.</li> <li>• <b>Villa Primorje</b>, Biograd n/M (newly opened facility)</li> </ul>
<b>Nautics</b>	<ul style="list-style-type: none"> <li>• <b>Marina Kornati</b>, Biograd n/M, 705 berths</li> <li>• <b>Hotel port Ilirija – Kornati</b>, 100 berths</li> </ul>
<b>Camping</b>	<ul style="list-style-type: none"> <li>• <b>Camping Park Soline</b>, Biograd n/M (****), surface area of 20 ha, 1.130 accommodation units (maximum capacity for 3.390 persons)</li> </ul>
<b>Destination management</b>	<ul style="list-style-type: none"> <li>• <b>DMK Ilirija Travel</b> – destination management company</li> <li>• <b>Event boat „Nada”</b> (36 m., maximum capacity for 180 persons)</li> <li>• <b>Arsenal Zadar</b> (multimedia space in the center of Zadar)</li> </ul>
<b>Hospitality:</b>	<ul style="list-style-type: none"> <li>• <b>Restaurant Marina Kornati</b>, as a part of the Marina Kornati, capacity for 350 persons</li> <li>• <b>Restaurant Park Soline</b>, by the beach, as a part of the Camping Park Soline, capacity for 280 persons</li> <li>• <b>Beach bar Donat</b>, beach hospitality trade, capacity for 140 persons (Sv. Filip i Jakov)</li> <li>• <b>Lavender lounge bar</b>, operates as a part of the Adriatic hotel, by the beach</li> </ul>
<b>Other facilities</b>	<ul style="list-style-type: none"> <li>• <b>Tennis center Ilirija</b>, 48.705m<sup>2</sup>, 20 tennis courts</li> <li>• <b>Aquatic center</b> (swimming pool)</li> </ul>

A detailed description of the above indicated segments of operations is given below in the text.



### 8.1.1. HOTEL INDUSTRY

The capacity of the hotel sector consists of **5 hotels and villas with a total of 449 accommodation units (hotel rooms and suites) and 929 beds** located in Biograd na Moru (Ilirija\*\*\*\*, Kornati\*\*\*\*, Adriatic\*\*\*, Villa Primorje\*\*\*\*), Sv. Filip i Jakov (hotel Villa Donat\*\*\*/\*\*\*) and Polača (diffuse hotel Ražnjevića dvori\*\*\*\*).

Hotel accommodation is located in Ilirija Resort Hotels & Villas in Biograd and Sv. Filip i Jakov. The hotels are located along the coast, not far from the town center and beach that is awarded the Blue Flag, which are owing to the ideal location and infrastructure, intended for leisure and congress tourism. In addition to modernly and technically equipped conference halls intended for conferences and seminars, there is a number of supporting amenities such as Wellness & beauty center Salvia, Olympic outdoor swimming pool, a fitness center, a la carte restaurants and coffee bars. There is a conference center with 8 halls with a total capacity to accommodate 30 to 250 persons in Ilirija Resort. The beach, sports and recreation park, bike trails, newly constructed promenade by the beach, Aquatic Center with a variety of entertainment programs for children and adults are located in the immediate vicinity.

The offer also includes different service packages tailored to the needs of business people with an emphasis on individual approach to each event which places Ilirija hotels among the leading Croatian congress destinations. Hotel Ilirija is included in the group *FamilySelectHotels* which brings together 21 prestigious tourist sites in Austria, Switzerland and Italy, primarily oriented towards the family accommodation and holidays. The criteria that are a condition for membership are exceptionally high and they include a constant concern for safety, comfort, suitability of accommodation for the youngest and the quantity and quality of additional entertainment programs for the youngest guests.

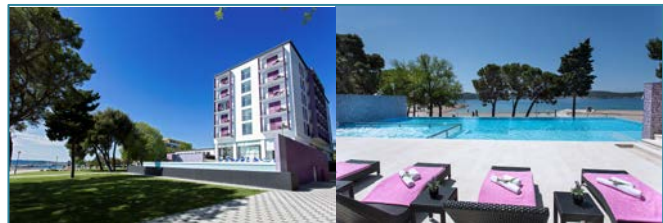
**HOTEL ILIRIJA** the largest hotel in Ilirija Resort classified as a four-star hotel, with a capacity of 165 rooms and 337 beds, and includes a restaurant with 200 seats, a terrace with 70 and aperitif bar with 50 seats. It is located by the along the coast, close to the old town, surrounded by nature, sea and pinewood, as well as many amenities.



**HOTEL KORNATI** classified as a four-star-hotel with a capacity of 106 rooms and 216 beds, and a restaurant for the reception of 220 persons, a terrace to accommodate 50 persons and a bar for 40 persons. The hotel is unique also due to the connection with Nautical tourism port Hotel port Ilirija - Kornati, which is located in the very center of Biograd and there is a beach next to the hotel.



**HOTEL ADRIATIC** classified as a three-star hotel, with capacity of 100 rooms and 210 beds, a restaurant with capacity for 230 persons, a terrace for 300 people and a bar with a capacity for 110 people, located in a pinewood, almost right on the beach and there is Aquatic center right next to it. There is a Lavender lounge bar as a part of the Adriatic hotel which offers a possibility of organizing a number of various events of different character.



**HOTEL VILLA DONAT** located in the town of Sv. Filip i Jakov, consists of the Villa with 16 modernly equipped rooms, classified as a four star hotel, while the annex is classified as a three star hotel. The total capacity is 72 rooms and 144 beds, a restaurant with 120 seats, a terrace for 50 persons and aperitif bar for 20 persons. It is located not far from the main beach and the center of the town.



**VILLA PRIMORJE** was introduced to the market in late 2015. It was built in the second half of the 19 century and is a typical traditional Dalmatian stone nobleman's house with the outbuildings. Newly renovated, luxuriously decorated and equipped in line with the latest standards for facilities of its kind and category, it has its own restaurant that offers the possibility of organizing a number of events and the Mediterranean garden with a promenade.



**DIFFUSE HOTEL RAŽNJEVIĆA DVORI**, a multi-functional facility, located in the settlement of Polača, in the heart of Ravni Kotari, which lies halfway between Biograd na Moru and Benkovac and is the first facility of such a category in the Republic of Croatia. This tourist complex originated from the rural estate tradition is an example of innovative tourism product conceived as a blend of tradition and contemporary trends.



	NUMBER OF ROOMS				NUMBER OF BEDS			
	2014	2015	2016	INDEX 16/15	2014	2015	2016	INDEX 16/15
Hotel ILIRIJA	165	165	165	1,00	337	337	337	1,00
Hotel KORNATI	106	106	106	1,00	216	216	216	1,00
Hotel ADRIATIC	100	100	100	1,00	210	210	210	1,00
Hotel Villa DONAT	72	72	72	1,00	144	144	144	1,00
<b>TOTAL</b>	<b>443</b>	<b>443</b>	<b>443</b>	<b>1,00</b>	<b>907</b>	<b>907</b>	<b>907</b>	<b>1,00</b>

Table 8-1 Accommodation capacities of the Company in the hotel sector (Source: Financial statements for the period from I.–VI. 2016. - ILIRIJA d.d.)

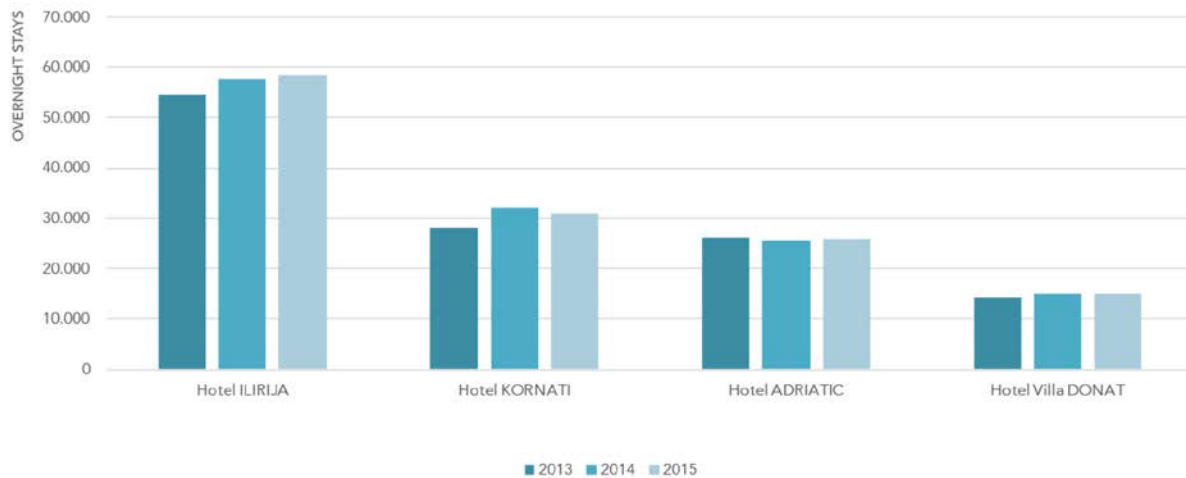
The most important physical indicators and the structure of total revenues for the hotel sector for the period from 2013 to the end of August 2016 are given below in the text.

Selected physical indicators						Rate of increase / decrease (%)		
	2013	2014	2015	I-VIII 15	I-VIII 16	2014	2015	2016/15
<b>Number of rooms</b>	443	443	443	443	443	0,0%	0,0%	0,0%
Hotel ILIRIJA	165	165	165	165	165	0,0%	0,0%	0,0%
Hotel KORNATI	106	106	106	106	106	0,0%	0,0%	0,0%
Hotel ADRIATIC	100	100	100	100	100	0,0%	0,0%	0,0%
Villa DONAT	72	72	72	72	72	0,0%	0,0%	0,0%
<b>Number of beds</b>	907	907	907	907	907	0,0%	0,0%	0,0%
Hotel ILIRIJA	337	337	337	337	337	0,0%	0,0%	0,0%
Hotel KORNATI	216	216	216	216	216	0,0%	0,0%	0,0%
Hotel ADRIATIC	210	210	210	210	210	0,0%	0,0%	0,0%
Villa DONAT	144	144	144	144	144	0,0%	0,0%	0,0%
<b>Arrival of tourists</b>	33.531	38.032	39.327	26.003	25.523	13,4%	3,4%	-1,8%
Hotel ILIRIJA	16.281	19.376	21.074	12.872	11.790	19,0%	8,8%	-8,4%
Hotel KORNATI	8.692	10.289	9.299	6.846	7.053	18,4%	-9,6%	3,0%
Hotel ADRIATIC	5.514	5.125	5.929	4.044	4.377	-7,1%	15,7%	8,2%
Villa DONAT	3.044	3.242	3.025	2.241	2.303	6,5%	-6,7%	2,8%
<b>Overnight stays of tourists</b>	122.921	130.175	130.643	98.051	99.509	5,9%	0,4%	1,5%
Hotel ILIRIJA	54.577	57.596	58.575	41.689	42.049	5,5%	1,7%	0,9%
Hotel KORNATI	28.134	32.195	31.047	23.875	23.137	14,4%	-3,6%	-3,1%
Hotel ADRIATIC	25.992	25.446	25.906	19.370	21.051	-2,1%	1,8%	8,7%
Villa DONAT	14.218	14.938	15.115	13.117	13.272	5,1%	1,2%	1,2%
<b>Overnight stays of tourists</b>	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%	0,0%	0,0%
of which: allotment	44,1%	43,5%	42,7%	48,3%	51,3%	-1,4%	-1,8%	6,3%
of which: groups	30,0%	31,1%	33,7%	25,6%	21,9%	3,6%	8,3%	-14,2%
of which: fixed rent	6,2%	6,4%	6,7%	8,0%	7,6%	3,2%	5,0%	-6,1%
of which: individually	19,6%	18,9%	16,8%	18,1%	19,2%	-3,4%	-11,2%	5,8%
<b>Average number of days of stay</b>	3,7	3,4	3,3	3,8	3,9	-6,6%	-2,9%	3,4%
<b>Days of work</b>	808	808	818	602	602	0,0%	1,2%	0,0%
Hotel ILIRIJA	230	230	260	176	176	0,0%	13,0%	0,0%
Hotel KORNATI	285	285	260	196	196	0,0%	-8,8%	0,0%
Hotel ADRIATIC	153	153	161	131	131	0,0%	5,2%	0,0%
Villa DONAT	140	140	137	99	99	0,0%	-2,1%	0,0%
<b>% utilization (365 days)</b>	36,7%	39,3%	39,5%	29,6%	30,1%	7,1%	0,4%	1,5%
Hotel ILIRIJA	43,1%	46,8%	47,6%	50,8%	51,3%	8,7%	1,7%	0,9%
Hotel KORNATI	35,7%	40,8%	39,4%	45,4%	44,0%	14,4%	-3,6%	-3,1%
Hotel ADRIATIC	33,9%	33,2%	33,8%	37,9%	41,2%	-2,1%	1,8%	8,7%
Villa DONAT	27,1%	28,4%	28,8%	37,4%	37,9%	5,1%	1,2%	1,2%
<b>% utilization (days of work)</b>	63,5%	68,0%	66,2%	68,4%	69,4%	7,2%	-2,7%	1,5%
Hotel ILIRIJA	68,4%	74,3%	66,9%	70,3%	70,9%	8,7%	-10,0%	0,9%
Hotel KORNATI	45,7%	52,3%	55,3%	56,4%	54,7%	14,4%	5,7%	-3,1%
Hotel ADRIATIC	80,9%	79,2%	76,6%	70,4%	76,5%	-2,1%	-3,3%	8,7%
Villa DONAT	70,5%	74,1%	76,6%	92,0%	93,1%	5,1%	3,4%	1,2%

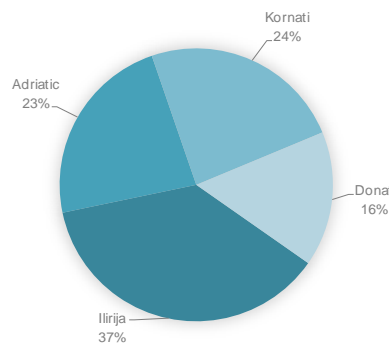
Table 8-2 Selected physical indicators in the hotel sector (Source: ILIRIJA d.d.)

In the year 2015, the hotel industry sector recorded 39,327 guests or 3% more guests than in 2014, with an average stay of 3.32 days, with a total of 130,643 overnight stays, almost as much as in 2014. In 2015, a trend of shortening the length of stay of guests was recorded, with an increase in the number of arrivals and hotel occupancy days.

In the first 8 months in 2016, an increase in a total number of overnight stays by 1.5% (a total of 99,509 overnight stays) was recorded compared to the same period last year, whereby a rising trend of total number of overnight stay of tourists being recorded for several years has continued.



Graph 8-1 Overnight stays by accommodation facilities (Source: 2015 Annual financial statements – ILIRIJA d.d.)

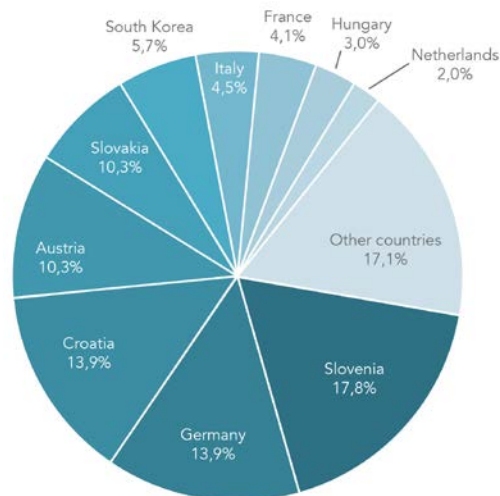


Graph 8-2 Share of hotels in a total number of beds (Source: 2015 Annual financial statements – ILIRIJA d.d.)

In 2015, hotel Ilirija was at the forefront in the share of overnight stays with 45%, followed by Kornati hotel with 24% and Adriatic hotel with 20% and Villa Donat hotel with 11%, which is comparable with accommodation facilities of each hotel.

In the first eight months of 2016, the results are slightly different. Hotel Ilirija is still at the forefront in the share of overnight stays but with a slightly lower share in the total overnight stays by 42%, followed by Kornati hotel with 23% and Adriatic hotel with 21% (which records a rise by as much as 8% compared to the same period in 2015) and Villa Donat hotel with a total of 13%. Adriatic hotel records a significant growth in occupancy rate in comparison to the year 2015 due to the increase in the share of congress segment, as well as allotments with longer stays.

In the structure of overnight stays in 2015, the five top source markets in the hotel sector are (1) the Slovenian market with a share of 17.83% overnight stays, (2) the German market with a share of 13.95% overnight stays, (3) the Croatian market with a share of 13.94 % overnight stays, (4) the Austrian market with 10.30% overnight stays and (5) the Slovak market with 7.58% overnight stays. In the first eight months in 2016, the overnight stay trend to source markets has continued.



Graph 8-3 Realized overnight stays in the hotel sector by source markets in 2015 (Source: ILIRIJA d.d.)

The revenue per room sold for the hotel sector in 2015 amounts to EUR 90.24, or HRK 687.59, which includes the accommodation and food services, since 98% of the hotel activity refers to the half board, which is characteristic for leisure hotels of ILIRIJA d.d., along the Croatian part of the Adriatic Sea. Taking into account other revenues earned in the hotel industry or business establishments as a part of the hotel industry segment, of which revenues are a direct consequence of the hotel operations, which account for 10% in relation to direct revenues generated by the hotels, this generated revenue per room sold will grow to EUR 98.53, that is, HRK 750.76.



A summary of total revenues from business segment – hotel industry is given below in the text.

