

ISTRATURIST UMAG d.d.

**ANNUAL REPORT AND
INDEPENDENT AUDITOR'S REPORT
FOR 2017**

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Annual Management Report for Istraturist Umag d.d. in the period from 1 January 2017 to 31 December 2017

By Decrees No. Tt-17 / 7389-3 of 29 December 2017 and Pa Tt-18 / 144-2 of 12 January 2018 of the Commercial Court in Pazin, the company Istraturist Umag d.d., Umag, Jadranska 66, PIN: 22738374612 has merged with the company PLAVA LAGUNA d.d., Poreč, Rade Končara 12, PIN: 57444289760, which thus became its universal legal successor and entered into its legal position. Therefore this Annual Financial Report on the operations of Istraturist Umag d.d. in a business year covering the period from 1 January 2017 until 31 December 2017 is being prepared, signed and issued by the company Plava Laguna d.d..

In this respect, the Management Board of Plava Laguna d.d. (hereinafter: Plava Laguna d.d.) presents the audited financial statements of the company Istraturist Umag d.d. (hereinafter referred to as "the Company" or "Istraturist") for the year 2017. This report includes a financial and operating review and the audited financial statements of the Company. In the following text of this Annual Report the statements will be reported in the present or past tense, depending on the kind of information.

Description and review of operations

Istraturist Umag d.d. ("Istraturist") is a Croatian company, which in 2017 celebrated the 54th year of its operations. The Company manages 15 accommodation facilities located in north-western Istria, mostly in Umag, capable to host more than 23 thousand guests daily. Apart from that, the Company manages hospitality, restaurant, sports and recreation facilities for tourist purposes.

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

The Company is the sole founder of ISTRATURIST D.M.C. d.o.o. in charge of organising the above mentioned Tournament, which was held for the 28th consecutive year in 2017. The Tournament is held with the continued support of partners and sponsors.

The Company is the only founder of the company ISTRATURIST j.d.o. o., registered at the Court Registry of the Commercial Court in Pazin on 22 August 2017, which did not conduct any business activity until the date of signing of this Annual Financial Report.

Since 01 January 2016 the Company has a Franchise Agreement concluded with Melia Hotels International.

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

The Company's majority shareholder is Plava Laguna d.d., which on 31 December 2017 held 94.83% of the share capital.

Operating results

In the year 2017, the Company Istraturist achieved very good business results as a result of higher operating income and increase in operating efficiency.

There were 2.2 million overnights, which is by 9.2% or 186 thousand more compared to the previous year. Growth in overnight stays has been recorded in all products, and in particular in the campsites, which recorded a growth of 13.5%.

Annual Management Report (continued) on the position of Istraturist Umag d.d. in the period from 1 January 2017 to 31 December 2017

The total operating income of the Company Istraturist amounted to HRK 495.4 million, which is by HRK 51.7 million or 11.7% more compared to the previous year primarily as a result of an increase in sales revenues. Sales revenues were realized in the amount of HRK 484.7 million and are higher by HRK 46.7 million or 10.7% due to increased business volume and the average accommodation rates.

Operating expenses of the Company Istraturist amounted to HRK 379.1 million, and compared to 2016 are higher by HRK 32 million or 9.2%. The growth in operating expenses was primarily influenced by the increase in business volume.

Operating profit amounted to HRK 116.3 million, which is an increase of HRK 19.8 million or 20.5% compared to the same period of the previous year.

The Company in 2017 generated net financial income of HRK 0.2 million due to higher revenues recorded from foreign exchange gains compared to the previous year.

Profit before tax for the reporting period amounted to HRK 116.4 million, which is an increase of HRK 22.2 million or 23.6% compared to the previous year.

Income tax amounted to HRK 19.2 million, consisting of the current tax expense of HRK 7.8 million and deferred tax expense of HRK 11.4 million. In 2017, the Company has made full use of approved tax incentives under the Act on Investment Promotion and the Enhancement of the Investment Environment.

The net profit of the Company Istraturist amounted to HRK 97.3 million, which is an increase of HRK 23.4 million or 31.7% compared to the previous year.

The net profit of the Istraturist Group amounted to HRK 102.9 million, which is an increase of HRK 25 million or 32.2% compared to the previous year

Assets

As at 31 December 2017, the total assets of the Company Istraturist amounted to HRK 1,397.8 million, which is an increase of 1.7% compared to 31 December 2016. The balance of shareholders' equity is HRK 1,146.7 million and it increased compared to 2016 as a result of the net profit for the year reported in the amount of HRK 97.3 million.

The total liabilities of the Company Istraturist amount to HRK 251 million, which is by HRK 74.4 million or 22.9% less compared to the end of the previous year due to a decrease in total borrowings.

As at 31 December 2017, the total assets of the Istraturist Group amounted to HRK 1,408.2 million, which is an increase of 1.1% compared to 31 December 2016.

Risk exposure

Foreign exchange and interest rate risk are the most significant risks to which the Istraturist Group is exposed, as they arise from foreign revenue and long-term borrowings denominated in euros.

Corporate social responsibility

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

Annual Management Report (continued) on the position of Istraturist Umag d.d. in the period from 1 January 2017 to 31 December 2017

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

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

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

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

Governance structure

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

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

Report on relationships with related parties

In December 2017, the Company has entered with Plava Laguna d.d. as the controlling company, within the meaning of Art. 475 of the Companies Act, into contracts relating to co-operation in the marketing segment.

Significant business events after the end of the financial year

There are no significant business events after 31 December 2017 that should be disclosed.

Research and development and environmental protection

In 2017 the Company was not engaged in any research activities.

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

Acquisition of own shares

The Company did not acquire any own shares in 2017.

Subsidiaries

The Company did not establish any branches.

Annual Management Report (continued) on the position of Istraturist Umag d.d. in the period from 1 January 2017 to 31 December 2017

Human Resources

As at 31 December 2017, the Company Istraturist had a total of 674 employees, out of which 409 workers were employed in permanent employment. During the period of the most intense activity (May / September) 1,047 seasonal workers were employed. The annual average number of employees based on the working hours at the Company was 1,085 employees.

Special personal data protection regulations

As of the beginning of application of the EU General Data Protection Regulation (Directive No 2016/679) to be, however, effective as of May 25th, 2018., Istraturist Umag d.d. during 2017. started comprehensive preparation on implementation of the stated Directive, that is, adjustments of the personal data protection processes with the requests arising from that Directive.

