



ILIRIJA
60 YEARS

**Annual report on the corporate social responsibility
for the year 2016**

Biograd na Moru, January 2018



66

30

Turija a.d.
marina Kornati

8

Annual report on the corporate social responsibility for the year 2016

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I Statement by the President of the Management Board



Dear all,

we present you the Annual Report on Corporate Social Responsibility for the year 2016 in which we disclose the company's accomplishments in the area of sustainable development and corporate social responsibility, i.e. the economic, environmental and social aspects of the company's influence throughout the year 2016. In March 2016, the Company drafted the publication Business Model of Corporate Social Responsibility for the period from 2000 to 2015 presenting an overview of the Company's activities in the field of corporate social responsibility through six basic areas in accordance with the methodology CSR INDEX (focus on economic sustainability, incorporation of CSR and SD into the business strategy, responsible policies and practices of environmental management, corporate social responsibility in market relations and socially responsible community relations) which, as such, is the first Company's report on Corporate Social Responsibility.

There are two significant events that marked the year 2016: I) the second recapitalization of the company which ended with the successful issue of new shares and the increase in the share capital and II) buying (acquisition) of the Commercial-shopping center City Galleria in Zadar, completed in the second half of December, which is one of the two largest shopping centers in the city of Zadar, located in an attractive location in the wider city center,

with a 97% occupancy of all capacities, being an investment evaluated at HRK 78,513,316.80. Ilirija has thus transformed into a company with a wide range of economic activities, where in addition to tourism and hospitality, as its core business, it partly enters the real-estate segment which will allow it to strengthen its market, capital and financial position by stabilizing the cash flow by inflows earned off-season, risk diversification, consolidation of costs and will also contribute to strengthening the economic activities evenly throughout the year. With this acquisition, we have created a company that has all the prerequisites for a successful, profitable and sustainable business that represents an added value to our entire offer and provides us with a number of additional possibilities in creating new services and products.

Observing the business results achieved in 2016, both operating and financial, and in particular the profitability ratios, they are the best since the privatization of the company, that is, since 2000 and development of Ilirija as a modern tourism company. Total revenues were realized in the amount of HRK 129,019,007.31, of which the operating revenues amounted to HRK 127,591,140.20. The growth in revenues from Ilirija Travel destination management company and revenues from hospitality is particularly significant, as its complementary products, largely realized in the pre- and post season. Given the long-term goal of extending the high season and the whole year's

business, the results achieved in 2016 prove the correctness of the business strategy of the company. Profitability ratios, i.e. operating profit, profit and EBITDA, achieved a significant growth as a result of the growth in total revenues and the Company's designed cost management policy, especially in the segment of more proper disposal and allocation of optimal operating expenses, which was also one of basic business goals. Profit was realized in the amount of HRK 31,240,796.00 with a realized growth by 22% while the operating profitability ratios EBITDA and EBITDA margin grew by 19%, whereby EBITDA was realized in the amount of HRK 45,027,128.66 with realized EBITDA margin of 35.37%. The achieved business results are the result of continuous development, reflection and responsible and sustainable business policy, while simultaneously strengthening the core values of the company, its competitiveness and market recognizability.

In the forthcoming period, the company's long-term priorities are the continuous development and improvement of or raising the quality, content and services of its tourism and hospitality sector, i.e. the development of hotel, nautical and camping tourism as well as the development of complementary and selective forms of tourism through responsible and sustainable investments, in what we personally believe, first and foremost sustainable tourism towards all of its consumers. The above priorities are followed by increasing the company's value, raising the

business efficiency, improving the business processes, increasing the acquisitions on the leading source markets of the Croatian tourism and target market groups, creating and developing tourist offer of the destination through the destination management company/DMC Ilirija Travel.

As a responsible employer that had 216 persons employed by the end of the reporting period, that is, a total of 450 employees during the whole business year, including business partners, that carried out their business activities in the facilities of Ilirija d.d. in the form of business cooperation, there were 1000 persons employed in our facilities. As a specific tourist company in Croatia regarding its approach to human resource management at all levels, we are especially proud that all our employees, no matter whether they are employed for a fixed term or whether they are seasonal workers, including the management of the company, come from Biograd na Moru and surrounding municipalities and towns, and we will continue to strive for it in the future. We also launched the Academy of Business Excellence - ILIRIJA EDUKA aimed at improving employees' competencies, improving the service quality, guest satisfaction, revenue growth and maintaining competitiveness that is carried out in the key areas of the Company's business.

Using this report, we would like to present the most important aspects of sustainable development and corporate social responsibility towards all our stakeholders pu-

blicly and transparently, which aspects are an integral part of the corporate values we cherish as a company, so we believe and hope that through our achievements in 2016 you will get an insight into what Ilirija d.d. as a responsible business system that has been present on the Croatian tourism market for more than 60 years and that is also the first company that was given the Corporate Social Responsibility Award CSR INDEX for the years 2011 and 2012, does in the area of sustainable development and corporate social responsibility.

Goran Ražnjević
Management Board
President



Annual report on the corporate social responsibility for the year 2016

The annual report on the corporate social responsibility for the year 2016 includes the time period from 01st January to 31st December 2016 and partly relies on the Annual Report for the year 2016 publicized in the Croatian and English language, on the website of the company www.ilirijabiograd.com, Zagreb Stock Exchange and The Croatian Financial Services Supervisory Agency (HANFA) in April 2017.

In March 2016, the first non-financial report Business Model of Corporate Social Responsibility from 2000 to 2015 was published, presenting the cross-section of the company's activities in the area of corporate social responsibility in accordance with the CSR INDEX methodology.

The Annual Report on corporate social responsibility is publicly available and posted on the website of www.ilirijabiograd.com, and please send your comments and suggestions for improvement to the e-mail address: jasminak@ilirijabiograd.com.



Hotel sector



Nautics



Ilirija Travel



Camping



Real estate

Il About Ilirija

1 Basic details



Name: Ilirija dioničko društvo za ugostiteljstvo i turizam
/public limited company for hospitality and tourism/

Registered office: Tina Ujevića 7, Biograd na Moru,
The Republic of Croatia

Telephone: +385 23/383 165

Fax: +385 23/384 564

Web: www.ilirijabiograd.com

Tax No. (OIB): 05951496767

Company Reg. number: 3311953

Transfer account number: 2402006-1100097324
ERSTE & STEIERMÄRKISCHE BANK d.d. - Rijeka

Foreign currency account number: 7001-3311953,
ERSTE & STEIERMÄRKISCHE BANK d.d. - Rijeka

Swift: ESBCHR 22

IBAN: HR5824020061100097324

Share capital amount: 205,146,480.00

Total number of shares: 301,686

Nominal amount of a share: HRK 680,00

Management Board: Goran Ražnjević, President

Supervisory Board: Goran Medić, President

We especially take pride in the business accomplishments in the **year 2016** which are the **best since the foundation of the Company:**

HRK 129,019,007.31
Total revenues

HRK 31,240,796.00
Profit

HRK 45,027,128.66
EBITDA

HRK 105,808,897.76
Capital investments



2 Ilirija in figures

Ilirija is a tourist company that has been operating on the Croatian tourism market for **59 years** in 3 destinations **Biograd na Moru, Zadar and Sv. Filip i Jakov**, and since the year 2016 after having acquired the **Commercial-shopping center City Galleria in Zadar** it partly entered into the **real estate segment**.

It presents its business through the following **5 segments** of the offer:

(I) Hotel sector (4 hotels) – 907 beds, 443 rooms

(II) Nautics – 805 berths, 2,000 persons,

(III) Camping – 1,130 pitches, 3,390 persons,

(IV) Destination management company/DMC Ilirija Travel - complementary and integrated product that allows the whole year's business through which some 388 special events for over 46,874 guests were organized in the year 2016,

(V) Real-estate segment – Commercial-shopping center City Galleria in Zadar is one of the two largest shopping centers in the Zadar region with the total gross area over 28.500m².

Over 6,000 guests stay daily in the facilities of Ilirija in the **very high season**.

It is a major employer in the region of the Biograd Riviera that employs **216 employees**, over **450 employees in high season**, while around **1,000 persons** have a job secured in our facilities based on the business cooperation.

It received twice the award for the corporate social responsibility **CSR INDEX** for the years **2011** and **2012**, and at the same time it is **the first tourism company** in the Republic of Croatia that has been **awarded for the corporate social responsibility**.

3 Chronological overview of the historic development of Ilirija



Year 1957

Ilirija d.d. was established in Biograd na Moru, where it operates today, although the beginnings of the company date back to 1934 when the first hotel called ILIRIJA was built. These are also the first beginnings of organized tourism not only in Biograd but also in Biograd Riviera, by which the Company becomes the pioneer and the leader of all tourism activities of this destination.



From 1969 to 1972

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



Year 1976

The beginning of construction of the first nautical tourism port in Croatia, Hotel port Ilirija-Kornati, located in Biograd na Moru, with a total of 100 berths and the acquisition of the first charter fleet of 40 vessels, by which the Company becomes a pioneer of the nautical tourism development.



Year 1986

Extended nautical capacities by constructing the nautical tourism Port Marina Kornati, located in Biograd na Moru, with total port area (aquatorium) of 131.600 m² with a total capacity of 705 berths on land and sea.



Year 1988

Construction of the Aquatic Center as a swimming, beach and sports, entertainment and hospitality facility with bleachers with the capacity of 4,000 seats and a terrace of 1.000 m², whereby it represents the center for holding almost all sports, entertaining and dance events in the destination. Construction of the Tennis center, on the area of 48.000 m², with 20 tennis courts (14 clay and 6 color set tennis courts).

Year 1991

By merger of the campsite "Soline", located in Biograd na Moru, later renamed into the campsite "Park Soline", by which the Company also included camping in its operations as the third segment of its tourism offer.

Year 1999

Ilirija d.d. was privatized and is in major ownership of Arsenal Holdings d.o.o. from Zadar. The Biograd Boat Show was launched, originally organized as spring Open Days, which has been organized as the first autumn boat show in Croatia since the year 2004.

Year 2003

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



Year 1989

Construction of an annex to the hotel Kornati**** and administrative building of the Company.

From 1991-1992

Completion of the remaining part of the port area, i.e. the capacities of the Port of Nautical Tourism Marina Kornati, by building docks in the southern and western aquatorium.

Year 1993

The Croatian Privatization Fund makes a decision on the transformation of HTP Ilirija into a joint stock company.

From 1999 - 2016

The period of an intensive investment cycle in the construction, reconstruction, extension, building an annex, renovation and adaptation of the accommodation capacities and company facilities and the development of new products with the aim of creating a quality, recognizable and competitive tourism product as well as raising the quality of the offer of the destination itself. As at 31st December 2016 the Company invested the amount of HRK 450,961,296.58 which resulted in a significant growth in total revenues and newly created value in the aforementioned period in the amount of HRK 628,722,303.82.

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.



Year 2015

Villa Primorje****, built in the second half of the 19th century, revamped and luxuriously decorated and equipped in line with the latest standards for facilities of such a kind and category. Recapitalization of the company by Allianz ZB d.o.o., the compulsory pension fund management company, with headquarters in Zagreb, which has acquired 10% equity share in the ownership.



Year 2005

As part of the business system of Ilirija d.d., the multimedia center Arsenal in Zadar, built in the 17th century, following the completion of the revitalization and renewal according to the concept of "indoor town square," began conducting business activities.

Year 2009

Listing of the shares in the Regular Market of the Zagreb Stock Exchange.

Year 2014

The event yacht "Nada", a floating convention center with multifunctional purposes 36m in length and with a capacity to accommodate 180 persons. As a part of the Company's business system, the first Croatian diffuse hotel Ražnjevića dvori AD 1307 was opened in the place Polača.

Year 2015

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

Year 2016

The second recapitalization was successfully completed by increasing the share capital in contributions in cash and by issuing New ordinary shares of the company by public offering. The main purpose of the recapitalization was to raise the funds for the acquisition of the Commercial-shopping center City Galleria in Zadar. Buying (acquisition) of the Commercial-shopping center City Galleria property in Zadar, the company with a wide range of economic activities was established.

4 Ethics and integrity

As a corporate and public limited company, all business information is public and transparent and accessible at all times to all government, financial and other institutions, associations, partners and citizens.

In its business, the Company adheres to the recommendations included in the Corporate Governance Code adopted as a form of transparent and good governance of public limited companies by the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency, as detailed in the Annual Questionnaire of the Corporate Governance Code which is publicly posted on the website of the Company at www.ilirijabiograd.com and is submitted at the same time to the Zagreb Stock Exchange, The Croatian Financial Services Supervisory Agency HANFA and the Central Register of Prescribed Information. Minor deviations from applying individual recommendations from the Corporate Governance Code, with the indication of the explanation thereof are listed in the Annual Questionnaire.

The Company also applies the Code of Ethics in the operation of the Croatian Chamber of Commerce by acting in its business in compliance with the principles of accountability, ethics, transparency and adherence to good business practices towards all stakeholders in the business process of the Company.

Corporate Strategy of Ilirija d.d. finds its foundation in the underlying principles of corporate social responsibility, which are an integral part of the company's corporate values, built into the long-term business practice and processes toward its stakeholders.

5 Company's vision and mission

The vision is to permanently secure position among the 3 leading tourism companies in the region of the North Dalmatia and among the 15 leading tourism companies in the Republic of Croatia in the key segments of the Croatian tourism offer (hotel industry, nautics and camping), be and stay the leader of the tourism and economic development of our region and destinations such as Biograd na Moru, Zadar and Sv. Filip i Jakov thereby developing the whole year's business by offering the complementary and selective forms of tourism offer in the destinations where we conduct business.

According to the foregoing, the **mission is: increasing the assets and achieving the financial results** of the business operations, which will ensure long-term business and financial stability, establish an optimal level of quality and competitiveness in business at the level of the overall Croatian tourist offer, with **continuous investment in human resources** and **ensuring optimal employment level, ensuring and complying with sustainable development principle** which is manifested in recognizing and satisfying the needs of tourists, protecting and restoring natural and cultural heritage and preserving the environment, i.e. creating a **responsible and sustainable tourism offer.**

6 Fundamental values



Respect and integrity – equal treatment of all of our stakeholders is the fundamental value of our company's business.



Quality – a top-quality product, professional service and individual approach to clients are the basis of the relation to the guest which is at the heart of the company's service.



Innovation – to be the initiator and creator of new products and services, contributing to the future development of company, destination and Croatian tourism.



Sustainability and responsibility – in business, investment, relationship with its employees, business partners, clients (guests), local, regional and regional community, shareholders and day-to-day operations by integrating the economic, social aspects and environmental protection aspects into decision-making processes and corporate strategy of the company. Harmonization of these aspects is the foundation of success and sustainable development of the company.



Transparency – in business and communication with all stakeholders of the company while complying with the principles of timely and accurate information provision as a prerequisite for further strengthening the company's market position and its further growth.

7 Membership in associations

Ilirija is a member of the following domestic and international business and professional associations:

1 Industry associations:

Association of Employers in Croatian Hospitality (UPUHH)

Croatian Camping Association (KUH)

Top Camping Pool

Croatian Association of Travel Agents (UHPA)

Croatian Association of Independent Travel Agents (UNHPA)

Croatian association for professionals in congress tourism

Tourist boards at regional and local level

International Federation of Boat Show Organisers (IFSBO)

Association Lijepa naša

The company is a member of 12 business and professional associations through which in active participation expresses the interests of the tourism industry, especially in the segment of regulations that significantly influence the development of tourist offer and the development of tourism as an industry including the Act on Tourism and other Building Land not valued in the process of transformation and privatization, Maritime Domain Act, Physical Planning Act, Concession Act, etc., that are of great importance for the tourist industry in the Republic of Croatia, its further sustainable and long-term development and the development of competitive and recognizable tourist offer. Ilirija d.d. also performs a large portion of activities directed at creating public policies by making direct comments and suggestions to the relevant public authorities and makes significant efforts to promote corporate social responsibility and sustainable development in the tourism sector.

2 Professional associations:

- Croatian Chamber of Commerce (CHC)

Association of Croatian marinas

Community for Corporate Social Responsibility

Community for Environmental Protection

Economic Council of the Croatian Chamber of Commerce of the Zadar County

- Croatian Employers' Association (CEA)

- Croatian Business Council for Sustainable Development (CR BCSD)

Charters, codes, and initiatives applied by the Company:

Corporate governance code of the Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange,

Code of Ethics in the business of the Croatian Chamber of Commerce

The President of the Management Board of Ilirija in the person of Mr. Goran Ražnjević is a member of the following bodies of corporate and professional associations:

Assembly of the Croatian Chamber of Commerce

Tourist Council of the Tourist Board of the Zadar County

Member of the Steering Council of the Croatian Business Council for Sustainable Development

8 Overview of portfolios, products and services



The portfolio of the company comprises the key segments of the Adriatic Mediterranean tourist offer, that is: hotel sector (hotels: Ilirija****, Kornati****, Adriatic***, Villa Donat****/***), nautics (Marina Kornati and Hotel port Ilirija-Kornati), camping (camp site "Park Soline"****), destination management company/DMC Ilirija Travel (Arsenal, diffuse hotel Ražnjevića dvori AD 1307, event ship "Nada", Vila Primorje) and real-estate segment (Commercial-shopping center City Galleria in Zadar). Hospitality facilities with the offer and service of food and beverages (restaurant "Marina Kornati", restaurant "Park Soline", Aquatic center, Lavender lounge bar and Beach bar „Donat“) and sports and recreational center "Tennis center Ilirija" are the integral part of the offer.

Its business is based 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 d.d.*



4 hotels



Two destinations
Biograd na Moru and Sv. Filip i Jakov



443 rooms



907 beds

Hotel sector

The hotel sector of the company is grouped under the brand name ILIRIJA RESORT which consists of four hotels with a total capacity of **907 beds and 443 rooms**:

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 along the coast, close to the old town, surrounded by magnificent nature, sea and pinewood, as well as many amenities

Hotel Kornati classified as a four star hotel, with the capacity of 106 rooms and 216 beds, a restaurant with the capacity for 220 persons, a terrace for 50 persons and a bar for 40 persons, by its design and atmosphere is linked to and associated with the most beautiful Croatian national park – Kornati. Hotel Kornati 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 Villa Donat, located in Sv. Filip i Jakov, consists of Villa with 16 superb and 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. The hotel is located not far from the main beach and the center of the town and reminds of the rich history of this region.

Hotel Adriatic classified as a three-star hotel, with the capacity of 100 rooms and 210 beds, with a restaurant with the capacity for 230 persons, a terrace for 300 persons and a bar with the capacity for 110 persons. It is located in a pine forest, almost on the beach, and there is Aquatic Center next to it, which is ideal for family fun and for a range of attractive summer sea activities.





**Croatian nautical tourism
pioneers**



**One of
top 3 Croatian marinas**



805 berths



**More than 60,000
sailors on annual basis**

Nautics

Ilirija **takes pride in the construction of the first nautical marina** in Croatia (Hotel port 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 sailors, therefore we have the right to find ourselves a pioneer of nautical tourism in the Croatian part of 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 200 sailors, 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** which is visited by more than 60,000 sailors on an annual basis.

Marina Kornati, total sea surface area (aquatorium) of 91,912 m² and land area of 39.688 m², is certainly one of the largest nautical ports in the Zadar County and the only true entity that launched the development of nautical tourism in the Biograd riviera. Marina Kornati Aquatorium consists of: (I) Central aquatorium with 365 berths in the sea and 70 on land, (II) Western aquatorium with 190 berths in the sea and (III) Southern aquatorium with 80 berths in the sea.

In addition to its own service repair area, maintenance of vessels and a dry berth with slipway and travel lift, the marina has all-day sailor and guard service, a secured and guarded parking lot with 500 parking spaces as well as hospitality facilities. There are about thirty external companies operating as part of the marina which in the form of business co-operation provide the servicing, repair to sailors and supply the sailors with the necessary equipment.

Over 40 local and international regattas of all classes are organized and held in the aquatorium of Marina Kornati, which are attended by over 30 fleets with up to 10,000 sailors from all over the world, so they deserve the name not only of the nautical but also of the regatta center of Northern Dalmatia.

Hotel port Ilirija-Kornati, whose construction began thirty-nine years ago as the first port of nautical tourism, is located in the very center of Biograd na Moru, in front of the Hotel Kornati and Hotel Ilirija. It has a total of 100 berths for the acceptance of boats up to 8.50 m and extra contents within the hotel resort.





20.00 Ha area



1,130 accommodation units



3,390 persons



**Camp-park arboretum
level landscaping**

Camping

Campsite "Park Soline", classified as a four star campsite, 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. Apart from the fully equipped pitches (pitch standard mare and comfort), there are also pitches with the basic infrastructure (standard pitches and campsite standard), and there are areas of mobile homes Shelbox-Tavolara, Premium and Comfort Plus with an area of 32 m².

Inside the camp, the guests have access to modernly equipped toilet facilities, washing machines and dryers, exchange office, internet cafe, a supermarket and hospitality contents. A special attention is paid to the landscaping of the camp-park up to the level of the arboretum, which is a unique example of horticultural landscaping of the campsite in Croatia as the top tourist product that combines a high quality tourism supply with care for the environmental protection.

In addition to the enriched restaurant offer, newly built promenade that stretches along the entire camp and along the beach leading to the Biograd town center, the campsite "Park Soline" is the right choice for a family vacation. In addition to entertainment for children and evening entertainment, active holiday with attractive sports, you can relax walking along the long walking trails and recreational routes in a healthy environment, and the camp is an excellent choice for all nature lovers.