Hotel sector -Revenues						Rate of ioncrease / decrease (%)		
HRK 000	2013	2014	2015	I-VIII 15	I-VIII 16	2014	2015	2016/15
Revenues on the local market	23.026	23.323	22.383	16.059	17.433	1,3%	-4,0%	8,6%
Revenues on the foreign market	21.732	23.207	24.418	19.500	18.395	6,8%	5,2%	-5,7%
Other revenues	64	903	615	82	223	1312,5%	-31,8%	172,0%
<b>Operating income</b>	<b>44.822</b>	<b>47.433</b>	<b>47.416</b>	<b>35.641</b>	<b>36.051</b>	<b>5,8%</b>	<b>0,0%</b>	<b>1,2%</b>
Financial income	0	0	0	0	0	-	-	-
Extraordinary income	1	410	10	4	16	n/a	-97,6%	285,4%
<b>Total revenues</b>	<b>44.823</b>	<b>47.843</b>	<b>47.426</b>	<b>35.645</b>	<b>36.067</b>	<b>6,7%</b>	<b>-0,9%</b>	<b>1,2%</b>

Table 8-3 Revenues generated in the hotel sector (Source: ILIRIJA d.d.)

The rise in operating revenues by 5.8% in 2014 was followed by a slight rise in 2015, while during the first 8 months in 2016, the hotel sector recorded a rise in operating revenues by 1.2% compared to the same period last year.

As a part of the analysis of revenues, the business hotel segment in addition to the 4 largest hotels (Ilirija, Kornati, Adriatic, Villa Donat), also includes the business establishments Lavender lounge bar, Aquatic centar (Swimming Pool) and Tennis Center Ilirija. As shown in Table below, the largest share in the total revenues of the sector in 2015 was realized by Ilirija hotel (43.3%), followed by Koranti hotel (21.8%) and Adriatic hotel (18.5%).

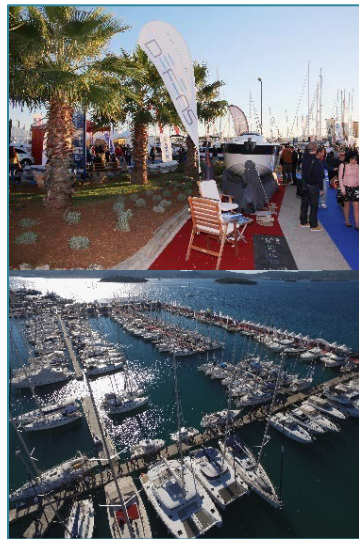
Hotel sector - structure of income					
	2013	2014	2015	I-VIII 15	I-VIII 16
Hotel ILIRIJA	42,9%	42,2%	43,3%	41,6%	41,8%
Hotel KORNATI	20,5%	22,5%	21,8%	21,7%	21,1%
Hotel ADRIATIC	19,3%	18,3%	18,5%	17,5%	18,5%
Villa DONAT	8,4%	8,9%	8,0%	8,9%	9,0%
Lavender bar	2,5%	2,1%	2,4%	2,8%	2,5%
Aquatic centar	6,4%	5,9%	6,0%	7,5%	7,0%
<b>Structure of total revenues</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Table 8-4 Structure of total revenues in the hotel sector (Source: ILIRIJA d.d.)

### 8.1.2. NAUTICS

Nautical sector began to develop in 1976 with the construction of the first nautical marina in Croatia (Hotel port Ilirija - Kornati) with 100 berths and the procurement and organization of the first own charter fleet in the Adriatic sea with more than 40 vessels for the needs of boaters, therefore ILIRIJA d.d. deserves to be considered to be a pioneer of nautical tourism at the Adriatic sea.

Today, the nautical sector of the Company consists of marina Kornati and Hotel port Ilirija-Kornati, in which the Company has 805 berths on sea and land, which in one day can accept up to 2,000 boaters, but by the number of berths, modern technical equipment, quality of service, cleanliness and neatness (Blue Flag) the **Marina Kornati is one of the three leading Croatian marinas in Croatia** which is visited by more than 60,000 boaters on an annual basis.



**MARINA KORNATI** is the winner of numerous awards, among others, a special recognition is the Special Award in the "XVI. Tourism Flower - Quality for Croatia 2012" action, organized by the Croatian Chamber of Commerce and the Croatian Radio and Television, which is an award for the best marina in the category of over 450 berths. In 2013, in the "XVII. Tourism Flower - Quality for Croatia 2013" action, it received an award in the competition of the largest marinas, while in the same action in 2014 and 2015 it ranked second in the "Best big marina" category. Since 2004, Marina Kornati has been the holder of the Blue Flag, which is an international symbol of environmental, sea and coastal protection.

ILIRIJA d.d. is the organizer of the leading boat show in Croatia „**BIOGRAD BOAT SHOW**“ which has been continuously held in Marina Kornati for 17 years in a row. It was admitted to the International Federation of Boat Show Organisers-IFBSO at the 50th meeting of the Federation that took place in Istanbul, Turkey, in June 2014, and in 2015 it became its gold member. Today the leading international autumn boat show has grown into a major Croatian boat event. In 2015 the fair was attended by over 307 exhibitors that participated with around 300 vessels, while the number of visitors surpassed 15,000 and 2000 realized business visits.

Restaurant "Marina Kornati", located in the marina, having the capacity to receive 350 persons, which together with the recently refurbished Captain's Club having the capacity to accommodate 70 persons has the capacity for 420 persons and thus meets the requirements of boaters for holding various and numerous events in Marina Kornati.

Capacities of marina Kornati				
	Length of piers / m	Number of berths	Dry berth	Total number of berths
Central marina	923	365	70	435
Western marina	262	190	0	190
Southern marina	180	80	0	80
Hotel marina	450	100	0	100
<b>Total</b>	<b>1.815</b>	<b>735</b>	<b>70</b>	<b>805</b>

Table 8-5 Capacity of the marina Kornati (Source: Financial statements for the period from I.–VI. 2016. - ILIRIJA d.d.)

The most important physical indicators and the structure of total revenues for the nautical sector for the period from 2013 to the end of August 2016 are given below in the text.

Physical indicators						Rate of increase /decrease (%)		
	2013	2014	2015	I-VIII 15	I-VIII 16	2014	2015	2016/15
<b>Number of berths</b>	<b>805</b>	<b>805</b>	<b>805</b>	<b>805</b>	<b>805</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>
Central marina	365	365	365	365	365	0,0%	0,0%	0,0%
Central marina, dry berth	70	70	70	70	70	0,0%	0,0%	0,0%
Western marina	190	190	190	190	190	0,0%	0,0%	0,0%
Southern marina	80	80	80	80	80	0,0%	0,0%	0,0%
Hotel marina	100	100	100	100	100	0,0%	0,0%	0,0%
<b>Vessels based on contract</b>	<b>790</b>	<b>773</b>	<b>732</b>	<b>713</b>	<b>702</b>	<b>-2,2%</b>	<b>-5,3%</b>	<b>-1,5%</b>
Vessels based on contract, individual	506	469	459	441	437	-7,3%	-2,1%	-0,9%
Vessels based on contract, charter	284	304	273	272	265	7,0%	-10,2%	-2,6%
Vessels based on contract, structure	100,0%	100,0%	100,0%	100,0%	100,0%			
Individual owner	64,1%	60,7%	62,7%	61,9%	62,3%			
Charter	35,9%	39,3%	37,3%	38,1%	37,7%			
Transit berth - inbound vessels sailing in	3.598	3.558	3.479	2.671	2.811	-1,1%	-2,2%	5,2%
Transit berth- overnight stay of vessels	11.393	12.347	11.793	9.390	9.977	8,4%	-4,5%	6,3%
Port service -number of operations	3.846	3.671	3.948	3.130	2.926	-4,6%	7,5%	-6,5%

*Table 8-6 Selected physical indicators in the nautical sector (Source: ILIRIJA d.d.)*

The backbone of nautical activities in terms of generating revenues is the contractual berth for the vessel in the marina, the transit number of inbound vessels sailing from other nautical ports, repair service, crane service, parking and hospitality.

In 2015, Marina Kornati had 732 vessels based on the berth contract concluded, of which 459 individual vessels, which make up for 63% of all vessels based on the berth contract, which compared to the year 2014 is a growth by 2%, and 273 chartered vessels which account for 37% of all vessels based on the berth contract. The number of concluded berth contracts compared to 2014 is slightly lower, which is a result of a decrease in the number of chartered vessels as a result of long-term continuous decline in the price of charter vessels, resulting in a trend of reducing chartered vessels in the fleets at the national level. In the first 8 months of 2016, a total of 702 vessels had the berth contract concluded, of which 437 individual vessels and 265 charter vessels.

A total of 3,479 inbound vessels sailed inwards having the transit berth in the marina Kornati, which have a berth in some other marinas, which compared to 2014 is a decline by 2% as a result of exceptionally favorable weather conditions in July, August and September when most vessels reduced sailing inwards into transit ports. Although the number of vessels in transit decreased, their structure has changed, whereby the reduction of the volume of physical turnover did not adversely affect the marina operating revenues, where the revenues from inbound transit vessels increased by 5%. Transit vessels realized a total of 11,793 overnight stays with a pronounced rising trend of overnight stays of vessels longer than 16 meters compared to the year 2014.

In 2015, some 3,948 port service and lifting operations by crane were carried out, which compared to the year 2014 is a growth by 8% when 3,671 port service and lifting operations were carried out, which is a



result of an increase in the number of smaller vessels (up to 9 m), which are brought by their owners on trailers and that stay at the marina just in high season, and their owners take them back or park them in the nearby dry marinas.

In Marina Kornati one portion of the revenues from the transit berth is generated from the vessels that sail inwards into Marina Kornati as participants of boat events, mostly in tourist summer off-season. During the year, up to 39 boat events take place in the marina, involving an average of about 10 to about 100 vessels, or from about 50 to 700 participating boaters per event.

The financial and physical indicators are also a result of relationship with the business partners who conduct their independent business in the marina, such as chartering vessels, service and boat accessories, and other services that clients are interested in (nautic shop, market etc.). In 2015, the business activity in Marina Kornati was performed by a total of 54 companies/trades with which a Cooperation Agreement was signed and for which the marina has obtained a special Consent from the Ministry of Maritime Affairs, Transport and Infrastructure.

A summary of total revenues from business segment – nautics is given below in the text.

Nautics -Revenues						Rate of increase /decrease (%)		
HRK 000	2013	2014	2015	I-VIII 15	I-VIII 16	2014	2015	2016/15
Revenues on the local market	36.991	39.454	41.173	35.482	33.798	6,7%	4,4%	-4,7%
Revenues on the foreign market	4.542	4.162	3.745	3.440	3.510	-8,3%	-10,0%	2,0%
Other revenues	536	471	373	508	514	-12,3%	-20,7%	1,2%
<b>Operating income</b>	<b>42.069</b>	<b>44.087</b>	<b>45.291</b>	<b>39.430</b>	<b>37.822</b>	<b>4,8%</b>	<b>2,7%</b>	<b>-4,1%</b>
Financial income	140	0	0	0	0	-100%	-	-
Extraordinary income	305	204	88	6	11	-32,8%	-57,0%	91,2%
<b>Total revenues</b>	<b>42.514</b>	<b>44.291</b>	<b>45.379</b>	<b>39.436</b>	<b>37.833</b>	<b>4,2%</b>	<b>2,5%</b>	<b>-4,1%</b>

Table 8-7 Revenues generated in the nautical sector (Source: ILIRIJA d.d.)

The rise in operating revenues by 4.8% in 2014 or by 2.7% in 2015 during the first 8 months in 2016 was followed by a slight fall in operating revenues in the nautical sector compared to the same period last year. The decrease in operating revenues in the first 8 months in 2016 is a result of the lack of single extraordinary revenues from nautical events realized in the second quarter of 2015 (neutral item on profitability due to approximately the same amount of expense of the event).

As part of the analysis of the revenues, the business segment of the nautics in addition to Marina Kornati also includes business establishments *Restaurant Marina Kornati* and *Biograd Boat Show*, that has been presented as a separate profit unit since 2015 (while in the earlier period the Boat Show was included in the result of the profit center Marina Kornati).

Nautics - Structure of revenues					
	2013	2014	2015	I-VIII 15	I-VIII 16
Marina KORNATI	89,5%	90,4%	84,8%	92,7%	91,9%
Restaurant Marina	10,5%	9,6%	10,2%	7,3%	7,5%
Boat Fair	0,0%	0,0%	5,0%	0,0%	0,6%
<b>Structure of total revenues</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Table 8-8 Structure of total revenues in the nautical sector (Source: ILIRIJA d.d.)

Currently the most valuable investment of the company Ilirija refers to the finalization of the first phase of reconstruction of the coastal part of the nautical tourism port "Marina Kornati", that is, the reconstruction of docks in the central and southern marina aquatorium. In the period from November 2015 through February 2016, the total amount of investment was over 10.1 million HRK, thus providing the accommodation for a large category of vessels and better utilization of the marina aquatorim. The second phase of reconstruction of the Marina Kornati or the reconstruction of the remaining docks in the central aquatorium will be performed in autumn of 2016, where the finalization is planned by the end of February 2017. These investments will contribute to the long-term continuation of the high profitability of operations of the nautical sector.

The buildings of Marina Kornati are located in the maritime domain. The utilization thereof is regulated by approved concessions. The concession contract for maritime domain - nautical tourism port Kornati regulates, at the moment, the utilization thereof for a period of 32 years, or till 2031.



Marina Kornati

### 8.1.3. CAMPING

**CAMPING PARK SOLINE**, classified as a four star camping, also located in Biograd na Moru covers an area of 20.00 Ha, contains **1,130 accommodation units** with a total capacity to accommodate up to 3,390 persons.

The camp is located in the shade of a thick pinewood, by the sand and pebble beach, with attractive pitches for accommodation of campers, caravans and tents, is located near the Biograd town center to which you can get by walking along the most attractive Biograd beaches along the newly built promenade. Inside the camp, the guests have access to modernly equipped sanitary facilities, washing machines and dryers, exchange office, internet cafe and a supermarket. There is a restaurant "Park Soline" with a capacity of over 280 seats as a part of the camp. If guests are interested in spending active holiday there are numerous sports and recreation activities that can be available to them near the camp, as well as organized excursions to nearby national parks (Krka National Park, Kornati National Park, Paklenica National Park) and historic towns. In addition to the enriched restaurant offer, the newly built promenade that stretches along the entire camp and the beach leading to the Biograd city center, the camp "Park Soline" is an attractive destination for a family vacation. Owing to continuous investments in the camp "Park Soline", the number of overnight stays rose from 4,556 in 1996 to 260,579 overnight stays in 2015.



The camp Park Soline is the winner of numerous domestic and international awards:

- Camp „Park Soline“ has been selected among the 10 best Croatian camps - the Top Camping Croatia;
- Winner of the award for quality from 2009 to 2015 by the Croatian Camping Union;
- The F.I.C.C. Camping World Federation, one of the world's leading organization dedicated to camping, caravanning and motocaravanningu "Park Soline" gave the award for the high quality of service and top professionalism of its management in promoting camping tourism;
- The Italian Camping Association IL FEDERCAMPEGGIO awarded it the 2nd place in the category "Sympathy and quality" for the years 2008 and 2009,
- In the "Best Camp Adria in 2014" and "Best Camp Adria 2015" actions, in which the guests-campers choose the best camps in Croatia and Slovenia, conducted by autokamp.si, the most influential professional web media in Slovenia that promotes the camping tourism, the camp "Park Soline" won the second place in the category of the Best large Dalmatian camps;
- The camp „Park Soline“ is the holder of the international eco label for accommodation facilities "Green Key" and Ecocamping certificate.

The most important physical indicators for the camping sector are given below in the text:

Physical indicators						Rate of increase / decrease (%)		
	2013	2014	2015	I-VIII 15	I-VIII 16	2014	2015	2016/15
Pitches	926	935	936	936	936	1,0%	0,1%	0,0%
Camp sites	130	188	187	187	194	44,6%	-0,5%	3,7%
<b>Total accommodation units</b>	<b>1.056</b>	<b>1.123</b>	<b>1.123</b>	<b>1.123</b>	<b>1.130</b>	<b>6,3%</b>	<b>0,0%</b>	<b>0,6%</b>
Extra zone	80	80	81	81	81	0,0%	1,3%	0,0%
First zone	336	345	326	326	326	2,7%	-5,5%	0,0%
Second zone	168	168	182	182	182	0,0%	8,3%	0,0%
Third zone	472	530	534	534	541	12,3%	0,8%	1,3%
<b>Total accommodation units</b>	<b>1.056</b>	<b>1.123</b>	<b>1.123</b>	<b>1.123</b>	<b>1.130</b>	<b>6,3%</b>	<b>0,0%</b>	<b>0,6%</b>
						-	-	
Days of work	200	200	191	132	132	0,0%	-4,5%	0,0%
Arrivals of tourists	28.956	30.669	33.446	30.014	29.282	5,9%	9,1%	-2,4%
Overnight stay of tourists	228.880	234.346	260.579	229.567	225.939	2,4%	11,2%	-1,6%
Average days of stay	7,9	7,6	7,8	7,6	7,7	-3,8%	2,6%	1,3%
Days of occupancy	n/a	100	103	n/a	n/a	n/a	3,0%	n/a
Occupancy	n/a	49,9%	54,2%	n/a	n/a	n/a	n/a	n/a

*Table 8-9 Selected physical indicators in the camping sector (Source: ILIRIJA d.d.)*

In 2015, 33,446 guests or 9.1% more guests than in the same period of 2014 stayed in the camping sector, with an average length of stay of 7.8 days. 260,579 overnight stays or 11.2% more overnight stays in the observed period were realized, which accounts for 83.86% of all camping overnight stays in the city of Biograd na Moru. The indicated growths are the result of marketing activities and price policies in 2015.

In the structure of overnight stays, the top five source markets are (1) the Slovenian market with a share of 24% overnight stays, (2) the German market with a share of 17% overnight stays, (3) the Czech market with a share of 17% overnight stays, (4) the Dutch market with a share of 10% overnight stays and (5) the Croatian market with a share of 6% overnight stays.