With that regard Istraturist Umag d.d. analyzed the current status, estimated the critical security positions and stressed out all the necessary activities needed for overall personal data protection. Ensuring the compliance with the stated Directive is related with certain organizational and technical measures and employees education which have to be undertaken with respect thereto.

The Management Board of the Company

Plava Laguna d.d.:



Ronald Korotaj
Member

Responsibility for the financial statements of Istraturist Umag d.d. for the period from 1 January 2017 to 31 December 2017

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

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

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

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

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

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare an Annual Report comprising the financial statements and the Management Report. The Management Report was prepared in line with the requirements of Article 21 of the Accounting Act.

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

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

Management Board of Plava laguna d.d.:



Neven Staver
President



Ronald Korotaj
Member



Damir Mendica
Member



Dragan Pujas
Member



Danira Rančić
Member

26 April 2018



Independent Auditor's Report

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

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the financial position of Istraturist Umag d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2017, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

What we have audited

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

- Separate and consolidated statements of comprehensive income for the year ended 31 December 2017;
 - Separate and consolidated statements of financial position as at 31 December, 2017;
 - Separate and consolidated statements of changes in equity for the year then ended;
 - Separate and consolidated statements of cash flows for the year then ended; and
 - The notes to the separate and consolidated financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

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

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

Independence

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

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Commercial Court in Zagreb, no. TI-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: J. M. Gasparac, President; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

Emphasis of matter

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

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

Reporting on other information including the Management report

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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



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

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

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

PricewaterhouseCoopers d.o.o.
Heinzlova 70, Zagreb

27 April 2018

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

Istraturist Umag d.d.**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

<i>in HRK thousand</i>	Note	Istraturist Umag Group		Istraturist Umag d.d.	
		2017	2016	2017	2016
Sales	6	503,804	457,377	484,740	438,057
Other income		11,813	6,266	10,644	5,574
Cost of materials and services	7	(159,162)	(138,016)	(151,114)	(128,803)
Staff costs	8	(129,001)	(121,750)	(128,015)	(120,854)
Depreciation and amortisation	13.14	(67,590)	(65,496)	(64,821)	(62,452)
Other operating expenses	9	(31,435)	(33,041)	(30,265)	(31,955)
Other losses – net	10	(4,825)	(3,079)	(4,898)	(3,079)
Operating profit		123.604	102.261	116.271	96.488
Finance income		8,941	6,398	9,031	6,491
Finance costs		(9,108)	(9,186)	(8,877)	(8,750)
Net finance costs	11	(167)	(2,788)	154	(2,259)
Profit before tax		123,437	99,473	116,425	94,229
Income tax	12	(20,574)	(21,658)	(19,144)	(20,386)
Profit for the year		102,863	77,815	97,281	73,843
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		102,863	77,815	97,281	73,843

Istraturist Umag d.d.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013 DECEMBER 2017

<i>in thousands of HRK</i>	Note	Istraturist Umag Group		Istraturist Umag d.d.	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
ASSETS					
Non-current assets					
Property, plant and equipment	13	1,323,433	1,278,839	1,322,861	1,261,341
Intangible assets	14	5,690	6,002	5,520	5,910
Loans and deposits		60	59	60	509
Investments in subsidiaries		-	-	37	37
Deferred tax assets	15	537	11,889	345	11,697
Total non-current assets		1,329,720	1,296,789	1,328,823	1,279,494
Current assets					
Inventories		2,387	1,687	2,273	1,582
Trade and other receivables	17	12,943	14,787	12,144	14,143
Loans and deposits	16	22	26,236	22	27,890
Financial assets at fair value through profit or loss	18	1,840	39,324	1,840	39,324
Cash and cash equivalents		61,330	14,448	52,667	12,510
Total current assets		78,522	96,482	68,946	95,449
TOTAL ASSETS		1,408,242	1,393,271	1,397,769	1,374,943
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	19	467,500	467,500	467,500	467,500
Legal reserves	19	23,375	23,375	23,375	23,375
Retained earnings		670,249	567,386	655,850	558,569
Total shareholders' equity		1,161,124	1,058,261	1,146,725	1,049,444
Liabilities					
Long-term liabilities					
Borrowings	20	133,467	169,815	143,467	167,244
Provisions		3,126	2,131	3,126	2,131
Total non-current liabilities		136,593	171,946	146,593	169,375
Current liabilities					
Borrowings	20	33,395	101,937	33,395	98,254
Trade and other payables	21	68,864	60,593	63,271	57,870
Income tax payable		8,266	534	7,785	-
Total current liabilities		110,525	163,064	104,451	156,124
Total liabilities		247,118	335,010	251,044	325,499
TOTAL EQUITY AND LIABILITIES		1,408,242	1,393,271	1,397,769	1,374,943

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

<i>in thousands of HRK</i>	Share capital	Legal reserves	Retained earnings	Total
Group				
At 1 January 2016	467,500	23,375	489,571	980,446
Total comprehensive income	-	-	77,815	77,815
At 31 December 2016	467,500	23,375	567,386	1,058,261
Total comprehensive income for the year	-	-	102,863	102,863
At 31 December 2017	467,500	23,375	670,249	1,161,124

<i>in thousands of HRK</i>	Share capital	Legal reserves	Retained earnings	Total
Parent company				
At 1 January 2016	467,500	23,375	484,726	975,601
Total comprehensive income for the year	-	-	73,843	73,843
At 31 December 2016	467,500	23,375	558,569	1,049,444
Total comprehensive income for the year	-	-	97,281	97,281
At 31 December 2017	467,500	23,375	655,850	1,146,725