The options are unlimited for the guests that wish to spend an active holiday in the vicinity of the campsite: tennis courts, table tennis, mini football, water skiing, diving, sailing, bicycle rental, jogging, roller-blading, beach volleyball, bowling, hiking and organized excursions to attractive national parks and nature parks (NP Krka, NP Kornati, NP Paklenica, NP Telašćica, PP Lake Vrana) or historic cities (Zadar, Šibenik, Split).





**Integrated and complementary
tourist product**



**Development of a
year-round tourist offer**



4 own facilities



**388 special events with
46,874 persons**

Ilirija Travel

The destination management company represents an integrated and complementary tourism product 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 the offering and **implementation of these special programs** and products there is the business operation in **own additional facilities** such as:

Arsenal which is a heritage site, a multimedia center located in Zadar, built in the 17th century, which was renovated in 2005 as an in-door 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 on an annual level.

Diffuse hotel Ražnjevića dvori A.D. 1307 a multifunctional 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. The diffuse hotel consists of six functionally linked stone houses and represents an indigenous country estate surrounded by olive groves and vineyards. In addition to the three apartments, authentic Dalmatian stone houses are transformed into a tavern and restaurant, and guests can also enjoy the outdoor swimming pool, stone terraces, wine store and olive oil store in the hotel. The space is designed and equipped as a place for holding the meetings, incentives, seminars, team building, gala dinners and banquets. Since the guests are more and more seeking the experience of the location where they are staying, the production of wine and olive oil that can be tasted can be presented in the estate in a traditional and ecological way.

Villa Primorje was built in the second half of the 19th century and is a typical traditional Dalmatian stone nobleman's house with the outbuilding. 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.

Event ship "Nada" a multifunctional yacht, sized 36m and a capacity to accommodate 180 persons, with a complete restaurant, kitchen and bar which provides an excellent hospitality service during the voyage. Conferences, seminars, special events, unique business meetings, gala receptions and banquets, unique weddings, exclusive day and night cruises, incentive events are all activities organized in the event ship "Nada" which adapts to the requirements of an individual customer.



Arsenal



Ražnjevića dvori A.D. 1307



Villa Primorje



Event ship "Nada"



One of the two largest commercial centers in the County of Zadar



Surface area of 28,500m² on 6 floors



Outdoor city market



The only cinema in the County of Zadar

Real-estate segment - City Galleria

Commercial-shopping center City Galleria is located near the old town center of Zadar, one of the two largest shopping centers in the city and the wider Zadar region. It was completed and opened to the public in October 2008 with a total gross surface of more than 28,500 m² spread over a total of six floors (two garage and four commercial levels). The gross surface of the Commercial-shopping center City Galleria consists of an underground garage with total area of 10,972 m², 10,679.80 m² of net leasable area (of which 9,639.30 m² relates to the surface area of business units in the Center, and 1,040.50 m² to the surface area of the respective terraces of business units), and ancillary rooms and corridors.

The Center offers the following facilities to its visitors: an underground car garage with over 400 parking spaces on the two floors, indoor and outdoor town market, supermarket, specialized food and beverage shops, fashion clothing, footwear and accessories shops, children's shops, cafes, healths and beauty services and multiplex movie cinema with 6 screens. The added value and distinctiveness of the center lies in the open town marketplace, located on the outdoor covered market square, the indoor market and fish market, whereby the Commercial-shopping center City Galleria has established itself as a place where visitors can meet most of their daily needs and as such represents a departure from the contents of traditional shopping centers.

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



Hospitality

Restaurant "Marina Kornati", located in Marina Kornati, has the capacity for over 350 persons, which together with the recently refurbished Captain's Club having the capacity to accommodate 70 persons, together are having the capacity for 420 persons meeting thus the requirements of sailors 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 2016 a total of 73 events were held in the "Marina Kornati" restaurant which were attended by over 10,573 persons.

Restaurant "Park Soline" is located in "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.







"Lavender" lounge bar, located inside of Hotel Adriatic, next to the beach, known for its Mediterranean design, fully designed for people to relax, with a beautiful view of the Pašman Channel, a place that offers the possibility of organizing a number of events of different character (MICE, weddings, banquets, cocktail bar, night club, etc.).

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 a capacity to accommodate 140 persons.



Congress capacities of the company are intended for the clients who require much more than the event space itself, that seek an authentic ambience that simultaneously reflects the history, culture and tradition of the town, destination and region, and offers a complete service of the event organization (logistics, technical, hospitality service, etc.) for 2,492 persons. They are distributed throughout all sectors of the company starting from the congress capacities of Ilirija Resort, the Captain Club in Marina Kornati, and for clients who want a special and unforgettable experience we offer the organization of M.I.C.E. events at the event ship "Nada" , or the first Croatian diffuse hotel Ražnjevića dvori AD 1307. or the historic ambience of Arsenal, a heritage monument built in the 17th century at the time of the Venetian Republic when it was used as a military storage, located in the heart of the old Zadar city center.

All the halls are equipped with modern audio-visual equipment for holding the presentations, seminars and conferences, with the continuous support of our expert team with the complete hospitality service.

Facility	Room name	Maximum capacity	Area m ²	THEATRE 	CLASSROOM 	U-SHAPE 	CONFERENCE 	BANQUET 	COCKTAIL 
HOTEL ILIRIJA	RESTAURANT	300	350				70	200	300
	ILIRIJA	100	215	100	80	30	30	50	100
HOTEL KORNATI	RESTAURANT	220	300			60	70	220	300
	KORNATI	30	45	30	20	20	20		
HOTEL ADRIATIC	ADRIATIC 1	230	250	230	160	70	70	180	250
	ADRIATIC 2	60	80	60	40	30	30	40	50
	ADRIATIC 3	30	45	30	20	20	20		
	ADRIATIC 4	20	30	20	12	10	10		
	ADRIATIC 5	60	100	60	30	30	30	50	100
	LAVENDER	90	200	90	50	20	20	40	100
AGRITOURISM ILIRIJA	CONFERENCE ROOM	50	50	50	35	30	30	65	70
	TAVERN A	20	40	40	15		16	20	25
	TAVERN B	14	30				14	14	14
	TAVERN C	18	35	18	12	12	12	18	20
ARSENAL ZADAR		1000	1000	500	200	150	150	700	1000
EVENT SHIP "NADA"	DECK 1	150	50	30	40			90	90
	DECK 2		60	60	35		46	60	
MARINA KORNATI	CAPTAIN'S CLUB	100	120	100	60	60	60	80	100



**Sports, entertaining and hospitality facility
with a capacity for 4,000 persons**



20 tennis courts



**The largest international
boat show in the Republic
of Croatia and in South
East Europe**

Sports-recreational and entertaining contents

Aquatic center - built as a sports, entertainment and hospitality facility with an outdoor Olympic swimming pool, located on the main city beach, crowned by the Blue Flag. **It has 4,000 bleachers and a terrace of an area of 1,000 m² and is the center of almost all sports, entertainment and music events in the destination.** It is equipped with hospitality facilities, cafe bar and fast food restaurant with a capacity for 350 persons and as such offers the possibility of organizing numerous events of the public and private character and is an ideal place for organizing team buildings, weddings, banquet, M.I.C.E. events etc.

Tennis center Ilirija, located in a pinewood Soline near the old city center, covers an area of 48.000 m² 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 accompanied facilities.

Events

Biograd Boat Show - the largest international autumn boat show in the Republic of Croatia and the largest boat show in South East Europe, among the shows which take place on the water brings together all the key representatives of the nautical industry and tourism. At its beginning in 1999, the boat show was organized as spring Open Days mainly for companies operating within the Marina, as the first such event in North Dalmatia, which since 2004 has been organized as the autumn nautical manifestation Biograd Boat Show, and contributed to the improvement of nautical offer and the extension of the tourist season.

Biograd Boat Show 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.

In 2016 the show which celebrated eighteen years of its existence, was attended by over 300 registered exhibitors that participated with 300 vessels, while the number of visitors surpassed the figure of 15,000 with over 2,000 realized business visits.



Aquatic center



Tennis center "Ilirija"



Biograd Boat Show

Capacities of the hotel sector – Ilirija Resort



	Number of rooms				Number of beds			
	2014	2015	2016	Index 2016/2015	2014	2015	2016	Index 2016/2015
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
Total	443	443	443	1,00	907	907	907	1,00

Capacities of the nautical sector – Marina Kornati



	Length of piers / m	Number of berths	Dry berth	Total number of berths
Central marina	923	365	70	435
West marina	262	190	0	190
South marina	180	80	0	80
Hotel marina	450	100	0	100
Total	1.815	735	70	805

Camping sector capacities – Campsite „Park Soline“⁴¹¹

		2012	2013	2014	2015	2016
I	Extra zone					
	Camping pitches	80	80	80	81	81
	Camping plots	0	0	0	0	0
	Total	80	80	80	81	81
II	First zone					
	Camping pitches	327	336	345	326	326
	Camping plots	0	0	0	0	0
III	Total	327	336	345	326	326
	Second zone					
	Camping pitches	157	168	168	182	182
IV	Camping plots	0	0	0	0	0
	Total	157	168	168	182	182
	Third zone					
Σ	Camping pitches	161	342	342	347	347
	Camping plots	263	130	188	187	194
	Total	424	472	530	534	541
Σ	Grandtotal					
	Camping pitches	725	926	935	936	936
	Camping plots	263	130	188	187	194
	Grandtotal	988	1056	1123	1123	1130





571,387 overnight stays



131,424 overnight stays



258,110 overnight stays



181,853 overnight stays

9 Overview of the market, customers and suppliers

Overview of the market and customers

Central position of the facilities Ilirija d.d. in the very "heart of the Adriatic Coast" and 59 years of tradition resulted in the development and integration of a number of tourist segments in the company's offer. Markets, sales channels, and segmentation of services in each of the company's sectors are different which conditions a specific approach to its organization. These company's contents require a more complex organizational structure, but also offer complementarity of supply and realization of the added value through a complex tourist product, which is realized through the developed communication channels of cross-sectoral coordination.

Ilirija as such a complex company is open to all source markets, and in 2016 the largest part of the turnover was realized in the markets of Slovenia, Germany, Czech Republic, Croatia, Netherlands, Austria, Poland, Hungary, Slovakia, Italy or concerning the non-European countries, from the South Korean guests. In the company's facilities, 571,387 overnight stays were realized in its tourism sector, of which 131,424 overnight stays were realized in the hotel sector, 258,110 overnight stays were realized in the camping sector and 181,853 overnight stays were realized in the charter, that is, in the nautical sector.

Overview of leading markets of the hotel and camping sector in the year 2016





In the nautical sector, overnight stays are not the cornerstone of the business since, because since 2013, the guests from EU member states are not registered according to the Regulation on the requirements for arrival and stay of foreign yachts and boats intended for sport and recreation in internal waters and in the territorial sea (OG 97/2013), except for charter guests who are registered exclusively by charter companies in the crew lists.

The possession of all accommodation components and **the complementarity of the offer enabled** Ilirija to be committed to extending the season and to make a positive shift from the summer holiday tourism, which remains the most significant segment, to all-year tourism business. In this respect, along with the longest nautical season, there is an increasingly pronounced activity of the hotel segment in complementarity with the DMC agency Ilirija Travel.

Considering the complexity of the company, the variety of accommodation facilities and offer, the market segmentation by countries and sales models, hotel, nautical and camping sectors have separate market and marketing strategies, orientation and operational programs. At the level of the company, continuous efforts are made to maximally improve the product, equipment and amenities, and the quality of the offer, along with its continuous enrichment based on market trends, in order to increase the satisfaction of guests.

Market Analysis in the Tourism Sector of the Company¹:

Hotel sector:

Ilirija Hotel sector presented under the brand Ilirija Resort has four hotels, with 443 accommodation units and a total of 907 beds, located in the destinations of Biograd na Moru and Sv. Filip i Jakov. Hotels of Ilirija Resort are located by the sea coast, close to the city center and a series of vast beaches of which most of them are marked with the Blue Flag. There is a sports and recreational forest park with Tennis center "Ilirija", cycling trails leading to Lake Vrana, Nature Park, a promenade along the sea that stretches all the way to the far end of the city beach and campsite "Park Soline".

Market segments of the hotel sector:

- I Allotment,
 - II Groups,
 - III Fixed lease, and
 - IV Individual guests
-

¹ The analysis was carried out solely in the tourism sector of the company as the acquisition of the Commercial-shopping center City Galleria was completed in the second half of December 2016

In the year 2016, the allotment guests realized a share of 46% in overnight stays, followed by the groups with 30% share, individuals with 18% and fixed lease of 6% in total overnight stays, followed by the growth in share of allotment by 9.4% and individuals by 8%. Attention has been paid to stronger direct sales, growth in share of individuals, and strengthening the relationships with renowned agencies in target markets with an emphasis on the shoulder season. This includes the agencies on special interest markets that bring more intensive work in the pre- and post seasonal months, or year-round engagements. The examples in 2016 include the cooperation with agencies and groups related to tennis, cycling, and rural and agro, gastronomy and wine tours, groups related to sightseeing due to the proximity of national parks, nature parks and cultural tours. Significant improvements were made in 2016 and further improvements were also made in organizing and hosting congressional, educational and team building gatherings using the comparative contents of Ilirija or DMC agency Ilirija Travel.

The largest share among the guests in 2016 was realized by the domestic guests with a share of 15.6% in overnight stays followed by the Slovenian guests with a share of 14.9%, German guests with a share of 12.7%, Austrian guests with a share of 9.6% and Slovakian guests with a share of 7.5% in overnight stays, while at the same time the growth was realized in the following markets: Finland, Great Britain, France, Sweden, Hungary, with significant success achieved in the markets of Poland, Belgium, Ukraine and B&H, or non-European countries from South Korea.

In the year 2016, hotels within Ilirija had an average occupancy of 40% on a year-round basis, i.e. 64% based on open days, whereas continuous efforts are made in increasing the capacity utilization by maximizing the occupancy in the peak season and by increasing the capacity occupancy in April, May, June and October which are the months of continuous growth in occupancy, with a change made in other months towards the year-round business.

In 2016, Ilirija participated in some key hotel sector fairs. In addition to organizing the fairs, the key agencies and partners are regularly visited, and regarding the marketing activities, the emphasis is placed on on-line advertising, social networks and target Google Adwords campaigns, and presentations through print media.

Nautics:

The Nautical Sector of Ilirija presented through Marina Kornati continues the tradition of the birth place of organized nautics in Croatia within total 805 berths as the third largest marina in the Croatian Adriatic Coast. The accommodation on the most indented part of the Adriatic Coast, at the gate of Kornati, with good traffic connections (near the highway, the Airport, International ferry quay), a decade of tradition and complementary developed tourist infrastructure within Ilirija turned it into a well-known nautical destination.



Nautical tourism has the longest season in the country owing to the geographic and climatic features that in the case of Marina Kornati are especially pronounced. Apart from having the longest season, we have recorded a pronounced high level of guests' loyalty and their comebacks for many years as well as longer stay, i.e. in case of boat owners even the arrivals for several times during the year.

When analyzing the market and the sales channel, the market segments that are key markets in the nautics are:

- I **Transit market segment** – the market of vessels that sail into the marina for several days and longer,
- II **Individually contracted** - vessels and owners-users using the berth contract, and
- III **Charter** – partner companies of Marina Kornati that rent out the vessels

(I) In case of **transit market**, we distinguish between the arrivals or sail in:

a) transit service market - refers to users with vessels sailing in or coming to the marina by land for the service of vessels and other technical services provided by Marina Kornati or partners-service companies operating in the marina. In 2016, Marina Kornati was visited by total 174 boats that realized 1977 overnight stays, i.e. 11.3 days on the average in the marina, and vessels from 10-13 m in length accounted for 45% of the total number of overnight stays.

b) the sports/regatta market – is composed of the vessels participating in various boat events (regattas, flotillas, etc.) and usually sail in the marina as announced and are usually represented by an organizer or club/association. Apart from the berth service, the participants usually use the services provided by the restaurant "Marina Kornati" or one of the facilities of the company. In 2016, a total of 314 vessels in transit sailed in the marina for the purpose of sports recreation with an average stay of 1.5 day in the marina, and 46% were the vessels in the category of length from 10-13 m. During that period, a total of 37 regatta events involving 894 vessels with 12,520 sailors were held, and the most important regatta event was connected with the Kornati Cup, where 600 sailors participated in 110 vessels.

c) leisure-recreational market – is composed of the users/owners coming to the marina announced or without being announced, which depends on the length of the planned stay. We divide them into own vessel and charter vessel owners. Charter users usually sail in unannounced for one day at the beginning or end of their stay, i.e. return to the nearby base marina.

According to the flag of the vessel, the transit market is 37.7% composed of the vessels under the Croatian flag, 16.6% under the German flag, (9.05%) under the Austrian flag and 7.08% under the Italian flag. According to the Foreigners Act (OG 74/13), the citizens of the EU countries need no longer to be reported to the Ministry of Interior and consequently, we do not have any information on guests' overnight stays, except for non-European countries whose number is negligible.

(II) **Individually contracted market** – is composed of the vessels that conclude an annual or seasonal Contract on using the berth and in the year 2016 a total number of 448 contracts were concluded, of which 26 seasonal contracts were concluded. Among the vessels, 31.83% are Croatian-flagged vessels, followed by the Austrian-flagged vessels with a share of 31.12%, German-flagged vessels with a share of 15.68% and Slovenian-flagged vessels with a share of 6.41%.

(III) **Charter market** – is composed of the charter companies renting the vessels. In 2016, 10 charter companies with a total of 266 vessels operated in Marina Kornati, and making Marina Kornati one of the leading charter bases in Croatia with several monotype fleets (Bavaria/Elan). The vessels are under the Croatian flag, of which 45.88% were vessels of 12-15 m in length. In 2016, 181,853 overnight stays were realized on charter vessels.

Servicing

Marina Kornati provides its own servicing, out of which the services of lifting and lowering, washing and towing boats are the most significant services. The largest number of technical operations for vessels of 12-14m in length took place in the period from May to September.

Due to the specificity of the nautics and the wide range of services required by the market, besides its own services in its concession area, Marina Kornati has enabled the operations to 50 companies or crafts, charter and partner service companies providing services that fully meet the needs of sailors both in the marina itself and outside of it.

Boat show and events

By stimulating and sponsoring the nautical events, Marina Kornati has become the marina with the largest number of nautical events-regattas, where a total of 37 events were held in 2016, involving 894 vessels with 12,520 sailors that participated in.

Wishing for Biograd na Moru to win the nautical event considering its status of the city as a cradle of nautical tourism, at which all sectors of the nautical industry and tourism will be presented, Ilirija d.d. launched the Biograd Boat Show. In 2016, the eighteenth Biograd Boat Show was held which was attended by 300 exhibitors with around 300 vessels and over 15,000 visitors. The boat show brought together all representatives of the nautical industry and tourism, public institutions, umbrella associations and professional associations, and has become a quality, recognizable and sustainable economic and tourist product that from the very beginning enriches the Croatian tourist offer and especially its shoulder season.



Camping:

Campsite "Park Soline" recorded a continuous rise in the number of guests and overnight stays, as well as productivity and profitability, owing to the improvement of supply and infrastructure, monitoring of the market and marketing activities. The attractiveness of the campsite makes a good connection of the destination (highway, airport and international ferry quay), location of the campsite in the forest park on the seashore, in the immediate vicinity from the city center and all other facilities and contents of the offer of Ilirija, and proximity of four national parks and nature park.

The key market segments of the camping sector are:

- I Lump sum,**
- II Agencies,**
- III Mobile homes, and**
- IV Individual pitches.**

In the year 2016, the most important source markets at the level of all market segments were: Slovenia, the Czech Republic, Germany, the Netherlands, Croatia, Poland and Austria. At the same time, the structure of overnight stays according to market segments is dominated by individual guests with a share of 32%, and agencies with a share of 31%, followed by the guests in mobile homes with a share of 21% of over-night stays, while the lump sum guests realized 16% of all overnight stays.

The German and Dutch markets have a special significance in the strategic determination focused on strengthening the market of mobile homes and individual pitches. The Germans are leading in the number of overnight stays on individual pitches and second leading guests in overnight stays in mobile homes, while the Dutch take the third place in both segments in the campsite. We have directed the sales and marketing activities at a combination of the most important trade fairs (Germany: Stuttgart, Munich, Essen, Netherlands - Utrecht and Leuwarden), the most important printed media (ADAC and DCC Camping and Caravanning Guide, that is, ANWB and ACSI in the Netherlands), and online advertising (website, Google AdWords campaign). The cooperation with the agencies for booking mobile homes was achieved, whereas putting up tents was arranged with the Dutch agency Vacansoleil.

The Austrians are the fourth guests in total overnight stays on individual pitches, with high presence in mobile homes and in agency guest homes (the most significant Gebetsroither). The marketing activities are focused on print media in the Austrian market, online promotion and performances at "Caravan Salon Austria" in Wels, and in specialized camping magazines "Camping Revue" and "CCA Journal".

The Slovenian market has been one of the most important markets for the campsite "Park Soline" for many years, especially for lump sum guests, and has been the number one in total overnight stays for several years. In 2016, the number of lump sum guests increased by 7%, and the number of guests in mobile homes grew by 8%, which is the result of combined marketing and sales efforts with the word-of-mouth advertising by permanent guests, which is predominant in this market segment, and besides the Google Adwords campaign, the marketing activities were focused on camping magazines and guides, "Avto dom magazin" „Kamping i karavaning vodnik“. Judging by the share in overnight stays, second guests come from the Czech Republic, of which the most significant part was realized in the segment of agency guests. The commitment to this market resulted in a growth in the number of overnight stays in mobile homes by 22%, on individual pitches by 8%, and totally by 13.40%. The Polish market has experienced strong growth and is ranked sixth in total overnight stays of all market segments with a growth by 15%, of which a particularly significant growth was recorded in the segment of mobile homes by as much as 27%.