The segments of mobile homes and camping units record the highest increase in arrivals of guests from the Dutch market (mobile homes record an increase by 44.47%, and camping units by 44.51%), the German market (mobile homes by 7.59% and camping units by 4.70 %), the Slovenian market (mobile homes by 50.41% and the camping units by 21.55%) compared to the year 2014.

In the first 8 months of 2016 the camping sector, as a result of exceptionally bad weather in June and unfavorable schedule of holidays, records the expected decline in physical turnover (decline in overnight stays by 1.6%).

Despite the decline in the number of overnight stays of the camping sector, it was not reflected on the total operating revenues, which in the first eight months of 2016 rose by 1.1% compared to the same period last year.

Camping - Revenues						Rate of increase / decrease (%)		
HRK 000	2013	2014	2015	I-VIII 15	I-VIII 16	2014	2015	2016/15
Revenues on the local market	12.550	16.310	18.238	16.386	16.880	30,0%	11,8%	3,0%
Revenues on the foreign market	9.385	6.943	7.627	6.832	6.470	-26,0%	9,9%	-5,3%
Other revenues	1.392	1.433	832	825	954	2,9%	-41,9%	15,6%
<b>Operating income</b>	<b>23.327</b>	<b>24.686</b>	<b>26.697</b>	<b>24.043</b>	<b>24.304</b>	<b>5,8%</b>	<b>8,1%</b>	<b>1,1%</b>
Financial income	0	0	0	0	0	-	-	-
Extraordinary income	13	202	335	303	6	1362%	65,6%	-98,0%
<b>Total revenues</b>	<b>23.340</b>	<b>24.888</b>	<b>27.032</b>	<b>24.346</b>	<b>24.310</b>	<b>6,6%</b>	<b>8,6%</b>	<b>-0,1%</b>

Table 8-10 Revenues generated in the camping sector (Source: ILIRIJA d.d.)

In the last three years, the camping sector has been recording a continuous rise in revenues. Investment in the purchase of new mobile homes, and investments in marketing and sales, resulted in the growth of physical indicators as reflected in the significant growth of revenues and profitability.

As part of the financial analysis, the business segment of camping in addition to business unit *Camping Park Soline*, also includes the profit center *Restaurant Park Soline*.

Camping - Structure of revenues					
	2013	2014	2015	I-VIII 15	I-VIII 16
Camp Park SOLINE	92,1%	91,5%	90,8%	90,8%	91,0%
Restaurant Park SOLINE	7,9%	8,5%	9,2%	9,2%	9,0%
<b>Structure of total revenues</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Table 8-11 Structure of total revenues in the camping sector (Source: ILIRIJA d.d.)

Camping Park Soline is spread over 200,800 m<sup>2</sup> land, obtained by the Company for permanent use for the performance of registered tourism activity according to the decision of the former Municipal Assembly of Biograd na Moru. The above land, except for the land plot of 779 m<sup>2</sup> is not included in the value assessment of the Croatian Privatization Fund and is not included in the Company's share capital in the transformation and privatization process. According to the legal regulations, in 2011 the Company submitted a request to the Republic of Croatia for granting the concession for a period of 50 years.



#### 8.1.4. DESTINATION MANAGEMENT

ILIRIJA d.d. bases its business on providing services by using its capacities (hotels, nautics, camping) at the same time providing additional amenities and services, thus creating a high-quality integrated and complementary tourism product in the domestic and international tourism market, presented under the brand **Ilirija Travel**.

**ILIRIJA TRAVEL** – destination management company. Owing to the development of new services and facilities, a high-quality, integrated and complementary tourism product has been created in response to the needs of the modern tourism demand, conditioned by technological, social, market factors and trends of ever more demanding markets. Among the most important backbones of offering and implementation of these special programs and products there is a business in its own additional facilities such as; Event Boat "Nada", Arsenal (World Heritage Site), diffuse hotel Ražnjevića dvori, Villa Primorje, etc. Considering the geographical advantages and excellent connections to all Croatian regions, Ilirija Travel offers a wide range of excursions and learning about regional history and traditional offer which makes it an excellent DMC and PCO partner. Ilirija Travel is the winner of the DMK Certificate for business operations of the destination management company awarded by UNPAH or the Croatian Association of Independent Travel Agents. The Certificate confirms responsible attitude towards suppliers, human resource capacity to provide all necessary information on the destination and all products of the destination.

**EVENT BOAT „NADA“** multifunctional yacht, length of 36m, width of 6.8 meters, and the speed of 16 knots, allows reception of a total of 180 people. The restaurant, kitchen and bar provide an excellent hospitality service during sailing. Conferences, seminars, special events, unique business meetings, gala receptions and banquets, unique weddings, exclusive day and night cruises, incentive events are all amenities provided by the Event boat Nada which adapts to the individual requirements of the clients. It is equipped with high quality conference audio and video equipment, DJ cabin, the state-of-the-art light show, changeable settings of tables and seats at clients' wishes. Total investments amounted to over 18 million HRK. Given the relatively recent activation of the boat, which was introduced to the market in 2014, in the future we can expect an increase in revenues generated from the boat Nada.



**ARSENAL** which is a world heritage site, a multimedia center located in Zadar, built in the 17th century, which was renovated in 2005 as an indoor town square or as the center of public, cultural and entertainment life in the region in which over 100 public and private events are organized where up to 1,000 persons can be served at the high quality level. From 2005 to late 2015, over 1500 various events such as exhibitions, concerts, conferences, presentations and banquets have been organized, but it has also been ranked among the ten special areas for organizing conferences in leading professional journals of MICE industry in Central and Southeast Europe. The Croatian Association of Professional Congress Tourism gave an award to Arsenal entitled *Ambassador of Congress Tourism*.



**DIFFUSE HOTEL RAŽNJEVIĆA DVORI AD 1307**, a diffuse multi-functional facility, located in the settlement of Polača named after the municipality in this settlement, in the heart of Ravni Kotari, which lies halfway between Biograd na Moru and Benkovac and is the first facility of such a category in the Republic of Croatia. This tourist complex has originated from the rural estate tradition, is an example of innovative tourism product conceived as a blend of tradition and contemporary trends. The accommodation facilities include 3 suites with a total of 14 beds, with a categorization of the 4 star and the possibility to work throughout the whole year. The hotel is composed of a tangle of six functionally connected buildings, located on the land of 1.7 ha, as a result of development, reconstruction and conversion of the old and traditional buildings, residential and farm buildings, developed and furnished in a traditional way that fully fit into the local community and its way of life.



**VILLA PRIMORJE** was introduced to the market in late 2015. It was built in the second half of the 19 century and is a typical traditional Dalmatian stone nobleman's house with the outbuildings. Newly renovated, luxuriously decorated and equipped in line with the latest standards for facilities of such kind and category, it has its own restaurant that offers the possibility of organizing a number of events. The Villa has its own Mediterranean garden with a promenade that stretches to the sea and beaches. It is located in an attractive location between Biograd na Moru and settlement of Sv. Filip i Jakov.



### 8.1.5. HOSPITALITY

**RESTAURANT "MARINA KORNATI"**, located in Marina Kornati, having the capacity for over 350 persons, which together with the recently refurbished Captain's Club having the capacity to accommodate 70 persons, has the capacity for 420 persons meeting thus the requirements of boaters for holding various and numerous events in Marina Kornati. Besides hospitality services, Captain's Club also provides services for a number of presentations on nautical products, and is an ideal venue for holding small conferences and events. In 2015 a total of 50 events were held in the "Marina Kornati" restaurant which were attended by over 12,830 persons.

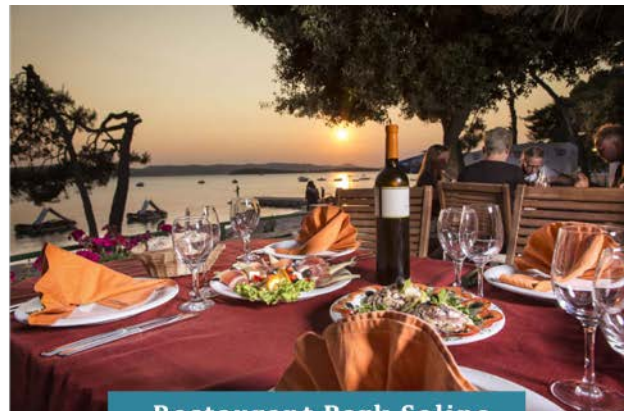
**RESTAURANT „PARK SOLINE“** is located in the camp "Park Soline"\*\*\*, close to the sea, ten minutes walk from the center of Biograd na Moru with an offer of food based on Mediterranean cuisine. The restaurant with a capacity to accommodate 280 people offers the possibility of organizing various events - family celebrations, banquets and receptions as well as meetings. The restaurant includes a Dalmatian tavern with a fireplace, coffee bar and taps of wine decorated as a wine cellar, which offers the possibility of buying and tasting top quality red and white wines produced from the native Croatian species.

**BEACH BAR "DONAT"** is located in the building-magazine located in a protected cultural and historical complex of the Sv. Filip i Jakov settlement, which is also entered in the Register of Croatian cultural monuments of the Republic of Croatia. Today it is classified as a beach hospitality facility or beach bar/cocktail bar with capacity to accommodate 140 persons.

**"LAVENDER" LOUNGE BAR**, located inside of Adriatic hotel, next to the beach, with a beautiful view of the Pašman Channel, offers the possibility of organizing a number of events of different character (MICE, weddings etc.).



Restaurant Marina Kornati



Restaurant Park Soline





### 8.1.6 SPORTS FACILITIES

The sports activities can be done in the “**TENNIS CENTER ILIRIJA**”, located in a pinewood Soline near the old city center, in an area of 48,705 m<sup>2</sup>, consists of 20 tennis courts and multipurpose courts (14 clay and 6 color set tennis courts) with night lighting, restaurant and changing rooms as well as accompanying capacities.



The judgment rendered by the Higher Commercial Court of the Republic of Croatia as of 2016 affirmed the judgment rendered by the Commercial Court in Zadar, which designates Ilirija d.d. as the owner of the **entire** property with land plot 3232 cadastral municipality Biograd, with an area of **48,705 m<sup>2</sup>**, which in the nature is “**Tennis center Ilirija**” with the surrounding land.

In this way the dispute over the property of the “Tennis center Ilirija” has been completed to the benefit of the Company by rendering final and absolute judgment.

## 8.2. OPERATING RESULTS OF THE COMPANY

Physical indicators						Rate of increase /decrease (%)		
	2013	2014	2015	2015 VIII	2016 VIII	2014	2015	2016/15
<b>Hotel sector</b>								
Number of rooms	443	443	443	443	443	0,0%	0,0%	0,0%
Number of beds	907	907	907	907	907	0,0%	0,0%	0,0%
Arrivals of tourists	33.531	38.032	39.327	26.003	25.523	13,4%	3,4%	-1,8%
Overnight stays of tourists	122.921	130.175	130.643	98.051	99.509	5,9%	0,4%	1,5%
% utilization (365 days)	36,7%	39,3%	39,5%	29,6%	30,1%	7,1%	0,4%	1,5%
% utilization (days of work)	63,5%	68,0%	66,2%	68,4%	69,4%	7,2%	-2,7%	1,5%
<b>Nautics</b>								
Number of berths	805	805	805	805	805	0,0%	0,0%	0,0%
Vessels based on contract	790	773	732	713	702	-2,2%	-5,3%	-1,5%
Transit berth - inbound vessels sailing in	3.598	3.558	3.479	2.671	2.811	-1,1%	-2,2%	5,2%
Transit berth - overnight stay of vessels	11.393	12.347	11.793	9.390	9.977	8,4%	-4,5%	6,3%
Port service - number of operations	3.846	3.671	3.948	3.130	2.926	-4,6%	7,5%	-6,5%
<b>Camping</b>								
Total accommodation units	1.056	1.123	1.123	1.123	1.130	6,3%	0,0%	0,6%
Arrivals of tourists	28.956	30.669	33.446	30.014	29.282	5,9%	9,1%	-2,4%
Overnight stays of tourists	228.880	234.346	260.579	229.567	225.939	2,4%	11,2%	-1,6%

Table 8-12 Summary of the most important physical indicators for the period from 2013 to I-VIII 2016 (Source: ILIRIJA d.d.)

Physical results of the Company's business operations are such as forecasted and expected for the first eight months of the year 2016 at the level of all of its sectors. The growth of the physical turnover was realized the hotel sector through the rise in the number of overnight stays by 1,5% and nautical services demonstrated by an increase in the number of inbound transit vessels by 5.2% and their overnight stays by 6,3%. As a result of exceptionally bad weather in June and unfavorable schedule of holidays, the camping sector records the expected decline in physical turnover, namely by 1.6%. The sales, booking and announcements for post-season indicate positive expectations at the level of all sectors of the company.

The profit and loss in the observed period, and the structure of revenues by business segments and profit centers, is shown in the tables below in this chapter.

Ilirija d.d. - Revenues for the period I-VIII 2016						Rate of increase /decrease (%)		
HRK 000	2013	2014	2015	I-VIII 15	I-VIII 16	2014	2015	2016/15
Revenues on the local market	78.629	84.675	89.486	72.482	72.118	7,7%	5,7%	-0,5%
Revenues on the foreign market	35.659	34.313	35.790	29.772	28.435	-3,8%	4,3%	-4,5%
Other revenues	2.143	2.805	1.846	1.498	2.532	30,9%	-34,2%	69,0%
<b>Operating income</b>	<b>116.431</b>	<b>121.793</b>	<b>127.122</b>	<b>103.752</b>	<b>103.085</b>	<b>4,6%</b>	<b>4,4%</b>	<b>-0,6%</b>
Financial income	273	136	484	129	192	-50,0%	255,4%	48,8%
Extraordinary income	616	945	541	356	33	53,3%	-42,7%	-90,7%
<b>Total revenues</b>	<b>117.320</b>	<b>122.874</b>	<b>128.147</b>	<b>104.237</b>	<b>103.310</b>	<b>4,7%</b>	<b>4,3%</b>	<b>-0,9%</b>
Cost of raw material and material	(19.094)	(20.227)	(20.107)	(14.145)	(12.861)	5,9%	-0,6%	-9,1%
Costs of services	(16.279)	(16.923)	(17.868)	(11.709)	(9.115)	4,0%	5,6%	-22,2%
Gross salaries	(30.203)	(32.943)	(29.763)	(19.995)	(20.292)	9,1%	-9,7%	1,5%
Other expenses	(18.006)	(18.745)	(19.932)	(12.653)	(11.092)	4,1%	6,3%	-12,3%
Extraordinary expenses	(890)	(825)	(2.710)	(426)	(677)	-7,2%	228,4%	58,9%
<b>Total expenses</b>	<b>(84.472)</b>	<b>(89.663)</b>	<b>(90.380)</b>	<b>(58.928)</b>	<b>(54.037)</b>	<b>6,1%</b>	<b>0,8%</b>	<b>-8,3%</b>
<b>EBITDA</b>	<b>32.848</b>	<b>33.211</b>	<b>37.767</b>	<b>45.309</b>	<b>49.273</b>	<b>1,1%</b>	<b>13,7%</b>	<b>8,7%</b>
EBITDA margin (%)	28,2%	27,3%	29,7%	43,7%	47,8%			
Depreciation	(6.386)	(7.470)	(8.226)	(4.980)	(5.484)	17,0%	10,1%	10,1%
<b>EBIT</b>	<b>26.462</b>	<b>25.741</b>	<b>29.541</b>	<b>40.329</b>	<b>43.789</b>	<b>-2,7%</b>	<b>14,8%</b>	<b>8,6%</b>
EBIT margin (%)	22,7%	21,1%	23,2%	38,9%	42,5%			
Financial expenses	(6.333)	(5.356)	(4.031)	(2.892)	(2.036)	-15,4%	-24,7%	-29,6%
<b>Profit before tax</b>	<b>20.129</b>	<b>20.385</b>	<b>25.510</b>	<b>37.437</b>	<b>41.753</b>	<b>1,3%</b>	<b>25,1%</b>	<b>11,5%</b>
EBT margin (%)	17,3%	16,7%	20,1%	36,1%	40,5%			

Table 8-13 Financial results for the period from 2013 to I-VIII 2016 (Source: ILIRIJA d.d.)

The realized financial operating results in 2015 at the level of the Company are far the best so far, whereas the results for the first eight months in 2016, as well as position of sales and booking for post-season lead to the conclusion that in 2016 a further big step forward will be made as regards the profitability.

Compared to the same period last year, **in the first eight months of the year 2016, a growth in EBITDA profitability was recorded by 8.7% or 4.0 million HRK.** The growth in profitability has been greatly achieved owing to the continuation of the policy of continuous cost management, and so total operating costs (excluding depreciation and financial expenses) decreased by 8.3% or 4.9 million HRK in the first 8 months. The greatest savings have been made in the area of expenses of external services (decline by 22.2% or 2.6 million HRK), other expenses (decline by 12.3% or 1.6 million HRK) and expenses of raw materials and material (decline by 9.1% or 1.3 million HRK), while the gross salary expenses increased by 1.5%. Also, owing in part to the recapitalization of the Company in 2015, and related reduction of the debt to the banks, in the first eight months of 2016, the financial expenses of the company have greatly decreased (decline by 29.6% or 0.9 million HRK). Further to the foregoing, **the profit before taxation in the first 8 months of 2016 increased by 11.5% or by 4.3 million HRK.**

The total operating revenues of the company led to a steady growth in 2014 (4.6%) and 2015 (4.4%), while in the first eight months of 2016, a slight decline in operating revenues by 0.6% was recorded, primarily due to the expected decline in revenues from nautical events (lack of a single nautical event held in 2015, and that is not held every year).

Observing the period since 2013, the camping sector achieves the highest growth rate of total revenues (6.6% in 2014 and 8.6% in 2015). The relatively highest growth rates in revenues in the observed period were recorded in the newly opened facilities of the company Ilirija d.d., such as Event boat "Nada", agritourism (diffuse hotel Ražnjevića dvori) and Villa Primorje. Due to the relatively low base value, the continuation of achieving high growth rates of indicated newly opened facilities is expected.