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

<i>in thousands of HRK</i>	Note	Istraturist Umag Group		Istraturist Umag d.d.	
		2017	2016	2017	2016
<i>Cash flow from operating activities</i>					
Profit before tax		123,437	99,473	116,425	94,229
<i>Adjustments for:</i>					
Depreciation and amortisation	13, 14	67,590	65,496	64,821	62,452
Net carrying amount of sold and retired non-current assets and gains on sold non-current assets		816	4,617	1,005	4,907
Finance costs – net	11	167	2,788	(154)	2,259
Other losses – net	10	4,825	3,079	4,898	3,079
Impairment of receivables	17	2,564	589	2,564	584
Income from collected receivables previously impaired	17	(12)	(14)	(12)	(14)
Provisions		995	810	995	810
<i>Changes:</i>					
Trade and other receivables		1,404	(9,161)	1,322	(9,078)
Trade and other payables		8,248	(2,861)	5,393	(3,445)
Inventories		(129)	152	(293)	(44)
Cash generated from operations		<u>209,905</u>	<u>164,968</u>	<u>196,964</u>	<u>155,739</u>
Income tax		(1,491)	(738)	(9)	-
Interest paid	20	<u>(10,670)</u>	<u>(7,790)</u>	<u>(10,453)</u>	<u>(7,377)</u>
Cash flow from operating activities		197,744	156,440	186,502	148,362
<i>Investing activities:</i>					
Purchase of property, plant and equipment	13	(112,279)	(43,222)	(116,478)	(43,045)
Purchase of intangible assets	14	(974)	(838)	(868)	(837)
Proceeds from sale of property, plant and equipment		997	-	997	-
Interest received		1,464	2,399	1,587	2,662
Deposits collected / (given)		25,787	9,021	25,787	9,021
Loans (given)/collected		425	(388)	2,530	2,182
(Expenditure)/proceeds from financial assets trading		31,592	(26,997)	31,591	(26,997)
Net cash used in investing activities		(52,988)	(60,025)	(54,854)	(57,014)
<i>Cash flows from financing activities</i>					
Proceeds from borrowings	20	166,848	-	166,848	-
Repayment of borrowings	20	<u>(264,722)</u>	<u>(91,067)</u>	<u>(258,339)</u>	<u>(87,624)</u>
Net cash inflow from financing activities		(97,874)	(91,067)	(91,491)	(87,624)
Net increase in cash and cash equivalents		46,882	5,348	40,157	3,724
Cash and cash equivalents at beginning of period		14,448	9,100	12,510	8,786
Cash and cash equivalents at end of period		61,330	14,448	52,667	12,510

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – GENERAL INFORMATION

The Istraturist Group (the Group) comprises Istraturist Umag d.d. (parent company or the Company), a public limited liability company registered for hospitality, tourism and tourist agency services and its subsidiaries ISTRAD.M.C. d.o.o. and as of 22 August 2017 ISTRATURIST j.d.o.o. Operations of Istra D.M.C. are mainly centred on organising the annual ATP tennis tournament in Umag and the accompanying entertainment events. The Company is the sole founder of both companies.

The parent company and its subsidiaries are registered at the Commercial Court in Pazin. The Company's registered office is in Umag, Jadranska 66.

As at 31 December 2017 and 2016, the majority shareholder of the Company is Plava laguna d.d., Poreč.

In 2017, the Company's Management Board consists of Ronald Korotaj, who, in his capacity as the director, solely and independently represents the Company and manages all its operations.

The Company's Supervisory Board consisted of 4 (four) members during 2017 who were chosen by virtue of the General Assembly's decision: Davor Luksic Lederer, President; Neven Staver, Vice President; Patricio Tomas Balmaceda Tafra, Member; José Ignacio Bulnes León, Member and one member-worker's representative (Tomislav Sokač).

The Audit Committee is an auxiliary body of the Supervisory Board. During 2017, its members were as follows: Davor Luksic Lederer, President, Danira Rančić, Member, Suzana Kocijančić, Member.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – BASIS OF PREPARATION

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

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

a) Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

All inter-company transactions, balances and unrealised gains on transactions among the Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

c) Financial instruments

(i) Non-derivative financial instruments

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments (continued)

(ii) Derivative financial instruments

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

(iii) Loans and receivables

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

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

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

(v) Other liabilities

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property, plant and equipment

Recognition and measurement

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

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

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

Subsequent expenditure

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

Depreciation and amortisation

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

Buildings	35 years
Plant and equipment	4 - 20 years

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

e) Intangible assets

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

f) Impairment of assets

Non-financial assets

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

Financial assets

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

g) Inventories

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

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

h) Cash and cash equivalents

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

i) Leases

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

The Group as lessor

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

The Group as lessee

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Share capital

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

k) Trade payables

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

l) Borrowings

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

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

m) Borrowing costs

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

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

n) Current and deferred income tax

Current income tax is calculated at a rate of 18% (2016: 20%) in accordance with the Croatian tax regulations. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions, where appropriate, on the basis of amounts expected to be paid to the Tax Administration.

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

o) Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal. Termination benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(iii) Short-term employee benefits

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

p) Provisions

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

q) Revenue recognition

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

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

(i) Sales of services

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

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

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

(ii) Interest income

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

r) Dividend distribution

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Adoption of new and amended international standards

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

The Company and the Group adopted the following new and amended standards for their annual reporting period commencing 1 January 2017 which were endorsed by the European Union and which are relevant for the Company's and the Group's financial statements:

- *Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12*
- *Disclosure Initiative – Amendments to IAS 7*

The adoption of these improvements resulted in additional disclosures of changes in liabilities from financing activities (Note 19) and did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) Standards and interpretations not yet effective:

Certain new standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Company and the Group. Management's estimates in respect of these new standards and interpretations are set out below:

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

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new model for impairment of financial assets.

The Company does not expect the new guidance to affect the classification and measurement of these financial assets. For equity instruments currently classified as available for sale a FVOCI election is available.

There will be no impact on the Group's and Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company and the Group do not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables and loan commitments. Based on the assessments undertaken to date, Management does not expect a significant increase in the loss allowance for trade creditors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's and Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

This standard must be applied for financial years commencing on or after 1 January 2018. The Company and the Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's and Company's financial statements and has identified that the accounting for the customer loyalty programme will be affected under IFRS 15 but does not expect a significant impact on the financial statements.

The application of IFRS 15 may further result in the identification of separate performance obligations which could affect the timing of the recognition of revenue going forward.