The Croatian market in the camping segment in general, and thus at the "Park Soline" campsite was largely resting on lump sum guests and is now in decline, whereas the growth was recorded in the segment of mobile homes. For the purpose of the foregoing, we are present through the promotional activities within the Croatian Camping Association and the Top Camping Association, and through printed media like "Enjoy Croatia", through the on-line Google AdWords campaign, and additionally through social networks.

Overview of key partners in the tourist sector of the company



Hotel sector:

Relax Turizem, TUI Deutschland, Globtour Group, Mediterranean Travel Service, Meeting Point Croatia, Der Touristik Deutschland, Thomas Cook International, Adriatic Travel and Sonček Travel Agencija.

Nautics:

Pitter d.o.o., Adriatic Challenge d.o.o., Euronautic d.o.o., Full team d.o.o., Gomar d.o.o., Burin Yacht Charter d.o.o., Lenka Mediteran Yachting d.o.o., Pitter Gesellschaft m.b.H, Nautika Kufner d.o.o. and Croatia Yachting d.o.o..

Camping:

Ditka, I.L.D. Adriatica, Gebetsroither, Vacansoleil, Kovina, Cherry tour, Relax Sport, Vacanceselect, Suncamp holidays and Idom Reisen.

In the real estate sector, our customers or lessees are the companies registered in Croatia, although some of them are branches of international multinational trade and brands, of which we mention Müller, Spar, CCC, Timebrland, etc.





Suppliers in 2016

908 suppliers
95.48% domestic suppliers

Suppliers

The supply chain in Ilirija d.d. starts from the analysis of procurement needs in accordance with its own strategy, market conditions of business and procurement and the possession of internationally recognized certificates in the part of health safety and the safety of the supplied material goods and services especially by food and beverage suppliers, where the obligatory requirement is the possession of the HACCAP certificate (Hazard Analysis Critical Control Points). At the same time, regarding some other suppliers whose products and services affect or may affect certain important aspects of business, such as the quality of service or the environment, the quality policy is important to the company. The primary goal of the relationship with suppliers is to create added value to our services and products through **quality assurance, timely delivery, quantity reliability, market-competitive and safe delivery of any material goods or services in cooperation with a reliable supplier.**

The procurement organization is divided into procurement of:

- (I) food and beverages,
- (II) consumables,
- (III) office stationary,
- (IV) technical material,
- (V) services,
- (VI) energy products and,
- (VII) investment and investment maintenance.

In order to avoid potential adverse impacts of unpredictable market changes, we strive to engage more suppliers (at least two) in each of the individual procurement areas, and in this way the company reduces potential risks and ensures smooth business while achieving a more accurate ratio of prices, quality and delivery deadlines.

In 2016 the procurement was organized in a way that offers from a number of different suppliers for the same type of service or goods were directly collected that were then analyzed, followed by a selection of suppliers and conclusion of the contracts and sending purchase orders. Upon performance of the agreed conditions, the goods/services and the entire business relationship with the individual supplier were verified.

When selecting a supplier in the segment of food and beverage we require that it meets the following criteria: (1) it registers the business activity, (2) that it stores, packages, transports and handles food/drink in a way to preserve their health safety, (3) that it delivers the food and all prescribed documentation (delivery note, consignment health certificate) and for food of animal origin shipped by internal means of transport it should submit a form HVI 1-3 or a verification by a certified veterinarian attached to the delivery note; (4) that it has a self-control system, (5) that it applies, complies with and has HACCP implemented.

We strive to create long-term partnerships and cooperation with key suppliers based on mutual trust, compliance with defined contractual obligations and high market standards, and a mutually agreed payment obligation and the obligation to comply with these delivery deadlines. In accordance with market conditions and its own business strategy, the company plans business activities with key suppliers related to purchasing of products and services, their storage and delivery, while we share know-how with some suppliers to improve business processes, products and services.

In our supply chain, we cooperate with producers, primary producers, distributors, wholesalers, contracted partners, brokers and consultants. In 2016, we did not have any claims by our suppliers, and we educate and train our employees who work in the purchasing department about establishing high quality and professional relationships with suppliers.

In the year 2016, the company established a business cooperation with a total of 908 suppliers, of whom 41 of them are foreign suppliers, which accounts for 4.52% in the total number of suppliers or **95.48% of suppliers from the Republic of Croatia**. 1.12% of total turnover with suppliers was realized with foreign suppliers and 98.88% of total turnover was realized with local suppliers.

If we observe turnover related to the supply of food, beverages, consumables and technical materials, 1.31% of turnover refers to turnover with foreign suppliers, while local suppliers account for most of the turnover, even 57.13%, while the remaining 41.57% refers to the turnover with domestic suppliers from other parts of Croatia.

The company has largely found high standards of quality of goods locally (the city Biograd na Moru as the registered seat of company and municipality in the immediate vicinity) and in the region (the city of Zadar and other towns and municipalities in the Zadar County) with local suppliers, thus taking advantage of the potential of the local community, which improves the quality of life of the local population, opens up new jobs and strengthens the competitiveness of local suppliers.

Foreign suppliers and their geographical position

Finland 5%

Great Britain 5%

Netherlands 5%

Germany 5%

Luxembourg 2%

France 10%

Switzerland 5%

Italy 7%

Czech Republic 2%

Austria 20%

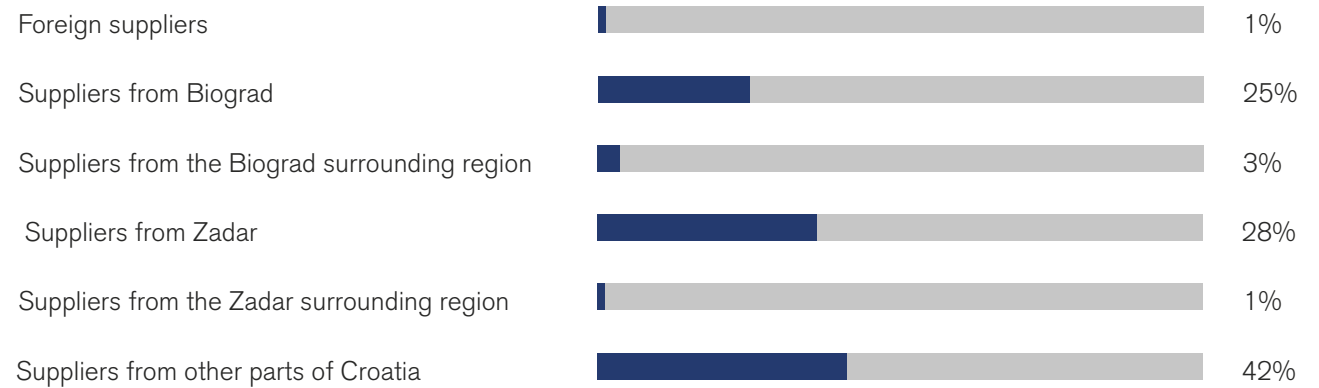
Slovenia 32%

Bosnia and Herzegovina 2%

"We are building strategic relationship with suppliers through:

- 1 **Exchange of knowledge,**
- 2 **Improvement of the business processes and**
- 3 **Creation of a high quality product."**

Overview of suppliers according to their registered seat*



*Service providers are not included

Strategic relationship with suppliers

As a company we strive for a strategic, long-term and quality mutual relationship with suppliers we work with through long-term cooperation to create additional value for the both companies through (1) exchange of knowledge, (2) improvement of the business process of the both parties and (3) creating a high quality product or a service for the both companies. Out of total of 908 suppliers who we had business cooperation with in 2016, we have business cooperation with 15 of them for more than 30 years, including suppliers with whom the company has been cooperating since the foundation, that is, for over 59 years or since 1957.

10 Significant events and awards



The Ordinary Shareholders' Assembly was held on 10th June 2016 at which the following decisions were unanimously adopted:

- Decision on the **utilization of the profit of Ilirija d.d. for the fiscal year 2015**, according to which the **dividend in the amount of HRK 18.00 per share was paid** to the Company's shareholders; and
- The Decision on **an increase in share capital from the Company's funds** according to which the share capital increases from the reinvested profit generated in the year 2015 from the amount of HRK 150,857,300.00 by the amount of HRK 8,228,580.00 (reinvested profit) to the amount of HRK 159,085,880.00, in a way that for each of the totally existing 274,286 shares the nominal amount increases by HRK 30.00 in a way that after the increase each share has a nominal amount of HRK 580.00.



There are two significant corporate events that marked the year 2016: **(I)** for the purpose of developing the Company in accordance with the decisions of the General Assembly of 24 October 2016 **the recapitalization was successfully completed by increasing share capital** from the amount of HRK 159,085,880.00 by the amount of HRK 15,890,000.00 to the amount of HRK 174,977,880.00 conducted by payment in cash or by issuing 27,400 New ordinary shares, in the nominal amount of 580.00 HRK per share, issued for the amount of 1,255.00 HRK per New share. Company's share capital then amounted to HRK 174,977,880.00 and is divided into 301,686 ordinary shares each with a nominal amount of 580.00 HRK per share; **(II)** following the successfully completed recapitalization, in the month of December the Company **successfully performed the acquisition (buying) of the Commercial-shopping center City Galleria** in Zadar, which was recognized by the shareholders as an investment that will strengthen the market, capital and financial position of the company, reduce the seasonality of business and create a company with a wide range of economic activities.



The Company issued a document **Information Memorandum of the issue of new Ilirija d.d. shares for the purpose of developing the business operations**, in which the Company informed the general public about the intention of conducting **the process of recapitalization with the primary objective of raising funds for the acquisition (buying) of the real estate Commercial-shopping center City Galleria in Zadar** with an intention and a objective to:

- strengthen the market position by ensuring a long-term and sustainable business and capital development;
- create a company with a wide range of activities, especially the activities characterized by continuous year-round business that is to be achieved by the acquisition of the Commercial-shopping center City Galleria considering the fact that the Company partially enters the real estate segment;
- strengthen the financial position by stabilizing the cash inflows in off-season, risk diversification and

synergistic effects at the level of costs; and

- strengthen the total value of the Company through an increase in profitability indicators or positioning of the Company in the top of profitability in the sector.

- 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 the Company as the owner of the entire property with land plot no. 3232 of the cadastral municipality Biograd, on an area of 48,705 m², 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.
- The Ministry of Construction and Physical Planning has issued an operating permit, Class: UP/I-361-05/16-01/000022, Prot. No.: 531-06-2-2-609-16-0011 and operating permit Class: UP/I-361-05/16-01/000023, Prot. No.: 531-06-2-2-609-16-011, the both as of 07th June 2016, which implies the successful finalization of the reconstruction of the first phase of the coastal part of the nautical tourism port "Marina Kornati" that is, docks with all accompanied installations, both in the inland part and in the part of pontoon and with the entire dock equipment, according to the final and non-appealable building permit, Class: UP/I-361-03/15-01/000111, Protocol No.: 531-06-2-1-1467-15-0008, of 20 October 2015.
- The publication Business model of corporate social responsibility from 2000 to 2015 has been devised, the first non-financial report, which shows an overview of the activities in the area of corporate social responsibility of the Company during the period of fifteen years in the six basic areas: economic sustainability, incorporation of CSR and SD into business strategy, protection of nature and environment, responsible policies and practices in the working environment, responsible policies and practices of environmental management, corporate social responsibility in market relations and socially responsible community relations.
- 135 treasury shares designated as ILRA-R-A has been acquired in the regulated capital market of Zagreb Stock Exchange. Following the above acquisition, the Company owns 859 treasury shares which make up for 0.28% shares in the share capital and the same percentage of votes at the General Shareholders' Assembly.

Awards



- Destination management company /DMC Ilirija Travel
- Arsenal
- Camp "Park Soline"
- Marina Kornati

Destination management company/DMC Ilirija Travel was given the annual award by the Tourist Board of Zadar County for contributing to the development of the programs of special interest and creating experiences, activities in the creation and development of additional offer and the contribution of destination branding in 2016.

Arsenal was given a special award "Smiling sun", which has been awarded by the City of Zadar for fourteen years in a row, in cooperation with Chamber of Commerce and Crafts, the Tourist Board of the City of Zadar and Zadar County and Association of Craftsmen Zadar.

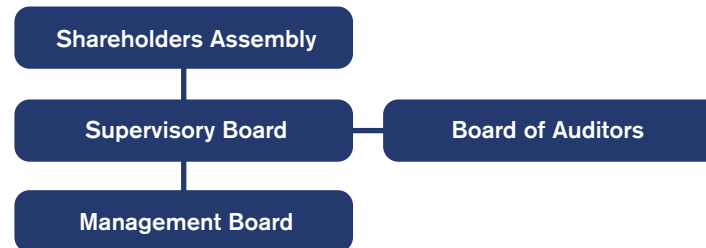
Arsenal won the award for outstanding contribution to the successful tourist season in the city of Zadar in 2016.

The campsite "Park Soline" is the winner of the "Best Camp Adria", awarded by the Slovenian camping web portal www.avtokampi.si, for the third place in the category of Best large camp of Dalmatia. The award is especially significant because it is awarded by the guests themselves who stayed in Croatian campsites that evaluate the following elements: pitch, development, sanitary facilities, sports and other amenities, value for money.

Marina Kornati is the winner of the award for the third place in the category of Large marina in the action "XX Tourist Flower - Quality for Croatia 2016.

11 Corporate governance

In Ilirija as a joint stock company that has been listed on the Zagreb Stock Exchange since 2003, i.e. since October 2015, the shares of the company are quoted on its Official Market, has clearly defined dual governance and organizational structure in accordance with the best practice of corporate governance and legal regulations of the Republic of Croatia, with clearly separated powers and responsibilities of the following corporate governance bodies:



The Shareholders' Assembly consists of shareholders (owners) of the Company's securities. In 2016, as at 30 December the company had a total of 167 shareholders that are the holders of total 301,686 Company's shares. Shareholders shall exercise their rights at the General Shareholders' Assembly and all shareholders of the company shall be vested the right to participate in it if they are registered in the share ledger and report their intention to participate in the General Meeting to the Company either personally or by proxy, thereby presenting a power of attorney no later than six days prior to its holding.

The General Assembly, in accordance with the provisions of the Company's Articles of Association and Companies' Act, makes decisions on the following issues: appointment and dismissal of the Supervisory Board and the Management Board, increase or decrease in share capital, decision on the utilization of profit, decision on dividend payment, decisions that entirely or partially exclude the right of shareholders' preemptive right when subscribing for new shares, withdrawing or listing shares from the regulated market, changes and amendments to the Articles of Association, appointment of auditors, decisions on change and amendment to the business activities as well as other matters as defined by the law.

In 2016, two sessions of the General Assembly were held, ordinary and extraordinary, each attended by 74.47%, that is, 74.48% of the share capital. At the ordinary session of the General Assembly held on 10th June 2016 in the regi-

stered seat of the Company, the Management Board's Report on the company's business operations and position, the Supervisory Board's Report on the supervision of the Company's business operations performed for the year 2015, the Auditor's report and opinion on the audit of the Company's business operations for the year 2015 and the Decision on establishing the fundamental annual financial statements of the Company for the year 2015 were taken note of. At the same time, the following decisions were made: (I) Decision on the utilization of the profit for the fiscal year 2015 according to which a part of the profit is allocated for dividend distribution in the amount of HRK 18.00 per share; (II) Decision on giving remuneration to the Company's Management Board for running the business operations of the Company in the year 2015, (III) Decision on giving remuneration to the Company's Supervisory Board for supervising the business operations of the Company in the year 2015, (IV) Decision on appointment of auditors for the year 2016, (V) Decision on a change to the core business activities – added activities and (VI) Decision on changes and amendments to the Articles of Association of the Company.

At the extraordinary session of the General Assembly held on 24th October 2016, the following decisions were made: (I) Decision on a change to the core business activities – added activities, (II) Decision on changes and amendments to the Articles of Association, (III) Decision on an increase in share capital by contributions in cash and issue of new shares and changes made to the Articles of Association with the adopted counterproposal of the shareholder Allianz ZB d.o.o., (IV) Decision on listing of all shares in the Official Market of the Zagreb Stock Exchange for the purpose of trading and was taken note to the Report by the Company's Management Board on the reasons for complete exclusion of the existing shareholders' preemptive right to subscription for and payment of new shares.

The Supervisory Board consists of five members that are appointed for a four years' term of office. The Supervisory Board may take decisions if at least one half of the appointed members participate in decision-making process. The members of the Supervisory Board have a right to remuneration for their work. Sessions of the Supervisory Board are convened by the the President of the Supervisory Board.

According to the Company's Articles of Association and the Companies' Act, the Supervisory Board supervises the management of the Company's business, submits the Report on the performed supervision of the Company's business operations to the General Assembly, adopts the financial statements, in accordance with the Company's Articles of Association gives prior consent to the Company's Management Board for taking certain actions, legal affairs and making certain decisions.

According to the Decision by the Supervisory Board, an Audit Committee has been established that consists of the members of the Supervisory Board and members appointed by the Supervisory Board. The Audit Committee of the Supervisory Board consists of five members who are also the members of the Supervisory Board.

According to the Company's Articles of Association, the sessions are convened at least once in a semi-annual period. During the year 2016, eleven sessions of the Supervisory Board were held, primarily because in 2016 the company undertook some important corporate activities. In 2016, the company conducted the procedure of public offering of shares to qualified investors, i.e. the procedure of recapitalization of the company and acquisition of the Commercial-shopping center City Galleria in Zadar, and only due to the aforementioned procedure, the Supervisory Board held seven sessions. At the session of the General Assembly, held on 26th April, 2017, the Supervisory Board was given the remuneration for the supervision of the Company's business operations in 2016.



Supervisory Board	Position	Mandate	Commission
Goran Medić	President	May 2013 to May 2017	Board of Auditors
David Anthony Tudorović	Vice-President	December 2013 to December 2017	Board of Auditors
Davor Tudorović	Member	December 2013 to July 2017	Board of Auditors
Siniša Petrović	Member	December 2013 to July 2017	Board of Auditors
Darko Prebežac	Member	December 2013 to July 2017	Board of Auditors

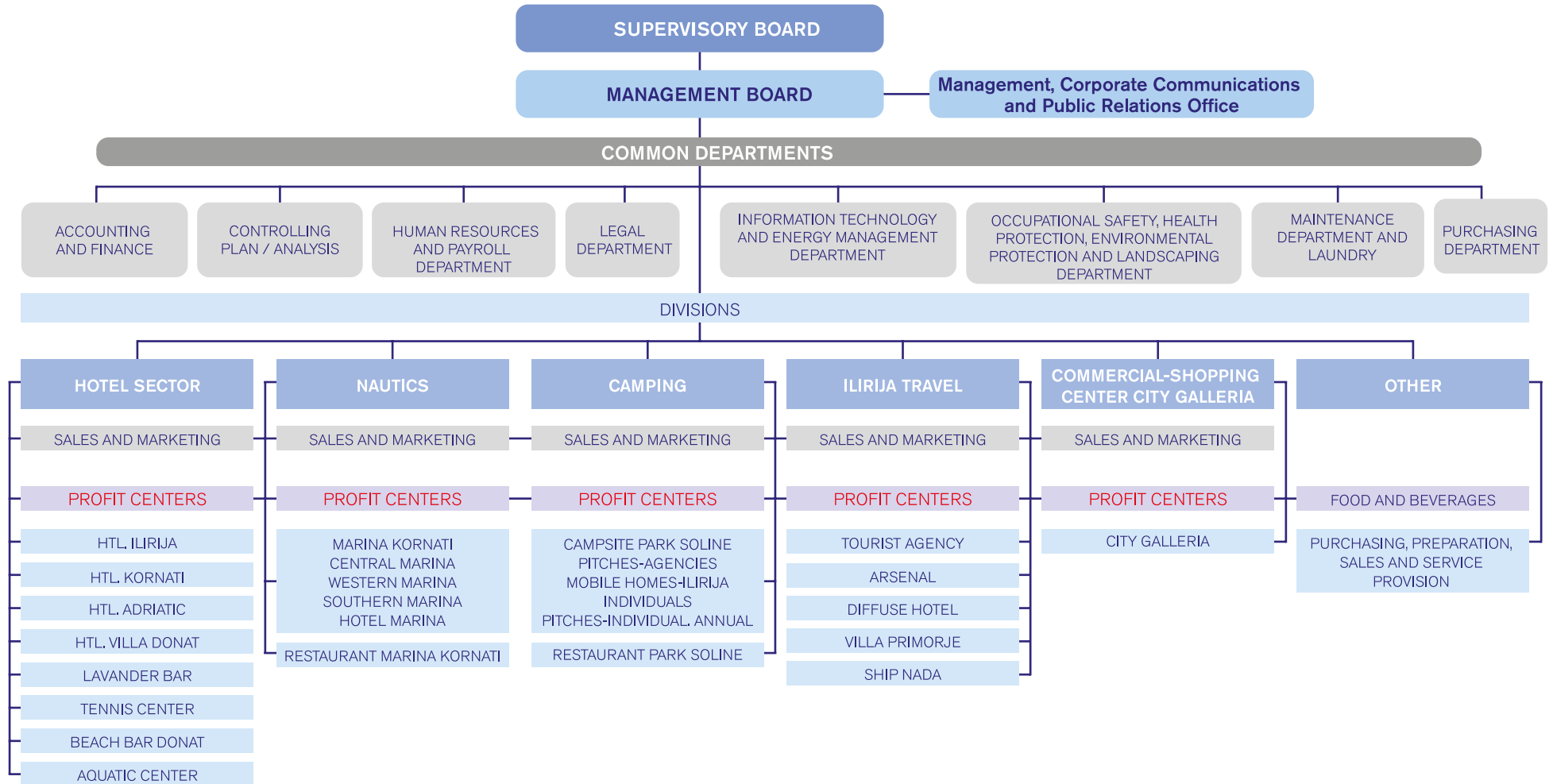
The Management Board has one member that is appointed for a five-years' period. The Management Board's rights and duties are specified in the Company's Articles of Association and Companies' Act.