The table below shows the structure of the total revenues by the most important business segments and profit centers of the company Ilirija d.d.

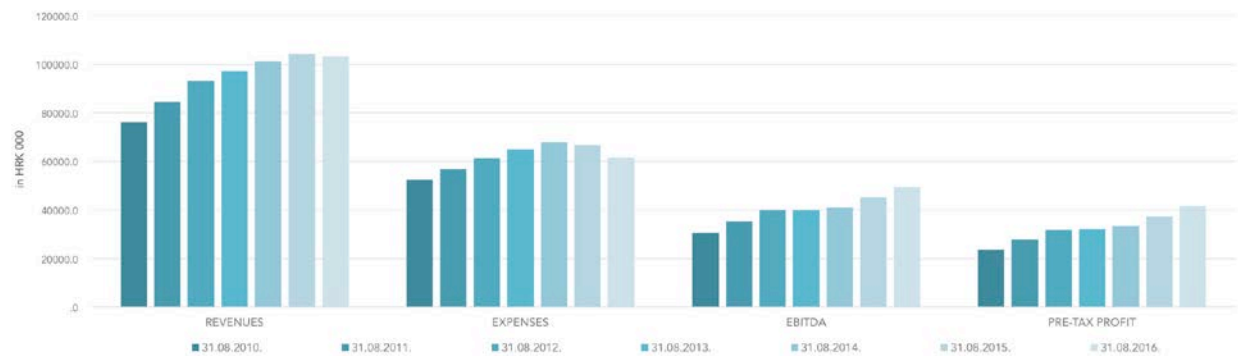
Ilirija d.d. - Total revenues						Rate of increase /decrease (%)		
HRK 000	2013	2014	2015	I-VIII 15	I-VIII 16	2014	2015	2016/15
Hotel Ilirija	19.225	20.208	20.533	14.841	15.082	5,1%	1,6%	1,6%
Hotel Kornati	9.180	10.778	10.330	7.722	7.623	17,4%	-4,1%	-1,3%
Hotel Adriatic	8.660	8.744	8.796	6.231	6.684	1,0%	0,6%	7,3%
Hotel Villa Donat	3.775	4.257	3.777	3.170	3.242	12,8%	-11,3%	2,3%
Lavender bar	1.116	1.021	1.121	1.011	898	-8,4%	9,7%	-11,2%
Aquatic center and Tennis center	2.867	2.835	2.869	2.670	2.538	-1,2%	1,2%	-4,9%
<b>Hotel sector</b>	<b>44.823</b>	<b>47.843</b>	<b>47.426</b>	<b>35.645</b>	<b>36.067</b>	<b>6,7%</b>	<b>-0,9%</b>	<b>1,2%</b>
Marina Kornati	38.030	40.019	38.483	36.571	34.782	5,2%	-3,8%	-4,9%
Restaurant Marina Kornati	4.484	4.272	4.639	2.865	2.841	-4,7%	8,6%	-0,8%
Boat fair	0	0	2.257	0	209	-	-	-
<b>Nautics</b>	<b>42.514</b>	<b>44.291</b>	<b>45.379</b>	<b>39.436</b>	<b>37.832</b>	<b>4,2%</b>	<b>2,5%</b>	<b>-4,1%</b>
Camp Park Soline	21.502	22.765	24.550	22.116	22.112	5,9%	7,8%	0,0%
Restaurant Park Soline	1.838	2.123	2.482	2.230	2.198	15,4%	16,9%	-1,4%
<b>Camping</b>	<b>23.340</b>	<b>24.888</b>	<b>27.032</b>	<b>24.346</b>	<b>24.310</b>	<b>6,6%</b>	<b>8,6%</b>	<b>-0,1%</b>
Other	6.643	5.852	8.310	4.809	5.101	-11,9%	42,0%	6,1%
<b>Total</b>	<b>117.320</b>	<b>122.874</b>	<b>128.147</b>	<b>104.236</b>	<b>103.310</b>	<b>4,7%</b>	<b>4,3%</b>	<b>-0,9%</b>

Table 8-14 Revenues by segments of operations for the period from 2013 to I-VIII 2016 (Source: ILIRIJA d.d.)

As a part of other profit centers, there are also profit centers Beach bar Donat, Ilirija travel, Event boat "Nada", Agritourism, and the cost centers of the Common Service and Technical Service.

Ilirija d.d. -Profit and loss account for the period from 2010 I-VIII to 2016 I-VIII								
HRK 000	31.08.2010.	31.08.2011.	31.08.2012.	31.08.2013.	31.08.2014.	31.08.2015.	31.08.2016.	Index 16/15
Operating income	75.783	84.008	92.660	96.859	100.742	103.752	103.085	99,36
Financial income	62	204	151	198	86	129	192	149,16
Extraordinary income	478	315	320	46	354	356	33	9,12
<b>TOTAL REVENUES</b>	<b>76.323</b>	<b>84.527</b>	<b>93.131</b>	<b>97.103</b>	<b>101.182</b>	<b>104.237</b>	<b>103.310</b>	<b>99,11</b>
Operating expenses	44.350	47.522	51.371	54.673	59.640	58.502	53.360	91,21
Financial expenses	3.278	3.744	4.067	3.508	3.473	2.892	2.036	70,41
Extraordinary expenses	1.348	1.573	2.006	2.475	553	426	677	159,07
Depreciation	3.641	3.887	3.924	4.160	4.257	4.980	5.484	110,12
<b>TOTAL EXPENSES</b>	<b>52.617</b>	<b>56.726</b>	<b>61.368</b>	<b>64.816</b>	<b>67.923</b>	<b>66.800</b>	<b>61.557</b>	<b>92,15</b>
<b>PROFIT/LOSS</b>	<b>23.706</b>	<b>27.801</b>	<b>31.763</b>	<b>32.287</b>	<b>33.259</b>	<b>37.437</b>	<b>41.753</b>	<b>111,53</b>
<b>OPERATING PROFIT/LOSS</b>	<b>31.433</b>	<b>36.486</b>	<b>41.250</b>	<b>42.186</b>	<b>41.102</b>	<b>45.250</b>	<b>49.725</b>	<b>109,89</b>
<b>EBITDA</b>	<b>30.625</b>	<b>35.432</b>	<b>39.754</b>	<b>39.955</b>	<b>40.989</b>	<b>45.309</b>	<b>49.273</b>	<b>108,75</b>

Table 8-15 Profit and loss account for the period from 2010 I-VIII to 2016 I-VIII (Source: ILIRIJA d.d.)



Graph 8-4 Revenues and profitability for the period from 2010 I-VIII to 2016 I-VIII (Source: ILIRIJA d.d.)

Observing a longer time period (since 2010), the company **Ilirija d.d. continuously achieves significant growth in revenues and profitability**, as it can be shown in the following table and related graph.

The best profitability indicators of the company Ilirija d.d. (EBITDA, EBIT, profit before and after tax) realized in the first eight months of 2016 are far the best so far, compared with the same periods of the previous fiscal years and are the result of the rationalization and decrease in operating expenses or increase in operating efficiency of the Company as a whole.

**BALANCE SHEET INDICATORS**

Based on the presented results for the first eight months of 2016, the following table shows the balance sheet of the company as at 31/08/2016.

Balance as at 31/8/2016					
HRK 000	31.12.2014.	31.12.2015.	30.6.2016.	31.8.2015.	31.8.2016.
<b>ASSETS</b>					
Intangible assets	548	472	521	320	435
Land	41.068	42.340	42.340	42.340	42.340
Buildings	209.416	224.503	222.034	217.427	221.196
Plants and equipment	30.553	32.154	39.122	31.009	39.251
Advances for tangible assets	943	488	450	514	381
Tangible assets in progress	12.384	428	9.667	5.539	10.443
<b>Tangible assets</b>	<b>294.364</b>	<b>299.913</b>	<b>313.613</b>	<b>296.829</b>	<b>313.611</b>
Long-term financial assets	40	40	40	40	40
<b>Fixed assets</b>	<b>294.952</b>	<b>300.425</b>	<b>314.174</b>	<b>297.189</b>	<b>314.086</b>
Inventories	2.276	2.161	2.245	2.781	2.054
Trade receivables	4.427	6.513	14.500	19.121	19.435
Other receivables	3.155	1.262	932	3.027	1.022
Current financial assets	5.849	4.453	2.400	5.718	4.273
Cash at bank and in hand	109	338	171	1.370	1.564
<b>Current assets</b>	<b>15.816</b>	<b>14.727</b>	<b>20.248</b>	<b>32.017</b>	<b>28.348</b>
Prepayments and accrued income	144	0	123	0	0
<b>TOTAL ASSETS</b>	<b>310.912</b>	<b>315.152</b>	<b>334.545</b>	<b>329.206</b>	<b>342.434</b>
<b>LIABILITIES</b>					
Capital and reserves	177.859	216.376	225.090	211.555	253.066
Liabilities to banks	89.409	59.935	68.200	77.757	67.457
<b>Long-term liabilities</b>	<b>89.409</b>	<b>59.935</b>	<b>68.200</b>	<b>77.757</b>	<b>67.457</b>
Liabilities to banks	13.539	3.803	6.117	8.376	330
Trade payables and bills of exchange	21.847	24.483	14.757	18.311	9.965
Liabilities to employees	1.245	1.132	2.679	2.891	3.004
Liabilities for taxes and contributions and similar liabilities	2.673	6.105	5.102	5.580	2.821
Other short-term liabilities	921	869	4.946	1.053	2.915
<b>Short-term liabilities</b>	<b>40.225</b>	<b>36.392</b>	<b>33.601</b>	<b>36.211</b>	<b>19.035</b>
Accruals and deferred income	3.419	2.449	7.654	3.683	2.876
<b>TOTAL LIABILITIES</b>	<b>310.912</b>	<b>315.152</b>	<b>334.545</b>	<b>329.206</b>	<b>342.434</b>

Table 8-16 Balance sheet in the period from 31/12/2014 to 31/8/2016 (Source: ILIRIJA d.d.)

In the first eight months of 2016, an increase in total tangible assets has been recorded thanks to the continuous investments into accommodation facilities, improvement of the service, supply and amenities in all sectors of the company, thereby particularly emphasizing the finalization of the reconstruction of the first phase of the nautical tourism port Marina Kornati, the purchase of new mobile homes for the camping sector, extension of the capacities of hospitality facilities, the development of the common public areas and accommodation facilities in the hotel sector, products and services. Most of the investments were financed from the Company's own funds, while the remaining part was financed by leasing, namely on the basis of the conversion from operating into financial leasing.

In accordance with the 2016 Annual Investment Plan in the first six months of 2016, a total of HRK 17.8 million HRK was invested. Regarding the camping sector, the investment was made in purchasing and equipping new mobile homes, landscaping of the camp up to the level of the arboretum and its further infrastructural development, while at the same time the Company continued to invest in the shared amenities and additional refurbishment of the accommodation units in the hotel sector.

The most considerable investment of the Company in the first six months of 2016 was finished in February and refers to the completion of the first phase of reconstruction of the coastal part of the nautical tourism port "Marina Kornati", or the reconstruction of docks in the central and southern marina aquatorium, totaling to HRK 10.1 million, of which HRK 5.2 million was invested in 2015 since the reconstruction began in November that year, while the investment in the first six months of 2016 amounted to HRK 4.9 million that allowed the accommodation of a higher category of vessels and better utilization of the marina aquatorium. The second phase of the reconstruction of Marina Kornati or the reconstruction of the remaining docks in the central aquatorium will be performed in the autumn of 2016, where the finalization is planned by the end of February 2017, according to the 2016 Investment Plan and building permit.

After a successful recapitalization, **in 2015 Ilirija d.d. significantly reduced the debt owed to the banks, and the debt was reduced by 38% or HRK 39.2 million**, followed by the decrease in the ratio of net debt to adjusted EBITDA to 1.5. Net debt and related debt indicators further decreased after taking into account the market values of non-operating assets owned by Ilirija d.d. (for details see the continuation of this chapter).

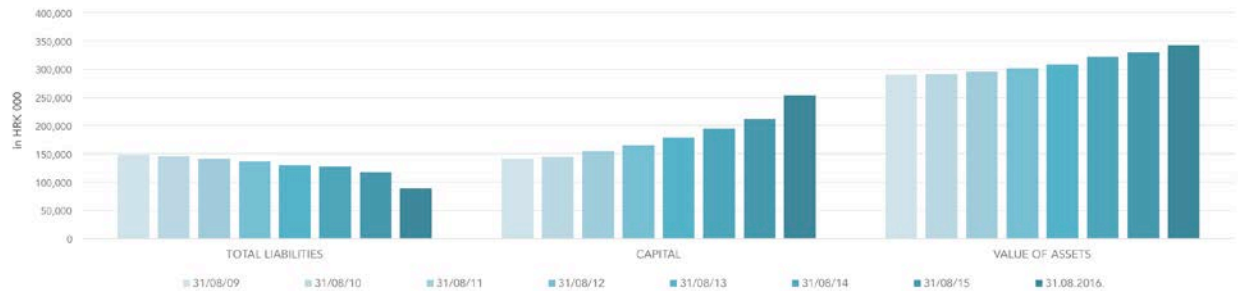
Total debt owed to financial institutions in 2016 grew by the item of long-term finance lease (HRK 6.6 million as at 31/08/2016) due to a change in the method of financing of a part of the long-term investments from operating to finance lease. By the end of 2015, total debts owed on the grounds of lease were less than HRK 1.0 million, and without the change indicated above in the method of financing, the total debt owed to financial institutions would be significantly lower.

As at 12<sup>th</sup> September 2016, the company Ilirija d.d. has no tax debt which is due.

On 10<sup>th</sup> June 2016, the General Shareholders' Assembly passed a Decision on the Company's profit utilization for the fiscal year 2015 based on which it was decided that a portion of the realized profit after tax in the amount of HRK 4.9 million would be appropriated for the distribution of the dividend in the amount of HRK 18.00 per share which is an increase in the amount of dividend per share by 20% compared to the amount of the dividend of HRK 15.00 per share distributed to the Company's shareholders in 2015. Also, at the above General Shareholders' Assembly, the Decision on an increase in share capital from the Company's assets was adopted, based on which the share capital increases from the reinvested profits earned in 2015 by the amount of HRK 8.2 million. The share capital of the Company increased from the amount of HRK 150,857,300.00 to the amount of HRK 159,085,880.00, in a way that the nominal amount for each of a total 274,286 shares increases by HRK 30.00 in a way that after the increase, each share has a nominal amount of HRK 580.00.

CUMULATIVE COMPARATIVE OVERVIEW							
of fundamental indicators on the position of assets, capital and liabilities of the Company as at 31/08/2016 also for the periods from 2009 to 2016 in HRK 000							
YEAR	TOTAL LIABILITIES	CAPITAL	VALUE OF ASSETS	REVENUES	OPERATING PROFIT	PROFIT	ANNUAL DIVIDEND
1	2	3	4	5	6	7	8
31.08.2016.	89.368	253.066	342.434	103.310	49.725	41.753	4.937
31.08.2015.	117.652	211.555	329.207	104.237	45.250	37.437	3.741
31.08.2014.	127.783	194.553	322.336	101.182	41.102	33.259	3.741
31.08.2013.	129.800	179.020	308.820	97.103	42.186	32.287	3.741
31.08.2012.	136.303	165.403	301.706	93.131	41.289	31.763	3.741
31.08.2011.	141.353	154.813	296.165	84.527	36.486	27.801	3.741
31.08.2010.	146.704	144.163	290.868	76.323	31.433	23.706	3.741
31.08.2009.	148.396	141.593	289.990	76.778	32.124	25.423	3.741

Table 8-17 Cumulative comparable overview for the period from 2010 I-VIII to 2016 I-VIII (Source: ILIRIJA d.d.)



Graph 8-5 Cumulative comparable overview for the period from 2010 I-VIII to 2016 I-VIII (Source: ILIRIJA d.d.)

Observing a longer time period (since 2010), the company **Ilirija d.d. has been continuously reducing total liabilities, increasing capital and value of the assets every year**, which is shown in the following table and related graph.



## NON-OPERATING ASSETS

An additional impact on the value of the shares of Ilirija d.d. is exerted by **non-operating assets** owned by the company, which has been neither used for performing the core business activities of the company, nor does the company realize the economic benefit from the relevant assets. Also, the Company's financial projections, given in this report, neither include revenues from the utilization of non-operating property nor the revenue from the sale thereof.

The most important non-operating assets owned by Ilirija d.d. refers to **unutilized land (total area of 10-12 hectares)** at highly attractive locations:

- **Land plot, Sv. Filip i Jakov:** the Company owns approximately 2.5 hectares of the building land plot in Sv. Filip i Jakov, of which a smaller portion thereof is utilized (Villa Donat), while approximately 20.000 m<sup>2</sup> of the land plot remain unused. According to the conceptual design, Ilirija d.d. is planning to build eight detached villas with apartments on the undeveloped part of the land plot and the Company is also planning to extend the existing accommodation and supporting facilities. With respect the planned project, the Municipality of Sv. Filip i Jakov has adopted the Detailed development plan for the area intended for hospitality and tourism (T1-hotel) and for mixed-use purposes.
- **Land plot, Villa Primorje:** The Company is the owner of approximately 2.5 hectares of land in the vicinity of the Villa Primorje Hotel, of which only a small part of the land plot is utilized (about 10% of the total surface area). In addition to previous physical planning of the area, the undeveloped part of the land plot may be used for building settlements with traditional Dalmatian type villas. The unused land is in direct contact with the building land plot.
- **Land plot, Tennis Center:** The Company owns approximately 4.9 hectares of the land plot in Biograd within the boundaries of the Forest Park Soline that is used only to a smaller part (tennis center Soline built on about 25% of the total surface area) from which the company does not earn any financial income. In addition to the prior resolution of the physical planning documentation on the relevant land plot, there is the possibility of building a modern multifunctional hotel-health and tourist and recreation center.
- **Land plot, Polača:** The Company is the owner of approximately 2.5 hectares of the land plot in the settlement of Polača, that is situated along the state road that connects Biograd to the nearby highway (is of regional significance). The land plot is equipped with basic utility infrastructure on which the company Ilirija d.d. is planning to build a dry marina that would be functionally linked to the existing nautical facilities owned by Ilirija d.d.