This standard must be applied for financial years commencing on or after 1 January 2018. The Company and the Group intend to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

- *IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, early adoption is permitted only if IFRS 15 is adopted at the same time)*

IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard will affect primarily the accounting for the Company's and Group's operating leases. As at the reporting date, the Company does not have any significant non-cancellable operating lease commitments. Management has estimated that impact of the new standard on the financial statements will not be significant, and it will make more detailed assessments of the impact over the next twelve months. The Group and the Company plan to adopt the standard on its effective date. The Company and the Group intend to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – FINANCIAL RISK MANAGEMENT

Financial risk factors

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

The accounting policies are applied to financial instruments as follows:

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Assets				
<i>Loans and receivables:</i>				
Trade and other receivables	7,592	3,433	6,893	2,833
Loans and deposits	82	26,295	82	28,399
Cash and cash equivalents	61,330	14,448	52,667	12,510
<i>Financial assets at fair value through profit or loss</i>				
Shares and interests	1,840	1,783	1,840	1,783
Investment funds	-	31,584	-	31,584
Derivative financial instruments	-	5,957	-	5,957
Total	70,844	83,500	61,482	83,066
Liabilities				
<i>At amortised cost</i>				
Borrowings	166,862	271,752	176,862	265,498
Trade and other payables	43,190	39,518	41,313	37,342
Total	210,052	311,270	218,175	302,840

(a) Market risk**(i) Foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR (2016: EUR and CHF). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

Foreign sales are mostly denominated in euros, and long-term debt is denominated in euros (2016: in euros and Swiss francs). Therefore, movements in exchange rates between the Euro and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flows.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2017 and 2016, the currency structure of the Group and the Company's financial instruments within the scope of IAS 39 is as follows:

Group

<i>in thousands of HRK</i>	EUR	HRK	Other	Total
2017:				
Assets				
<i>Loans and receivables:</i>				
Trade and other receivables	864	6,728	-	7,592
Loans and deposits	82	-	-	82
Cash and cash equivalents	46,955	14,375	-	61,330
<i>Financial assets at fair value through profit or loss</i>				
Shares and interests	-	1,840	-	1,840
Total	47,901	22,943	-	70,844
Liabilities				
<i>At amortised cost</i>				
Borrowings	166,862	-	-	166,862
Trade and other payables	687	42,304	199	43,190
Total	167,549	42,304	199	210,052
2016:				
Assets				
<i>Loans and receivables:</i>				
Trade and other receivables	1,167	2,254	12	3,433
Loans and deposits	26,040	255	-	26,295
Cash and cash equivalents	5,446	8,732	270	14,448
<i>Financial assets at fair value through profit or loss</i>				
Shares and interests	-	1,783	-	1,783
Investment funds	-	31,584	-	31,584
Derivative instruments	-	-	5,957	5,957
Total	32,653	44,608	6,239	83,500
Liabilities				
<i>At amortised cost</i>				
Borrowings	173,276	30,230	68,246	271,752
Trade and other payables	18,268	21,225	25	39,518
Total	191,544	51,455	68,271	311,270

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

Company:

<i>in thousands of HRK</i>	<u>EUR</u>	<u>HRK</u>	<u>Other</u>	<u>Total</u>
2017				
Assets				
<i>Loans and receivables:</i>				
Trade and other receivables	863	6,030	-	6,893
Loans and deposits	82	-	-	82
Cash and cash equivalents	46,950	5,717	-	52,667
<i>Financial assets at fair value through profit or loss</i>				
Shares and interests	-	1,840	-	1,840
Total	47,895	13,587	-	61,482
Liabilities				
<i>At amortised cost</i>				
Borrowings	166,862	10,000	-	176,862
Trade and other payables	544	40,570	199	41,313
Total	167,406	50,570	199	218,175
2016:				
Assets				
<i>Loans and receivables:</i>				
Trade and other receivables	1,180	1,653	-	2,833
Loans and deposits	28,147	252	-	28,399
Cash and cash equivalents	5,378	6,929	203	12,510
<i>Financial assets at fair value through profit or loss</i>				
Shares and interests	-	1,783	-	1,783
Investment funds	-	31,584	-	31,584
Derivative instruments	-	-	5,957	5,957
Total	34,705	42,201	6,160	83,066
Liabilities				
<i>At amortised cost</i>				
Borrowings	167,022	30,230	68,246	265,498
Trade and other payables	17,974	19,368	-	37,342
Total	184,996	49,598	68,246	302,840

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)

As at 31 December 2017, if the EUR had weakened/strengthened by 1% against the HRK, with all other variables held constant, the net profit for the reporting period of the Company would have been HRK 980 thousand (2016: HRK 1,202 thousand) higher/lower, and of the Group would have been HRK 981 thousand (2016: HRK 1,271 thousand) higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of EUR-denominated long-term debt.

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

(ii) Cash flow and fair value interest rate risk

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

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

<i>in HRK thousand</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Assets				
<i>Loans and receivables:</i>				
Loans and deposits	0.01% - 5.75%	0.01% - 4%	0.01% - 5.75%	0.01% - 4%
Cash and cash equivalents	0.01%	0.01%	0.01%	0.01%
Liabilities				
<i>At amortised cost</i>				
Borrowings	3m LIBOR for CHF +1.5% to 6m EURIBOR +3.55%, 1.6%, 3% and 4%	3m LIBOR for CHF +1.5% to 6m EURIBOR +3.55%, 3% and 4%	3m LIBOR for CHF +1.5% to 6m EURIBOR +3.55%, 1.6%, 3% and 4%	3m LIBOR for CHF +1.5% to 6m EURIBOR +3.55%, 3% and 4%
Finance lease liabilities	3m EURIBOR +4.97%	3m EURIBOR +5.295%		

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

On 31 October 2017, long-term bank borrowings contracted with a currency clause in EUR and a borrowing in HRK in the total amount of EUR 22.2 million were refinanced for a term of 5 years and at the fixed interest rate of 1.6% p.a.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

Interest-rate swaps

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

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

(b) Credit risk

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

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

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Trade and other receivables	7,592	3,433	6,893	2,833
Loans and deposits	82	26,295	82	28,399
Cash and cash equivalents	61,330	14,448	52,667	12,510
Total	<u>69,004</u>	<u>44,176</u>	<u>59,642</u>	<u>43,742</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)

The credit quality of the Group's financial assets:

<i>in thousands of HRK</i>	Trade and other receivables	Loans and deposits	Cash and cash equivalents	Total
2017				
Neither past due nor impaired	6,021	82	61,330	67,433
Past due nor impaired	1,571	-	-	1,571
Impaired	3,271	-	-	3,271
Impairment	(3,271)	-	-	(3,271)
Total	7,592	82	61,330	69,004
2016:				
Neither past due nor impaired	1,277	26,295	14,448	42,020
Past due nor impaired	2,156	-	-	2,156
Impaired	843	-	-	843
Impairment	(843)	-	-	(843)
Total	3,433	26,295	14,448	44,176

The credit quality of the Company's financial assets:

<i>in thousands of HRK</i>	Trade and other receivables	Loans and deposits	Cash and cash equivalents	Total
2017:				
Neither past due nor impaired	5,843	82	52,667	58,592
Past due but not impaired	1,050	-	-	1,050
Impaired	3,215	-	-	3,215
Impairment	(3,215)	-	-	(3,215)
Total	6,893	82	52,667	59,642
2016:				
Neither past due nor impaired	1,186	28,399	12,510	42,095
Past due but not impaired	1,647	-	-	1,647
Impaired	788	-	-	788
Impairment	(788)	-	-	(788)
Total	2,833	28,399	12,510	43,742