Goran Ražnjević is the only member of the Management Board that represents the Company solely and independently since the year 2000 in his fourth consecutive term of office.

The top management includes 12 persons with special powers and responsibilities where youth and experience are combined.

Starting from the fact that the employees, who are mostly residents of the City of Biograd and surrounding municipalities, are the holders of business processes, therefore their further development, training and motivation is the key to the success of the Company and one of the permanent objectives.

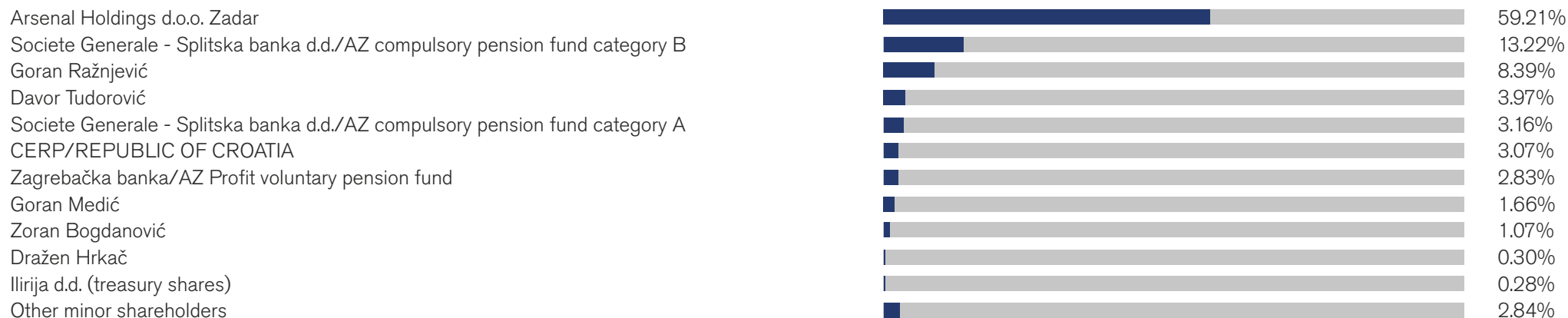
Ilirija d.d. Organizational structure



12 Shareholders and capital market

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 59.21% 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, Copmpany 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 personally holds 11,968 shares in Ilirija d.d. which accounts for 3.97% the shares in its share capital. The share capital of the Company was HRK 174,977,880.00, and is divided in 301,686 ordinary shares with nominal value of HRK 580.00. In 2016, there occurred a significant change in the ownership structure as a result of the successfully conducted recapitalization in November, and an overview of the major shareholders of the Company as at 30/12/2016 is given below.

Owners - shareholders	Number of shares	Share in %
Arsenal Holdings d.o.o. Zadar	178,629	59.21
Societe Generale - Splitska banka d.d./AZ compulsory pension fund category B	39,892	13.22
Goran Ražnjević	25,317	8.39
Davor Tudorović	11,968	3.97
Societe Generale - Splitska banka d.d./AZ compulsory pension fund category A	9,529	3.16
CERP/REPUBLIC OF CROATIA	9,275	3.07
Zagrebačka banka/AZ Profit voluntary pension fund	8,525	2.83
Goran Medić	5,000	1.66
Zoran Bogdanović	3,227	1.07
Dražen Hrkač	891	0.30
Ilirija d.d. (treasury shares)	859	0.28
Other minor shareholders	8,574	2.84
Total	301,686	100.00



+43.21% ↑

Market capitalization:
HRK 392,795,172.00

+28.88% ↑

Average share price:
HRK 1,149.32

+30.20% ↑

Latest share price:
HRK 1,302.00

About the share of Ilirija d.d.:

Quotation: Official Market, Zagreb Stock Exchange d.d.

Date of listing: 26 October 2015*

Type of security: Ordinary share

Designation: ILRA-R-A

ISIN code: HRILRARA0009

Number of issued shares: 301,686

Nominal value of the share: HRK 580.00

Depositary: CDCC

*The company's shares have been listed in the Zagreb Stock Exchange on the Quotation of public joint stock companies since 2003 and since then they have been listed in the regulated capital market in the Republic of Croatia. From 2009 to 2015, the company's shares have been listed in the Regular market of the Zagreb Stock Exchange.

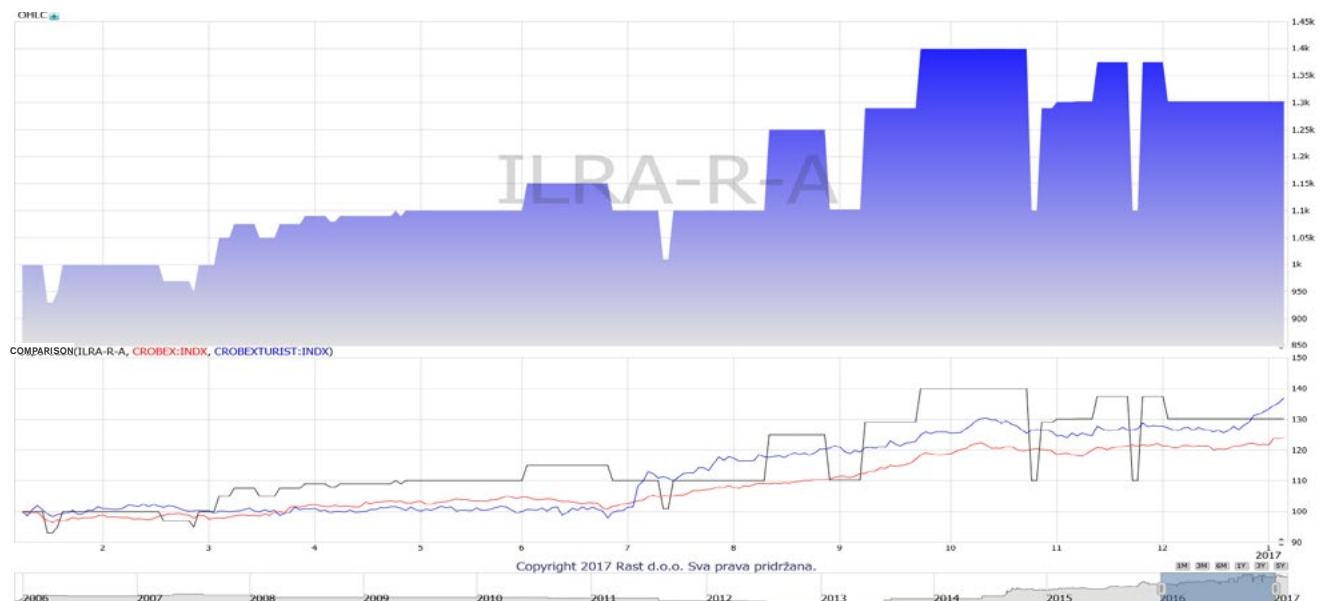
The movement of the share price ILRA-R-A and comparison with CROBEX and CROBEXTURIST indices

In the fiscal year 2016, the company's results on the capital market are far the best so far with a retained and a continuous high growth in all key indicators throughout all quarters of the fiscal year. In addition to good business achievements throughout the year 2016, recapitalization and buying (acquisitions) of the Commercial-shopping center City Galleria in Zadar was successfully conducted, which influenced and significantly contributed to the increase in the investment attractiveness and recognizability of the Company's share on the Croatian capital market as a quality, stable and viable security.

The trading at the Zagreb Stock Exchange in 2016 resulted in an increase in the Company's share price by 30.20%. This is a rise higher than the CROBEX index, which in the same period rose by 18.06% and than the CROBEXTURIST index which rose by 27.86% made up from the most liquid tourist shares.

The Company's share is a relatively new at the Official Stock Exchange (listed in October 2015), but soon it was recognized by institutional investors and the general investment public as a quality share. This resulted in a rise in yields of its holders, higher than the average yield of shares listed at Stock Exchange of tourist companies, particularly companies from different industrial branches whose shares are integral components of CROBEX.

In 2016, the Company issued new 27,400 ordinary bearer shares paid above their nominal value.





Investors

The first successful recapitalization in 2015 resulted in the creation of the basis for further development of the company and strengthening of its corporate, institutional and public character, following which the investors, particularly institutional investors, recognized Ilirija as a transparent and responsible company towards its stakeholders, especially to the capital holders (shareholders). The second successful recapitalization of the company was carried out in the fall of 2016 by increasing the share capital with contributions in cash, with the exclusion of the existing shareholders' preemptive rights, except for Allianz ZB d.o.o., and public offering to qualified investors up to a maximum of 27,400 new ordinary bearer shares of the company, with the individual nominal amount of HRK 580.00, issued at the final price of HRK 1,255.00 and paid in cash. All of the newly issued shares according to the Decision of the General Assembly were listed on the Official market of the Zagreb Stock Exchange for trading.

Two successfully concluded recapitalizations of the company by institutional investors show a high-quality investment position of the company that is reflected through:

1

Differentiated tourist offer, that is, **the company portfolio includes all the key segments of the Mediterranean tourist offer** (hotel sector, nautics, camping, destination management company DMC Ilirija Travel) along with the entry of the real estate segment through the acquisition of the Commercial-shopping center City Galleria where a significant emphasis is placed on the extension of the year-round business operations.

2

The development of the year-round business in company's tourism portfolio through the sustainable and quality extension of the tourist season by developing a destination management company/DMC Ilirija Travel through which 388 individual events were organized with 46,874 guests.

3

Regular dividend disbursement in the last nine years that was in the year 2016 according to the Decision of the General Assembly on the utilization of the profit for the year 2015 distributed in the amount of HRK 18.00 per share, that is, a total amount of HRK 4,937,148.00 was allocated for the dividend distribution. **Since 2008**, as at 31st December 2016 the amount of **HRK 34,863,468.00** was distributed to the shareholders for the dividend, which price ranged between **HRK 15 to 18 per share**.

4

Sustainable and responsible investment and efficient cost management policy.

5

Continuous growth in operating profitability ratios, primarily in profit by 22%, EBITDA and EBITDA margin by 19%. Further expected growth in EBITDA margin is minimal at the level of the tourism industry. Increase in the company's value through the **activation of non-operating assets**.

6

Growth in market capitalization by 43.21% in 2016.
Growth in average share price by 28.88% in 2016.

7

Continuous growth in tourism turnover (arrivals and overnight stays) at the national level and the perception of the Republic of Croatia as safe, high-quality and internationally recognizable tourist destination.

8

The listing on the Zagreb Stock Exchange Official Market that includes a much greater transparency and a timely and complete publication of the information on the business operations and actions of the Company.

All the foregoing resulted in an increase in the Company's value and its recognition by investors, especially by institutional investors as high-quality investment as a result of which we as the company with their help managed to complete the acquisition of the Commercial-shopping center City Galleria in Zadar as the company's major investment in 2016.

Acquisition (buying) of the Commercial-shopping center City Galleria

In December 2016, the Company successfully completed the process of buying or acquisition of the Commercial-shopping center City Galleria in Zadar with 10.000 m² of quality office space for the purchase price of HRK 78,513,316.80.

With this strategic acquisition, we have, as an exclusively tourist-hospitality company, entered into a new market segment - real estate, thus creating a diversified portfolio of services and products, enabling the following:

- creating the company with a wide range of activities,
- strengthening the market and capital position,
- increasing the total value,
- strengthening the financial position through the stabilization of the cash flow inflows in tourist off-season,
- risk diversification and cost consolidation, and
- strengthening the economic activity in the Zadar destination, as a result of which we as the company expanded our business operations from our headquarters in Biograd na Moru and additionally strengthened our economic presence in the economic and administrative center of the region.

The acquisition will contribute to the strengthening of the economic activities throughout the whole fiscal year, which is one of the strategic interests of the company, growth in revenues and profitability ratios, development of its offer by creating value-added products and services and further development of the overall destination offer.



Precautionary principle

Striving to reduce any potential environmental risks to the lowest possible extent, the company applies the precautionary principle in such a way as to avoid any actions that have or could have negative environmental consequences on the company, the local and regional community in which it operates and the company as a whole including the knowledge about the impact of the above actions or technologies on the environment and society in whole. In addition to complying with all positive environmental regulations in the Republic of Croatia, the company has implemented additional international environmental standards (ISO 14001, Blue Flag, Green Key, Sustainable Hotel, Ecocamping) and adopted its own Environmental Protection Policy.

13 Operational risks

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 tourist branch of the economy, the risk of macro-economic movements and risk of changes in tax and other regulations.

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.

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 circumstances 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 appropriate level that would be inferior to their own funding source.

The Company has most of its prices quoted in EUR and collects the majority of claims in the same currency, thereby being hedged against the price 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 the legislation in the field of maritime domain and the tourist land plots on which the Company has significant commercially critical long-term investments, whereas all the constitutionally guaranteed rights have not been exercised in the field of protection of capital investment.

The company's business is dependant on the readiness of the tourists to travel and spend their vacation outside of their country or place of their permanent residence. For this reason, economic and political security and stability, primarily at the regional level, i.e. in the immediate surrounding of the company as well as in the main source markets of the Croatian tourism, is an important factor in making decisions by potential tourists about the place of vacation and as such can have a great impact on the tourist season in the Republic of Croatia.

Since the tourist industry depends on the preserved natural resources, i.e. the preserved and clean environment, the sea, the water, the air, etc., therefore, larger-scale pollution of the sea and the coast (e.g. average of tankers - oil spills, pollution by chemicals, etc.), blossoming of the sea, air pollution, climatic change and related to these natural disasters can have a direct impact on tourism offer or demand for products and services of the company, which can ultimately affect the overall quality of offer and market competitiveness of the company.

14 Stakeholders and material aspects

Ilirija is the socially responsible company whose social responsibility is based on balancing the rights, obligations and interests of all stakeholders in its entrepreneurial business venture. Operations based on compliance with the principles of sustainable development, where the economic development does not threaten the existing natural resources, cultural, historical and natural heritage and such kind of responsible and sustainable tourism in which the current and future economic, social and environmental requirements of all participants in the business process are harmonized, ensure long-term viability of Ilirija as an economic operator, tourism as an industry and the future for its stakeholders' generations that are yet to come as well.

Shareholders are the key factor in successful and long-term development of the company, therefore maintaining mutual communication and mutual interaction is essential for the successful and long-term business development of the company, the community in which the company operates and tourism as one of the key economic branches in the Republic of Croatia with an aim to create responsible, competitive and market-recognizable company. The communication with the company's stakeholders is maintained on a regular basis and additionally as needed at the level of the Management Board of the company and also of all of its sectors and corporate services.

Overview of key stakeholders



	
167 shareholders	301,686 shares




1 **Shareholders** (owners) that is, the holders of capital exercise their rights through the General Assembly. The Company maintains regular communication with its major shareholders, institutional and individual shareholders through:

- Holding the General Assembly sessions – in 2016, two General Assembly sessions were held, ordinary and extraordinary, each attended by 74.47% of the share capital
- Financial statements (quarterly and annual ones)
- Additional information
- Report on the corporate social responsibility for the period from 2000 to 2015

Regarding the shareholders, we as a company strive to have well informed shareholders through regular communication, and taking that into account, Ilirija significantly improved the contents of its quarterly and annual financial statements in 2016, in which it presented in a comprehensive, complete and detailed way the operating results at the level of the company and all its sectors individually in the Croatian and English language. Continuous and regular communication with the shareholders and their support is a prerequisite for further successful development of the company by increasing the value of its assets, growth in capital, product and service development with an emphasis on their year-round character, achievement of planned business results, business transparency and communication with the investment public.

The company's basic objectives in relation to the shareholders in 2016 were:

- accomplishment of the planned business results that are the best since the company's foundation, particularly the profitability indicator,
- an increase in price of the share whose value at the beginning of the year 2016 amounted to HRK 1,000.00, while the last price of the share was realized in the amount of HRK 1,302.00 which is an increase in price by 30.20%, and
- regular annual distribution of the dividend paid out in the mentioned period in the amount of HRK 4,937,148.00.

		
571,387 overnight stays	388 special events	46,874 guests at special events

2 **Customers/guests** – are in the focus of our service and we develop and create our products and services by listening to their needs either through direct communication with them or in communication with partners or travel agencies and through regular and continuous communication as the responsible tourist company with feedback from customers and guests, and by respecting their opinions, we improve our own offer, its quality and recognizability. Crucial importance is attached to the annual tours of key partners, travel agencies and tour operators, of which over 70 tours were held in 2016, exclusively in the hotel and camping sector, while in the nautical sector direct communication takes place on a daily basis due to the fact that business partners are mainly charter companies and servicing companies, of which

all of them have their representative offices within the marina.

In the year 2016, the communication with guests/customers was conducted through:

- Regular annual tours of tourist agencies and business partners
 - Fairs, acquisitions, business to business workshops, road-show tours of key customers
 - Survey questionnaires about satisfaction with the service
 - Regular communication with key customers (electronic and oral)
 - Newsletters
 - Social networks
-



3 Employees – same as the guests/customers are in the focus of our service, the employees are at the same time the key to the company's success and the holders of the entire business process. Employees are its best ambassadors, especially a part of the employees who provide the service and who are in direct contact with the guest/customer and it is their commitment that the final success of our product or service depends on. As a result of this, the employees are the most valuable asset of the company, therefore, in 2016 Ilirija undertook some significant activities to develop the human resources through: (I) greater motivation of employees, (II) advancement of their knowledge and skills through continuous education, (III) establishment of the Academy of Business Excellence ILIRIJA EDUKA, (IV) the growth of financial income.

In the year 2016, the communication with the employees was conducted through:

- Regular daily, weekly and monthly meetings as well as the meetings organized as needed at the operating level of the business operations
 - Weekly sessions of the Management Board and management
 - Annual gathering
-



4-5 The state and the local community – as a socially responsible business system, Ilirija seeks to contribute to the economic development of the regional, local and national community in which it operates as well as to tourism as one of the key economic branches by its own growth and development in accordance with its principles of business operations and actions, complying with the Corporate Code of Conduct and usual corporate practices, and complying with legal regulations in its business operations. In 2016, Ilirija actively participated through business and professional

associations, being its member, by submitting proposals and opinions on bills or draft laws that have a significant impact on the business operations of tourist companies (Act on tourism and other construction land not valued in the conversion and privatization process, Act on maritime domain and seaports) and the development and competitiveness of Croatian tourism internationally. At the regional and local level, through the membership in the systems of the tourist boards, it actively contributed to the creation and development of the offer of the tourist destination, its recognizably and sustainability, and met the community needs through corporate philanthropy.

In 2016, the communication with the state and local community was performed through:

- Memberships in business and professional associations, systems of tourist boards at the local and regional level
- Corporate philanthropy
- Participation in legislative initiatives, independently and through business and professional associations
- Report on the corporate social responsibility for the period from 2000 to 2015



improved
reporting
system

6 Financial institutions – as a company whose shares are traded in on the capital market, Ilirija is a transparent company whose transparency is partly reflected in a timely, complete and true disclosure of business results and other information relevant to the business activity of the company, for its shareholders and investors as well as for the financial institutions that it has cooperation with or commercial banks. In 2016, the company's reporting system was improved, which is much more transparent, more complete, more detailed and more relevant.

In the year 2016, the communication with the financial institutions was conducted through:

- Regular meetings
- Financial statements (quarterly ones)
- Annual financial statements
- Report on the corporate social responsibility from 2000 to 2015



908
suppliers

7 Suppliers – stakeholders that significantly contribute to and influence the creation of added value to our services and products and in this way indirectly influence the company's business, i.e. the quality of its services, business performance and security. For this reason, the relationship with the suppliers is of strategic importance to the company. The company continuously cooperates with suppliers in mutual exchange of knowledge and experience with an aim to

improve the services and products to end users to mutual interest, meet the company standards, especially in the segment of service and the standard of the tourist industry.

In the year 2016, the communication with the suppliers was conducted through:

- Regular communication (oral and written)
- Mutual visit
- Exchange of knowledge



III Economic viability

1 Managing the economic aspect of business

Economic viability for Ilirija is the cornerstone of corporate social responsibility that affects its stakeholders and influences the achievement of other planned business results. Starting from the fact that the foundation of corporate social responsibility is based on its economic viability, which ensures a continuous growth and the development of the company, its technological progress, competitiveness and market viability which can be achieved subject to the previous fulfillment of the economic preconditions such as efficiency, profitability, expected and optimal profitability in business operations. The management of the economic aspects of the company's business operations is carried out in a way to adopt the business plans on an annual basis, that is, the budgets at the level of the company and each sector or profit center individually, combined by the Accounting and Finance Department, that is, the Controlling, Plan and Analysis Department.

In 2016, a system of monitoring the business operations has been established at the level of all sectors and the company as a whole in all its segments on a daily, weekly and monthly basis in accordance with the applicable Croatian and international regulations i.e. the Accounting Act and the International Financial Reporting Standards (IFRS) and USALI* standards as the world's reporting standards in tourism industry. This has enabled timely and high-quality monitoring of the achieved operating results and the production of high-quality forecasts and business plans throughout the whole fiscal year, creating thus the foundations for a more efficient and rational management of the entire business process and improving and speeding up the entire process of reporting at all levels, particularly in the operational part of the Company's business operations. In accordance with the foregoing, if certain more significant deviations from the business plans are recorded at the level of the sector or profit centers during the fiscal year, in which they are identified, the necessary measures are taken to eliminate or amortize the deviations, where everything is to be previously coordinated and approved by the Company's Management Board and is to be operationally executed through the sales and marketing departments of the sector or profit centers.