In addition to the above indicated land plots owned by Ilirija d.d., additional non-operating assets relates to tourist land in Biograd (the surface area of about 10 hectares), on which the existing tourist capacities of the company may be extended by exercising the concession right.

By the end of 2015, the total investments in Villa Primorje amounted to over 4 million HRK, and since this accommodation facility was not used for earning income in 2015, in late 2015, this property was also considered to be the non-operating assets. However, since the revenues earned from Villa Primorje are included in the business plan of the Company, the relevant property is not considered to be non-operating assets.

### 8.3. COMPANY'S BUSINESS PLAN

Ilirija d.d. -Business plan			PLAN							
HRK 000	2014	2015	2015	2016	2016	2017	2018	2019	2020	2021
	I-XII	I-XII	I-VIII	I-VIII	I-XII	I-XII	I-XII	I-XII	I-XII	I-XII
Revenues on the local market	84.675	89.486	72.482	72.118	93.033	96.168	99.476	102.980	106.710	110.702
Revenues on the foreign market	34.313	35.790	29.772	28.435	36.804	37.908	39.046	40.217	41.424	42.666
Other revenues	2.805	1.848	1.498	2.532	1.488	1.533	1.578	1.626	1.675	1.725
<b>Operating income</b>	<b>121.793</b>	<b>127.122</b>	<b>103.752</b>	<b>103.085</b>	<b>131.325</b>	<b>135.609</b>	<b>140.100</b>	<b>144.823</b>	<b>149.809</b>	<b>155.093</b>
Financial income	136	484	129	192	412	424	437	451	464	478
Extraordinary income	945	541	356	33	513	529	545	561	578	596
<b>Total revenues</b>	<b>122.874</b>	<b>128.147</b>	<b>104.237</b>	<b>103.310</b>	<b>132.250</b>	<b>136.562</b>	<b>141.082</b>	<b>145.835</b>	<b>150.851</b>	<b>156.167</b>
Cost of raw material and material	(20.227)	(20.107)	(14.145)	(12.861)	(19.509)	(19.899)	(20.297)	(20.703)	(21.117)	(21.539)
Costs of services	(16.923)	(17.868)	(11.709)	(9.115)	(17.107)	(17.449)	(17.798)	(18.154)	(18.517)	(18.888)
Gross salaries	(32.943)	(29.763)	(19.995)	(20.292)	(29.461)	(30.051)	(30.652)	(31.265)	(31.890)	(32.528)
Other expenses	(18.745)	(19.932)	(12.653)	(11.092)	(18.659)	(19.032)	(19.412)	(19.801)	(20.197)	(20.600)
Extraordinary expenses	(825)	(2.710)	(426)	(677)	(1.427)	(1.456)	(1.485)	(1.514)	(1.545)	(1.576)
<b>Total expenses</b>	<b>(89.663)</b>	<b>(90.380)</b>	<b>(58.928)</b>	<b>(54.037)</b>	<b>(86.163)</b>	<b>(87.887)</b>	<b>(89.644)</b>	<b>(91.437)</b>	<b>(93.266)</b>	<b>(95.131)</b>
<b>EBITDA</b>	<b>33.211</b>	<b>37.767</b>	<b>45.309</b>	<b>49.273</b>	<b>46.087</b>	<b>48.675</b>	<b>51.438</b>	<b>54.398</b>	<b>57.585</b>	<b>61.036</b>
EBITDA margin( %)	27,3%	29,7%	43,7%	48,1%	34,8%	35,6%	36,5%	37,3%	38,2%	39,1%
Depreciation	(7.470)	(8.226)	(4.980)	(5.484)	(8.220)	(8.384)	(8.552)	(8.723)	(8.897)	(9.076)
<b>EBIT</b>	<b>25.741</b>	<b>29.541</b>	<b>40.329</b>	<b>43.789</b>	<b>37.867</b>	<b>40.291</b>	<b>42.886</b>	<b>45.675</b>	<b>48.688</b>	<b>51.960</b>
EBIT margin (%)	21,1%	23,2%	38,9%	42,5%	28,6%	29,5%	30,4%	31,3%	32,3%	33,3%

Table 8-18 Business Plan for the period from 2016 – 2021 (Source: ILIRIJA d.d.)

**In 2016, Ilirija d.d. is planning to achieve EBITDA profitability in the amount of 46.1 million HRK, which is an increase compared to adjusted EBITDA by approximately 6.4 million HRK or 16.2%** compared to the year 2015. The most important sources of the increase in EBITDA profitability relate to continued cost rationalization of the business operations, while the reality of the planned objectives is backed by the following facts and assumptions:

- In the first 8 months of 2016, EBITDA increased by 8.7% or 4.0 million HRK;
- In 2015, the company Ilirija d.d. had approximately 2 million HRK of "one-time" operating costs in the last quarter of 2015, which relate to the exceptionally high costs of write-off of receivables and litigation costs related to the previously conducted litigations. The adjusted EBITDA for the year 2015 was normalized by the indicated expense of one-time and extraordinary items, after which the EBITDA increased from 37.8 million HRK (according to the financial statements) to 39.6 million HRK. Further to the foregoing, in the last quarter of 2016 further savings of receivables write-off expenses and litigation costs are expected, which will further contribute to the realization of the planned EBITDA profitability in 2016;
- The sales, booking and announcements for post-season indicate positive expectations at the level of all sectors of the company.
- Continuation of the continuous policy of managing the costs and increasing operating efficiency;

In 2017 through the end of the projection period, the company planned a total increase in revenues ranging from 3.3% to 3.5% followed by an increase in total operating expenses (before depreciation) by approximately 2.0%, which is a relatively conservative approach to the rates of organic growth in revenues and profitability of the Company achieved so far. Further growth in revenues and profitability will be underpinned by the growth in revenues in the newly opened profit centers of the Company (Event boat "Nada", Agritourism - diffuse hotel Ražnjevića dvori, Villa Primorje).

The planned growth rates of revenues and expenses of the company Ilirija d.d. are shown in the following table:

Ilirija d.d. - Business plan (rate of increase)	PLAN								
	2014	2015	2016 I-VIII	2016	2017	2018	2019	2020	2021
Revenues on the local market	7,7%	5,7%	-0,5%	4,0%	3,4%	3,4%	3,5%	3,6%	3,7%
Revenues on the foreign market	-3,8%	4,3%	-4,5%	2,8%	3,0%	3,0%	3,0%	3,0%	3,0%
Other revenues	30,9%	-34,2%	69,0%	-19,4%	3,0%	3,0%	3,0%	3,0%	3,0%
<b>Operating income</b>	<b>4,6%</b>	<b>4,4%</b>	<b>-0,6%</b>	<b>3,3%</b>	<b>3,3%</b>	<b>3,3%</b>	<b>3,4%</b>	<b>3,4%</b>	<b>3,5%</b>
Financial income	-50,0%	255,4%	48,8%	-15,0%	3,0%	3,0%	3,0%	3,0%	3,1%
Extraordinary income	53,3%	-42,9%	-90,7%	-4,9%	3,0%	3,0%	3,0%	3,0%	3,0%
<b>Total revenues</b>	<b>4,7%</b>	<b>4,3%</b>	<b>-0,9%</b>	<b>3,2%</b>	<b>3,3%</b>	<b>3,3%</b>	<b>3,4%</b>	<b>3,4%</b>	<b>3,5%</b>
Cost of raw material and material	5,9%	-0,6%	-9,1%	-3,0%	2,0%	2,0%	2,0%	2,0%	2,0%
Costs of services	4,0%	5,6%	-22,2%	-4,3%	2,0%	2,0%	2,0%	2,0%	2,0%
Gross salaries	9,1%	-9,7%	1,5%	-1,0%	2,0%	2,0%	2,0%	2,0%	2,0%
Other expenses	4,1%	6,3%	-12,3%	-6,4%	2,0%	2,0%	2,0%	2,0%	2,0%
Extraordinary expenses	-7,2%	228,4%	58,9%	-47,3%	2,0%	2,0%	2,0%	2,0%	2,0%
<b>Total expenses</b>	<b>6,1%</b>	<b>0,8%</b>	<b>-8,3%</b>	<b>-4,7%</b>	<b>2,0%</b>	<b>2,0%</b>	<b>2,0%</b>	<b>2,0%</b>	<b>2,0%</b>
<b>EBITDA</b>	<b>1,1%</b>	<b>13,7%</b>	<b>8,7%</b>	<b>22,0%</b>	<b>5,6%</b>	<b>5,7%</b>	<b>5,8%</b>	<b>5,9%</b>	<b>6,0%</b>
Depreciation	17,0%	10,1%	10,1%	-0,1%	2,0%	2,0%	2,0%	2,0%	2,0%
<b>EBIT</b>	<b>17,0%</b>	<b>10,1%</b>	<b>10,1%</b>	<b>-0,1%</b>	<b>2,0%</b>	<b>2,0%</b>	<b>2,0%</b>	<b>2,0%</b>	<b>2,0%</b>

Table 8-19 Planned growth rates in the business plan (Source: ILIRIJA d.d.)

Total revenues in 2016 are planned in the amount of HRK 132.3 million HRK, which is an increase by 3.2%, which is less than the realized growth rates in 2014 (4.7%) and 2015 (4.3 %). Similar revenue growth rates are assumed in the period from 2017 to 2021 when the expected average growth rate ranged from 3.3% to 3.5%.

Total operating expenses (excluding depreciation) in 2016 are planned in the amount of 86.2 million HRK, which is a saving of 4.7% or 4.2 million HRK. Given that in the first 8 months of 2016, the savings of 4.9 million HRK (decline by 8.3% compared to the same period last year) has already been achieved, it is realistic to expect that the actual amount of costs in 2016 will be considerably lower than the planned amount of costs.

As a result of the above indicated, the planned EBITDA margin of the company Ilirija d.d. in the period from 2017 to 2021 increases within the range from 5.6% to 6.0% on an annual basis.

Ilirija d.d. - Business plan (total revenues)						PLAN					
HRK 000	2013	2014	2015	2015	2016	2016	2017	2018	2019	2020	2021
	I-XII	I-XII	I-XII	I-VIII	I-VIII	I-XII	I-XII	I-XII	I-XII	I-XII	I-XII
Hotel Ilirija	19.225	20.208	20.533	14.841	15.082	21.242	21.879	22.536	23.212	23.908	24.625
Hotel Kornati	9.180	10.778	10.330	7.722	7.623	10.428	10.740	11.063	11.395	11.736	12.088
Hotel Adriatic	8.660	8.744	8.796	6.231	6.684	8.904	9.171	9.446	9.730	10.022	10.322
Hotel Villa Donat	3.775	4.257	3.777	3.170	3.242	3.792	3.906	4.023	4.144	4.268	4.396
Lavender bar	1.116	1.021	1.121	1.011	898	1.227	1.264	1.302	1.341	1.381	1.423
Aquatic center i tennis center	2.867	2.835	2.869	2.670	2.537	3.263	3.362	3.461	3.564	3.673	3.783
<b>Hotel sector</b>	<b>44.823</b>	<b>47.843</b>	<b>47.426</b>	<b>35.645</b>	<b>36.066</b>	<b>48.856</b>	<b>50.322</b>	<b>51.831</b>	<b>53.386</b>	<b>54.988</b>	<b>56.637</b>
Marina Kornati	38.030	40.019	38.483	36.571	34.782	38.752	39.914	41.112	42.345	43.615	44.924
Restaurant Marina Kornati	4.484	4.272	4.639	2.865	2.841	4.795	4.939	5.087	5.239	5.397	5.559
Boat fair	0	0	2.258	0	209	2.408	2.481	2.555	2.632	2.711	2.792
<b>Nautics</b>	<b>42.514</b>	<b>44.291</b>	<b>45.379</b>	<b>39.436</b>	<b>37.832</b>	<b>45.955</b>	<b>47.334</b>	<b>48.754</b>	<b>50.216</b>	<b>51.723</b>	<b>53.274</b>
Camp Park Soline	21.502	22.765	24.550	22.116	22.112	25.565	26.332	27.122	27.935	28.773	29.637
Restaurant Park Soline	1.839	2.123	2.482	2.230	2.198	2.790	2.873	2.960	3.048	3.140	3.234
<b>Camping</b>	<b>23.340</b>	<b>24.888</b>	<b>27.032</b>	<b>24.346</b>	<b>24.310</b>	<b>28.354</b>	<b>29.205</b>	<b>30.081</b>	<b>30.984</b>	<b>31.913</b>	<b>32.871</b>
Other	6.642	5.852	8.309	4.809	5.102	9.084	9.701	10.415	11.250	12.227	13.384
<b>Total</b>	<b>117.320</b>	<b>122.874</b>	<b>128.147</b>	<b>104.236</b>	<b>103.310</b>	<b>132.250</b>	<b>136.562</b>	<b>141.082</b>	<b>145.835</b>	<b>150.851</b>	<b>156.167</b>

Table 8-20 Planned structure of the total revenues by business segments (Source: ILIRIJA d.d.)

The business plan is shown in the nominal amounts and was prepared by the Company' Management in December 2015 and has been audited in mid 2016.

The business plan has been prepared assuming the continuation of current business models, and accordingly the Company's **financial projections neither include the synergies from the buying of real property City Galleria nor investments in the strategic development projects:**

- The planned investments in the buying of real property Commercial shopping center City Galleria and the related synergies;
- Investments in the strategic development projects (part of which is set out in section 10 "Development plans of the Issuer in tourism") which will allow further growth and synergy. The catalog of planned development projects of the company Ilirija d.d. identified more than 20 capital and development projects related to the development of the hotel, nautical and camping tourism, and complementary and selective types of tourism in the County of Zadar for the period up to 2025.

## 9. MARKET POSITION OF THE ISSUER

The market position of the company Ilirija d.d. is very positive. Direct competition in the micro environment in which the issuer operates is very low, considering the size of the share of Ilirija in the total accommodation in Biograd na Moru. For this reason, the companies comparable to the hospitality company Ilirija d.d. need to be sought in the companies engaging in tourism operating in the other parts of the Republic of Croatia and that are listed on the regular market of the Zagreb Stock Exchange. All comparative companies belong to the group of medium-sized and large enterprises and are shown below.

Overview of the profitability of selected comparative companies listed on the Zagreb Stock Exchange is shown.

Overview of profitability of comparative companies												
Company	Revenues (HRK mln)			Increase in revenues (%)			EBITDA margin (%)			EBIT margin (%)		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Valamar d.d.	1061	1097	1294	7,6%	3,5%	17,9%	25,8%	25,7%	31,7%	4,8%	7,2%	13,3%
Maistra d.d.	714	803	928	3,7%	12,5%	15,6%	38,6%	36,9%	33,4%	18,4%	20,3%	17,9%
Plava Laguna d.d.	585	487	986	8,4%	-16,8%	102,4%	41,4%	37,8%	34,7%	19,7%	14,8%	17,4%
Hoteli Makarska d.d.	73	84	78	0,8%	14,7%	-6,3%	29,0%	16,3%	27,9%	16,9%	2,3%	15,3%
Hoteli Baška Voda d.d.	34	35	39	-0,1%	3,7%	10,4%	26,5%	19,4%	22,0%	12,1%	9,0%	13,1%
Arenatunst d.d.	298	315	363	8,4%	5,7%	15,1%	25,0%	21,2%	29,6%	9,2%	5,3%	13,7%
Imperial d.d.	122	120	128	2,4%	-1,3%	6,7%	37,8%	37,2%	39,1%	17,5%	16,3%	19,2%
HUP Zagreb d.d.	273	270	298	3,7%	-1,1%	10,2%	30,7%	31,4%	32,8%	17,3%	18,0%	19,3%
Solaris d.d.	248	275	301	26,8%	10,6%	9,6%	35,1%	42,3%	41,3%	8,1%	7,7%	6,7%
Hoteli Brela d.d.	97	96	103	0,8%	-1,5%	7,7%	30,4%	30,1%	31,0%	22,6%	22,0%	23,4%
Liburnia Riviera Hoteli	271	276	275	25,2%	1,6%	-0,1%	27,5%	38,5%	37,8%	5,5%	15,7%	2,3%
Hoteli Tučepi d.d.	85	93	101	-0,9%	8,8%	8,7%	27,3%	28,6%	30,3%	14,9%	17,3%	19,2%
Turisthotel d.d.	187	189	205	5,5%	1,2%	8,7%	40,9%	44,7%	44,2%	30,4%	32,8%	32,3%
Mean value (average)	311	318	392	7,1%	3,2%	15,9%	32,0%	31,5%	33,5%	15,2%	14,5%	16,4%
Mean value (median)	248	270	275	3,7%	3,5%	9,6%	30,4%	31,4%	32,8%	16,9%	15,7%	17,4%
ILIRIJA d.d.	117	123	128	5,4%	5,1%	4,1%	28,2%	27,3%	29,7%	22,7%	21,1%	23,2%

Table 9-1 Overview of profitability of comparative companies (Source: FINA, Poslovna.hr)

The average EBITDA margin of comparative companies in the period from 2013 to 2015 shows a growing trend and it ranged from 30.4% to 32.8% (median). In the same period, EBITDA margin of the company Ilirija d.d. also shows a growing trend and is relatively stable within the range from 27.3% to 29.7%, which is slightly below the industry average. EBIT margin of the company Ilirija d.d. ranged from 21.1% to 23.2%, which is significantly higher than the median of the industry which ranged from 15.7% to 17.4%. This indicated difference stems from the relatively lower depreciation rates used by Ilirija d.d.