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

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Up to one month	313	534	220	519
One to three months	308	663	304	628
Three months to one year	950	899	526	440
Over one year	-	60	-	60
Total	1,571	2,156	1,050	1,647

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)*(c) Liquidity risk*

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

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

<i>in thousands of HRK</i>	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
Group:				
At 31 December 2017				
Trade and other payables	43,190	-	-	43,190
Borrowings	35,799	137,855	-	173,654
Total	78,989	137,855	-	216,844
At 31 December 2016				
Trade and other payables	39,518	-	-	39,518
Borrowings	109,417	189,596	-	299,013
Total	148,935	189,596	-	338,531
Company:				
At 31 December 2017				
Trade and other payables	41,313	-	-	41,313
Borrowings	36,296	149,843	-	186,139
Total	77,609	149,843	-	227,452
At 31 December 2016				
Trade and other payables	37,342	-	-	37,342
Borrowings	105,506	186,959	-	292,465
Total	142,848	186,959	-	329,807

As at 31 December 2017, current liabilities of the Group and the Company exceed their current assets. A significant portion of the current liabilities is due in September 2018, following the closure of the tourist season during which the Group and the Company generate the majority of the cash inflows.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – FINANCIAL RISK MANAGEMENT (*continued*)*(d) Capital risk management*

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

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to the owner, return capital to the owner, increase share capital or sell assets to reduce debt. In accordance with the Companies Act, the Company is committed to maintain the level of capital above HRK 200 thousand as required for public limited liability companies.

(e) Fair value estimation

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

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

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

Fair value hierarchy

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

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

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

<i>in HRK thousand</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Level 1	1,840	33,367	1,840	33,367
Level 2	-	5,957	-	5,957
Total	1,840	39,324	1,840	39,324

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

If the useful lives of property had been 10% longer, with all other variables held constant, the net profit for the year and the net carrying value of property of the Company would have been HRK 3,569 thousand higher, and of the Group HRK 3,757 thousand higher (2016: Company HRK 3,418 thousand, Group HRK 3,625 thousand higher).

If the useful lives of property had been 10% shorter, with all other variables held constant, the net profit for the year and the net carrying value of property, plant and equipment of the Company would have been HRK 4,362 thousand lower, and of the Group HRK 4,591 thousand lower (2016: Company HRK 4,177 thousand, Group HRK 4,430 thousand lower).

(b) Land ownership

The issues surrounding title to land are a common challenge for the majority of tourist companies in Croatia. On 1 August 2010, the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process entered into force in accordance with which and based on which the ownership and joint ownership over land not evaluated in the transformation and privatisation process will finally be determined. Within the prescribed period, the Company initiated procedures for submitting requests for concessions and other prescribed requests. In the period since the adoption of legal regulations, in the procedures initiated, and in line with requirements of the governing authorities, the Company delivered various statements, documentation, made propositions for dividing the land, etc. Until 31 December 2017, the Company settled all liabilities arising from the invoices received, issued by governing authorities on the basis of the provisions of the Regulations.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – SALES

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Accommodation	336,189	298,533	336,424	299,058
Food and beverages	93,263	92,466	93,474	92,660
Other sales	74,352	66,378	54,842	46,339
Total	503,804	457,377	484,740	438,057

NOTE 7 – COST OF MATERIALS AND SERVICES

<i>in thousands of HRK</i>	2017	2016	2017	2016
Raw materials and supplies				
Raw materials and supplies used	51,827	44,273	50,810	43,361
Energy and water used	30,596	25,512	30,596	25,512
	82,423	69,785	81,406	68,873
External services				
Franchise costs	8,308	8,303	8,308	8,303
Advertising and marketing costs	8,904	9,394	7,542	8,034
Maintenance services	15,889	11,398	15,413	10,708
Intellectual services	9,033	7,163	3,648	1,898
ATP services (tennis tournament)	4,600	4,687	-	-
Utility services	5,759	5,697	5,755	5,691
Student employment agency and similar external costs	5,208	4,250	4,006	2,777
Entertainment and music services	3,137	3,005	3,068	2,939
Rent	3,919	4,296	11,465	10,352
Security services	2,737	2,878	2,249	2,456
Other services	9,245	7,160	8,254	6,772
	76,739	68,231	69,708	59,930
Total	159,162	138,016	151,114	128,803

/i/ The Company realises business cooperation under the franchise agreement with Melia Hotels International, of which Sol Melia Hrvatska d.o.o. is a Group member, for which an annual fee is charged.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – STAFF COSTS

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Net salaries	75,769	70,069	75,211	69,593
Pension insurance contributions	20,527	19,433	20,365	19,287
Health insurance contributions	14,641	14,095	14,520	13,987
Other contributions, tax and surtax	8,946	9,700	8,837	9,585
Other staff costs	9,118	8,453	9,082	8,402
Total	129,001	121,750	128,015	120,854

Other staff costs comprise transport expenses, jubilee awards and other fees. As at 31 December 2017, the average number of employees in the Istraturist Group was 678 (2016: 630 employees), and in the Company there were 674 employees (2016: 626 employees).

NOTE 9 – OTHER OPERATING EXPENSES

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Utility fees and contributions	20,312	20,018	20,236	19,941
Insurance premium	1,605	2,148	1,531	2,073
Entertainment and travel	2,344	2,390	1,714	1,847
Other	7,174	8,485	6,784	8,094
Total	31,435	33,041	30,265	31,955

NOTE 10 – OTHER GAINS/(LOSSES) – NET

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Change in fair value of derivatives	(5,957)	(3,336)	(5,957)	(3,336)
Change in fair value of other financial assets	64	206	64	206
Other	1,068	51	995	51
Total	(4,825)	(3,079)	(4,898)	(3,079)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – NET FINANCE COSTS

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Finance income				
Interest income on deposits and loans	92	50	200	312
Interest income from derivatives	1,376	2,328	1,376	2,328
Foreign exchange losses – net	7,392	3,989	7,373	3,821
Other finance income	81	31	82	30
Total finance income	8,941	6,398	9,031	6,491
Finance costs				
Interest expense and fees for loans	(9,086)	(9,157)	(8,869)	(8,744)
Other expenses	(22)	(29)	(8)	(6)
Total finance costs	(9,108)	(9,186)	(8,877)	(8,750)
Finance costs – net	(167)	(2,788)	154	(2,259)