*USALI (Uniform System of Accounts for the Lodging Industry)

2 Operating results in the year 2016

The data relating to the chapter Economic Sustainability are taken from the Annual Report for the fiscal year 2016.

Far best physical and financial results of the business operations were achieved in 2016, especially in the segment of profitability since the establishment of Ilirija as a modern tourist company, which is why the year 2016 is the best fiscal year of the company since 1957. The fiscal year, in addition to the best business results achieved so far, was marked by significant acquisition (buying) by which Ilirija entered into the real-estate segment from the exclusively tourism and hospitality sector, which will significantly contribute to its strategic objective - sustainable year-round business. Some more significant impacts on the results of the company's business by the new profit center of the Commercial-shopping center City Galleria, whose takeover was realized in the second half of December 2016, are expected in the following fiscal year, so almost all revenues realized in 2016 were generated from the tourist and hospitality sector of the company.

The achieved operating results are the consequence of:

1

Continuous and sustainable investment in the improvement and advancement of the existing services, products and accommodation capacities at the level of all sectors,

2

Development of the offer through the destination management company/DMC Ilirija Travel in the period of the shoulder season and through the development of new forms of tourist offer or the development of innovative and complementary tourism and special interest tourism,

3

marketing and sales activities, that is, orientation towards target interest groups, and

4

efficient operating cost management policies at an operational level.

Physical Operating Results in 2016

The realized physical operating results in the year 2016 are within the expected and planned results at the level of all sectors of the company. In the company's facilities, 571,387 overnight stays were realized, of which only 556,214 overnight stays were realized in the facilities in Biograd na Moru. A share of the Company in the organized tourist overnight stays is particularly significant, with an exception of overnight stays realized in private accommodation and summer houses, where overnight stays in the Company's facilities account for 66.59% of organized tourist turnover of the city of Biograd na Moru, except for the overnight stays in the destination of Sv. Filip i Jakov.



In the hotel sector the forecasted growth in physical operating results or overnight stays were 1% higher than the one compared to the year 2015. Parallel to the change to the market structure of the guests, a significant growth in the individual and allotment segment was realized as a result of thoughtful acquisitions and marketing campaigns tailored for target markets and special interest groups, especially the crucial ones in the shoulder season.

The hotel sector recorded some 36,691 guests that stayed in 2016, which with an average stay of 3.58 days, which is a rise by 7.8%, realized a total of 131,424 overnight stays, 1% more than in the same period in 2015.

In the structure of realized overnight stays among the top five source markets, there is (1) the Croatian market with a share of 15.6% of overnight stays, which rose by 12.5%, followed by (2) the Slovenian market with a share of 14.9% which fell in comparison with the last year share of 15.83%, (3) the German market fell by 8.80% from 12.6% of overnight stays, (4) the Austrian also fell by 6.70% with a share of 9.5% and (5) the stable Slovakian market with a share of 7.5% overnight stays.

In the observed period, the capacity utilization and days of hotel occupancy slightly increase, due to better occupancy of a part of the shoulder season and especially the peak season, which with the growth by 1% in average price of overnight stays contributes to achieving equal value in revenues compared to the year 2015, and provides a stable trend of maintaining the existing market position.



In the nautical sector of which physical operating parameters are fundamental, the berth contract and vessels in transit – inbound sailing and overnight stays that mostly affect the realization of other physical parameters of the business especially in terms of generating revenues (the activities of port service, crane operation, parking, hospitality) are as expected and forecasted compared to the year 2015 especially when we take into account the lack of ECC regatta. The number of concluded contract-based vessels is slightly lower than what it was in the previous fiscal year solely

because of significant investments with respect to the reconstruction of piers which partly affected the acceptance of vessels, specifically contract-based vessels, considering a slight reduction in the number of berths and great handling procedures in the transfer of the vessels in the marina as a direct result of its reconstruction. In the segment of vessels on transit berth, the number of inbound vessels and overnight stays of vessels in transit rose by 2% or 6% compared to the year 2015 which affected the revenue item of transit berth which is higher by 5% and the revenue item of port services and parking of vehicles where each rose by 1% compared to the previous fiscal year.



The camping sector realized 33,119 arrivals, which compared to the last fiscal year is a slightly decreased number of arrivals as a result of unfavorable schedule of holidays and exceptionally bad weather in June, which greatly impact the realization of physical turnover in the camping sector in the Republic of Croatia, and as a result of non-organizing the Vespa World Days organized in June 2015, which also resulted in the decrease in the number of overnight stays by 0.95%. The slight decline in the physical turnover was not reflected on the position of revenues where the contracted and realized revenues amount to HRK 24,828,679.66, which is a rise by 3% compared to the same period in the year 2015.

For these reasons, the decline is recorded in the segment of individuals, while at the same time the number of overnight stays in case of the Agency's guests rose by 6%, and the number of overnight stays in case of lump sum guests rose by 7% and the number of overnight stays in the segment of mobile homes rose by 8%, which resulted in a slight reduction in the number of overnight stays by only 0.95%.

In the structure of realized overnight stays, the top five source markets are (1) the Slovenian market with a share of 23% overnight stays, (2) the Czech market with a share of 19% overnight stays, (3) the German market with a share of 16% overnight stays, (4) the Dutch market with a share of 10% overnight stays and (5) the Croatian and Polish market each with a share of 6% overnight stays.

At the same time, the structure of overnight stays according to market segments is dominated by individuals with a share of 32%, and agencies with a share of 31%, followed by the guests in mobile homes with a share of 21% of overnight stays, which compared to the same period last year increased by 1% and lump sum guests with a share in the total overnight stays of 16% and with an increase by 2% compared to the share in the year 2015.



The Destination Management Company/DMC Ilirija Travel a complementary and integrated product of the company, together with other profit centers, realized 388 individual events (special programs, incentives, conferences, congresses, weddings, banquets and similar events) with a total of 46,874 guests mainly in the pre and post season, which is the backbone of the extension of the season with the realized HRK 9,422,823.19 in revenues.

Overview of key operating physical indicators in the year 2016

Physical indicators	I-XII 2016	I-XII 2015	% changes 2016/2015
Hotel sector			
Number of accommodation units	443	443	100
Overnight stays of tourists	131,424	130,643	101
Occupancy days	145	143	101
Annual occupancy	39.72%	39.06%	102
Nautics			
Number of berths	805	805	100
Contracted vessels	714	732	98
Transit berth, overnight stay of vessel	12,463	11,793	106
Transit berth, inbound sail of vessels	3,544	3,479	102
Port service – number of operations	3,772	3,950	95
Days of work	365	365	100
Camping			
Number of accommodation units	1,130	1,123	101
Days of work	193,00	191,00	101
Occupancy days	102,24	103,45	99
Mobile homes	103,75	105,25	99
Individuals	44,54	50,19	89
Fixed lease	193,00	191,00	101
Lump sum	193,00	190,96	101
Occupancy	52.98%	54.16%	98
Mobile homes	53.76%	55.10%	98
Individuals	23.08%	26.28%	88
Fixed lease	100.00%	100.00%	100
Lump sum	100.00%	99.98%	100
Overnight stays of tourists	258,110	260,579	99

Financial operating results in the year 2016

Total revenues were generated in the amount of HRK 129,019,007.31, which rose by 0.68% as a consequence of the rise in domestic sales revenue and financial revenues. The operating revenues were generated in the amount of HRK 127,591,140.20 with a significant growth in operating revenues of the camping sector by 2% and other profit centers of the Company by 9.15% which also include the revenues of the destination management company/DMC Ilirija Travel realized mainly in the pre-season and post-season. Revenues of the hotel sector remained at the level of revenues in 2015, while the revenues in the nautical sector decreased by 3% compared to the same period of the previous fiscal year, only by single position of the revenues generated from boating events realized in the second quarter of 2015.

Decrease in total expenses by 4.73% as a result of the policy of continuous and more efficient cost management at all levels of operating business by decreasing operating expenses by 7.07%, efficient policy of cost management at all levels of business in parallel with revenue generated resulted in significant growth in profitability of the company in the segment of:

+16.94%



Operating profit

or profit from Company's business activities amounts to HRK 43,599,261.55 with the realized growth by 16.94% or by HRK 6,316,353.83 (in 2015: HRK 37,282,907.72).

+22.46%



Profit

was generated in the amount of HRK 31,240,796.00 with the realized growth by 22.46% or by HRK 5,730,286.56 (in 2015: HRK 25,510,509.44).

+19.22%



EBITDA

realized amounts to HRK 45,027,128.66 and grew by 19.22% or HRK 7,259,951.70 (in 2015: HRK 37,767,176.96).

35.37%



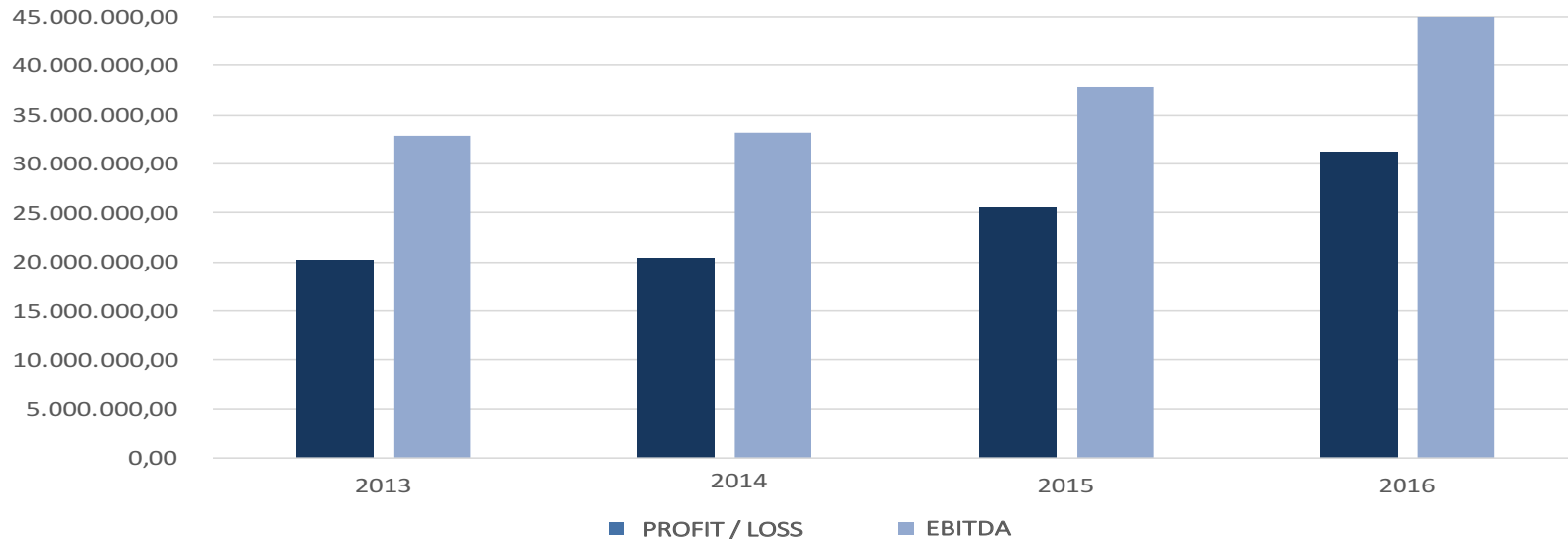
EBITDA margin

for the observed period amounts to 35.37% and grew by 19% compared to the margin in 2015 when it amounted to 29.70%.

Overview of financial operating results during the period from 01st January 2017 to 31st December 2017 and comparison with the same period from 2013 to 2016

REVENUES	2013	2014	2015	2016	INDEX 16/15
Revenues on the local market	78,629,358.69	84,675,322.34	89,485,635.86	90,015,540.20	101
Revenues on the foreign market	35,659,411.84	34,312,895.38	35,790,201.68	34,572,634.09	97
Other revenues	2,140,521.05	2,802,415.63	2,386,405.85	3,002,965.91	126
OPERATING REVENUES	116,431,304.58	121,792,647.35	127,662,243.39	127,591,140.20	100
FINANCIAL REVENUES	272,620.92	136,259.45	484,269.24	1,427,867.11	295
EXTRAORDINARY REVENUES	616,481.19	944,845.32	0.00	0.00	#DIV/0!
TOTAL REVENUES	117,320,406.69	122,873,752.12	128,146,512.63	129,019,007.31	101
EXPENSES					#DIV/0!
Raw material and material costs	19,093,641.84	20,227,454.80	20,106,891.81	18,339,619.89	91
Costs of services	16,278,650.28	16,922,695.44	17,867,521.54	14,790,955.74	83
Gross pays	30,202,641.66	32,942,681.21	29,763,374.67	30,295,745.80	102
Other expenses	15,199,452.00	18,744,477.67	22,641,547.65	20,565,557.22	91
TOTAL EXPENSES	80,774,385.77	88,837,309.12	90,379,335.67	83,991,878.65	93
DEPRECIATION	6,385,207.46	7,470,218.79	8,225,981.02	9,012,252.49	110
FINANCIAL EXPENSES	6,333,307.89	5,355,803.37	4,030,686.50	4,774,080.17	118
EXTRAORDINARY EXPENSES	3,698,321.67	825,305.72	0.00	0.00	#DIV/0!
TOTAL EXPENSES	97,191,222.79	102,488,637.00	102,636,003.19	97,778,211.31	95
PROFIT / LOSS	20,129,183.90	20,385,115.12	25,510,509.44	31,240,796.00	122
OPERATING PROFIT/LOSS	35,656,918.81	32,955,338.23	37,282,907.72	43,599,261.55	117
EBITDA	32,847,699.25	33,211,137.28	37,767,176.96	45,027,128.66	119

Graphical overview of the basic financial results of the business operations from 2013 to 2016



Revenues by activities:

Revenues from hotel services amount to HRK 47,341,757.80 and remained at the same level in comparison with the previous fiscal year.

Revenues from nautics amount to HRK 43,920,966.32 and fell by 3% in comparison to the revenues generated in the year 2015, that is, they are reduced by the extraordinary revenues from organization of the nautical events.

Revenues from camping amount to HRK 27,314,392.98 and rose by 2% in comparison with the revenues generated in the year 2015.

Other revenues or the revenues from profit centers, including Ilirija Travel, hospitality, Arsenal and event ship „Nada“ and Commercial-shopping center City Galleria were generated in the amount of HRK 9,014,023.10 and rose by 9.15% compared to the revenues generated in the year 2015.

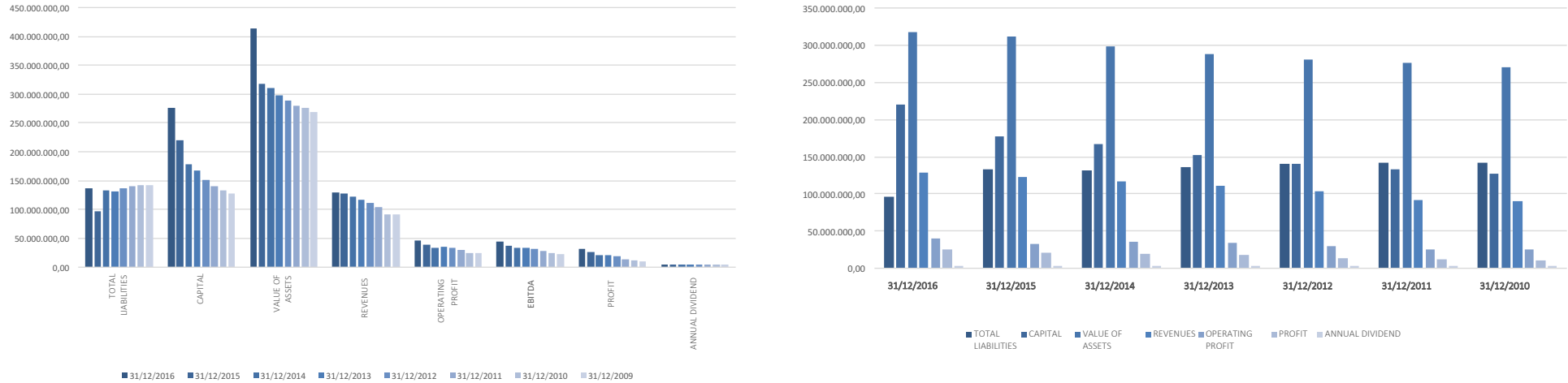
GRANDTOTAL: Operating revenues by activities amount to HRK 127,591,140.20 and they remained at the level of the year 2015.

CUMULATIVE COMPARATIVE OVERVIEW

of fundamental indicators on the position of assets, capital, liabilities and operating results of the Company as at 31st December 2016 for the period from 2009 to 2016

YEAR	TOTAL LIABILITIES	CAPITAL	VALUE OF ASSETS	REVENUES	OPERATING PROFIT	EBITDA	PROFIT	ANNUAL DIVIDEND
1	2	3	4	5	6	7	8	9
31/12/2016	137,502,260.55	275,683,907.98	413,186,168.53	129,019,007.31	43,599,261.55	45,027,128.66	31,240,796.00	4,937,148.00
31/12/2015	96,706,510.04	220,353,306.88	317,059,816.92	128,146,512.63	37,282,907.72	37,767,176.96	25,510,509.44	3,740,790.00
31/12/2014	133,053,616.64	177,858,715.67	310,912,332.31	122,873,752.12	32,955,338.23	33,211,137.28	20,385,115.12	3,740,790.00
31/12/2013	131,195,062.79	166,861,394.25	298,056,457.04	117,320,406.69	35,656,918.81	32,847,699.25	20,129,183.90	3,740,790.00
31/12/2012	136,546,285.85	151,895,416.40	288,441,702.25	111,134,832.70	33,826,442.35	31,157,639.71	18,255,129.12	3,740,790.00
31/12/2011	139,927,300.98	140,262,242.54	280,189,543.52	103,735,228.95	30,013,975.99	28,030,097.35	13,249,683.38	3,740,790.00
31/12/2010	142,308,155.23	133,202,459.64	275,510,614.87	91,364,944.55	25,112,703.16	24,378,316.58	11,512,758.85	3,740,790.00
31/12/2009	141,990,022.14	127,844,800.85	269,834,822.99	90,832,774.16	25,001,384.39	21,827,113.57	10,818,589.83	3,740,790.00

Graphical overview of cumulative comparative overview of fundamental indicators on the position of assets, capital, liabilities and operating results for the period from 2009 to 2016



The achieved operating results, together with the recapitalization of the company and the realized acquisition (buying) of the Commercial-shopping center City Galleria contributed to the further growth of the fundamental financial ratios of the company, with the growth of total liabilities. Total liabilities of the Company as at 31 December 2016 amounted to HRK 137,502,260.55 and grew by HRK 40,795,750.51, that is, by 42.19% as a result of an increase in credit liabilities owed to the financial institutions, especially in the segment of financing the acquisition (buying) which was partly financed by the long-term investment loan of the commercial bank and partly through a capital increase or recapitalization. At the same time, the value of the assets and capital increased significantly as a result of successfully completed recapitalization and acquisition, which increased the value of assets by HRK 96,126,351.61 or 30.32% to the amount of HRK 413,186,168.53 while the capital increased by HRK 55,330,601.10 or 25.11% and it amounts to HRK 275,683,907.98.

IV Environment

1 Management of the environmental aspect of business

As a tourist company, there is constant concern about the protection of natural resources for the current and future generations not only as a natural resource, but also as a basis for the economic activity of tourism. As a responsible corporate system, we are aware that through our business activities we influence the environment, which is a reason why it is our obligation to preserve and protect the environment, preserve biodiversity, prevent pollution and reduce negative environmental impacts. Guided by these principles, the company established the Department of Safety within which there is Department of Environmental Protection, Health Safety and Occupational Safety which systematically and operationally implements the company's policies in these areas. Department of Safety has its managers where each is in charge of his/her area and reports to the Management Board for his/her work. In addition to the Environmental Protection Manager, there is also a representative of the Environmental Protection Directorate. Plans are created and activities are performed at the level of the entire business system, but also in each sector separately, taking into account their special features and the operational nature of the business activity.

Ilijia has a clearly defined environmental management policy as a fundamental document which defines the objectives in the area of environmental protection and that is implemented systematically, responsibly and sustainably. The implementation of the environmental protection policy has enabled optimal reduction of the negative impact of tourist activity on the environment and nature, while on the other hand it has enabled a high quality, responsible and sustainable management of the environment and natural resources for the present and future generations.

At the company level, operational procedures are carried out on a daily basis that are fully aligned with the national environmental legislation, all for the purpose of minimal environmental impact and eliminating any risk of contamination to the lowest possible level. The regulatory framework of this area is being constantly monitored in the company, which ensures quick adaptation and system response to new regulations.

The company continuously, systematically and actively undertakes and conducts the activities in the field of environmental protection by passing the environmental management policy, implementation and certification of domestic and international environmental protection systems and standards, which resulted in the fact that in 2016 not a single case of pollution or not a single accidental situation occurred that would lead to any environmental disturbance of water, air or soil.

The achieved standards and environmental protection standards:



ISO 14001 is the most widely used international environmental management standard. With the help of ISO 14001, implemented and certified in 2014, Ilirija focuses on the preservation and constant improvement of the environment. By establishing an environmental management system, we guarantee that all environmental management issues that are related to our business activity, are under constant supervision and all the potentially negative impacts of our business activities related to the environment are minimized.