Overview of profitability of comparative companies												
Company	ROA (in %)				ROE (in %)				ROIC (in%)			
	2013	2014	2015	INDEX 15/14	2013	2014	2015	INDEX 15/14	2013	2014	2015	INDEX 15/14
Valamar d.d.	3,9%	1,7%	3,0%	173,5	6,1%	2,7%	5,5%	203,3	2,0%	3,0%	5,6%	188,8
Maistra d.d.	3,6%	4,2%	4,6%	109,8	7,1%	8,3%	8,6%	102,6	12,6%	14,3%	13,3%	93,2
Plava Laguna d.d.	7,2%	2,9%	5,1%	172,3	7,9%	5,4%	8,4%	154,8	7,4%	3,6%	7,0%	194,5
Hoteli Makarska d.d.	0,3%	0,2%	0,3%	149,1	3,6%	0,0%	4,6%	17.708,4	4,8%	0,7%	4,6%	628,6
Hoteli Baška Voda d.d.	0,7%	0,2%	1,2%	606,7	1,2%	0,3%	2,0%	655,8	2,7%	1,5%	2,3%	155,2
Arenaturist d.d.	0,3%	-0,7%	1,5%	-196,3	0,4%	-1,3%	2,7%	-200,2	3,0%	1,7%	4,7%	272,7
Imperial d.d.	2,3%	2,4%	3,3%	141,5	3,8%	3,7%	5,1%	139,4	4,5%	4,1%	5,1%	124,2
HUP Zagreb d.d.	4,6%	4,9%	5,2%	107,1	5,8%	6,6%	7,7%	116,4	5,9%	5,6%	5,9%	104,5
Solaris d.d.	0,3%	0,2%	0,3%	149,1	0,5%	0,4%	0,6%	158,0	1,9%	2,0%	1,8%	92,0
Hoteli Brela d.d.	3,6%	3,6%	4,4%	119,7	4,8%	4,9%	5,7%	115,6	6,0%	5,8%	6,6%	113,2
Liburnia Riviera Hoteli d.d.	1,4%	4,0%	1,7%	42,8	1,0%	3,5%	0,0%	0,3	1,4%	3,8%	0,6%	15,8
Hoteli Tučepi d.d.	1,1%	1,5%	2,4%	154,2	1,8%	2,4%	3,7%	153,8	3,6%	4,0%	4,6%	114,3
Turisthotel d.d.	3,6%	3,6%	4,4%	119,7	23,1%	23,9%	21,1%	88,2	19,1%	18,1%	17,4%	95,8
Mean value (average)	2,5%	2,2%	2,9%	129,4	5,1%	4,7%	5,8%	124,2	5,8%	5,3%	6,1%	116,5
Mean value (median)	2,3%	2,4%	3,0%	124,9	3,8%	3,5%	5,1%	144,0	4,5%	3,8%	5,1%	136,3
ILIRIJA d.d.	6,1%	5,9%	6,8%	114,9	11,1%	10,4%	10,0%	95,7	12,2%	9,4%	10,5%	112,2

Table 9-2 Overview of profitability indicators of comparative companies (Source: FINA, Poslovna.hr, ZSE)

Compared to the average (median) of comparative companies in the last three years, the company Ilirija d.d. achieves higher rates of return on assets (ROA ranging from 5.9% to 6.8%), return on equity (ROE ranging from 10.0% to 11.1%) and return on total invested capital (ROIC ranging from 9.4% to 12.2%).

## 10. DEVELOPMENT PLANS OF ISSUER IN TOURISM

### INVESTMENTS SO FAR (up to the year 2015)

Extraordinary financial and physical operating results are the result of continuous investments in the construction of new, reconstruction and extension of the existing facilities, as well as the development of new services and amenities, and investment in human resources as the asset key to the business success and development of the company. Therefore, from gradually completed privatization by the end of 2015, Ilirija d.d. achieved the value of investments exceeding HRK 345,152,398.82 or EUR 46,000,000.00 which resulted in enhancing the level of quality, capability, categorization and preparedness for the highest possible level of service and standard, thus placing ILIRIJA among the leading tourism companies of the Croatian tourism.

In accordance with the Annual plan of investment in 2015, the Company invested a total of HRK 14,115,336.73 in all three sectors of the Company (nautics, hotels and camping) in order to enhance the level of the existing services and amenities and to increase the scope of the current supply and launch new products in the tourism market which is inclined to ILIRIJA d.d.

The nautical sector invests in refurbishment of docks, breakwater pier refurbishment, acquisition of pontoons for the reception of new vessels mainly in the transit berth and service area in order to enhance the total quality and further provide superior nautical service. In November 2015, the Company started with the first phase of reconstruction of the coastal part of Nautical Tourism Port "Marina Kornati", which according to the established schedule is planned to be finalized by the end of February 2016, i.e. before the start of this year's nautical season, thereby enabling it to provide accommodation for higher category of vessels, better utilization of aquatorium of the marina, further enrichment and modernization of the offer by implementing the best existing technical solutions. The foregoing will strengthen the market position and ranking of the Marina Kornati among the top three nautical tourism ports at the Adriatic Sea.

The Company has invested significant resources in technological equipment, refurbishment and overall increase of the congress facilities. As a result of these investments Ilirija can provide conference services for up to 900 persons, which is a significant step forward of the Company in the congress and MICE market, but also one of the best ways of extending the tourist season in a high quality way, a successful and profitable year-round business, with a particular emphasis on the shoulder season.

Guided by the principles of continuous, sustainable and responsible investments in the hotel sector, the company's investment made by the company Ilirija d.d. focus on the development of the brand ILIRIJA RESORT – Hotels & Villas by improving and enhancing the quality of supply and amenities and their modernization, by developing new services, improving the business operations and improving operating efficiency. By building its own product and brand, the Company wishes to remain recognizable as a company with high quality amenities and services by providing high quality services and a high level of tourism experience.

The investment was made in the purchase of additional new mobile homes, sized 32 m<sup>2</sup>, and their complete equipment, and further landscaping of the camp to the level of the arboretum and its further infrastructural development in the camping sector for the tourist season 2015.

### INVESTMENTS IN THE YEAR 2016

In 2016, the Company continued to make investments in the supply, improvement of services, supply and amenities at the level of the whole Company, tailoring its offer to the requirements, demands and wishes of its clients, thereby ensuring a competitive market position and high-quality and recognizable tourism product.

In accordance with the 2016 Annual Investment Plan, a total amount of HRK 17,806,647.82 was invested in the first six months of 2016. Regarding the camping sector, the investment was made in purchasing and equipping new mobile homes, landscaping of the camp up to the level of the arboretum and its further infrastructural development, while at the same time the Company continued to invest in the shared amenities and additional refurbishment of the accommodation units in the hotel sector.

The most considerable investment of the Company in the first six months of 2016 was finished in February and refers to the completion of the first phase of reconstruction of the coastal part of the nautical tourism port "Marina Kornati", or the reconstruction of docks in the central and southern marina aquatorium, totaling to HRK 10,142,622.15 of which HRK 5,197,274.72 was invested in 2015 since the reconstruction began in November that year. The total investment in 2016 amounted to HRK 4,945,347.43 that allowed the accommodation of a higher category of vessels and better utilization of the marina aquatorium. The second phase of the reconstruction of Marina Kornati or the reconstruction of the remaining docks in the central aquatorium will be performed in the autumn of 2016, where the finalization is planned by the end of February 2017, according to the 2016 Investment Plan and building permit.

#### NEW INVESTMENT CYCLE – FURTHER PLANS

As in the observed period, the Amendments to the Physical Planning Document of the city of Biograd na Moru are pending, the Company submitted to the City Biograd na Moru its own Request to be incorporated into the Amendments to the Physical Planning Document of the city of Biograd na Moru within the stipulated timeframe and on a timely manner, and only for the property, real estate, land plots and maritime domain which are owned or in long-term concession or leased by the Company.

A total of seven (7) requests – proposals for the existing and planned facilities and interventions in the area have been submitted:

1. Conservation, extension and improvement of the quality of the existing camp "Park Soline" on the surface of 20.00 Ha
2. Reconstruction and extension of the hotel complex Ilirija-Kornati-Adriatic
3. Reconstruction and extension of nautical tourism Port Ilirija
4. Reconstruction and extension of nautical tourism Port Marina Kornati
5. Construction of health-recreation center Soline – on the area of the existing Tennis center
6. Construction of the agritourism center Primorje – on the land plot of the existing rural estate of the Company
7. Construction of the golf course in the area of Jankolovica on the public worthless forest land of an area of approximately 90.00 Ha without building any facilities except for the club premises

The construction of the proposed new tourist facilities would result in an improved and enhanced existing and achieved level of organized tourism in the city of Biograd na Moru by at least by one third or even more regarding the scope and quality of supply and amenities, compared to the existing condition.

The investment plan of the company Ilirija d.d. for the period from 2016 to 2020 is shown below.



Investment plan						
HRK	2016	2017	2018	2019	2020	Σ 2016-20
Hotel Ilirija	1.165.000	2.600.000	1.500.000	1.000.000	500.000	6.765.000
Hotel Kornati	594.000	250.000	800.000	500.000	500.000	2.644.000
Hotel Adriatic	428.000	200.000	200.000	1.000.000	1.500.000	3.328.000
Hotel Villa Donat	135.000	200.000	800.000	2.500.000	1.500.000	5.135.000
Food and beverages department – hotels	142.000	250.000	100.000	200.000	200.000	892.000
<b>Hotel sector</b>	<b>2.464.000</b>	<b>3.500.000</b>	<b>3.400.000</b>	<b>5.200.000</b>	<b>4.200.000</b>	<b>18.764.000</b>
Marina Kornati	1.000.000	1.000.000	1.000.000	1.000.000	1.000.000	5.000.000
Restaurant Marina Kornati	100.000	100.000	100.000	100.000	100.000	500.000
<b>Nautics</b>	<b>1.100.000</b>	<b>1.100.000</b>	<b>1.100.000</b>	<b>1.100.000</b>	<b>1.100.000</b>	<b>5.500.000</b>
Camp Park Soline	2.099.000	1.500.000	1.000.000	500.000	500.000	5.599.000
Restaurant Park Soline	100.000	100.000	200.000	100.000	100.000	600.000
<b>Camping</b>	<b>2.199.000</b>	<b>1.600.000</b>	<b>1.200.000</b>	<b>600.000</b>	<b>600.000</b>	<b>6.199.000</b>
Arsenal	200.000	200.000	200.000	100.000	500.000	1.200.000
Villa Primorje	216.000	100.000	100.000	100.000	100.000	616.000
Other investments	453.000	1.000.000	1.500.000	400.000	1.000.000	4.353.000
<b>Total-investment maintenance</b>	<b>6.632.000</b>	<b>7.500.000</b>	<b>7.500.000</b>	<b>7.500.000</b>	<b>7.500.000</b>	<b>36.632.000</b>
Reconstruction of the coastal part of Marina Kornati	8.693.000	4.500.000	0	0	0	13.193.000
<b>Total investments</b>	<b>15.325.000</b>	<b>12.000.000</b>	<b>7.500.000</b>	<b>7.500.000</b>	<b>7.500.000</b>	<b>49.825.000</b>

*Table 10-1 Investment Plan for the period from 2016 to 2020 (ILIRIJA d.d.)*

The investment plan shown above does not include fundamental acquisition opportunity separately described in this Memorandum – Acquisition of the real property Commercial shopping center City Galleria. The mentioned investment plan neither contains any of the seven investment plans of the new investment cycle nor a single development project out of a total number of more than 20 identified development projects related to the development of the hotel, nautical and camping tourism, and complementary and selective types of tourism in the County of Zadar for the period until 2025.

Therefore, the stress is placed on the investment in the existing capacities aimed at maintaining the competitiveness of the achieved business volume and quality of services, while maintaining the desired rates of growth of the Company's operations.

The planned investments for the year 2016 have been already fulfilled to a large extent, and in the last quarter of 2016 the Company expects to continue works on the reconstruction of Marina Kornati, in the approximate amount of 4.5 million HRK (with an additional 4.5 million HRK in the first quarter of 2017).

## 11. PRIZES AND REWARDS:

The company, which has contributed to the development of the Croatian tourism in conducting its operation has won numerous awards for its work in a way that it has been monitoring and tracking the global tourism movement continuously. Some of them are:

- Award by the Ministry of Maritime Affairs, Transport and Infrastructure to the Company in December 2015 for promoting maritime culture for the organization of the Biograd Boat Show.
- Gold emblem awarded by Sv. Filip i Jakov Municipality for a major contribution to the development of the Municipality by granting numerous donations and the generous cooperation in implementing municipal projects
- Croatian Employers' Association's award in the initiative by the "Croatian Employers' Association's example of good practice of CSR" as a part of the international project "CSR for ALL" - Corporate social responsibility for all" for the third place among the medium-sized companies in the category Care for employees for the project" Knowledge is power -training of the staff and in-house trainings.
- Award of Croatian Chamber of Commerce and the Croatian Business Council for Corporate Social Responsibility CSR Index for the years 2011 and 2012 in the category of medium-sized companies
- Special Award by the Sv. Filip and Jakov Municipality for its exceptional contribution to the development and promotion of tourism and raising the quality of the tourist industry in the town Sv. Filip Jakov for the year 2007
- Annual Award by the Assembly of the Zadar County in 2006 for the results achieved in 2005 and exceptional and lasting contribution to the development of tourism industry of the Biograd Riviera
- Group award to the city Biograd na Moru for its outstanding results in 2005 and the major contribution to the economic and tourist development of the city of Biograd
- Golden Marten Plaque awarded by the Croatian Chamber of Commerce by the County Chamber of Zadar as the most successful company in the category of medium-sized companies in the Zadar County in 2004
- The Management Board of ILIRIJA d.d. has been the winner of the Golden Medal "First Croatian Kuna" for ten years awarded by the Institute for Business Research owing to the person of Mr. Goran Ražnjević, which award is given to the companies that rank among the 1% of the most successful and 1% of the most profitable companies in the Republic of Croatia

## 12. MANAGEMENT CODE

### 12.1. CODE

In its business operations, Ilirija d.d. complies with the best principles and practices of corporate governance with a high level of transparency and accountability to all of its stakeholders. In its management, the Company applies the Corporate Governance Code of Zagreb Stock Exchange and HANFA-Croatian Financial Services Supervisory Agency which is reflected in detail in the Annual Questionnaire of Corporate Governance Code, which is publicly posted on the website of the Company [www.ilirijabiograd.com](http://www.ilirijabiograd.com) and submitted to the Zagreb Stock Exchange, HANFA and Central Prescribed Information Registry.

### 12.2. PRIVATIZATION AND AUDIT

During 2002, the National Audit Office performed an audit of the conversion and privatization of ILIRIJA d.d. The National Audit Office issued an unqualified opinion on the transformation and privatization in full, with an emphasis that the process was carried out in accordance with the legislation and that no irregularities were determined that would affect the legal implementation of the process of transformation and privatization.

## 13. FINANCIAL STATEMENT AND ADDITIONAL INFORMATION

### 13.1. ANNUAL REPORT FOR THE FISCAL YEAR 2015

Reporting period: 01/01/2015 to 31/12/2015  
Annual audited report TFI-POD

_____			
Tax number (MB):	03311953		
Company registration number (MBS):	060032302		
Personal identification number (OIB):	05951496767		
Issuing company:	ILIRIJA d.d.		
Postal code and place:	23210	BIOGRAD NA MORU	
Street and house number:	TINA UJEVIĆA 7		
E-mail address:	zorkas@ilirijabiograd.com		
Internet address:	www.ilirijabiograd.com		
Municipality/city code and name:	22	BIOGRAD NA MORU	
County code and name:	13	ZADARSKA	Number of employees: 211 (period end)
Consolidated report:	NE		NKD code: 55100

Companies of the consolidation subject (according to IFRS): \_\_\_\_\_ Seat: \_\_\_\_\_ MB: \_\_\_\_\_

Bookkeeping service:  
Contact person: STRPIĆ ZORKA  
(only surname and name)  
Telephone: 023/383178 Telefaks: 023/384564  
E-mail address: zorkas@ilirijabiograd.com  
Family name and name: RAŽNJEVIĆ GORAN  
(person authorized to represent the company)

Documents disclosed:

1. Financial statements (Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity and notes to financial statements);
2. Management Interim Report;
3. Declaration of the persons responsible for preparing the issuer's statements;

M.P. \_\_\_\_\_ (signature of the person authorized to represent the company)

**ILIRIJA** dioničko društvo  
za ugostiteljstvo i turizam  
Biograd na Moru



## Balance Sheet - as of 31/12/2015

Company: ILIRIJA d.d.