NOTE 12 – INCOME TAX

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Current tax charge	(9,224)	(1,272)	(7,794)	-
Deferred tax expense	(11,350)	(20,386)	(11,350)	(20,386)
Income tax expense	(20,574)	(21,658)	(19,144)	(20,386)

The following table presents the reconciliation of income tax calculated at the applicable tax rate of 18% (2015: 20%):

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Profit before tax	123,437	99,473	116,425	94,229
Income tax expense	(22,219)	(19,895)	(20,956)	(18,846)
Non-deductible costs	(897)	(1,882)	(751)	(1,659)
Non-taxable income	2,542	119	2,563	119
Tax expense	(20,574)	(21,658)	(19,144)	(20,386)
Effective tax rate	17%	22%	16%	22%

The Company uses tax incentives in line with the Act on Investment Promotion and Enhancement of the Investment Environment in the total amount of HRK 65,119 thousand. In 2017, the used incentive amount was HRK 9,214 thousand (2016: HRK 20,386 thousand). As at 31 December 2017, the Company does not have any unused incentives nor deferred tax assets based on these incentives (Note 15).

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT – Group

<i>(in thousands of HRK)</i>	Land and buildings	Plant and equipment	Assets under construction	Total
At 31 December 2015				
Cost	1,843,007	282,370	3,015	2,128,392
Accumulated depreciation and impairment	(615,013)	(209,133)	-	(824,146)
Net book amount	1,227,994	73,237	3,015	1,304,246
Year ended 31 December 2016				
Opening net book amount	1,227,994	73,237	3,015	1,304,246
Additions	22,629	7,855	12,738	43,222
Disposal and impairment	(2,825)	(1,699)	-	(4,524)
Depreciation	(49,841)	(14,264)	-	(64,105)
Closing net book amount	1,197,957	65,129	15,753	1,278,839
At 31 December 2016				
Cost	1,857,547	274,490	15,753	2,147,790
Accumulated depreciation and impairment	(659,590)	(209,361)	-	(868,951)
Net book amount	1,197,957	65,129	15,753	1,278,839
Year ended 31 December 2017				
Opening net book amount	1,197,957	65,129	15,753	1,278,839
Additions	107,190	16,887	(11,798)	112,279
Disposal and impairment	(245)	(1,136)	-	(1,381)
Depreciation	(51,654)	(14,650)	-	(66,304)
Closing net book amount	1,253,248	66,230	3,955	1,323,433
At 31 December 2017				
Cost	1,950,902	250,198	3,955	2,205,055
Accumulated depreciation and impairment	(697,654)	(183,968)	-	(881,622)
Net book amount	1,253,248	66,230	3,955	1,323,433

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT – Company

<i>(in thousands of HRK)</i>	Land and buildings	Plant and equipment	Assets under constructio n	Total
At 31 December 2015				
Cost	1,815,016	279,795	3,015	2,097,826
Accumulated depreciation and impairment	(606,360)	(207,570)	-	(813,930)
Net book amount	1,208,656	72,225	3,015	1,283,896
Year ended 31 December 2016				
Opening net book amount	1,208,656	72,225	3,015	1,283,896
Additions	22,591	7,719	12,735	43,045
Disposal and impairment	(2,825)	(1,696)	-	(4,521)
Depreciation	(46,995)	(14,084)	-	(61,079)
Closing net book amount	1,181,427	64,164	15,750	1,261,341
At 31 December 2016				
Cost	1,829,518	271,802	15,750	2,117,070
Accumulated depreciation and impairment	(648,091)	(207,638)	-	(855,729)
Net book amount	1,181,427	64,164	15,750	1,261,341
Year ended 31 December 2017				
Opening net book amount	1,181,427	64,164	15,750	1,261,341
Additions and transfer to use /i/	121,006	17,267	(11,795)	126,478
Disposal and impairment	(245)	(1,150)	-	(1,395)
Depreciation	(49,074)	(14,489)	-	(63,563)
Closing net book amount	1,253,114	65,792	3,955	1,322,861
At 31 December 2017				
Cost	1,950,145	288,167	3,955	2,242,267
Accumulated depreciation	(697,031)	(222,375)	-	(919,406)
Net book amount	1,253,114	65,792	3,955	1,322,861

As at 31 December 2017, the Company does not have any finance lease liabilities as it settled all finance lease liabilities during 2017 (Note 20). As at 31 December 2016, the assets leased under finance leases amounted to HRK 11,467 thousand and they related to 119 mobile homes and the accompanying equipment.

/i/ During the year, the Company purchased mobile homes and the accompanying equipment from the company Istra D.M.C., for which purchase the Company was granted a borrowing in the amount of HRK 10 million (Note 20 /ii/).

Credit insurance

As at 31 December 2017, property owned by the Group and the Company with a net carrying amount of HRK 382,143 thousand (2016: HRK 596,166 thousand) were mortgaged as a guarantee for credit repayment, as disclosed in note 20 – Borrowings.

NOTES TO THE FINANCIAL STATEMENTS

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

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

in thousands of HRK

	<u>2017</u>	<u>2016</u>
Cost	31,083	30,395
Accumulated depreciation at 1 January	(16,507)	(15,220)
Depreciation charge for the year	(815)	(812)
Net book amount	<u>13,761</u>	<u>14,363</u>

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

Future payments under operating lease

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

in thousands of HRK

	<u>2017</u>	<u>2016</u>
Less than 1 year	10,552	10,615
From 2 to 5 years	7,844	21,576
Over 5 years	-	-
Total	<u>18,396</u>	<u>32,191</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Istraturist Umag Group	Istraturist Umag d.d.
At 31 December 2015		
Cost	17,782	17,597
Accumulated amortisation and impairment	(11,218)	(11,143)
Net book amount	6,564	6,454
Year ended 31 December 2016		
Opening net book amount	6,564	6,454
Additions	838	837
Disposals	(9)	(8)
Amortisation	(1,391)	(1,373)
Closing net book amount	6,002	5,910
At 31 December 2016		
Cost	18,610	18,424
Accumulated amortisation and impairment	(12,608)	(12,514)
Net book amount	6,002	5,910
Year ended 31 December 2017		
Opening net book amount	6,002	5,910
Additions	974	868
Amortisation	(1,286)	(1,258)
Closing net book amount	5,690	5,520
At 31 December 2017		
Cost	19,514	19,293
Accumulated amortisation and impairment	(13,824)	(13,773)
Net book amount	5,690	5,520