The Green Key is a certification program of accommodation capacities for the purpose of raising the awareness of owners, staff and clients about the need for environmental protection and the need of promoting sustainable development. The Green Key is awarded to accommodation facilities that reduce negative environmental impacts through: optimization of energy consumption, waste management, education of guests and employees on the most important aspects of sustainable development and environmental protection. The Ilirija campsite "Park Soline" was awarded this international certificate in 2013 when it was just one of two campsites in Croatia that met all the criteria for awarding this ecological mark.



After having successfully completed the audit in September 2015, the campsite "Park Soline" was awarded an international certificate „**Ecocamping**". Membership in Ecocamping network, consisting of over 240 campsites from seven European countries makes us further committed to further promoting ecology, sustainable development and corporate social responsibility, with a particular emphasis on the efficient management of energy (water, electricity), waste sorting and recycling, nature conservation and biodiversity etc.



The Blue flag awarded to Marina Kornati is an international ecological program for the protection of the sea and coastal region, whose primary objective is the sustainable management and management of the sea and the coastal belt. The Blue Flag is now the world's most recognized model of ecological education and public awareness, when it comes to the sea and coastal belt, especially when it comes to the care for the coastal areas that are highly under pressure, and these are the beaches and marinas. Marina Kornati has been the holder of the Blue Flag since 2004.

2 Ecological awareness and education

Starting from the fact that the concern for the environment is also a concern for our future, therefore the company's activities are focussed on the development of ecological awareness of the importance of environmental protection through the education conducted by the company employees to the following groups:

1 Own employees:

The employees are educated on sustainability and their contribution to environmental protection on a daily basis, so through the work they are educated about proper handling of chemicals, water saving and proper sorting of waste. Education is carried out at the beginning of each tourist season in a group and individually. Group education is also implemented within the HACCP system by licensed certification companies for the entire Food and Beverage Department in June for the current year.

2 Guests:

Significant educational activities are aimed at the guests by providing information and short info labels about the importance of conservation and protection of the environment, the rational use of water and electricity during their stay in our facilities in all public common places and in the accommodation units, rooms, mobile homes and toilet facilities.

The youngest guests are most involved and educated about the various environmental issues through the children's workshops. In cooperation with animators, we mark ecologically important dates by teaching guests (children) concepts that are essential to the environmental protection and conservation of nature by developing the ecological awareness of the youngest members of our surrounding. Four workshops are conducted during summer in the field of environmental protection, biodiversity, waste management and at least one protected animal or plant species.

3 Community:

During 2016 the Company has continued with a series of educational activities in the field of environmental protection, especially in promoting the importance of conservation of and care for the environment in the local community in partnership with the Public Institution Nature Park Vrana Lake, particularly including the following:

The workshop "Cook, sort, responsibly dispose" where the workshop was aimed to show to high school students in Biograd na Moru, majoring in hospitality and waiter jobs, in a practical way by preparing the food what they as students and later as a future tourism professionals can do to preserve nature - through practical examples of separating the organic waste and its importance for the preservation of the environment.

Exhibition of photographs of the Public Institution Nature Park Vrana Lake, that took place in the restaurant Marina Kornati from 01/01 to 16/08, was aimed to raise the marina guests' awareness of the need to protect nature and environment, especially protected areas where the natural values of this protected area were presented through the exhibition of photographs and of the need for further conservation and protection.

The celebration of the 20th International Bat Night was organized in Ilirija campsite "Park Soline" which through a series of educational, interactive workshops and lectures was attended by over 30 children of different ages where they became familiar and informed about the only flying mammals, their habitats and species.

We organize the tour of our facilities with professional accompaniment for the youngest members of our community, children from kindergartens and primary school pupils in Biograd and surrounding places. During the tour of our facilities we make them familiar with the activities we perform to preserve the environment from the impacts of the processes that necessarily occur in our business operations. We make our children familiar with our waste management systems, rational management of potable water, and ultimately with all the care for the surrounding sea, air or soil. We make them familiar with the basic terminology of the ecology itself, and in practical workshops we create informative posters about pollution, biodiversity of the living world that surrounds us and we teach them what each of them can do in order to preserve the environment.





HRK 336,231.77
environmental
investments

3 Environmental Investment

In 2016, HRK 336,231.77 were invested in environmental conservation related to the achievement of international standards in the field of environmental protection, installation of faucet aerators in the hotel sector, training, education and technical improvements in the field of environmental protection.

Environmental Investment (HRK)	2015	2016
	80,033.60	336,231.77

4 Energy

Electricity, fuel oil, liquefied petroleum gas and natural gas are used as energy products in the company facilities. By switching to natural gas in the facilities where fuel oil is still used, it is attempted to reduce the total emission of harmful gases, in which carbon dioxide prevails. Natural gas is the most acceptable fuel for the environment. Its combustion results in considerably lower amounts of carbon dioxide in comparison with other fossil fuels. In this way, we contribute to reducing the negative climate impacts.

Overview of consumption of all energy sources and resources in the year 2016



Electricity (kWh)
3,739,630.00



Water (m³)
123,045.00



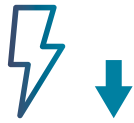
Gas (kg)
38,188.00



Fuel oil (kg)
170,251.20

Electricity consumed in the Ilirija facilities entirely comes from renewable sources, as confirmed by HEP's Green Energy Certificate. By using the energy obtained from the renewable sources, we actively participate in reducing the CO₂ emission.

1.91%



During the year 2016, total consumption of electricity in kWh was reduced by 1.91% compared to the consumption in the year 2015.

Year	2015		2016	
	kWh	MJ	kWh	MJ
Total consumption of electricity by sectors				
Hotel sector	2,042,385.00	7,352,586.00	2,052,141.00	7,387,707.60
Camping	646,829.00	2,328,584.40	615,854.00	2,217,074.40
Nautics	791,366.00	2,848,917.60	771,999.00	2,779,196.40
Other	330,574.00	1,190,066.40	299,636.00	1,078,689.60
Total:	3,811,154.00	13,720,154.40	3,739,630.00	13,462,668.00

15%



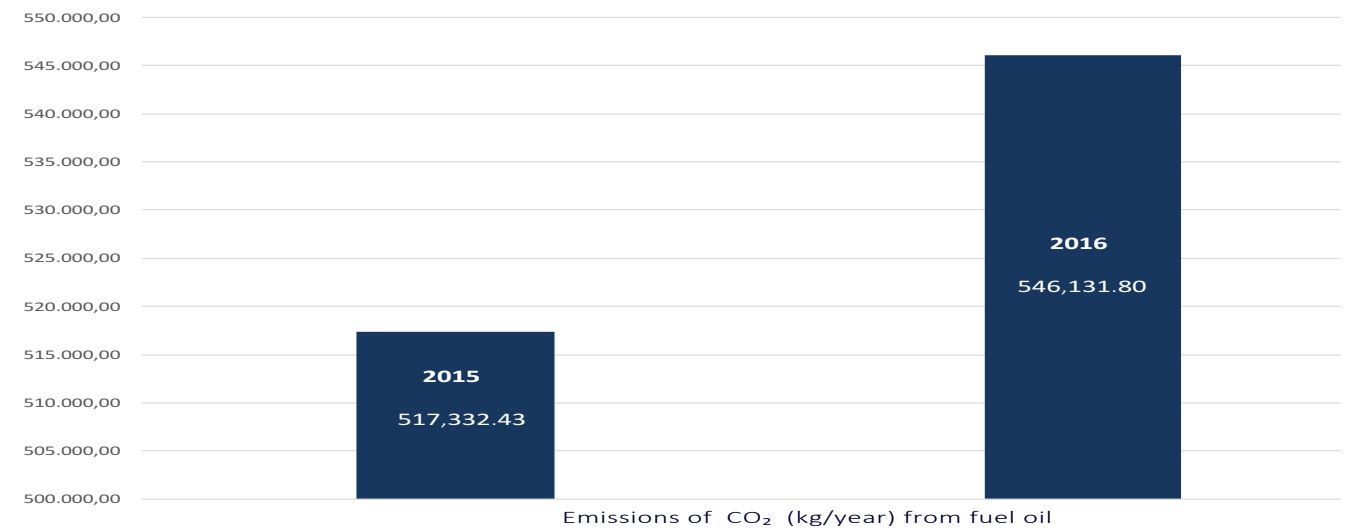
During the year 2016, total gas consumption in kg increased by 15% compared to the consumption in 2015.

Year	2015	2016
	kg	kg
Total consumption of gas (LNG) by sectors		
Hotel sector	15,147.00	18,109.00
Camping	11,810.00	12,629.00
Nautics	5,525.00	6,950.00
Other	660.00	500.00
Total:	33,142.00	38,188.00

5 Emissions

The total amount of CO₂ in kg/year was obtained by calculating the actual fuel consumption by locations according to the formula defined in the Manual for Maintaining Environmental Pollution Register (Appendix A).

Graphical overview – Emissions of CO₂ (kg/year) into the atmosphere from the fuel oil



Year	2015	2016
Emission of CO ₂ (kg/year) from the consumption of fuel oil	517,332.43	546,131.80

Refrigerators and air conditioning devices that are regularly serviced and maintained are used for the purpose of cooling goods/groceries in the hospitality sector and for air conditioning of certain areas. These devices use ozone depleting substances. Authorized servicers periodically maintain the devices, and corresponding records are kept according to the regulations, that is, their controls and amendments. There was no accidental relating to uncontrolled leakage of refrigerant gases during the reporting period. The substances or cooling media used are: R404A, R410A and 4074.

2.2% 

During the year 2016, total consumption of water in m³ was reduced by 2.2% compared to the consumption in the year 2015.



1570 faucet aerators installed

6 Water

Owing to sustainable business, through the operations of its units and systematic investments, Ilirija d.d. systematically reduces not only the greenhouse gas emissions, but also the amount of waste produced, and increases the procurement or use of environmentally friendly materials, and as one of the most important resources, great attention is paid to reducing the use of drinking water.

Year	2015	2016
Total consumption of water	m³	m³
Hotel sector	38,298.00	36,099.00
Camping	45,805.00	47,95.00
Nautics	34,808.00	30,740.00
Other	6,908.00	8,255.00
Total:	125,819.00	123,045.00

In order to reduce the consumption of drinking water and water needed to maintain landscaped areas and to rationally use water, Ilirija installed faucet aerators on faucets and showers, on a total of 700 faucets/showers in the entire campsite in 2014 as part of the "Sustainability drop" project in the campsite "Park Soline" and later in the hotels, at all shared toilet facilities. Faucet aerators are the parts screwed onto the faucet head that help save the water in a way to deliver a mixture of stream of water on the faucet/shower with air without damaging the quality or comfort of using water. As stated in in the years 2015 and 2016, the installation of the faucet aerators in hotels continued, so by the end of 2016, an additional 870 pieces of faucet aerators were installed in the hotel facilities.

The water from the own well that has been legalized and possesses the valid water legal act that at the same time limits the pumping it to 9800 m³ on an annual basis has been used for irrigating the landscape areas in the campsite since 2013 by using the drip irrigation system. Every year the permitted quantity is exhausted. The irrigation of landscaped areas in the campsite is crucial because of hundreds of planted, indigenous species that contribute to the unique atmosphere of the camp.

26%



During the year 2016, a total quantity of produced hazardous and non-hazardous waste in tons was reduced by 26% compared to the quantity in the year 2015

7 Wastewaters and waste

Wastewaters

Before discharging the wastewaters into the city sewage, all the waste waters of Ilirija d.d. are subject to the pretreatment or some sort of purification. In this regard, the grease/oil separators installed at the exit points of the internal sewage system of the facility are mostly considered. Separators are regularly controlled and cleaned by authorized companies. Before the water is discharged into the public drainage system, it is tested by an authorized laboratory whose analytical reports regularly confirm that waste water discharged meets the maximum permissible concentrations for such a type of receiver.

The process wastewater generated at wash area in the marina Kornati goes through the physical and chemical purifier before it is discharged. This purifier is regularly maintained, and the quality of the waste water is also tested by an authorized laboratory as often as it is prescribed by the water permit. During the ship washing season, the wastewater is tested twice. All tested indicators regularly meet the maximum permissible concentrations (MDK) for discharging this purified water into the natural receiver.

During the last two years, all wastewaters from the company's facilities were tested by an authorized laboratory and the limit values of the tested quality indicators or water quality did not exceed the maximum permitted quantities.

Waste

With environmental protection policy passed within the environmental management system a great attention is paid to conscientious waste management in all facilities. Every year, a list of all types of waste produced is revised and, if necessary, some new type of waste is disposed of.

At all locations, the entire prescribed documentation on the generation and course of the produced waste prescribed by the Sustainable Waste Management Act and the relevant ordinances is completely maintained.

Year	2015	2016
Hazardous waste (t)	38,6	27,47
Non-hazardous waste (t)	65,431	50,225
Total:	104,031	77,695

During the year 2016, a total quantity of produced hazardous and non-hazardous waste in tons was reduced by 26% compared to the quantity in the year 2015.

8 Compliance with regulations

By daily monitoring of the legal regulations in the area of environmental protection, we always consider steps and investments in this area in advance so that all potential cash and non-cash remedies of the present state of affairs can be minimized. During the period of 2015 and 2016 there were no warnings and consequently, the punishments during the environmental inspection. This certainly has a positive impact on the company's work atmosphere and orientation towards even better achievements in the area.



9 Biodiversity – landscape architecture and design in harmonization with the Mediterranean environment

Maintaining and designing landscaped green areas within the company is paid a great attention with a special emphasis on landscape architecture of the areas at all sector levels. Irrigation is carried out with water from its own well which is constantly supervised, that is, it is registered and a valid water act has been passed for it. All the plants that are planted each year in the surrounding of the facilities are in accordance with the principle of landscaping the Mediterranean Gardens, and are performed by their own Landscape Department.



Landscaping and development of the campsite "Park Soline" from the thicket to the camp-park:

**3882 different species of trees of which
1172 seedlings of different species of trees
650 seedlings of different Mediterranean bushes
750 seedlings of different Mediterranean perennials
60 seedlings of climbing plants
400 seedlings of ground covering plants
850 seedlings
Over 85.000m³ of fertile tampons
3500 pine trees have been inspected,
repaired and cleaned**

Total number of seeds planted by divisions in Ilirija d.d.	2015	2016
Hotel sector	5254	3776
Camping	931	808
Nautics	473	1598
Total	6658	6182

Special attention is paid to the landscape architecture of the campsite, which in the past twelve years (since 2004) has developed from the rugged and neglected thicket with the accompanying karst dominated by: Aleppo pine (*Pinus halepensis*) 60%, the holm oak (*Quercus ilex*) 30% and common oak (*Quercus*) 10% with the low undergrowth of mock privet, turpentine-tree, inula, botaurus, viburnum tinus, at the level of the camp-park to the level of the arboretum. The works at the campsite "Soline Park" were constantly monitored by the Croatian Forests and with their prior consent, especially in the professional part of the forest conservation. So **in 2016, 808 seeds of various Mediterranean plants** were planted in the campsite "Park Soline", most of which are perennial plants maintained for years.

The landscape architecture of the campsite from 2004 to 2016, which today makes it a unique landscaped, developed and maintained spatial whole or camp-park in Croatia, and at the same time represents the "green lungs" in the destination or the city of Biograd na Moru.

1 Recruitment

In the section of sustainable business related to the social category, it shows the company's impact on the following areas:

- **Employees**
- **Human Resources**
- **Society**
- **Product responsibility**

One of the company's fundamental strategic objectives considering the nature of its business operations in the area of human resources management is that the employees are key to its success and quality of the service, and are therefore delegated the positions that best suit their abilities, with continuous education aimed at improvement of their knowledge, skills, enthusiasm and loyalty which contribute to its further development and growth.

Since a man is key to the success in the tourism industry, the company systematically implements the human resources policy through:

- Employment plan for permanent and seasonal employees
- Education and training
- Pay policy and material benefits

At the level of the company, in coordination with the Management Board, Payroll and Human Resources Unit and sector managers, who at the operational level plan the required staff, i.e. the optimal number of permanent and seasonal employees are defined by profit centers, sectors and at the level of the whole Company for the next fiscal year. In addition to the planned number of employees on a daily, weekly and monthly level, their work positions, the beginning and end of the employment as well as the cost of their employment are defined. For all employees who have already worked for the company, their competence and motivation are further checked by their superiors before they are reengaged. Regarding the fact that the employees are the holders of the entire business process, especially in the segment of

providing services, Ilirija takes care about maintaining an optimal number of employees through the active personnel policy, improvement of the financial position and rights of the employees, improvement of their competences, continuous education, which is shown by the trend of the number of employees over the last few years.

Employees in the year 2016

During the year 2016, Ilirija had a total of 450 employees recruited, out of whom there were 148 employees with an employment unlimited term contract by the end of the reporting period. Out of 302 employees, 62 remained employed based on the fixed term employment contract. By engaging other companies on the basis of business cooperation that perform the nautical activities in Marina Kornati and lessees in the Commercial-shopping center City Galleria, the Company provides jobs for over 1,000 employees in the season.

Being aware of the changes that occur in the labor market in the tourist industry and the specific characteristics of the tourism industry in Croatia, characterized by a pronounced seasonality, Ilirija focuses on (I) management, (II) planning and (III) staff development. As a company that systematically monitors the movements in the labor market and also the turnover of its own employees, and accordingly plans future employment, it considers the following facts in the selection:

- a number of required employees,
- required traits, skills and knowledge, and
- defining the channels of finding the required staff.

By the end of the current season, the company receives feedback and requests from seasonal employees for the next fiscal year, whereas the activity of receiving requests by the Human Resources and Payroll Department from seasonal employees is considerably more intense. Job vacancies are first filled by engaging the employees who have worked seasonally in Ilirija for many years, and as such have the advantage over new employees.

According to the foregoing, Human Resources and Payroll Department prepares a report on job analysis and records on a daily basis in the company and the movement of employees within the company with an aim to determine the optimal number of employees and their structure necessary for conducting the business process and making decisions on the selection of the personnel, opportunities and needs of internal redistribution of personnel, insight into the need for training of the existing staff and the need for new staff.

Overview of the position of employees by months for the year 2016

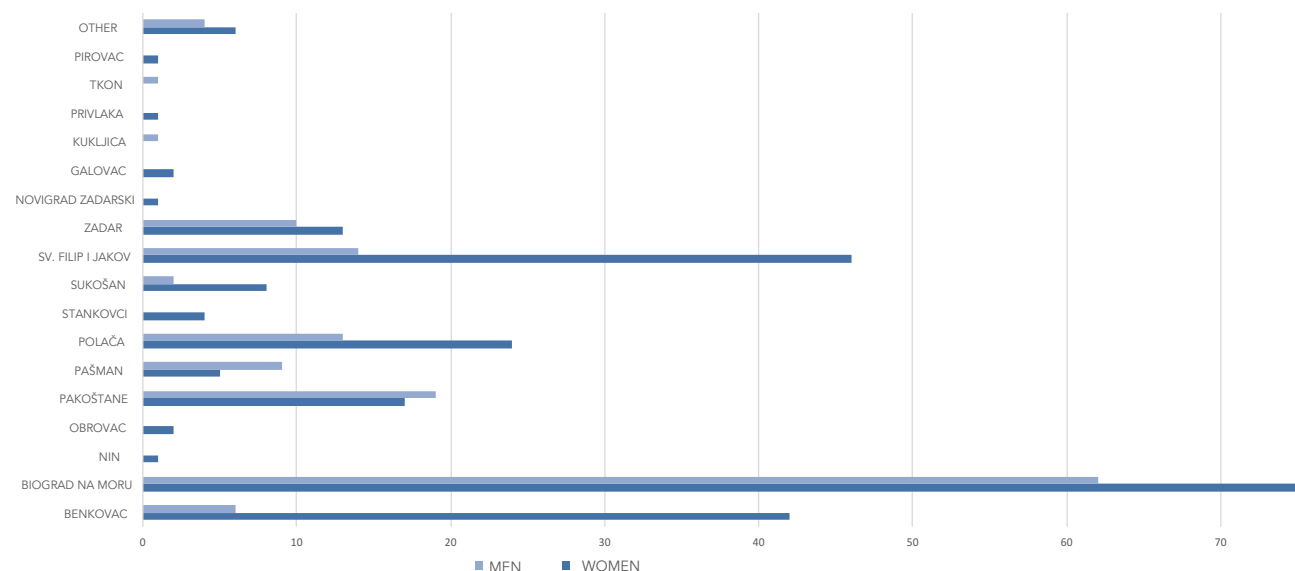
Ord. No.	PROFIT CENTER / ORGANIZATIONAL UNIT	NUMBER OF EMPLOYEES IN 2016											
		01/01	28/02	31/03	30/04	31/05	30/06	31/07	31/08	30/09	31/10	30/11	31/12
	*PROFIT CENTERS												
1	HOTEL ADRIATIC	1	0	1	15	23	33	35	32	24	15	1	0
2	HOTEL ILIRIJA	3	3	33	40	44	42	49	48	41	35	26	34
3	HOTEL KORNATI	19	23	2	27	28	30	33	33	28	17	1	23
4	HOTEL VILLA DONAT	0	0	0	2	9	25	26	23	16	1	0	0
5	LAVENDER	0	0	2	3	4	8	8	6	3	1	1	0
6	MARINA KORNATI	40	40	42	45	47	50	54	54	43	46	42	44
7	RESTAURANT MARINA KORNATI	16	12	9	12	17	15	16	16	15	22	12	3
8	AQUATIC CENTER	1	1	1	1	1	14	22	17	3	3	1	1
9	TOURIST AGENCY	1	1	1	2	2	6	7	7	5	3	2	2
10	CAMPSITE PARK SOLINE	18	17	17	23	25	37	43	38	23	15	14	14
11	RESTAURANT PARK SOLINE	0	0	0	9	13	18	23	19	10	0	0	0
12	ARSENAL	12	11	8	10	8	10	13	10	10	12	13	31
13	TENNIS CENTER	0	0	9	3	2	3	3	3	2	2	1	1
14	BIFFE BEACH	0	0	0	0	0	5	6	5	0	0	0	0
	*ORGANIZATIONAL UNITS												
15	COMMON DEPARTMENTS	33	35	34	31	31	33	33	33	32	32	31	29
16	MAINTENANCE DEPARTMENT	7	7	7	7	7	7	7	7	6	6	6	6
17	LAUNDRY	3	3	5	9	13	15	15	15	12	6	3	2
18	LANDSCAPING	11	13	8	8	9	9	9	9	9	8	7	7
19	NADA BOAT	1	0	0	0	0	0	0	0	0	1	0	0
20	WELLNESSS	3	0	4	5	4	5	5	5	4	4	0	3
21	BOAT SHOW	2	2	2	2	2	2	2	2	2	2	2	2
22	CITY GALLERIA												14
	TOTAL	171	168	185	254	289	367	409	382	288	231	163	216