Position	AOP	Previous period	Current period
1	2	3	4
A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL	001		
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	294.951.783	300.424.757
I. INTANGIBLE ASSETS (004 to 009)	003	547.614	471.783
1. Expenditure for development	004		
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005		
3. Goodwill	006		
4. Advances for purchase of intangible assets	007		
5. Intangible assets in progress	008		
6. Other intangible assets	009	547.614	471.783
II. PROPERTY, PLANT AND EQUIPMENT (011 to 019)	010	294.364.169	299.912.974
1. Land	011	41.067.581	42.340.227
2. Buildings	012	209.416.762	224.502.143
3. Plant and equipment	013	30.553.209	32.154.204
4. Tools, working inventory and transportation assets	014		
5. Biological assets	015		
6. Advances for purchase of tangible assets	016	942.966	488.422
7. Tangible assets in progress	017	12.383.651	427.978
8. Other tangible assets	018		
9. Investment in real-estate	019		
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	020	40.000	40.000
1. Share in related parties	021	40.000	40.000
2. Loans to related parties	022		
3. Participating interests (shares)	023		
4. Loans to companies with participating interest	024		
5. Investments in securities	025		
6. Loans, deposits, etc.	026		
7. Other non-current financial assets	027		
8. Equity-accounted investments	028		
IV. RECEIVABLES (030 to 032)	029	0	0
1. Receivables from related parties	030		
2. Receivables arising from sales on credit	031		
3. Other receivables	032		
V. DEFERRED TAX ASSET	033		
C) CURRENT ASSETS (035+043+050+058)	034	15.816.301	14.726.911
I. INVENTORIES (036 to 042)	035	2.275.940	2.160.647
1. Raw materials and supplies	036	2.275.940	2.160.647
2. Production in progress	037		
3. Finished products	038		

4. Merchandise	039		
5. Advances for inventories	040		
6. Long term assets held for sale	041		
7. Biological assets	042		
II. RECEIVABLES (044 to 049)	043	7.581.751	7.775.000
1. Receivables from related parties	044		
2. Receivables from end-customers	045	4.427.436	6.513.026
3. Receivables from participating parties	046		
4. Receivables from employees and members of the company	047	772.839	800.776
5. Receivables from government and other institutions	048	2.237.368	377.162
6. Other receivables	049	144.108	84.036
III. CURRENT FINANCIAL ASSETS (051 to 057)	050	5.849.432	4.453.388
1. Share in related parties	051		
2. Loans to related parties	052		
3. Participating interests (shares)	053		
4. Loans to companies with participating interest	054		
5. Investments in securities	055		
6. Loans, deposits, etc.	056	5.849.432	4.453.388
7. Other financial assets	057		
IV. CASH AND CASH EQUIVALENTS	058	109.178	337.876
D) PREPAYMENTS AND ACCRUED INCOME	059	144.248	
E) TOTAL ASSETS (001+002+034+059)	060	310.912.332	315.151.668
F) OFF BALANCE SHEET ITEMS	061		
EQUITY AND LIABILITIES			
A) ISSUED CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	177.858.715	216.376.168
I. SUBSCRIBED SHARE CAPITAL	063	124.693.000	150.857.300
II. CAPITAL RESERVES	064	829.039	8.921.539
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	20.723.814	21.693.815
1. Legal reserves	066	6.610.343	7.610.343
2. Reserve for own shares	067	6.975.716	6.975.716
3. Treasury shares and shares (deductible items)	068	384.924	414.924
4. Statutory reserves	069		
5. Other reserves	070	7.522.679	7.522.680
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	13.119.658	13.370.143
1. Retained earnings	073	13.119.658	13.370.143
2. Loss carried forward	074		
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	075	18.493.204	21.533.371
1. Net profit for the period	076	18.493.204	21.533.371
2. Net loss for the period	077		
VII. MINORITY INTEREST	078		

B) PROVISIONS (080 to 082)	079	0	0
1. Provisions for pensions, severance pay and similar liabilities	080		
2. Provisions for tax liabilities	081		
3. Other provisions	082		
C) NON-CURRENT LIABILITIES (084 to 092)	083	89.409.176	59.934.774
1. Liabilities to related parties	084		
2. Liabilities for loans, deposits, etc.	085		
3. Liabilities to banks and other financial institutions	086	89.409.176	59.934.774
4. Liabilities for advances	087		
5. Trade payables	088		
6. Commitments on securities	089		
7. Liabilities to companies with participating interest	090		
8. Other non-current liabilities	091		
9. Deferred tax liabilities	092		
D) CURRENT LIABILITIES (094 to 105)	093	40.224.599	36.392.050
1. Liabilities to related parties	094		
2. Liabilities for loans, deposits, etc.	095		
3. Liabilities to banks and other financial institutions	096	13.539.427	3.803.426
4. Liabilities for advances	097		
5. Trade payables	098	14.247.242	15.882.936
6. Commitments on securities	099	7.600.000	8.600.000
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	1.244.687	1.131.821
9. Taxes, contributions and similar liabilities	102	2.672.755	6.105.430
10. Liabilities arising from share in the result	103		
11. Liabilities arising from non-current assets held for sale	104		
12. Other current liabilities	105	920.488	868.437
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	3.419.842	2.448.676
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	310.912.332	315.151.668
G) OFF BALANCE SHEET ITEMS	108		
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			
ISSUED CAPITAL AND RESERVES			
1. Attributable to majority owners	109		
2. Attributable to minority interest	110		

## Income statement - period 01/01/2015 to 31/12/2015

Company: ILIRIJA d.d.

Position	AOP	Previous period		Current period	
		Cummulative	Quarter	Cummulative	Quarter
1	2	3	4	5	6
I. OPERATING INCOME (112 to 113)	111	121.792.648	9.729.036	127.122.380	11.085.202
1. Sales revenues	112	118.988.218	8.862.262	125.275.838	10.782.147
2. Other operating revenues	113	2.804.430	866.774	1.846.542	303.055
II. OPERATING COSTS (115+116+120+124+125+126+129+130)	114	93.137.885	21.011.438	92.799.366	21.511.961
1. Change in inventories of work in progress	115				
2. Material expenses (117 to 119)	116	37.150.150	7.939.993	37.974.413	7.878.082
a) Costs of raw materials	117	20.227.455	3.600.199	20.106.892	3.905.182
b) Cost of goods sold	118				
c) Other material expenses	119	16.922.695	4.339.794	17.867.521	3.972.900
3. Employee benefits expenses (121 to 123)	120	32.942.681	7.450.424	29.763.375	6.743.374
a) Net salaries	121	19.493.919	4.399.600	17.872.540	4.047.379
b) Tax and contributions from salary expenses	122	8.695.524	1.957.417	7.511.127	1.694.650
c) Contributions on salary	123	4.753.238	1.093.407	4.379.708	1.001.345
4. Depreciation and amortisation	124	7.470.219	1.867.554	8.225.981	2.056.492
5. Other expenses	125	15.574.835	3.753.467	16.835.597	4.834.013
6. Write down of assets (127+128)	126	0	0	0	0
a) non-current assets (except financial assets)	127				
b) current assets (except financial assets)	128				
7. Provisions	129				
8. Other operating costs	130				
III. FINANCIAL INCOME (132 to 136)	131	136.259	34.386	484.269	298.660
1. Interest, foreign exchange differences, dividends and similar income from related parties	132				
2. Interest, foreign exchange differences, dividends and similar income from third parties	133	136.259	34.386	484.269	298.660
3. Income from investments in associates and joint ventures	134				
4. Unrealised gains (income) from financial assets	135				
5. Other financial income	136				
IV. FINANCIAL EXPENSES (138 to 141)	137	5.355.803	965.477	4.030.686	806.609
1. Interest, foreign exchange differences, dividends and similar income from related parties	138				
2. Interest, foreign exchange differences, dividends and similar income from third parties	139	5.355.803	965.477	4.030.686	806.609
3. Unrealised losses (expenses) from financial assets	140				
4. Other financial expenses	141				
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	142				



VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES	143				
VII. EXTRAORDINARY - OTHER INCOME	144	944.845	577.595	539.863	133.339
VIII. EXTRAORDINARY - OTHER EXPENSES	145	3.994.949	311.628	5.805.950	2.423.762
IX. TOTAL INCOME (111+131+142+144)	146	122.873.752	10.341.017	128.146.512	11.517.201
X. TOTAL EXPENSES (114+137+143+145)	147	102.488.637	22.288.543	102.636.002	24.742.332
XI. PROFIT OR LOSS BEFORE TAXES (146-147)	148	20.385.115	-11.947.526	25.510.510	-13.225.131
1. Profit before taxes (146-147)	149	20.385.115	0	25.510.510	0
2. Loss before taxes (147-146)	150	0	11.947.526	0	13.225.131
XII. TAXATION	151	1.891.911		3.977.139	
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	18.493.204	-11.947.526	21.533.371	-13.225.131
1. Profit for the period (149-151)	153	18.493.204	0	21.533.371	0
2. Loss for the period (151-148)	154	0	11.947.526	0	13.225.131
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Attributable to majority owners	155				
2. Attributable to minority interest	156				
STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)					
I. PROFIT OR LOSS FOR THE PERIOD (=152)	157				
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 to 165)	158	0	0	0	0
1. Exchange differences from international settlement	159				
2. Changes in revaluation reserves of long-term tangible and intangible assets	160				
3. Profit or loss from re-evaluation of financial assets held for sale	161				
4. Profit or loss from cash flow hedging	162				
5. Profit or loss from hedging of foreign investments	163				
6. Share of other comprehensive income/loss from associated companies	164				
7. Actuarial gains/losses from defined benefit plans	165				
III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166				
IV. NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD (158 - 166)	167	0	0	0	0
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	0	0	0	0
ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)					
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD					
1. Attributable to majority owners	169				
2. Attributable to minority interest	170				

## CASH FLOW STATEMENT: indirected method (01/01/2015 to 31/12/2015)

Company: ILIRIJA d.d.

Position	AOP	Previous period	Current period
1	2	3	4
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
1. Profit before tax	001	20.385.115	25.510.509
2. Depreciation and amortisation	002	7.470.219	8.225.981
3. Increase of current liabilities	003	8.504.499	2.431.752
4. Decrease of current receivables	004	194.396	
5. Decrease of inventories	005		115.293
6. Other cash flow increases	006		
I. Total increase of cash flow from operating activities	007	36.554.229	36.283.535
1. Decrease of current liabilities	008		
2. Increase of current receivables	009		561.105
3. Increase of inventories	010	608.675	
4. Other cash flow decreases	011	5.676.539	
II. Total decrease of cash flow from operating activities	012	6.285.214	561.105
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	013	30.269.015	35.722.430
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	014	0	0
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Proceeds from sale of non-current assets	015	1.322.298	
2. Proceeds from sale of non-current financial assets	016		
3. Interest received	017		
4. Dividend received	018		
5. Other proceeds from investing activities	019	265.753	
III. Total cash inflows from investing activities	020	1.588.051	0
1. Purchase of non-current assets	021	18.140.950	13.698.955
2. Purchase of non-current financial assets	022		
3. Other cash outflows from investing activities	023	251.770	
IV. Total cash outflows from investing activities	024	18.392.720	13.698.955
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	025	0	0
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	026	16.804.669	13.698.955
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
1. Proceeds from issue of equity securities and debt securities	027		21.787.500
2. Proceeds from loans and borrowings	028	9.550.175	
3. Other proceeds from financing activities	029		
V. Total cash inflows from financing activities	030	9.550.175	21.787.500
1. Repayment of loans and bonds	031	19.135.799	38.778.859
2. Dividends paid	032	3.740.790	3.740.790

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3. Repayment of finance lease	033		
4. Purchase of treasury shares	034	138.924	30.000
5. Other cash outflows from financing activities	035		1.032.628
VI. Total cash outflows from financing activities	036	23.015.513	43.582.277
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	037	0	0
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	038	13.465.338	21.794.777
Total increases of cash flows	039	0	228.698
Total decreases of cash flows	040	992	0
Cash and cash equivalents at the beginning of period	041	110.170	109.178
Increase of cash and cash equivalents	042		228.698
Decrease of cash and cash equivalents	043	992	
Cash and cash equivalents at the end of period	044	109.178	337.876

## STATEMENT OF CHANGES IN EQUITY period 01/01/2015 to 31/12/2015

Position	AOP	Previous year	Current year
1	2	3	4
1. Subscribed share capital	001	124.693.000	150.857.300
2. Capital reserves	002	829.039	8.921.539
3. Reserves from profit	003	20.723.814	21.693.815
4. Retained earnings or loss carried forward	004	13.119.658	13.370.143
5. Net profit or loss for the period	005	18.493.204	21.533.371
6. Revaluation of tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of available for sale assets	008		
9. Other revaluation	009		
10. Total equity and reserves (AOP 001 to 009)	010	177.858.715	216.376.168
11. Foreign exchange differences from foreign investments	011		
12. Current and deferred taxes	012		
13. Cash flow hedge	013		
14. Change of accounting policies	014		
15. Correction of significant mistakes of prior period	015		
16. Other changes	016	12.824.185	38.517.453
17. Total increase or decrease of equity (AOP 011 to 016)	017	12.824.185	38.517.453
17 a. Attributable to majority owners	018		
17 b. Attributable to minority interest	019		

ILIRIJA joint stock company  
for hospitality and tourism  
BIOGRAD NA MORU  
Tina Ujevića 7

SUPERVISORY BOARD  
Number:170/2016 - 5  
In Biograd na Moru, 22nd April 2016

According to Article 263 of the Companies' Act ("Official Gazette" Number 152/11- consolidated text, 111/12 and 68/13) and Article 6 of the Articles of Association of ILIRIJA d.d., SUPERVISORY BOARD OF ILIRIJA d.d. Biograd na moru has at the 95th session held on 22nd April 2016 passed the following

**DRAFT DECISION**  
**on appropriation of profit of ILIRIJA d.d. and distribution**  
**of dividend for the fiscal year 2015**

Article 1

The draft decision has been determined suggesting that the profit generated in the fiscal year 2015 after taxation in the amount of HRK 21,533,370.50 should be appropriated in the following way:

- HRK 1,867,642.50 to statutory reserves,
- HRK 6,500,000.00 to retained profit,
- HRK 4,937,148.00 for profit distribution,
- HRK 8,228,580.00 for an increase in share capital from reinvested profit,

The dividend per one share amounts to 18 (eighteen) HRK and shall be distributed with prior consent by the commercial bank of the Company.

Article 2

The dividend referred to in Article 1 of this Decision shall be distributed to the shareholders registered in the Depository of the Central Clearing Depository Company as at 15th June 2016 (record date.) The date on which the share of the company Ilirija d.d. without a right to distribution of the dividend will be traded in is 14th June 2016 (ex date).

The claim for the dividend distribution falls due on 08th July 2016 (payment date).

Article 3

This draft decision is submitted to the General Assembly for adoption.

President of the Supervisory Board  
Goran Medić





## 13.2. SEMI-ANNUAL REPORT FOR I-VI 2016

Reporting period: 01/01/2016 to 30/06/2016

Quarterly financial report TFI-POD

Tax number (MB): 03311953  
Company registration number: 060032302  
(MBS):  
Personal identification number: 05951496767  
(OIB):  
Issuing company: ILIRIJA d.d.  
Postal code and place: 23210 BIOGRAD NA MORU  
Street and house number: TINA UJEVIĆA 7  
E-mail address: ilirija@zd.t-com.hr  
Internet address: www.ilirjabiograd.com  
Municipality/city code and name: 22 BIOGRAD NA MORU  
County code and name: 13 ZADARSKA  
Number of employees: 389  
(period end)  
NKD code: 55100  
Consolidated report: NO

Companies of the consolidation subject (according to IFRS):

Seat:

MB:

Bookkeeping service:

Contact person:

STRPIĆ ZORKA

(only surname and name)

Telephone:

Telefaks:

023/384564

E-mail address:

Family name and name:

RAŽNJEVIĆ GORAN

(person authorized to represent the company)

Documents disclosed:

1. Financial statements (Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity and notes to financial statements);
2. Management Interim Report;
3. Declaration of the persons responsible for preparing the issuer's statements;

LS  
**ILIRIJA dioničko društvo**  
**za ugostiteljstvo i turizam**  
**Biograd na Moru**

(signature of the person authorized to represent the

## Balance Sheet - as of 30/06/2016

Company: ILIRIJA d.d.

Position	AOP	Previous period	Current period
1	1	2	3
A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL	001		
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	297.694.854	314.174.173
I. INTANGIBLE ASSETS (004 to 009)	003	377.131	521.187
1. Expenditure for development	004		
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005		
3. Goodwill	006		
4. Advances for purchase of intangible assets	007		
5. Intangible assets in progress	008		
6. Other intangible assets	009	377.131	521.187
II. PROPERTY, PLANT AND EQUIPMENT (011 to 019)	010	297.277.723	313.612.986
1. Land	011	42.127.627	42.340.227
2. Buildings	012	207.496.496	222.033.656
3. Plant and equipment	013	30.042.372	39.122.311
4. Tools, working inventory and transportation assets	014		
5. Biological assets	015		
6. Advances for purchase of tangible assets	016	373.489	449.570
7. Tangible assets in progress	017	17.237.739	9.667.222
8. Other tangible assets	018		
9. Investment in real-estate	019		
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	020	40.000	40.000
1. Share in related parties	021	40.000	40.000
2. Loans to related parties	022		
3. Participating interests (shares)	023		
4. Loans to companies with participating interest	024		
5. Investments in securities	025		
6. Loans, deposits, etc.	026		
7. Other non-current financial assets	027		
8. Equity-accounted investments	028		
IV RECEIVABLES (030 to 032)	029	0	0
1. Receivables from related parties	030		
2. Receivables arising from sales on credit	031		
3. Other receivables	032		
V DEFERRED TAX ASSET	033		
C) CURRENT ASSETS (035+043+050+058)	034	20.424.628	20.247.910
I. INVENTORIES (036 to 042)	035	2.786.074	2.245.231
1. Raw materials and supplies	036	2.786.074	2.245.231
2. Production in progress	037		
3. Finished products	038		
4. Merchandise	039		
5. Advances for inventories	040		
6. Long term assets held for sale	041		
7. Biological assets	042		
II RECEIVABLES (044 to 049)	043	13.024.033	15.432.200
1. Receivables from related parties	044		
2. Receivables from end-customers	045	11.269.815	14.499.557

Balance Sheet - as of 30/06/2016

Company: ILIRIJA d.d.