NOTES TO THE FINANCIAL STATEMENTS**NOTE 15 – DEFERRED TAX ASSETS**

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

Istraturist Umag Group*in thousands of HRK*

	Tax incentives	Financial instruments	Total
At 1 January 2016	29,600	2,675	32,275
Decrease recognised in profit or loss	(20,386)	-	(20,386)
At 31 December 2016	9,214	2,675	11,889
Decrease recognised in profit or loss	(9,214)	(2,138)	(11,352)
At 31 December 2017	-	537	537

Istraturist Umag d.d.*in thousands of HRK*

	Tax incentives	Financial instruments	Total
At 01 January 2016	29,600	2,483	32,083
Decrease recognised in profit or loss	(20,386)	-	(20,386)
At 31 December 2016	9,214	2,483	11,697
Decrease recognised in profit or loss	(9,214)	(2,138)	(11,352)
At 31 December 2017	-	345	345

NOTE 16 – LOANS AND DEPOSITS*in thousands of HRK*

	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Bank deposits	-	25,787	-	25,787
Loans to subsidiary	-	-	-	1,738
Other loans	22	449	22	365
Total	22	26,236	22	27,890

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 – TRADE AND OTHER RECEIVABLES

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Domestic trade receivables	7,703	3,032	6,949	2,377
Foreign trade receivables	3,155	1,229	3,155	1,229
Provision for impairment	(3,271)	(843)	(3,215)	(788)
Net trade receivables	7,587	3,418	6,889	2,818
Other receivables - interest	5	15	4	15
	7,592	3,433	6,893	2,833
VAT prepayments	4,899	1,230	4,840	1,190
Advances	48	8,647	49	8,647
Other receivables	404	1,477	362	1,473
Total	12,943	14,787	12,144	14,143

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

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
At 1 January	843	840	788	599
Increase	2,564	589	2,564	584
Write off	(124)	(572)	(125)	(381)
Decrease due to collection of receivables	(12)	(14)	(12)	(14)
At 31 December	3,271	843	3,215	788

NOTE 18 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>in thousands of HRK</i>	2017	2016
Listed shares	1,840	1,783
Investment in investment fund	-	31,584
Derivatives (Note 22)	-	5,957
Total	1,840	39,324

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 – SHARE CAPITAL AND RESERVES

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

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

The equity holders of the Company at 31 December 2017 and 2016 were as follows:

	2017			2016		
	Number of shares	Nominal value in HRK'000	Ownership share in %	Number of shares	Nominal value in HRK'000	Ownership share in %
Plava laguna d.d.	4,433,116	443,311	94.83	4,349,400	434,940	93.04
PBZ/Custodial account for the client	-	-	-	79,785	7,979	1.70
CERP/Republic of Croatia	31,135	3,114	0.67	31,135	3,114	0.67
Small shareholders	210,744	21,075	4.51	214,675	21,467	4.59
Total	4,674,995	467,500	100.00	4,674,995	467,500	100.00

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 – BORROWINGS

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Long-term borrowings				
Bank borrowings /i/	133,467	167,244	133,467	167,244
Borrowings from subsidiary /ii/	-	-	10,000	-
Finance lease	-	2,571	-	-
Total long-term borrowings	133,467	169,815	143,467	167,244
Current liabilities				
Current portion of long-term bank borrowings	33,395	96,670	33,395	96,670
Current portion of finance lease liabilities	-	3,683	-	-
Interest payable	-	1,584	-	1,584
Total short-term borrowings	33,395	101,937	33,395	98,254
Total borrowings	166,862	271,752	176,862	265,498

/i/ Liabilities on the new bank borrowing are secured by mortgage on properties (Note 13). In 2017, the Company refinanced the existing borrowings with a new bank borrowing in the amount of EUR 22,3 million at a fixed interest rate of 1.60% finally maturing in 2022.

/ii/ During 2017, ISTRA D.M.C. d.o.o. sold mobile homes with the accompanying equipment to the Company, while granting a loan to the Company in the amount of HRK 10 million.

Long-term borrowings mature as follows:

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
From one to two years	33,395	30,558	33,395	28,349
From two to five years	100,072	80,277	110,072	79,915
Over 5 years	-	58,980	-	58,980
Total	133,467	169,815	143,467	167,244

Net debt

The table below presents the net debt of the Company's and the Group as at 31 December:

	Istraturist Umag Group		Istraturist Umag d.d.	
	2017	2016	2017	2016
Cash and cash equivalents	61,330	14,448	52,667	12,510
Bank deposits	-	25,787	-	25,787
Listed shares	1,840	1,783	1,840	1,783
Investment in investment fund	-	31,584	-	31,584
Borrowings maturing within 1 year	(33,395)	(101,937)	(33,395)	(98,254)
Borrowings maturing after 1 year	(133,467)	(169,815)	(143,467)	(167,244)
Net debt	(103,692)	(198,150)	(122,355)	(193,834)
Cash and liquid assets	63,170	73,602	54,507	71,664
Borrowings at fixed interest rate	(166,862)	-	(176,862)	-
Borrowings at variable interest rate	-	(271,752)	-	(265,498)
Net debt	(103,692)	(198,150)	(122,355)	(193,834)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 – BORROWINGS (continued)

The movements in debt in 2017 are presented in the table below:

<i>(in thousands of HRK)</i>	<u>Istraturist Umag Group</u>	<u>Istraturist Umag d.d.</u>
Borrowings		
At 1 January 2017	271,752	265,495
Proceeds from borrowings	166,848	166,848
Non-cash increase	-	10,000
Repayments of borrowings	(264,722)	(258,339)
Interest paid	(10,670)	(10,453)
Net foreign exchange differences	(5,432)	(5,558)
Accrued interest	9,086	8,869
At 31 December 2017	166,862	176,862

NOTE 21 – TRADE AND OTHER PAYABLES

<i>in thousands of HRK</i>	<u>Istraturist Umag Group</u>		<u>Istraturist Umag d.d.</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Trade payables	43,190	39,518	41,313	37,342
Net salaries payable	10,888	9,390	10,803	9,353
Taxes and contributions from and on salaries	5,807	5,263	5,743	4,756
Advances payable	5,124	6,045	5,123	6,045
Other liabilities	3,855	377	289	374
Total	68,864	60,593	63,271	57,870

NOTE 22 – DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

As at 31 December 2016, the nominal amount of derivative was HRK 68,246 thousand and the fair value HRK 5,957 thousand.