97.18%

Local employees

The report shows the position of employees no matter whether the employees working on the basis of employment contract, or primary and secondary school students who are physically present at work and who are temporarily absent for a justified reason are concerned. Oscillations in the movement of a number of employees on a daily basis show a greater scope of jobs on individual days and provide an insight into the need for the staff in terms of complete occupancy of the capacities. Upon completion of the tourist season 2016, Ilirija retained over 30 persons employed, by which we on the one hand primarily provided safety and smooth running of the business process, and on the other hand retained the quality and standard of our service. Almost the majority of employees, permanent and seasonal, including the management of the company, are local employees i.e. from Biograd na Moru and the surrounding municipalities and cities. We do not have employees from other countries, since we have a sufficient number of qualified, high quality and experienced staff with many years of experience in tourism and hospitality in our immediate vicinity. Developing and investing primarily in the employees from the local community has resulted in additional safety and flexibility in the business process that has been facing challenges in the last year, especially in the Croatian tourism. By employing a greater number of local residents Ilirija also affects the development of the local economy and the community. As at 31st August 2016, the share of the local population in the cities and municipalities of the Zadar County was **97.18% of the total number of employees.**

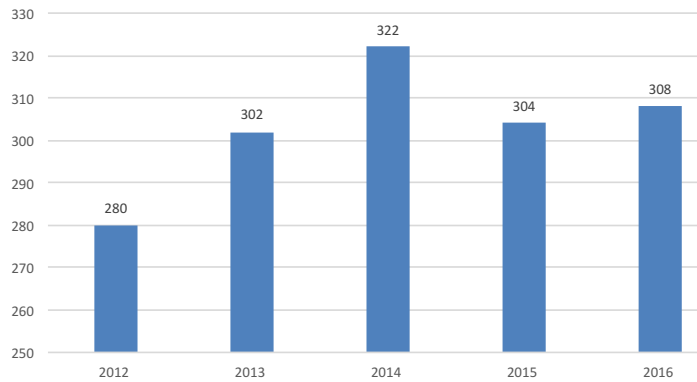
Overview of employees by the place of residence as at 31st August 2016 by gender



+10%

More working hours based employees

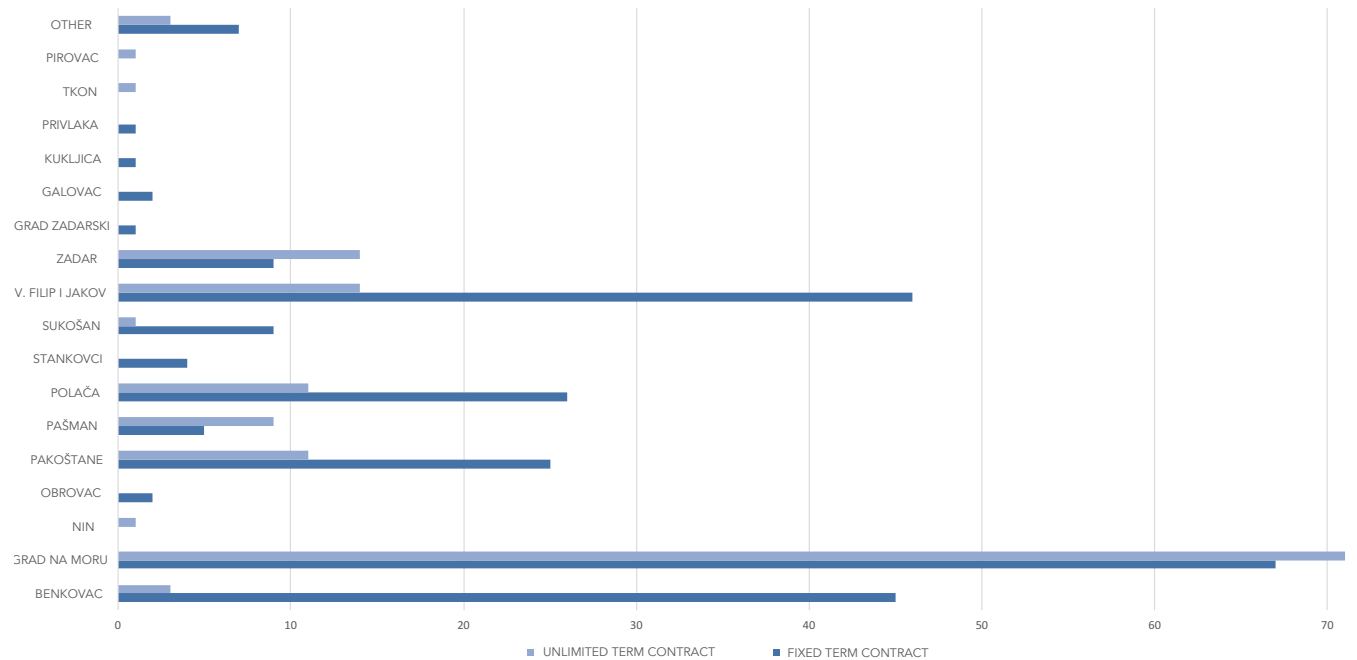
An average number of employees based on the working hours in the year 2016*



In the structure of employees in the year 2016, the share of employees employed on the basis of a fixed-term contract was 64% out of a total number of employees in high season or as at 31st August 2016 not including students and secondary school pupils.

The average number of employees on the basis of working hours* in 2016 was 308, which is a growth by 10%, that is, 28 employees more on the basis of the working hours compared to the year 2012 as a result of the growth of business activities in the shoulder season.

Employees as at 31st August 2016 by place of residence and type of employment contract

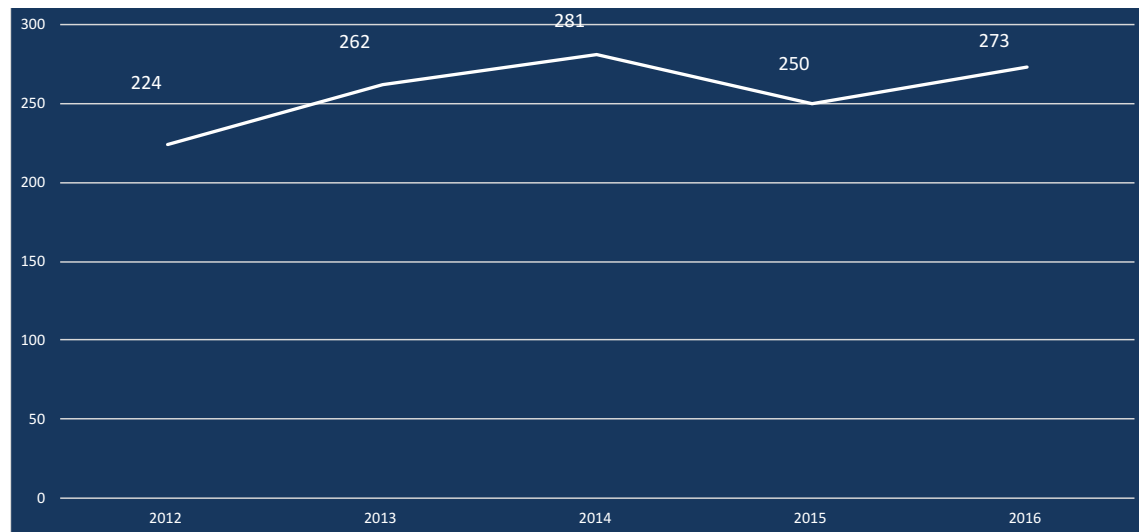


*The number of employees based on the working hours is determined in a way to divide the total number of paid working hours by the number of hours for that respective month. An average number of employees based on the working hours on an annual basis is determined by dividing a cumulative number of employees on the basis of the working hours by months by a total number of months in a year.

In 2016, a total of 273 employees were employed for a fixed term and unlimited term at the level of the company, which is 9% higher than in 2015, as a result of the increase in business activities, acquisition of the Commercial-shopping center City Galleria and strategic business decision about retaining some 30 employees mainly in the food and beverage department after the end of the tourist season. Compared to the previous fiscal year, the number of employees increased by 9% or by 23 employees, or by 22% or by 49 employees compared to the number of employees in 2012. Out of a total number of 273 recruited employees, 34% or 93 employees are newly employed staff or the employees who were employed in the company for the first time in 2016, while 66% are the employees who are reengaged.

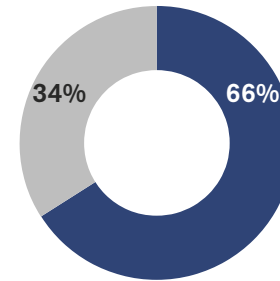
Out of the total number of recruited employees in 2016, including newly recruited employees and reengaged employees, comparing by age groups, the employees aged 31 to 50 prevail, that account for 44% of all recruited employees in that period, whereas the age group up to 30 years account for 39%, while the employees over 51 account for 16% of the total number of recruited employees in the respective period.

Overview of recruitment of employees during the period from 2012 to 2016



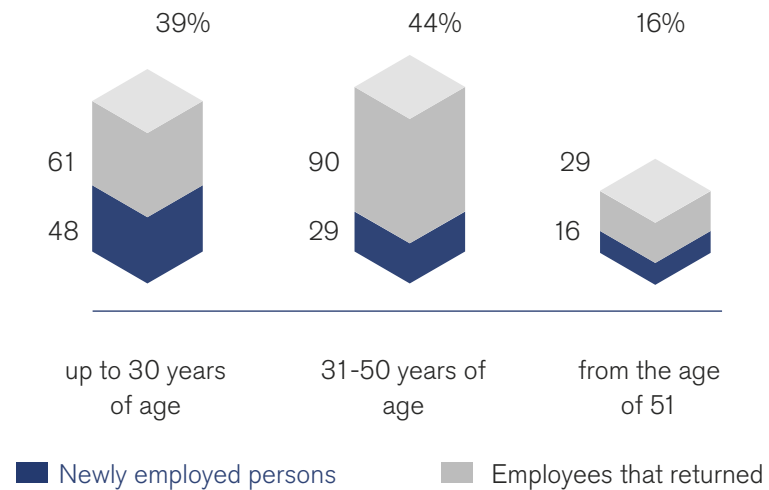


Share of newly employed staff in total recruitment of employees in 2016



66% Seasonal employees that returned
34% New employees

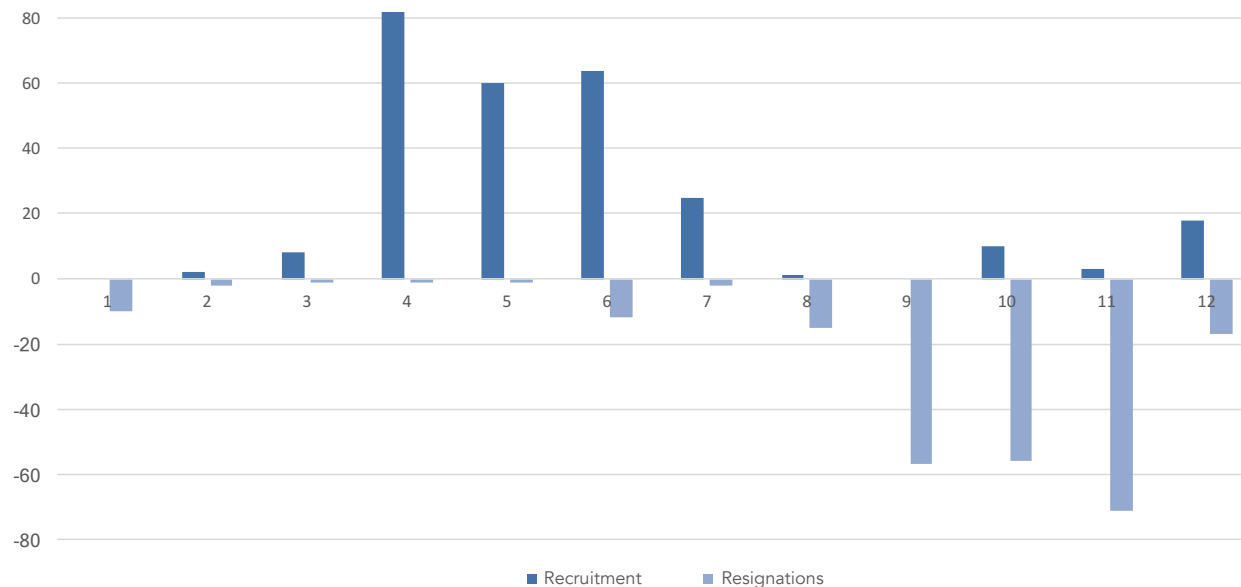
Newly employed and reengaged employee ratio in the year 2016 (employee number)



Employee turnover

Employee turnover is most pronounced in terminating the employment contract concluded with seasonal employees, less in the reassigning employees from one position to another within the company and resigning from the position in the organization for exercising an entitlement to old-age pension, termination of employment by force of law, etc. It is most pronounced in the month of April, when the largest number of employees employed for a fixed term is recruited and in November when the employment is terminated for the largest number of employees employed for a fixed term due to the significant reduction in the scope of the business process in the company. During the year 2016, a total 245 employees resigned from the company as a result of the termination of employment, mostly the employees employed for a fixed term, while only 4% of persons employed for an unlimited term left the company at their own request

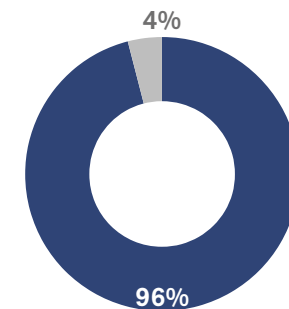
Number of employment and resignation of employees in the year 2016 by months



The employee turnover by gender is more pronounced in women due to the higher proportion of women employed in the high season whereas at 31st August 2016, the proportion of women accounted for 63% in the total number of employees. In 2016, women accounted for 73% among the employees who left the company since they occupy the positions usually filled with seasonal employees such as auxiliary staff at the Food and Beverage Department or in the Housekeeping Department.

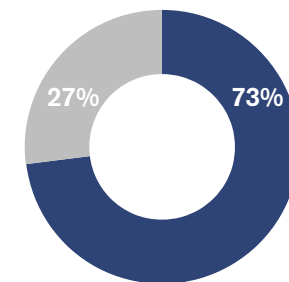
Resignation of employees in the year 2016 considering a type of the employment contract

96% Unlimited term contract
4% Fixed-term contract



Resignations considering the gender in 2016

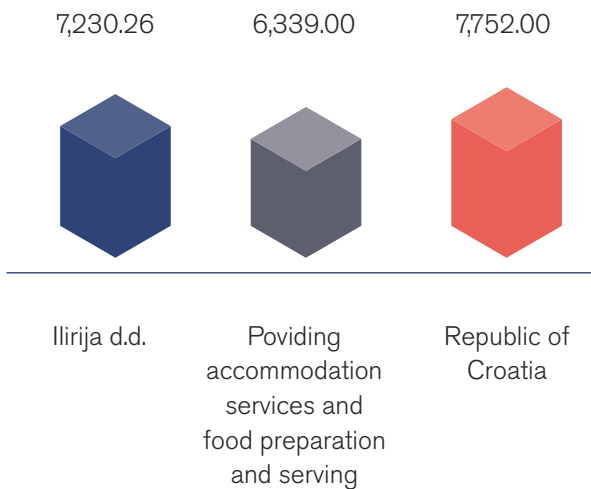
73% Women
27% Men



Material benefits and other employee benefits

The average gross salary of employees in 2016 was HRK 7,230.26, which is 14% higher than the Croatian average in providing the accommodation services and food preparation and serving. At the same time, the average net salary for the respective period amounts to HRK 5,087.26 per employee and there are no differences in the salary according to gender and age among employees for the same job. We personally try to further motivate the employees by applying adequate wage policy, no matter whether seasonal or permanent employees are in question, particularly appreciating hard work, dedication and work of every employee. In 2016, the gross wage cost compared to the previous fiscal year grew by 2%, which is a part of the business strategy and 2016 human resources management policy.

Data on average gross salary for the year 2016 indicated in HRK



The company provides its employees, in addition to regular financial benefits, with additional financial and non-financial benefits that include:

- Loans to employees with repayment term and level of installment as agreed upon with each employee individually,
- One-off financial aid and aid through services provided by the company (transport services, accommodation insurance) to employees employed for fixed term and unlimited term of employment in cases of their own illnesses or illness of their close family members,
- A Christmas bonus was paid out and Christmas gifts were given to employees employed for fixed term and unlimited term of employment that were employed in December,
- Insurance and financing of specialist examinations and search for company managers,
- Cooked meal for employees employed for fixed term and unlimited term of employment, at a symbolic price of HRK 1 a day,
- Cofinancing travel expenses for employees employed for fixed term and unlimited term of employment living outside the company's registered seat,
- Education, training, professional training and retraining for company employees who are fully funded by the company where the employee is obligated to complete them successfully within the foreseen deadline,
- The company provides its own services to employees working for unlimited term and members of their close family (children) with a significant discount compared to its market price (food and beverage service) or provides them with no compensation at all (by providing the premises and facilities owned by the company for private employees' needs, usage of the work equipment, vehicles, transportation services, etc.)

*Data from the State Bureau of Statistics

- The Company encourages sports activities of employees by providing conditions for doing recreational sports, such as purchasing sports equipment, paying rent for sport halls, providing sailing yachts for recreational use, etc.,
- Proposals for education, further education and training plans to the Management Board according to the bottom-up model for all employees according to the company's requirements, but also to own desires and interests of employees, especially managers.

Maternity and parental leave

All company employees are entitled to maternity or parental leave without putting their return to the same position and further professional development in doubt. During the relevant period, there were no requirements by male employees to use maternity and parental leave.

A total of 10 employees were entitled to maternity or parental leave or 2.23% of all employees under employment contract in 2016, of whom 8 returned to work in the reporting period, while the return of other employees is expected in the next fiscal year.

Maternity and parental leave in 2016	Total no. of employees in 2016	Employees that exercised their right to maternity or parental leave	Total no. of employees that returned to work after the end of parental/ maternity leave
Men	186	0	0
Women	263	10	8
Total	449	10	8

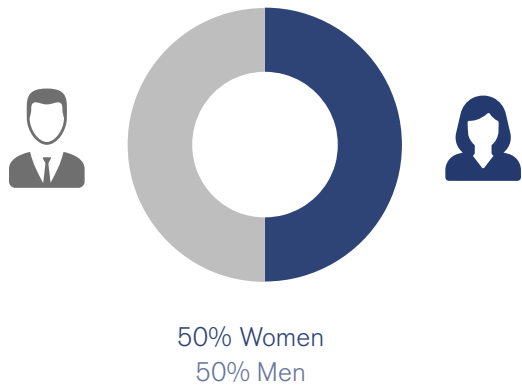
Diversity and equal opportunities and human rights

“ ***The company evaluates diversity as a source of knowledge and experience, guiding it to creating communion.*** ”

The tourism industry is based on diversity and it is an integral part of the business, speaking from the perspective of the guest or the market, when speaking about the diversity of the company or diversity among our employees it is reflected in recruiting employees of different age groups, education, experience, origin etc. where each with its own diversity contributed to the creation of today's Ilirija. The company evaluates diversity as the wealth of knowledge and experience, guiding it to creating communion, valuing each individual solely through work, dedication, attitude towards the guest, and the desire to be part of a wider team. No employee complaints were filed for any form of discrimination during the said period, and the company did not have any labor dispute initiated. Also, a Commissioner for the Protection of Employees' Dignity has been appointed and he receives and settles employee complaints. The company does not employ any persons under the age of 18, except for high school students for practical work lasting for 180 hours who are trained for hospitality-tourist occupations (chefs, waiters and receptionists) and are supervised at their workplaces by their mentors and receive a student fee for their practice.