3. Receivables from participating parties	046		
4. Receivables from employees and members of the company	047	704.062	416.881
5. Receivables from government and other institutions	048	601.084	515.762
6. Other receivables	049	449.072	
III. CURRENT FINANCIAL ASSETS (051 to 057)	050	4.526.301	2.399.511
1. Share in related parties	051		
2. Loans to related parties	052		
3. Participating interests (shares)	053		
4. Loans to companies with participating interest	054		
5. Investments in securities	055		
6. Loans, deposits, etc.	056	4.526.301	2.399.511
7. Other financial assets	057		
IV. CASH AND CASH EQUIVALENTS	058	88.220	170.968
D) PREPAYMENTS AND ACCRUED INCOME	059	2.616.234	122.449
E) TOTAL ASSETS (001+002+034+059)	060	320.735.716	334.544.532
F) OFF BALANCE SHEET ITEMS	061		
EQUITY AND LIABILITIES			
A) ISSUED CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	185.222.056	225.089.988
I. SUBSCRIBED SHARE CAPITAL	063	137.162.300	150.857.300
II. CAPITAL RESERVES	064	829.039	8.921.539
III. RESERVES FROM PROFIT (066+067+068+069+070)	065	21.723.814	23.561.457
1. Legal reserves	066	7.610.343	9.477.986
2. Reserve for own shares	067	6.975.716	6.975.716
3. Treasury shares and shares (deductible items)	068	384.924	414.924
4. Statutory reserves	069		
5. Other reserves	070	7.522.679	7.522.679
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	14.402.772	28.098.723
1. Retained earnings	073	14.402.772	28.098.723
2. Loss carried forward	074		
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	075	11.104.131	13.650.969
1. Net profit for the period	076	11.104.131	13.650.969
2. Net loss for the period	077		
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 to 082)	079	0	0
1. Provisions for pensions, severance pay and similar liabilities	080		
2. Provisions for tax liabilities	081		
3. Other provisions	082		
C) NON-CURRENT LIABILITIES (084 to 092)	083	82.019.638	68.200.158
1. Liabilities to related parties	084		
2. Liabilities for loans, deposits, etc.	085		
3. Liabilities to banks and other financial institutions	086	82.019.638	68.200.158
4. Liabilities for advances	087		
5. Trade payables	088		
6. Commitments on securities	089		
7. Liabilities to companies with participating interest	090		
8. Other non-current liabilities	091		



## Balance Sheet - as of 30/06/2016

Company: ILIRIJA d.d.

9. Deferred tax liabilities	092		
D) CURRENT LIABILITIES (094 to 105)	093	45.252.614	33.601.395
1. Liabilities to related parties	094		
2. Liabilities for loans, deposits, etc.	095		
3. Liabilities to banks and other financial institutions	096	16.572.757	6.116.777
4. Liabilities for advances	097		
5. Trade payables	098	21.721.004	14.756.586
6. Commitments on securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	1.852.087	1.910.701
9. Taxes, contributions and similar liabilities	102	3.645.452	5.871.560
10. Liabilities arising from share in the result	103		
11. Liabilities arising from non-current assets held for sale	104		
12. Other current liabilities	105	1.461.314	4.945.771
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	8.241.408	7.652.991
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	320.735.716	334.544.532
G) OFF BALANCE SHEET ITEMS	108		
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			
ISSUED CAPITAL AND RESERVES			
1. Attributable to majority owners	109		
2. Attributable to minority interest	110		

## Income statement - period 01/01/2016 to 30/06/2016

Company: ILIRIJA d.d.

Position	AOP	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
I. OPERATING INCOME (112 to 113)	111	52.707.525	34.993.124	52.089.903	33.211.198
1. Sales revenues	112	51.358.823	34.957.951	49.883.391	32.365.866
2. Other operating revenues	113	1.348.702	35.173	2.206.512	845.332
II. OPERATING COSTS (115+116+120+124+125+126+129+130)	114	38.417.018	23.747.768	36.086.056	21.398.966
1. Change in inventories of work in progress	115				
2. Material expenses (117 to 119)	116	14.996.585	10.065.534	12.413.596	7.803.033
a) Costs of raw materials	117	7.189.207	5.477.157	6.369.692	4.696.505
b) Cost of goods sold	118				
c) Other material expenses	119	7.807.378	4.588.377	6.043.904	3.106.528
3. Employee benefits expenses (121 to 123)	120	13.193.868	7.615.181	13.273.430	7.910.884
a) Net salaries	121	7.860.151	4.605.602	7.924.533	4.778.455
b) Tax and contributions from salary expenses	122	3.397.415	1.891.992	3.400.919	1.971.446
c) Contributions on salary	123	1.936.302	1.117.587	1.947.978	1.160.983
4. Depreciation and amortisation	124	3.735.110	1.867.555	4.112.991	2.056.495
5. Other expenses	125	6.491.455	4.199.498	6.286.039	3.628.554
6. Write down of assets (127+128)	126	0	0	0	0
a) non-current assets (except financial assets)	127				
b) current assets (except financial assets)	128				
7. Provisions	129				
8. Other operating costs	130				
III. FINANCIAL INCOME (132 to 136)	131	48.368	27.328	59.308	28.307
1. Interest, foreign exchange differences, dividends and similar income from related parties	132				
2. Interest, foreign exchange differences, dividends and similar income from third parties	133	48.368	27.328	59.308	28.307
3. Income from investments in associates and joint ventures	134				
4. Unrealised gains (income) from financial assets	135				
5. Other financial income	136				
IV. FINANCIAL EXPENSES (138 to 141)	137	2.323.711	836.357	1.955.681	1.107.195
1. Interest, foreign exchange differences, dividends and similar income from related parties	138				
2. Interest, foreign exchange differences, dividends and similar income from third parties	139	2.323.711	836.357	1.955.681	1.107.195
3. Unrealized losses (expenses) from financial assets	140				
4. Other financial expenses	141				
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	142				
VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES	143				
VII. EXTRAORDINARY - OTHER INCOME	144	187.786	168.451	29.651	636.923
VIII. EXTRAORDINARY - OTHER EXPENSES	145	1.098.819	938.023	486.156	316.228
IX. TOTAL INCOME (111+131+142+144)	146	52.943.679	35.188.903	52.178.862	33.876.428
X. TOTAL EXPENSES (114+137+143+145)	147	41.839.548	25.522.148	38.527.893	22.822.389
XI. PROFIT OR LOSS BEFORE TAXES (146-147)	148	11.104.131	9.666.755	13.650.969	11.054.039
1. Profit before taxes (146-147)	149	11.104.131	9.666.755	13.650.969	11.054.039
2. Loss before taxes (147-146)	150	0	0	0	0
XII. TAXATION	151				

## Income statement - period 01/01/2016 to 30/06/2016

Company: ILIRIJA d.d.

XII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	11.104.131	9.666.755	13.650.969	11.054.039
1. Profit for the period (149-151)	153	11.104.131	9.666.755	13.650.969	11.054.039
2. Loss for the period (151-148)	154	0	0	0	0
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Attributable to majority owners	155				
2. Attributable to minority interest	156				
STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)					
I. PROFIT OR LOSS FOR THE PERIOD (=152)	157				
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 to 165)	158	0	0	0	0
1. Exchange differences from international settlement	159				
2. Changes in revaluation reserves of long-term tangible and intangible assets	160				
3. Profit or loss from re-evaluation of financial assets held for sale	161				
4. Profit or loss from cash flow hedging	162				
5. Profit or loss from hedging of foreign investments	163				
6. Share of other comprehensive income/loss from associated companies	164				
7. Actuarial gains/losses from defined benefit plans	165				
III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166				
IV. NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD (158 - 166)	167	0	0	0	0
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	0	0	0	0
ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)					
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD					
1. Attributable to majority owners	169				
2. Attributable to minority interest	170				

## CASH FLOW STATEMENT: indirect method (01/01/2016 to 30/06/2016)

Company: ILIRIJA d.d.

Position	AOP	Previous period	Current period
1	2	3	4
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
1. Profit before tax	001	11.104.131	13.650.969
2. Depreciation and amortisation	002	542.507	377.880
3. Increase of current liabilities	003		
4. Decrease of current receivables	004		
5. Decrease of inventories	005		540.843
6. Other cash flow increases	006		
I. Total increase of cash flow from operating activities	007	11.646.638	14.569.692
1. Decrease of current liabilities	008		9.707.051
2. Increase of current receivables	009	3.223.973	2.408.167
3. Increase of inventories	010	478.677	
4. Other cash flow decreases	011		
II. Total decrease of cash flow from operating activities	012	3.702.650	12.115.218
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	013	7.943.988	2.454.474
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	014	0	0
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Proceeds from sale of non-current assets	015		
2. Proceeds from sale of non-current financial assets	016		
3. Interest received	017		
4. Dividend received	018		
5. Other proceeds from investing activities	019		
III. Total cash inflows from investing activities	020	0	0
1. Purchase of non-current assets	021		
2. Purchase of non-current financial assets	022		
3. Other cash outflows from investing activities	023	5.418.135	9.239.243
IV. Total cash outflows from investing activities	024	5.418.135	9.239.243
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	025	0	0
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	026	5.418.135	9.239.243
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
1. Proceeds from issue of equity securities and debt securities	027		
2. Proceeds from loans and borrowings	028		
3. Other proceeds from financing activities	029		10.883.188
V. Total cash inflows from financing activities	030	0	10.883.188
1. Repayment of loans and bonds	031		
2. Dividends paid	032		
3. Repayment of finance lease	033		
4. Purchase of treasury shares	034		
5. Other cash outflows from financing activities	035	2.546.811	4.265.327
VI. Total cash outflows from financing activities	036	2.546.811	4.265.327
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	037	0	6.617.861
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	038	2.546.811	0
Total increases of cash flows	039	0	0
Total decreases of cash flows	040	20.958	166.908
Cash and cash equivalents at the beginning of period	041	109.178	337.876
Increase of cash and cash equivalents	042		

CASH FLOW STATEMENT: indirected method (01/01/2016 to 30/06/2016)  
Company: ILIRIJA d.d.

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Decrease of cash and cash equivalents	043		
Cash and cash equivalents at the end of period	044	88.220	170.968

## STATEMENT OF CHANGES IN EQUITY period 01/01/2016 to 30/06/2016

Position	AOP	Previous year	Current year
1	2	3	4
1. Subscribed share capital	001	137.162.300	150.857.300
2. Capital reserves	002	829.039	8.921.539
3. Reserves from profit	003	21.723.814	23.561.457
4. Retained earnings or loss carried forward	004	14.402.772	28.098.723
5. Net profit or loss for the period	005	11.104.131	13.650.969
6. Revaluation of tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of available for sale assets	008		
9. Other revaluation	009		
10. Total equity and reserves (AOP 001 to 009)	010	185.222.056	225.089.988
11. Foreign exchange differences from foreign investments	011		
12. Current and deferred taxes	012		
13. Cash flow hedge	013		
14. Change of accounting policies	014		
15. Correction of significant mistakes of prior period	015		
16. Other changes	016		
17 Total increase or decrease of equity (AOP 011 to 016)	017	11.104.131	13.650.969
17 a. Attributable to majority owners	018		
17 b. Attributable to minority interest	019		

ILIRIJA d.d.  
BIOGRAD NA MORU  
Biograd n/m 22./07/2016.

Statement made by the persons responsible for preparation of financial statements  
for the period from 01 January 2016 to 30 June 2016

According to Article 403-410 of the Capital Market Act, we declare that:

Financial statements of Ilirija d.d. Biograd na Moru, Tina Ujevića 7, Tax No. OIB: 05951496767 for the period from January to June 2016 have been prepared in accordance with International Financial Reporting Standards and Croatian Accounting Act.

The financial statements give a true and fair view of the financial position of the Company as at 30/06/2016, operating results and cash flows of the Company in accordance with International Financial Reporting Standards.

The Management's Report gives a true presentation of operating results and position of the Company as at 30/06/2016.

Accounting Manager:



Zorka Strpić

**ILIRIJA** dioničko društvo  
za ugostiteljstvo i turizam  
Biograd na Moru

Management Board:



Goran Ražnjević

### 13.3. OTHER FINANCIAL STATEMENTS

Other financial data and statements are posted and are available on the website of the Zagreb Stock Exchange ([www.zse.hr](http://www.zse.hr)), HANFA, company Ilirija d.d. (<http://ilirijabiograd.com/izvjesca-o-poslovanju>) and similar publicly available sources.

### 13.4. OTHER IMPORTANT INFORMATION

At the request of the investor, the company Ilirija d.d. will deliver legal due diligence drafted by the law firm Bogdanović, Dolički & Partners, Articles of Association, economic and financial documents used in the process of preparing this Memorandum, and any other necessary information.



## 14. RISKS

When investing in securities the investor shall, according to its own preferences, knowingly accept certain types of risk. When considering investing in Issuer's shares, a potential investor should consider the risk factors set forth below, but the investor is also advised to make its own evaluation and judgment of the Issuer's financial position, conditions of issue, as well as other impacts and information that may affect the value of the relevant securities.

### 14.1. RISKS ASSOCIATED WITH SECURITIES

#### LIQUIDITY RISK

The capital market in Croatia is still underdeveloped compared to developed markets, although significant progress has been made in improving the European standards and regulations of the capital market in recent years. Notwithstanding the listing of shares on the Regulated market there is no guarantee that active trading in them will develop in the secondary markets. In the event that active trading is not developed in the secondary market, this fact could have a negative effect on the share price, especially on their liquidity. However, an increase in the number of shares which are the subject of this recapitalization (capital increase) is backed by the increase in the trading volume in the free market.

#### VOLATILITY OF THE SHARE PRICE

The market price of shares is volatile and can be subject to sudden and substantial falls. As a result, the shareholders may experience a significant decline in the market price of shares which may be a consequence of several factors, including the difference between the results published by the Issuer and the forecasts produced by analysts, important contracts, mergers, acquisition of strategic partnerships related to the Issuer, fluctuations in the financial condition and operating results, and the general volatility of prices on the Zagreb Stock Exchange. After listing, there may be no active or liquid market, and investors may not be able to sell its shares at or above the initial price in the Offering.

#### RISK OF DIVIDEND PAYMENT

The issuer's ability to pay dividends in the future will depend on future revenues, financial conditions, cash flow, needs for working capital, capital expenditures and other factors. In the last eight years of operations, the Company has regularly paid dividends. It has done so in the following amounts so far: by the end of 2014 in the amount of 15 HRK per share, in 2015 in the amount of 18 HRK per share. The achieved results of operations ensured the smooth distribution of dividends, which is also expected in the future period considering the expected continuation of normal operations of the Company.

#### TRADING COSTS

When doing secondary trading in shares, some transaction costs may appear. These costs can significantly reduce or completely eliminate the potential earnings from investments in shares.

## 14.2. RISKS ASSOCIATED WITH THE ISSUER

The Company is, after all, as the most businesses in the tourism sector, exposed to foreign exchange risk, interest rate risk, price risk, credit risk and liquidity risk, environmental risk, risk of tourism as the branch of economy, the risk of macroeconomic movements and risk of changes in tax and other regulations.

### FOREIGN EXCHANGE RISK

Since most of the monetary fund inflows of the Company are quoted in EUR, as well as the most of the loans, the Company is to the highest degree hedged against the foreign exchange risk owing to this circumstance.

### CREDIT RISK

Indebtedness of the Company with the commercial bank is mainly subject to variable interest rates, so taking this into consideration, the Company is partially exposed to interest rates, but only due to exceptional circumstance and disturbance in the operations which are not attributable to the Company.

In order to reduce the credit risk, the Company strives to reduce the total loan debts to an adequate sum, with a planned relatively higher proportion of financing from its own resources.

In this context, we can also observe the financing of the current acquisition, that is, the financing of the property Commercial shopping center City Galleria in the target amount of 50% from the recapitalization (capital increase) and the remaining 50% through long-term borrowing from commercial banks for a period of 15 years.

### RISK OF COMPETITION

Croatian accession to the European Union has administratively facilitated entering the markets of other member states, but also entering the domestic market by foreign competitors. The risk of building new similar facilities in the region where the Issuer operates is the competitors' market risk as well as their potential impact on the prices. However, the enhanced growth of tourist arrivals and overnight stays in the Republic of Croatia in recent years, accompanied by the corresponding trend of rises in prices in tourism indicates a low probability of negative impact by the competition on the operations of the company Ilirija d.d.

### REGULATORY RISK

The Company is exposed to changes in tax and other regulations in the legal system of the Republic of Croatia. This, in particular applies to legislation in the field of maritime domain and the tourist land plots on which the Company has significant commercial and critical long-term investments and all the constitutionally guaranteed rights have not been exercised in the field of protection of capital investment.

## 15. LIST OF DEFINITIONS AND ABBREVIATIONS

d.d. – public limited company

d.o.o. – limited liability company

CAPEX – capital expenditure

Company - Ilirija d.d.

DZS – State Bureau of Statistics

EBIT – (earnings before interest and taxes)

EBITDA (earnings before interest, taxes, depreciation and amortization)

EBT (earnings before tax)

EUR – Euro, the official currency of the member states of the European Monetary Union

EURIBOR (Euro Interbank Offered Rate) - the reference interest rate on the European interbank market

FINA - Financial Agency

HANFA – Croatian Financial Services Supervisory Agency

ISIN - International Securities Identification Number

LIBOR (London Interbank Offered Rate) - the London interbank offered interest rate, variable interest rate charged on loans by banks when they borrow from each other, operating in the London's capital market

MBS - Company registration number

OMF – Compulsory pension fund

Commercial shopping center City Galleria – company Trgovinski centar Zadar - Faza 2 d.o.o., Murvička 1, Zadar

RoC - The Republic of Croatia

CDCC – Central Depository Clearing Company plc.

ZSE - Zagreb Stock Exchange

ZTD – Companies' Act

ZTK – Capital Market Act

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In our opinion and to the best of our knowledge and information available to us, we declare that all the information contained in this Information Memorandum constitutes a full and fair overview of the assets, liabilities, loss and profits, financial position and operations of the company Ilirija d.d., and rights contained in the Shares and that the facts that might affect the completeness and accuracy of this Information Memorandum are not left out.



**ON BEHALF AND IN THE NAME OF THE COMPANY ILIRIJA D.D.**

President of the Management Board:

Goran Ražnjević

A handwritten signature in blue ink, appearing to read 'Goran Ražnjević', is written over a white rectangular background.