The contract expired during 2017.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or the parties are under common control or if it has significant influence on the other party when reaching financial or business decisions. As at 31 December 2017 and 2016, the company Plava laguna d.d. is the majority shareholder of the Company.

The Company considers ISTRA D.M.C. d.o.o., and as of 22 August 2017 ISTRATURIST j.d.o.o., the majority shareholder Plava laguna d.d. and its subsidiaries and associates and the members of the Supervisory Board, Management Board and other senior management (jointly referred to as: key management) as its directly related parties.

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

<i>in thousands of HRK</i>	<u>2017</u>	<u>2016</u>
Sales of services	820	1,120
Purchase of services	(1,090)	(1,107)
Rental income	520	560
Rental costs	(10,006)	(8,664)
Interest income	124	262
Income from staff outsourcing	213	237
Interest expense	(7)	-
Receivables	-	2
Non-current liabilities	10,000	-
Current liabilities	201	-
Loans given		
At beginning of year	2,189	4,673
Increase	6,108	9,078
Decrease	(8,297)	(11,562)
At end of the year (Note 16)	<u>-</u>	<u>2,189</u>

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

<i>in thousands of HRK</i>	<u>2017</u>	<u>2016</u>
Sales of services	7,367	19
Purchase of services	(877)	(242)
Revenue and expenses difference	<u>6,490</u>	<u>(223)</u>

Key Management and Supervisory Board compensation

<i>in thousands of HRK</i>	Istraturist Umag Group		Istraturist Umag d.d.	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net	6,778	6,740	6,778	6,740
Pension insurance contributions	1,961	2,194	1,961	2,194
Health insurance contributions	1,654	1,750	1,654	1,750
Other contributions, tax and surtax	2,530	2,994	2,530	2,994
Total	<u>12,923</u>	<u>13,678</u>	<u>12,923</u>	<u>13,678</u>
Supervisory Board compensation	<u>459</u>	<u>528</u>	<u>459</u>	<u>528</u>

The key management personnel of the Group consists of the Management Board, division directors and organisational unit directors (hotels, resorts, camp-sites). As at 31 December 2017, key management comprises 24 persons (2016: 26 persons).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 – LEGAL DISPUTES

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 – LEGAL DISPUTES (continued)

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

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

In December 2017, following the unenforceable verdict in case P-3502/13 and the appeal filed by the Company, the High Commercial Court rendered a judgment by which the case was remitted for retrial and ordered that the evidence was to be presented by hearing an expert witness, and by taking a clear and binding legal position towards the first-instance court, that the set-off of claims had been valid, thereby eliminating the doubt whether the Company could have obtained claims from Zagrebačka banka d.d. and then set them off with the debt towards the then Ljubljanska banka d.d.

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

Following the final verdicts in Slovenia, during 2017 and early 2018 the Company received documents proving that in 2017 Nova Ljubljanska banka initiated procedures for the recognition and enforcement of Slovenian judgments in the Republic of Slovenia, the Republic of Austria, the Czech Republic and the Kingdom of the Netherlands and this to the debtor's debtors or tourist agencies. In respect of the above mentioned procedures, the legal successor of the Company has hired attorneys and has been exploiting all legal remedies available with the aim of suspending such proceedings, none of which has been finalized by the time this report is being written. At the same time, according to the opinion of its attorneys, the Company has changed its corporate governance model in its relations with foreign travel agencies, and now it manages and wholly controls the business segment of sales, and the Management estimates that the procedures initiated by Nova Ljubljanska banka will not have a negative impact on the business operations and realisation of the Company's defined business objectives.



NADZORNI ODBOR

Broj: 01/02/2018/4

Urbroj: 01-01-2018-6

Poreč, 27. travnja 2018. godine

Sukladno članku 403. Zakona o tržištu kapitala, a na temelju članka 263. i 300d. Zakona o trgovačkim društvima, Nadzorni odbor Društva na sjednici održanoj dana 27. travnja 2018. godine, donosi

ODLUKU

o prepuštanju utvrđivanja godišnjeg financijskog izvještaja društva **ISTRATURIST UMAG d.d.**
Umag Skupštini Društva

Članak 1.

Nadzorni odbor i Uprava Društva izražavaju suglasnost u odnosu na godišnji financijski izvještaj društva **ISTRATURIST UMAG d.d.** Umag za 2017. godinu, s time da utvrđivanje odnosno usvajanje istog prepuštaju na nadležno postupanje Glavnoj skupštini Društva.

Članak 2.

Godišnji financijski izvještaj društva **ISTRATURIST UMAG d.d.** Umag za 2017. godinu prileži ovoj odluci i čini njen sastavni dio.

Članak 3.

Ova odluka stupa na snagu danom donošenja.

PREDSJEDNIK

Davor Luksić Lederer

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NADZORNI ODBOR

Broj: 01/02/2018/4

Urbrroj: 01-01-2018-2

Poreč, 27. travnja 2018. godine

Sukladno članku 403. Zakona o tržištu kapitala, a na temelju članka 263. i 300c. Zakona o trgovačkim društvima, Nadzorni odbor Društva na sjednici održanoj dana 27. travnja 2018. godine, donosi

ODLUKU

o prijedlogu uporabe dobiti društva ISTRATURIST UMAG d.d. Umag ostvarene u poslovnoj 2017. godini

Članak 1.

ISTRATURIST UMAG d.d. Umag ostvarilo je u 2017. godini bruto dobit u iznosu od 116.425.500,56 kuna, odnosno nakon obračunatog poreza na dobit u visini od 19.144.464,85 kuna, neto dobit u visini 97.281.035,71 kuna.

Članak 2.

Neto dobit društva ISTRATURIST UMAG d.d. Umag iz članka 1. ove odluke u visini od 97.281.035,71 kuna u cijelosti se raspoređuje u zadržanu dobit.

Članak 3.

Nadzorni odbor Društva, prihvaćajući istovjetan prijedlog Uprave o upotrebi dobiti ostvarene u 2017. godini, upućuje ovaj prijedlog Odluke o upotrebi dobiti društva ISTRATURIST UMAG d.d. Umag Glavnoj skupštini Društva na usvajanje.

Članak 4.

Ova odluka stupa na snagu danom donošenja.

PREDSJEDNIK
Davor Lukac Lederer

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GRJEŠTEBENBANK d.d. Zagreb IBAN: HR1925012170001234567
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