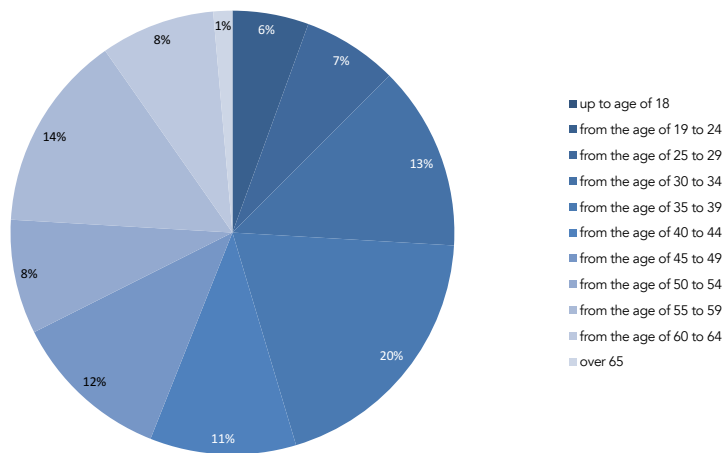


Employees by gender as at 31/12/2016

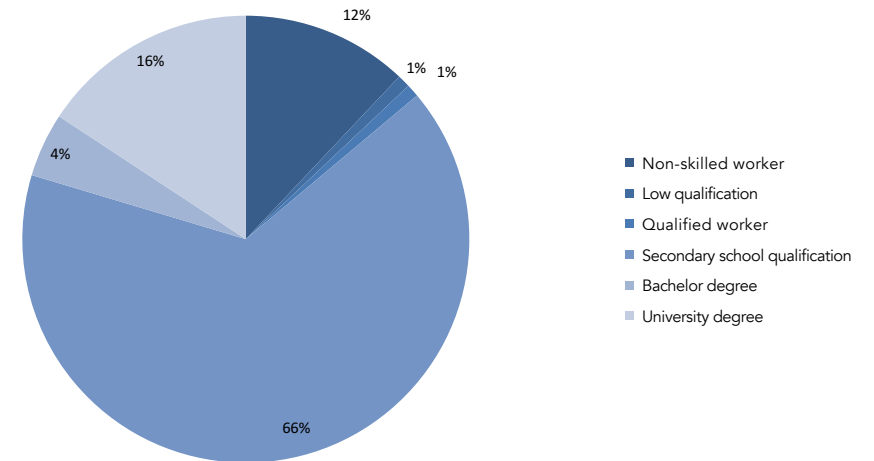


As at 31 December 2016, 216 persons were employed, of whom 108 of them were women and 108 men, including persons employed for a fixed term and unlimited term of employment, and half of all employees were women. Employees in the age group 35-39 account for 20% of the total number of employees while the average age of employees is 43.22. In tourism and hospitality as a service activity, a large majority of jobs, especially in the high season, are done by the employees who provide the service in direct contact with guests and support staff and therefore the educational structure corresponds to the required work positions, of whom 66% of employees have secondary school education, 12% University degree, 4% Bachelor degree and 14% are low qualified and unskilled workers.

Employees by age groups as at 31/12/2016

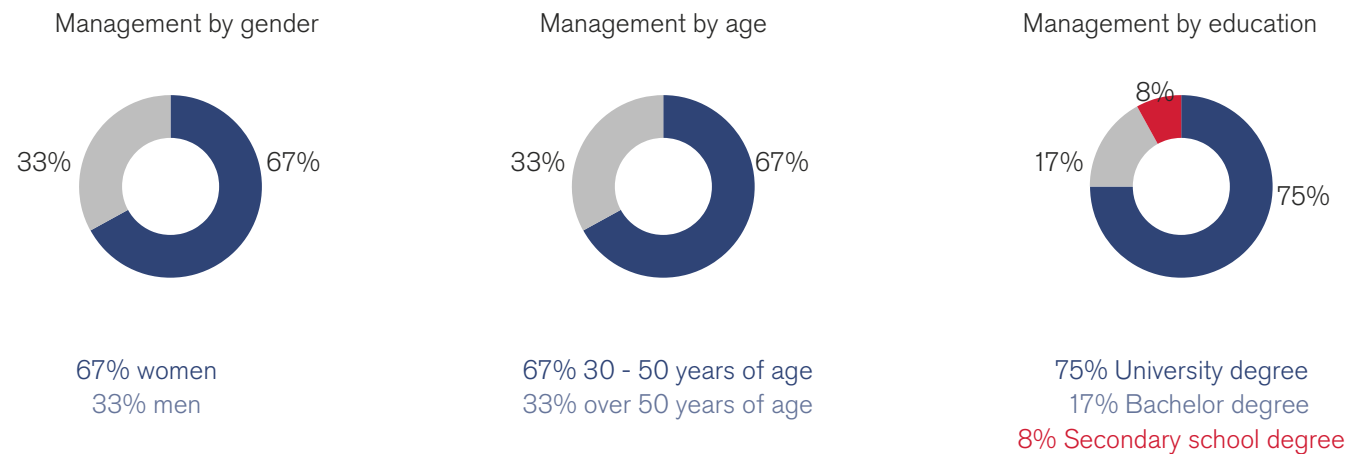


Employees by education level as at 31/12/2016



The senior management of the company, which besides the Management Board, consists of executives of its divisions and managers of its corporate departments, including 12 persons with special powers, out of whom 67% of all are women that come from the local and regional community or from the region of the Zadar County. In the age structure of senior management, there are 67% of employees aged between 30-50, while when we speak about the educational structure, 75% of senior management has University degree, 17% Bachelor degree and 8% secondary school education.

Overview of gender, age and educational structure of the senior management



Training and education

In 2016, 346 company's employees, permanent and seasonal, including senior and middle management and employees at the operational level of the business, were subject to some of the training programs, with a particular emphasis on education in the area of providing services relating to food and beverages, sales and marketing. During this period 4458 hours were spent on training and education, or 13 hours per employee. All educational programs organized as in-house trainings were done exclusively during the working hours at their workplace, while educational programs outside of the company's headquarters were mostly done in the working part of the week or during working hours and were entirely financed by the company, including transportation, accommodation and food for the employee provided that the employee successfully complete these programs within the foreseen deadline.

One of our permanent goals in managing personnel is the satisfaction and motivation of our employees, which is in



addition to adequate wage policy or financial income, ensured by working in the environment by which we as the company encourage their professional development and provide training workshops to them. In late 2016, we launched the Academy of Business Excellence - ILIRIJA EDUKA aimed at improving employees' competencies, improving the service quality, guest satisfaction, revenue growth and maintaining competitiveness that is carried out in three key areas of the Company:

- Development of food and beverage standards and the implementation thereof in the facilities of Ilirija d.d. through the process of education and training of the staff and middle management,
- Benchmarking of the development of product and best practice experience in the area of marketing and sale,
- Workshops aimed at further improvement of implementation of management reporting system.



Ilirija Eduka

Business
Excellence Academy



346 employees

undertook various
forms of education



4458 education hours

in 2016

Health and safety at workplace

Ilirija is aware that the workplace is one of the three primary social communities and is thus one of the most important social determinants of health. A healthy working environment is a precondition for social, mental and physical health. It is the investment in health, investment in the community development and its economic and social progress.

The Department of Safety working as a part of Occupational Health and Safety includes occupational safety and fire protection and health control, managed by managers and occupational safety commissioners who jointly carry out monitoring and counseling activities on occupational health and safety programs.

33,052

warm meals in 2016

HRK 1

warm meal price

The Occupational Safety Commission, which consists of four members (Head of Occupational Safety and Fire Protection of Ilirija d.d., Head of health control of Ilirija d.d., occupational safety inspector and occupational physician) organized a meeting twice in 2016 at the beginning and end of tourist season when they discussed current issues related to safe work, injuries in the previous period, and suggest activities and improvements for the next period.

The Company cares about the following on a daily basis:

- healthy working environment,
- adoption of healthy living habits,
- promoting and improving occupational health, and
- that the means of work have a beneficial effect on health

Food

Starts from the availability of one warm cooked meal to each employee, employed for a fixed term and unlimited term of employment, to a secondary school student and a university student at a symbolic price of HRK 1 per meal. The preparation was done in our own kitchens with an aim of providing a warm meal to as many employees as possible, almost all employees including university students and secondary school students doing practice. In 2016, 33,052 meals or 110 meals were prepared per employee which is a rise by 153% compared to the year 2012.

Employee Health protection at workplace

The plan and the program of measures of specific health protection of employees at the level of primary health care is organized on an annual basis, the plan is implemented with the employees considering the working conditions and dangers, harms and efforts in the performance of the work.

Following the established methodology of examinations and tests, in particular functional examination of organs and organic systems, the examinations are carried out for the purpose of assessing the fitness for work in relation to the requirements of jobs with special working conditions. Examinations are performed in connection with occupational medicine and according to the type of examination there are: hematological-biochemical laboratory, toxicological laboratory, psychologist, specialists of other specialties with the aim of reducing potential occupational injuries.

Number of performed health examinations for the employees holding the positions with increased occupational dangers

Overview in the area of occupational medicine	2012	2013	2014	2015	2016
Nautics	32	0	32	0	32
Camping	7	0	7	0	7
Laundry	12	0	12	0	12
Technical Unit	6	0	6	0	6
Landscaping	5	0	5	0	6
Total	62	0	62	0	63

Number of occupational injuries during the period from 2012 to 2016

Injuries	2012	2013	2014	2015	2016
Injuries with mortal outcome	0	0	0	0	0
Severe occupational injuries	0	0	0	0	0
Minor occupational injuries	3	6	2	2	2
Injuries outside of a place of work (commuting injuries)	0	0	0	0	1
Occupational diseases	0	0	0	0	0
Total	3	6	2	2	3

In 2016, three occupational injuries were reported, namely, two minor injuries without any significant consequences for employee's health and one on the way to work/from work, while there were no occupational illnesses and injuries with a deadly outcome. Low levels of occupational injuries are associated with better staff training, especially in the part of training for safe work, investments for the purpose of improving the working conditions and recruiting qualified employees or employees with appropriate professional qualifications.

Overview of occupational injuries in 2016 according to gender

Type of injury	Employees total	Women	Men
Injuries with mortal outcome	0	0	0
Severe occupational injuries	0	0	0
Minor occupational injuries	2	1	1
Injuries outside of a place of work (commuting injuries)	1	1	0
Occupational diseases	0	0	0
Total	3	2	1

Mental health at workplace is stimulated through the following activities:

- Completely banning alcohol consumption by installing **print labels and defining the rules** that alcohol is not allowed during working hours or by defining no alcohol tolerance.
- Raising awareness as to the harmful effects of tobacco use on health and health consequences "Smoking - a risk factor for health", possibilities of quitting smoking with the support for seeking advice and help.

We educate our staff on the most common chronic diseases, risk factors, the possibilities of preventing chronic non-communicable diseases, the need for early diagnosing disease and the importance of adopting healthy living habits in order to prevent a disease.

“ In 2016, there was no a single serious situation or threat to the safety, life and health of guests and employees recorded.



Safety system

Ilirija has integrated, organized and harmonized several elements in the efficient and timely functioning of security:

- 1 Technical safety systems,
- 2 Adoption of crisis management procedures,
- 3 Supervision of compliance with the adopted procedures,
- 4 Training activities and procedures based on adopted crisis management procedures, i.e. continuous education and training of employees.

Head of Occupational Safety and Fire Protection works in the Department of Safety in the company and he performs fire protection and occupational safety work on a daily basis in a certain organizational form, both operationally and with the aid of external services.

Technical safety system is divided into the two groups:

- 1) protection of people and property from an incident or natural disaster. These are fire detection systems, fire extinguishing systems, evacuation systems and emergency lighting systems, and
- 2) protection of people and property against any illegal activities of the groups or individuals, and occurrence of harmful acts as a consequence of negligence, willful act and lack of attention.

All employees are trained to work in a safe way, for initial fire extinguishing and for evacuation and rescue, doing regular evacuation and rescue exercises. Based on risk assessment, we train employees to work in a safe way which is conducted by the head of occupational safety in cooperation with occupational safety specialists who are authorized for employee training.

Providing training to employees to work in safe way	2014	2015	2016
	19	12	57

In 2016, we recorded a more significant increase in the training of employees to work in a safe way due to the increased employee turnover.

For seasonal employees engaged for a certain period of time, we comply with the legal provisions on e.g. possession of sanitary IDs, possession of a certificate of competence for safe work, knowledge of minimum fire protection measures etc. Their education and training is primarily focused on familiarizing with and receiving training for work for a particular position, which they are engaged for, while the training for raising the safety culture for these employees is conducted during the employment.

We do fire fighting exercises on an annual basis, and in 2016 four exercises were conducted in high season in four sectors of the company (hotel industry, nautics, camping, Ilijia Travel), involving a total of 50 employees.

Fire-fighting exercises	2014	2015	2016
	4	4	4

The company systematically takes care of the maintenance of fire extinguishers to stay safe and functional by means of regular inspections and periodic servicing. Fire extinguishers are inspected and tested in accordance with the regulations for pressure equipment by an authorized fire-fighting service. In 2016, we recorded an increased number of fire extinguishers due to an increased number of locations and introduction of new fire extinguishers.

Inspection of fire extinguishers	2014	2015	2016
	231	247	252

In 2016, a total of 227 inspections for sanitary IDs were carried out and 67 employees attended a health education course conducted according to the Act on the Act on Protection of Population against Communicable Diseases (Official Gazette, No. 79/07), organized by the Public Health Institute.

According to the Occupational Safety Act (Official Gazette No. 71/14) and the prescribed records for occupational injuries and occupational diseases and disorders in the technological process, which could result in injuries to employees, we fulfill the reporting obligations concerning any event that results in occupational injury.

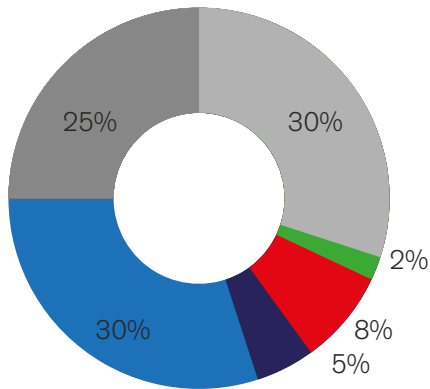
2 Company - corporate philanthropy and development of the destination

Ilirija as the leading company in the wider Biograd region is also known as a socially responsible company that gives donations for and is sponsor of various humanitarian, cultural, sports, health, religious and educational purposes and supports thus the work of various associations and organizations, sports clubs and educational and health institutions.

The Company's Management Board defines, implements and designs the entire process of corporate donations for a certain fiscal year. In addition to cash donations, there is a significant share in donations in services that arise from our activities such as accommodation insurance (hotels, camps, marinas), providing our capacities (conference rooms, hospitality facilities), food and beverage services, transport services and volunteering by employees at all levels of the company during and after normal working hours.

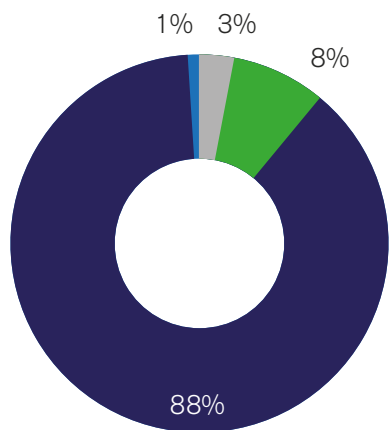
Corporate donation is conducted in three ways:

- By initiating or participating in the donation process for specific social projects together with other community members such as business entities mainly from the Zadar County, business partners, regional and local self-government units, associations and institutions.
- By continuous donating to various associations, sports clubs, educational institutions, religious institutions, individuals, young people, culture with an emphasis placed on conservation and reconstruction of cultural and historical heritage etc. primarily based on the assessment of their significance and influence on the long-term community development, degree of innovation, care for conservation and protection of the environment, contribution to education, promotion and preservation of the culture and tradition of this region and the influence on children and young people.
- By donating in response to the current need of the community i.e. through the so called ad hoc donations



Overview of donations by the donation areas

Culture	25%
Humanitarian program	30%
Science-education	2%
Health	8%
Sport	5%
Society	30%



Overview of sponsorships by areas

Culture	3%
Science-education	8%
Sport	88%
Society	1%

In 2016, Ilirija d.d. has through its philanthropic activity supported a total of **88 projects**, followed by the individual requests by natural persons and organizations in the six different areas (culture, science-education, health, sports, society and humanitarian program) of which **65 projects** through donation activities and **23 projects** through sponsorships, including donations and sponsorships in services in the total amount of HRK 384,660.94.

Out of the total amount, 70.10% of the funds are intended for donation purposes, of which cash donations account for 74.15% of all donations that supported 65 projects and individual requests.



88

Projects

65

Donation projects

23

Sponsorship projects



HRK 384,660.94

Philanthropic activity value

During this period, the company has organized and supported numerous events of particular importance for the development of the destination and its tourist offer, of which we particularly emphasize:

- Bike & Wine event, initiated and organized by Ilirija in cooperation with the local tourist board, where the unforgettable landscapes and heritage of the rural parts of the Zadar County and the most famous wineries of the wider region are connected on a 25 km long tour through Ravni Kotari. This thematic bike tour introduces its participants to the indigenous values of this area, its tradition, history and gastronomy.
- Tuna, wine & sushi festival
- Davis Cup gathering of Croatia and France
- Škraping International Trekking Race 2016
- Cultural and Historical Spectacle "X Days of Vrana's Knights "
- Flower Festival of the Zadar County





Which is additionally evidenced by the achieved following standards and certificates in the year 2016:

- HACCAP
- ISO 9001
- ISO 14001
- Blue Flag
- Green Key
- Ecocamping
- Sustainable hotel
- Travellife Certificate
- Certificate ZelEn
- Green mark - Sign of excellence

3 Product responsibility

Health and safety of customers

The head of Health Control works in the company within the Department of Safety. The head of Health Control at the level of the company takes care of the health of all employees and guests, develops a training program for employees and managers, coordinates DDD measures, fulfills daily work obligations under the sanitary program, performs supervision by conducting unannounced internal inspections, cooperates with the State Inspectorate during their supervision, analyzes the results of state inspections and records, maintains the health safety of the system of drinking water, swimming pool, whirlpool and sauna etc.

All the inspections in 2016, a total of 13 of them, related to handling of food and beverages and their health safety, were entered in the records without any written decisions, while all irregularities established during the inspection were promptly removed.

Since the customer is in the focus of our service and that tourism is a specific industry due to the fact that we care about our customer 24 hours a day or the whole time of his/her stay in the company facilities, therefore, besides the satisfaction with the service, their safety and health is the priority of the company we achieve by:

- Implementation and certification of HACCAP system, which guarantees a high level of control, quality and safety in the process of preparation, production and distribution of the food and beverage services while taking into account the diversity of food and its nutritional value,
- plans of evacuation and rescue are hung in all facilities, in visible places,
- we provide information and education about the importance of conservation of natural resources (how to conserve water, energy, reduce the use of chemicals, how to dispose of waste...)
- we have reduced the use of aggressive chemicals in the cleaning plans by introducing environmentally friendly materials in the Housekeeping Department by maintaining the cleanliness of our facilities
- we conduct the inspection of fire detection and fire extinguishing systems within the legally prescribed timeframes,
- we care about the safety of our guests and their property through 24-hour insurance and
- we test work equipment, working environment, electrical and lightning protection installations within the legally prescribed timeframes.



Labelling products and services

Healthy and safe food is the fundamental right of our guests. Guest safety is an imperative aimed at increasing the satisfaction and reduction of potential risks. Great demographic changes in the society and the globalization of the market bring about additional changes to our customers' eating habits. A whole range of public health measures that we carry out on a quarterly basis, such as sampling of food, water and ice, taking surface prints and hand prints of employees is of great importance. Meeting the demands of health safety and producing, processing and distributing safe food is our main objective in the segment of food and beverage service.

The courses of processes of satisfying the market needs and the emergence of a safe product are ensured from the input raw materials to the final product, so applying the HACCP system is certainly a key to success. Business conditions in the tourism market have significantly changed in recent years and the introduction of HACCP system has become a comparative advantage that provides safety and gives the confidence of service users and their tour operators. The implementation of HACCP standards since 2010 has resulted in the establishment of a continuous and documented supervision of the food management system, thus minimizing the risk of health contamination.

The Department of Health Ecology of the Zadar Public Health Institute, in accordance with the Contract in 2016, conducted an analysis of microbiological purity in food and beverage preparation facilities and accommodation facilities consisting of: 180 contact surface microbiological purity tests, 20 finished food micro-biological safety tests, 15 drinking water safety tests, 13 ice safety tests and 2 hotel water supply system tests. The following was sampled by groups: finished food, swimming pool water, cisterns, ice, network water, sea in the lagoon, water containers, ice and microbiological purity swabs in food production and food transportation facilities and general use items.

Microbiological analyses did establish the presence of any microorganisms that would endanger human health, where a conclusion was reached that microbiological safety supported the safety of the tested items for further use.

As entities engaged with using food that use substances that can cause allergic reactions or intolerance in some guests in the process of preparing food, they provide additional information about the composition. The request refers to the pre-packaged and non-packaged food. Stands with printed material with a list of food and associated allergens, as well as the notice with index are located in a visible place in restaurants, so we invite guests to read the information about the presence of substances or products that cause allergies or intolerance. The personnel are educated to check the information on the presence of allergens in the documented records with the overview of the food that is offered in the facility.

Marketing communications

In our marketing communication and marketing designing and creation of the company products and services as a direct form of communication with clients, we abide by the principle that all information, data, descriptions and presentation of products and services in various forms of communication through advertising, promotion and sponsorships must be credible, truthful, timely and up-to-date not ignoring competitive products and services, protecting consumer privacy and their rights, respecting human dignity and consumer rights. In 2016, we neither recorded a case of violation of regulations nor did we receive any complaints about the violation of regulations in the segment of marketing communications.

At the level of all sectors, the Annual Marketing Plan is adopted, which includes the budget, the plan of advertising activity by type of advertising and media with a defined time period of advertising that is coordinated with the Marketing Director at the level of the company and then approved by the Company's Management Board. The effectiveness of marketing campaigns is regularly monitored and measured, especially in the segment of online advertising and advertising through Google Ad-Words.





60 ILIRIJA
YEARS

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